Monthly Market Commentary

The fourth quarter was very strong for global equity markets. Expectations of a lower Fed policy rate in 2024, lower inflation, and the growing belief in a “soft landing” were the most noteworthy catalysts. Sentiment is high and investors are pricing in continued strong performance this year. But a lot must go right for this to happen.

Equity markets finished the year on a high. A notable decline in interest rate and inflation expectations unleashed a broad-based, risk-on market rally. Bonds, equities, gold, and risk currencies including the AUD all rallied in the quarter. For Australian based investors this translated into a 5% rally in global equity markets. The “higher-for-longer” narrative was replaced by expectations for rate cuts as early as Q1 2024. Cyclical and rate sensitive equities outperformed. While the move was impressive, on a two-year view many indices and equities have no more than round-tripped. As we discussed in the previous section, markets are pricing in a benign outcome already, so a lot must go right in 2024 and beyond for a sustained rally.

Almost all major indices were in the green in the fourth quarter. The US led the way with the broad-based S&P500 and the tech-heavy NASDAQ up 11.2% and 13.6%, respectively. Both indices closed the quarter within striking distance of all-time highs set in late 2021. The breadth of the rally widened considerably, and the S&P 600 Small Cap index gained an impressive 14.5% in the quarter. European stocks were also up, albeit a more modest 6.4% for the STOXX 600 index where stickier inflation has proven harder to shake off. In Japan, the NIKKEI 225 index increased by 5.0% capping off a strong year for the region. The Shanghai Composite index was the only major index in the red this quarter – down -4.4% and reflective of debt woes and deflationary pressures in the Chinese economy.

Against this backdrop, the Fund delivered a return of +0.05%, taking its 12-month return to +12.48%.

Distributions: The Fund paid a December 2023 quarterly distribution of 7.6 cents per unit taking its 12-month income return to 7.85%.

All sectors except energy were up in the fourth quarter. Information technology (+17.4%) was the strongest performer. All cyclical sectors also did well with industrials (+13.5%), financials (+12.7%) and materials (+12.4%) leading the way. Defensive sectors were relative underperformers with healthcare and staples up just +4.7% and +5.6%, respectively. Energy was the only sector that was negative (down -4.8%) on the back of a weak oil price.

The big story this quarter was the change in narrative from “higher-for-longer” rates to “expect multiple rate cuts in 2024”. At year end the market was pricing six interest rate cuts over the course of 2024. After nearly touching 5% in mid-October, the US 10-year yield fell back down to 3.88% at year end, a 111 bps drop.

Inflation expectations came down. The oil price fell by -21.1% to $71.65 a barrel while the Bloomberg commodity basket fell by -5.9%, reflecting a continuing easing of demand despite some ongoing supply issues (two regional wars and attacks on ships in the Red Sea). The VIX also fell by 5.1 points to 12.45, the lowest monthly reading since September 2018 and reflective of the giddy mood in financial markets.

Mexican retailer FEMSA contributed the most to performance this quarter. Solid execution on their recently unveiled strategy alongside strong organic growth in their core business supported the shares. Wheaton Precious Metals, a Canadian gold and silver streaming company, also contributed significantly to performance in the quarter. Higher gold prices and solid operating performance announced at the most recent quarterly result were the biggest drivers.

French pharmaceutical giant Sanofi was the largest detractor to performance in the quarter. The company announced an increase in R&D spend in late October that was received poorly by the market. We believe this was largely to do with less-than-ideal presentation from management rather than anything of substance. The shares have since recovered some lost ground and we continue to see upside from here. Another detractor to performance was Alibaba, an online retailer in China. Scuppered plans for IPOing several business divisions and continued general weakness in the Chinese economy weighed on the share price. We maintain our holding based on an attractive valuation.

The fund initiated two new positions this quarter. WEC, a US regulated utilities company, trades on an attractive dividend yield not seen in a decade while exhibiting a business model with defensive characteristics (revenues backed by the state). Medtronic, a US healthcare equipment maker, is a dividend aristocrat with a solid cashflow generation profile and attractive valuation. It has recently returned to mid-single digit organic growth, and we believe they can continue this momentum. The fund exited Japanese equipment manufacturer Mitsubishi Electric on valuation grounds.

Talaria Asset Management
330 Collins Street
Melbourne, VIC, Australia 3000
info@talariacapital.com.au
talariacapital.com.au

Talaria Global Equity Fund (Managed Fund)
Ticker code: TLRA
Monthly Update | December 2023

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 (Managed 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.

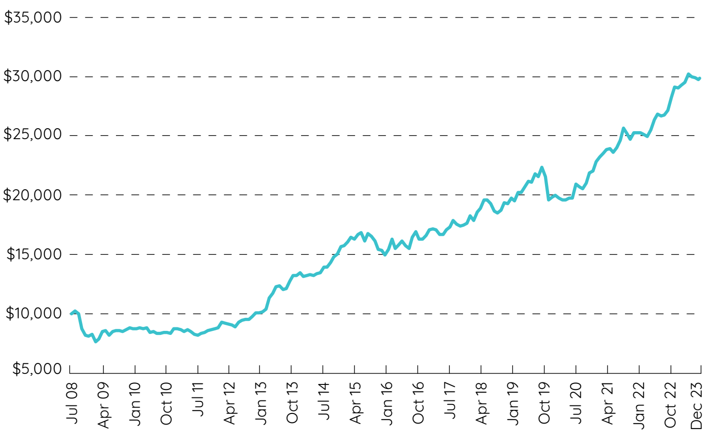
Performance as at 31 December 2023[1]

