

## Monthly Market Commentary

November was an exceptional month for almost all major global equity indices with US stocks recording their seventh-best monthly return in 30 years. Fuelling this broad-based rally has been a notable shift in the narrative around interest rates. A series of benign inflation prints and weaker than expected economic updates has moved the market on from “higher for longer” and brought forward the prospects of an interest rate cut. Futures are pricing in a roughly 1.25 percentage point rate cut next year. The effect of this change is evident also at the long end, with yields on 10yr US treasuries, for example, falling by ~60bps during the month.

Arguably there is a growing disconnect between the strength in equity markets, which has been entirely driven by multiples, and the state of the economy. It appears that until they roll over, equity investors seem prepared to ignore the growing risks to earnings. And if equity investors are prepared to ignore the risk, analysts seem to see only upside. Forecasts for the S&P500 EPS next year are +10%. We find this hard to reconcile with history and the data.

US markets led the way, with the NASDAQ and S&P500 up 10.7% and 8.9%, respectively. US small caps also delivered strong returns during the month with the S&P600 Small Cap Index rising 8% in November. Major European bourses mostly participated in the strong rally, with the French CAC and German DAX, both up 6.5% and 9.2%, respectively. However, the UK FTSE was a noticeable laggard up only 1.8% for the month. In Asia, performance was mixed. While Japan's Nikkei225 rose strongly, up 8.5%, China's Shanghai Composite was largely flat as news flow continues to suggest the economy is rapidly cooling (e.g. China recorded its first ever quarterly deficit in foreign direct investment).

Except for Energy which fell 0.2%, all other sectors rose significantly with Tech the key standout, up 13.6%. Finance, Industrial, and Consumer Discretionary were also notable winners, all up over 10%. Defensives lagged in a relative sense however, they still managed to deliver good absolute performance with Healthcare and Utilities both up more than 5%, while Staples finished up 4.1%.

The AUD rose strongly against the USD, up 4.2%, while commodities were broadly weaker with the Bloomberg Commodity Index falling 2.7% and WTI Oil down 6.2%. Against the backdrop of strong equity market performance, VIX fell materially by 5.2 points to finish at 12.9.

**Against this backdrop the Fund delivered -0.41% for the month, taking the 12-month return to 9.39% with substantially lower market risk. .**

In terms of new positions, the Fund gained exposure to US-based WEC Energy which owns a collection of regulated electricity and natural gas distribution and transmission assets across several US states. WEC has a solid track record of growing dividends (approx. 7% per year over the last five years) as it has consistently been able to expand its regulated asset base (RAB), a key driver of value for regulated businesses. Prior consensus expectations of rates to remain higher for longer weighed on WEC's share price. This created an opportunity for us to gain exposure to the stock on a prospective dividend yield of ~4%, when we think it can continue growing the dividend at mid-single digit levels. We were also attracted to the stock's defensive qualities with earnings largely unaffected by the business cycle.

Chinese technology group, Alibaba was the Fund's biggest detractor in November. Shares fell sharply after the company dropped plans to IPO its Cloud business and flagged that expanded US trade restrictions would affect its “ability to upgrade technological capabilities”. While this is clearly disappointing, current business momentum is holding up well (all units contributed to Q2 24 EBIT growth), and a strong balance sheet affords management time to reposition the company accordingly. Should they execute on this, we think there is material upside on offer with the stock currently trading on a prospective P/E of less than 8x, noting it is sitting on ~USD\$85bn in net cash. That said, given the stock's many challenges, we are prepared for it to take some time for any upside to materialise.

The Fund's holding in Canadian metals streaming business, Wheaton Precious Metals (WPM) was the biggest contributor to performance in November. The stock benefitted from a strong rebound in both gold and silver prices, as the weakness in the USD and longer-term rates helped the broader precious metal space. WPM also announced the completion of an important milestone associated with VALE's Salobo III expansion project, a mine with which WPM has a royalty agreement in place. Once completed, mine throughput will increase from 24Mtpa to 36Mtpa, helping further underpin WPM's medium term growth outlook.

Mexican beverages and retail group, FEMSA was also a meaningful contributor to Fund performance. The stock continued to rally through November following a solid Q3 23 result with highlights including strong user growth in digital, ~15% same-store sales across the Oxxo network, and high single digit organic growth and margin expansion in the Coke Femsa franchise. Following the divestment of all non-core assets, the balance sheet is now flush with optionality (~\$3bn net cash) allowing management to focus on both investing more in these growth assets (Digital, Oxxo store roll-out) while also increasing returns to shareholders.

