Talaria Global Equity Fund Foundation Units

Quarterly Update June 2025

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Signatory of:
PRI Principles for Responsible Investment

Investment Insights

"When things come at you very fast, naturally you lose touch with yourself."

– Marshall McLuhan, media theorist.

Beyond the Noise

In 2018 the term "flooding the zone" emerged to describe a media strategy of overwhelming the public with a deluge of information, disinformation, and noise designed to confuse and disorientate.

This year's torrent of headlines has had that effect on investors. Almost daily there has been a deluge of price moving news that is perishable and quickly obsolete. Market participants have been myopic in the storm; but then everyone's short-sighted in a blizzard.

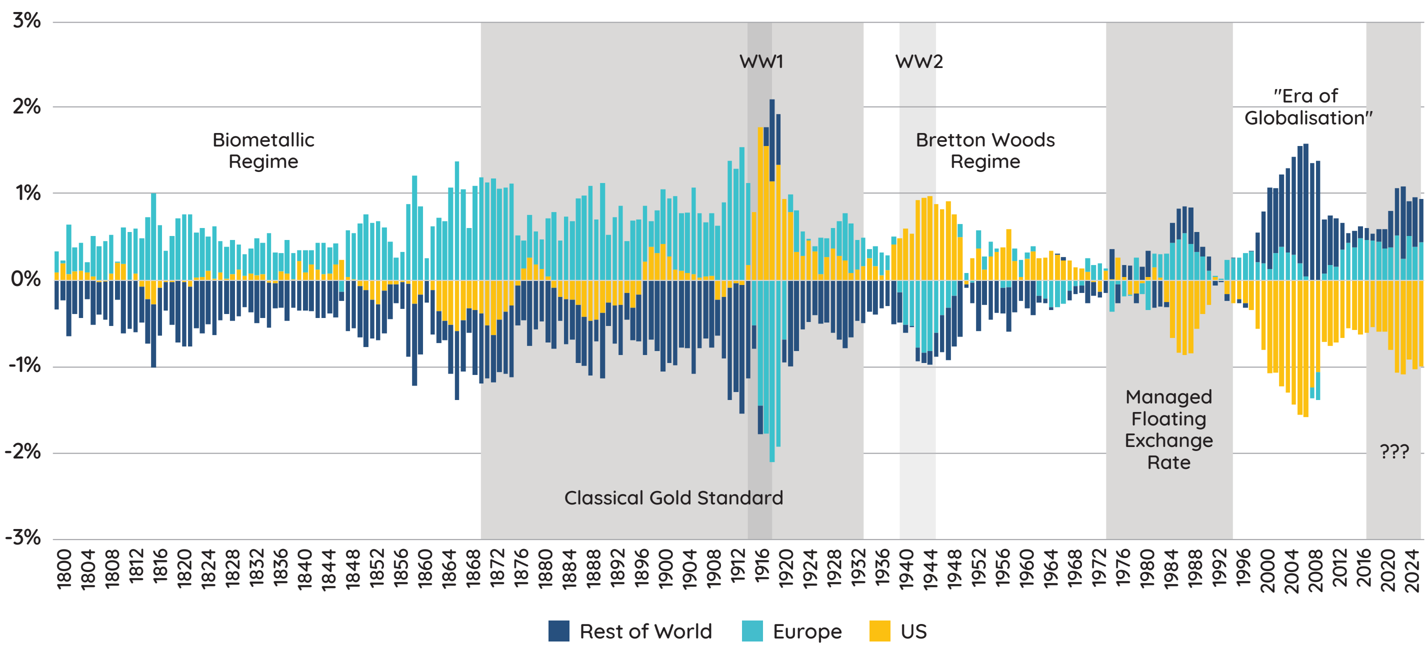
Rather than try to extract meaning from each bulletin, this quarter we look again at significant economic and market developments that we believe have material long-term implications for investors.

One of the most important of these developments is the transition from the monetary regime that ruled from the early 1990s to something very different today. The earlier monetary regime was associated with deep global integration; its successor is a reaction, what might be called a great separation, at heart a fight for capital.

Looking at some characteristics of this transition, one of significance has been the disproportionate returns earned by capital over labour, with the resulting inequality behind the last decade's rise in populism. Geopolitics has played its part as, for example, economic nationalism has asserted itself. The pandemic also had a huge impact as did the shock of resurgent inflation. In combination these and other elements have exposed fragilities and forced a re-evaluation of capital, risk and global interdependence.

The deep global integration monetary regime, which started in the early 1990s, saw accelerating economic growth, low interest rates and the reduced cost of a broad range of goods, particularly manufactured products. But it also created imbalances in trade, capital flows, and fixed asset investment. These gave rise to vast levels of non-financial debt to GDP, enormous US twin deficits reliant on foreign funding, and a distorted global manufacturing map.