	1 Month	3 Months	6 Months	1 Year	3 Years (pa)	5 Years (pa)	7 Years (pa)	10 Years (pa)	Since Inception (pa)[2]
Total Return	0.86%	0.05%	2.60%	12.48%	13.25%	10.18%	8.49%	8.56%	7.41%
Avg. Market Exposure[4]	58%	58%	58%	57%	56%	56%	58%	59%	61%

1 Fund Returns are calculated after fees and expenses and assume the reinvestment of distributions
2 Inception date for performance calculation is 18 August 2008
3 Past performance is not a reliable indicator of future performance

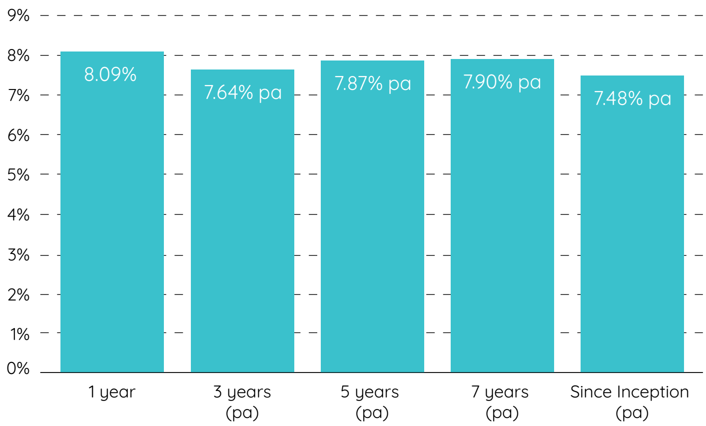
4 Average Market Exposure calculated on delta-adjusted exposure of underlying portfolio. Since inception market exposure is calculated from September 2008

Growth of $10,000 Since Inception[5]



5 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[6]



6 Illustrates Distribution Returns for the Talaria Global Equity Fund (Managed Fund) Units for the financial year ending 30 June 2023. Inception date is 18 August 2008.

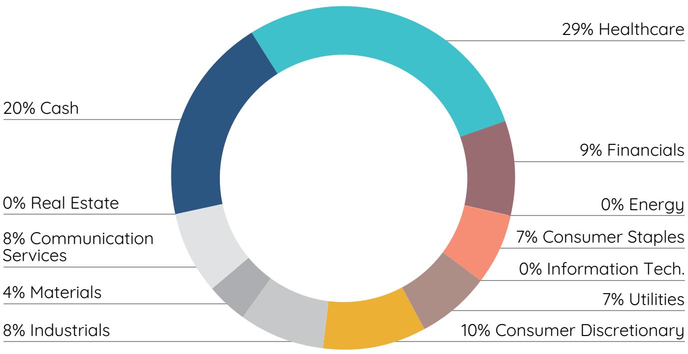
Talaria Asset Management
330 Collins Street
Melbourne, VIC, Australia 3000
info@talariacapital.com.au
talariacapital.com.au

Top 10 Holdings[7]

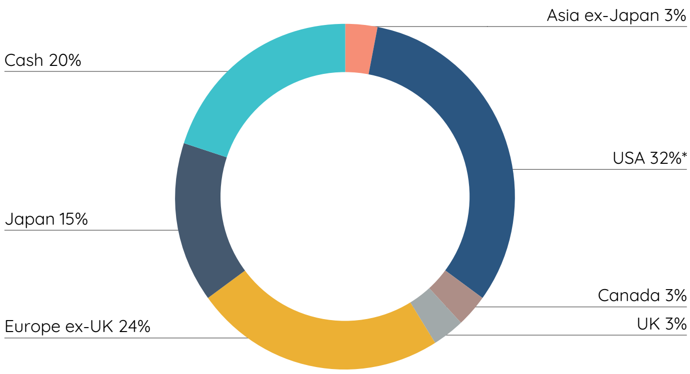
Company Name	Holding	Country	Sector	Description
Roche	5.1%	Switzerland	Healthcare	A global leader in Cancer treatments
Sanofi	5.1%	France	Healthcare	Top 5 pharmaceutical firm with leading positions in diabetes and rare diseases
Gilead	5.0%	USA	Healthcare	Leading research based biopharmaceutical company
Johnson & Johnson	4.5%	USA	Healthcare	Pharmaceutical, medical devices and consumer health products company
Secom	4.3%	Japan	Industrials	Japan's largest protective and electronic security solutions provider
Sodexo	3.9%	France	Consumer Discretionary	A multinational food services and facilities management company.
Nippon Telegraph & Telephone Corp	3.9%	Japan	Communication Services	Japan's largest telecommunications provider
Chubb	3.8%	USA	Financials	Global Property & casualty insurance company
KDDI Corporation	3.7%	Japan	Communication Services	The second largest Telco in Japan with significant market share in payments and data centres.
Henry Schein	3.4%	USA	Healthcare	American distributor of health care products and services with a presence in 32 countries

7 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[8]



Regional Allocation[9]



8,9 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 Depositary Receipts (ADRs) listings.

Fund Snapshot

APIR Code	AUS0035AU	**Inception Date**	18 August 2008
Management Fee	1.16% p.a. of the net asset value of the Fund plus Recoverable Expenses	**Liquidity**	Daily
Recoverable Expenses	Estimated to be 0.12% of net asset value of the Fund each Financial Year	**Exit Price**	$5.0554 (31 Dec 2023)
		Buy / Sell Spread	0.20% / 0.20%
Major Platform Availability	AMP North, Asgard, Ausmaq, BT Wrap, BT Panorama, CFS FirstWrap, CFS FirstChoice, Hub24, IOOF Pursuit, Linear, Macquarie, Mason Stevens, MLC Wrap, MLC Navigator, MyNorth, Netwealth, Powerwrap, Praemium, Xplore Wealth	**Distributions**	Quarterly
		Minimum Investment	$5,000

Important Information

Signatory of: PRI Principles for Responsible Investment