We believe the most compelling way to compound clients' wealth is by utilising multiple return sources to deliver superior risk-adjusted investment outcomes.

- Long-term compounding of investor wealth
- Multiple sources of return
- Quarterly distributions
- Risk focused investment mindset



The investment process behind the Talaria Global Equity Fund takes a high conviction, value biased approach to construct a portfolio of high quality, large cap companies from around the globe. Our unique investment methodology harnesses the benefits of consistent income generation and capital appreciation to grow investors' real wealth.

## Performance as at 30 November 2023<sup>1</sup>

	1 Month	3 Months	6 Months	1 Year	3 Years (pa)	5 Years (pa)	7 Years (pa)	10 Years (pa)	Since Inception (pa) <sup>2</sup>
<b>Total Return</b>	-0.41%	-1.19%	2.15%	9.39%	11.31%	9.04%	8.10%	8.10%	7.62%
<b>Avg. Market Exposure<sup>4</sup></b>	57%	57%	58%	57%	56%	57%	58%	59%	61%

<sup>1</sup> Fund Returns are calculated after fees and expenses and assume the reinvestment of distributions  
<sup>2</sup> Inception date for performance calculation is 1 October 2005  
<sup>3</sup> Past performance is not a reliable indicator of future performance

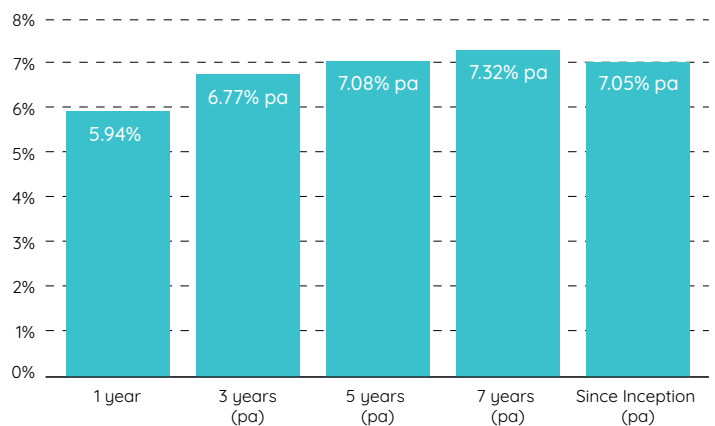
<sup>4</sup> Average Market Exposure calculated on delta-adjusted exposure of underlying portfolio. Since inception market exposure is calculated from 1 October 2005

## Growth of \$100,000 Since Inception<sup>5</sup>



<sup>5</sup> Calculations are based on exit price, net of management fees and expenses and assumes reinvestment of distributions Past performance is not a reliable indicator of future performance

## Annual Distributions<sup>6</sup>



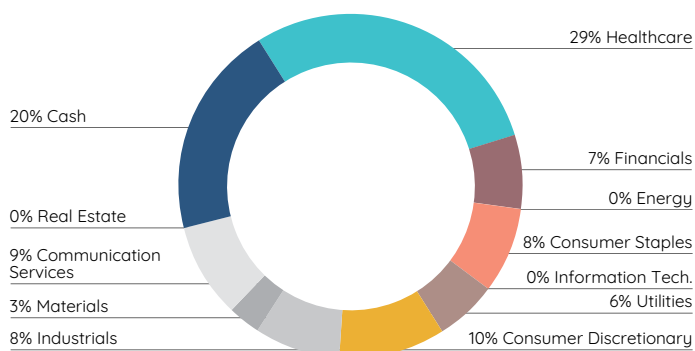
<sup>6</sup> Illustrates Distribution Returns for the Talaria Global Equity Fund - Foundation Units for the financial year ending 30 June 2023. Inception date is 1 October 2005