Current account balance by region as a share of world GDP



Interpretation:
Between 1800 & 1914, Europe had a permanent current account surplus (close to 2% of its GDP on average, and rising over time) while the rest of the world had a permanent deficit. Since 1994, the US has been persistently reliant on being funded by the rest of the world. Shaded areas represent (mainly) global monetary regimes.

Source: Talaria, wid.world (Piketty & Nievas, " Unequal Exchange and North-South Relations: Evidence from Global Trade Flows and the World Balance of Payments 1800-2025")

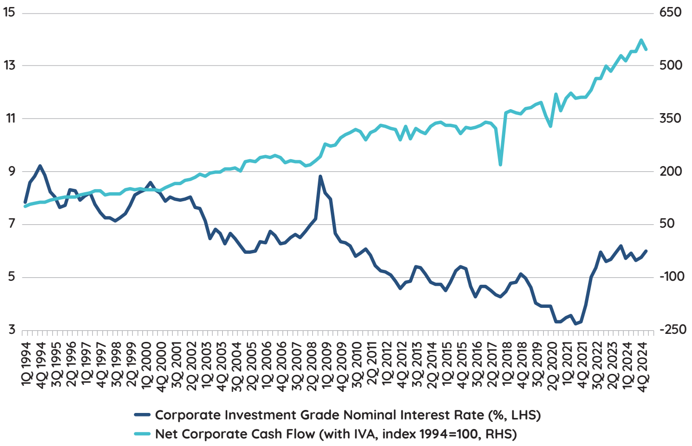
As these imbalances unwind, we believe the free flow of capital can no longer be taken for granted. While the idea of restrictions may seem remote, many governments such as Japan, South Korea and Italy already shape capital movement through policy to promote domestic investment.

We are seeing high-profile initiatives with the same purpose. The UK's Mansion House reforms, aiming to divert up to USD 65 billion to domestic projects by 2030, European defence bond proposals, and the Australian Future Fund's revised mandate are all designed to curtail the flow of capital to other regions or countries.

End of an Era

Most importantly for investors, we believe this is the end of the golden era in which nominal cash flow growth and the cost of funding diverge to drive up the prices of a broad range of assets.

Divergence of Cash Flow Growth and Cost of Finance



Note: IVA Inventory valuation adjustment

Source: Talaria, FRED

In an environment where this dynamic is, at best, no longer a tailwind, valuation should come back into focus. A factor that had become an outdated, irrelevant concept to so many, should reassert itself as funding ceases to be free or near free and "separation" takes back some of the globalisation driven growth dividend.

> *"Most importantly for investors, we believe this is the end of the golden era in which nominal cash flow growth and the cost of funding diverge to drive up the prices of a broad range of assets."*

Playbook

The playbook for this environment should include:

- Short duration: In a world where the cost of funding matters again, the timing and certainty of cash flows become critical. Duration captures how exposed an investment is to changes in interest rates, and shorter duration assets are less vulnerable when rates are rising.
- Strong balance sheets: Companies with low leverage and strong cash flows are better positioned to manage higher refinancing costs and economic volatility. They also have flexibility where others are constrained.
- Real assets: Exposure to physical or inflation-linked assets like commodities and infrastructure can help preserve purchasing power if inflation is persistent.
- Diversification: In a regime defined by fragmentation, higher volatility and less predictability, a portfolio that draws from uncorrelated sources of return and has exposure to 'under-owned' assets is more resilient.

Volatility

We believe investors should also be mindful of the risks and opportunities that rising volatility will bring, an outcome we see as a natural consequence of high debt levels. While headlines and sentiment may be the proximate triggers for movement, the magnitude of that movement often stems from the structure of corporate balance sheets. Assets and liabilities are fixed in nominal terms, but equity, the sliver of hope between the two, is variable. Volatility, seen in this way, reflects investors' shifting assessment of a company's ability to meet its obligations. This perspective helps explain the persistent correlation between volatility and high-yield credit.

The same logic applies at the market level. In a system where debt levels are high and equity cushions are thin, even modest shifts in interest rates, liquidity, or sentiment can lead to exaggerated price movements. With both cheap funding and general stability now in retreat, the environment is set for more pronounced swings.

Digging Deeper

In the rest of this report, we dig deeper into arguments relating to valuation, then we consider the history and consequences of deep global integration, before looking at structural imbalances and the consequences of a long period of low interest rates.

Valuation Matters

In our last quarterly, we noted that there are many investors for whom valuation is an outdated or irrelevant concept. As the updated charts below show, experience has reinforced this view. Across assets including equities, high-yield bonds and real estate, more than two decades of set-and-forget investing would have delivered strong results, as multiples expanded and spreads narrowed.

Nevertheless, we argued, to conclude from this experience that valuation no longer counts is to miss the point: what matters is understanding the conditions that allowed valuations to rise over such an extended period and asking whether those conditions still hold.

Breaking valuation down to first principles, there are three drivers: the required return, nominal cash flow growth, and the cost of funding. Assuming the required return remains constant over time, we are left with just two. Nearly thirty years of a widening spread between those two, nominal cash flow growth and cost of funding, has driven higher valuations across asset classes.

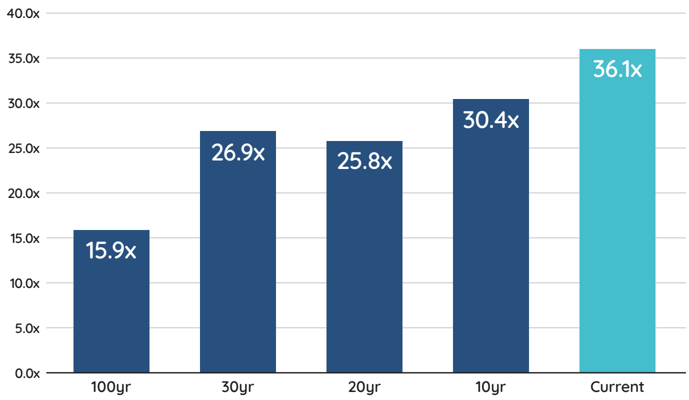
> *"Nevertheless, we argued, to conclude from this experience that valuation no longer counts is to miss the point: what matters is understanding the conditions that allowed valuations to rise over such an extended period and asking whether those conditions still hold."*

However, the conditions that allowed valuation to be deemphasised are shifting. On the nominal cash flow growth side, forces that once supported it, deep global integration, free trade, free movement of capital and access to low-cost production, are reversing. Supply chains are reshoring, trade barriers are rising, and labour costs are climbing.

On the financing side, funding rates have risen sharply and may remain high. The headlines have been about trade wars, but trade wars are also capital wars. We would argue that the era of near-free movement of capital is over.

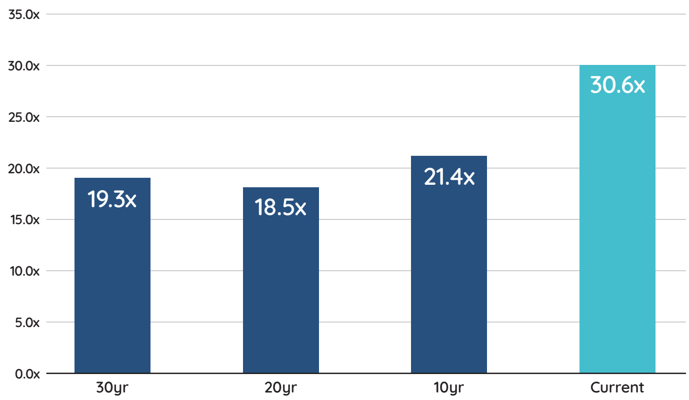
If cash flow growth faces structural headwinds and financing costs stay elevated, then the forces that pushed valuations ever higher no longer apply. At minimum they are no longer tail winds, worse they may reverse.