## Top 10 Holdings<sup>7</sup>

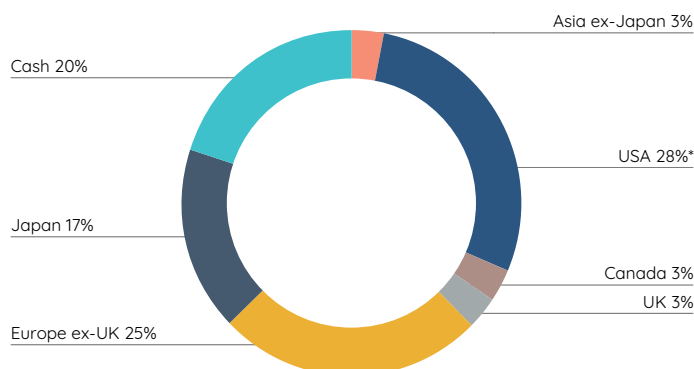
Company Name	Holding	Country	Sector	Description
Sanofi	6.2%	France	Healthcare	Top 5 pharmaceutical firm with leading positions in diabetes and rare diseases
Gilead	5.2%	USA	Healthcare	Leading research based biopharmaceutical company
Roche	5.1%	Switzerland	Healthcare	A global leader in Cancer treatments
Secom	5.1%	Japan	Industrials	Japan's largest protective and electronic security solutions provider
Johnson & Johnson	5.1%	USA	Healthcare	Pharmaceutical, medical devices and consumer health products company
KDDI Corporation	4.8%	Japan	Communication Services	The second largest Telco in Japan with significant market share in payments and data centres
Sodexo	4.1%	France	Consumer Discretionary	A multinational food services and facilities management company
Nippon Telegraph & Telephone Corp	4.0%	Japan	Communication Services	Japan's largest telecommunications provider
Henry Schein	3.7%	USA	Healthcare	American distributor of health care products and services with a presence in 32 countries
Novartis	3.5%	Switzerland	Healthcare	One of the world's largest pharmaceutical companies

<sup>7</sup> Weightings include option positions held and cash backing put options. It assumes that put options will be exercised. Should the put option not be exercised the cash will revert to the unencumbered cash portfolio or may be used to cover further put options.

## Sector Allocation<sup>8</sup>



## Regional Allocation<sup>9</sup>



<sup>8,9</sup> Weightings include option positions held and cash backing put options. It assumes that put options will be exercised. Should the put option not be exercised the cash will revert to the unencumbered cash portfolio or may be used to cover further put options.

\* USA includes American Depository Receipts (ADRs) listings.

## Fund Snapshot

<b>Management Fee</b>	Nil	<b>Inception Date</b>	1 October 2005
<b>Performance Fee</b>	20% - subject to High Watermark	<b>Liquidity</b>	Daily
<b>Distributions</b>	Quarterly	<b>Availability</b>	Wholesale Clients Only
<b>Minimum Investment</b>	\$50,000	<b>Buy / Sell Spread</b>	0.20% / 0.20%

## Important Information

Foundation Units in the Talaria Global Equity Fund are issued by Australian Unity Funds Management Limited ABN 60 071 497 115, AFS Licence No. 234454. Foundation Units are currently available to what the Corporations Act 2001 (Sections 761GA and 761G) defines as Wholesale Clients. Talaria Asset Management Pty Ltd ABN 67 130 534 342, AFS Licence No. 333732 is the investment manager and distributor of the Fund. References to "we" means Talaria Asset Management Pty Ltd, the investment manager. The information in this document is general information only and is not based on the financial objectives, situation or needs of any particular investor. In deciding whether to acquire, hold or dispose of the product you should obtain a copy of the current Information Memorandum and consider whether the product is appropriate for you. A copy of the Information Memorandum can be obtained by calling Talaria Asset Management on (03) 8676 0667. Investment decisions should not be made upon the basis of the Fund's past performance or distribution rate, or any ratings given by a rating agency, since each of these can vary. In addition, ratings need to be understood in the context of the full report issued by the rating agency itself. The information provided in the document is current at the time of publication.

The Zenith Fund Awards were issued on 14 October 2022 by Zenith Investment Partners (ABN 27 130 132 672, AFSL 226872) and are determined using proprietary methodologies. The Fund Awards are solely statements of opinion and do not represent recommendations to purchase, hold or sell any securities or make any other investment decisions. To the extent that the Fund Awards constitutes advice, it is General Advice for Wholesale clients only without taking into consideration the objectives, financial situation or needs of any specific person, including target markets where applicable. Investors should seek their own independent financial advice before making any investment decision and should consider the appropriateness of any advice. Investors should obtain a copy of and consider any relevant PDS or offer document before making any investment decisions. Past performance is not an indication of future performance. Fund Awards are current for 12 months from the date awarded and are subject to change at any time. Fund Awards for previous years are referenced for historical purposes only.

Signatory of:  
 Principles for Responsible Investment