Equities: Average Shiller P/E



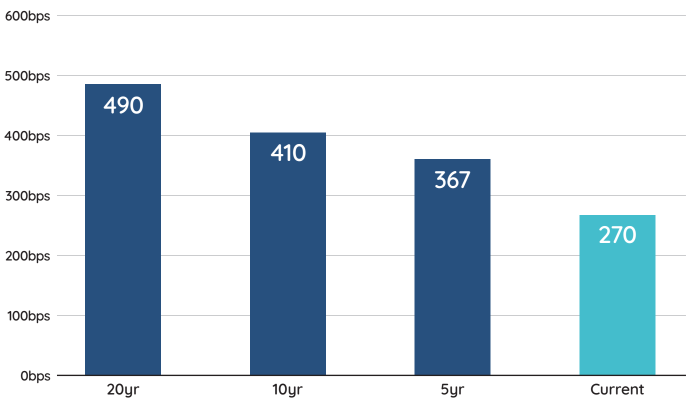
Source: Talaria, Bloomberg

Real Estate: Average P/E



Source: Talaria, Bloomberg

HY Bonds: Average Credit Spread

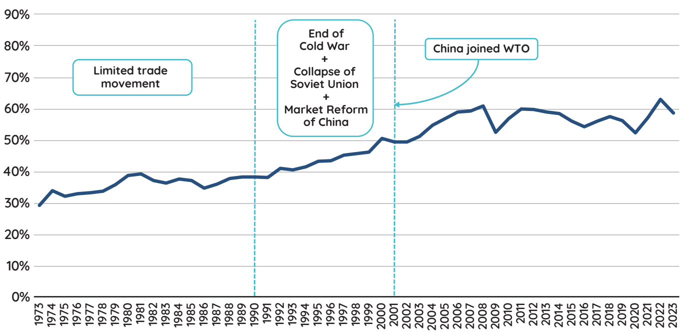


Source: Talaria, Bloomberg

Deep Global Integration

The early 1990s marked a structural shift in the global political and economic landscape. The collapse of the Soviet Bloc brought Eastern Europe into the global economy. China deepened its reform agenda embracing market principles, devaluing the renminbi in 1994 to boost exports, and ultimately joining the WTO in 2001. Across Asia, liberalisation efforts opened markets, attracted foreign investment, and integrated regional economies into global supply chains. Together, these developments expanded trade, increased capital mobility, and effectively created a global labour pool.

World Trade Openess (Exports + Imports as % of GDP): 1973 - 2023



Source: Talaria, World Bank

Institutions helped consolidate this transformation. The WTO, established only in 1995, provided a formal framework for reducing trade barriers and resolving disputes. Meanwhile, older institutions like the IMF and World Bank supported liberalisation and infrastructure development, reinforcing the shift toward global economic integration.

There were significant benefits: emerging markets experienced rapid growth, lifting hundreds of millions out of poverty; consumers in developed markets benefited from lower prices and wider product availability; global supply chains improved efficiency and enabled firms to specialise, scale, and respond more flexibly to changing demand; production shifted to locations with lower costs and greater productivity, boosting corporate margins without igniting inflation.

At the same time as global cash flow growth accelerated, the cost of funding fell. Disinflation and strong demand for bonds, combined with accommodative central bank policy, pushed interest rates steadily lower. Following the Global Financial Crisis, the trend was reinforced. Real interest rates across much of the developed world remained near or below zero for much of the period from 2009 to 2022. Capital became more mobile and less constrained by national or regional boundaries.

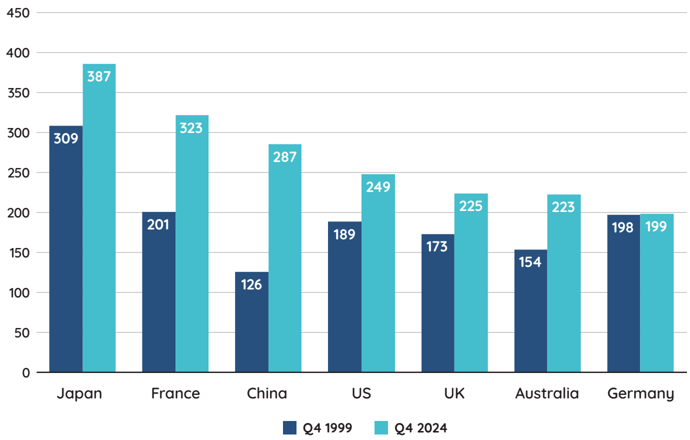
For investors, this was the dream scenario; the divergence of strong nominal cash flow growth on one side, low and declining financing costs on the other, formed the foundation for three decades of rising prices across a broad range of assets.

Structural Imbalances

But globalisation was not an unqualified good. Leaving aside negative social or political consequences, globalisation enabled the build-up of three structural imbalances that now pose significant economic challenges.

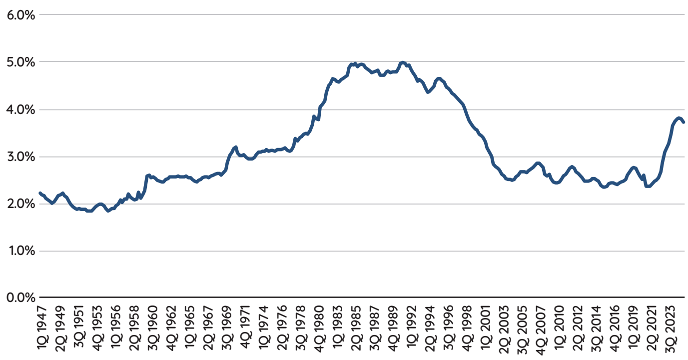
First, world non-financial debt rose to very high levels, facilitated by interest rates that remained persistently low. When funding is cheap, debt service is easy and encourages leverage. Governments, companies, and households responded accordingly. More recently, rising interest rates have started to test the sustainability of the debt levels accumulated over the previous three decades. What was manageable under low rates is looking increasingly untenable as the rate of interest outstrips the rate of growth.

Total Non-financial Sector Debt to GDP (%) by Countries



Source: Talaria, Bank for International Settlements Data Portal

US Government Interest Payments as % of GDP



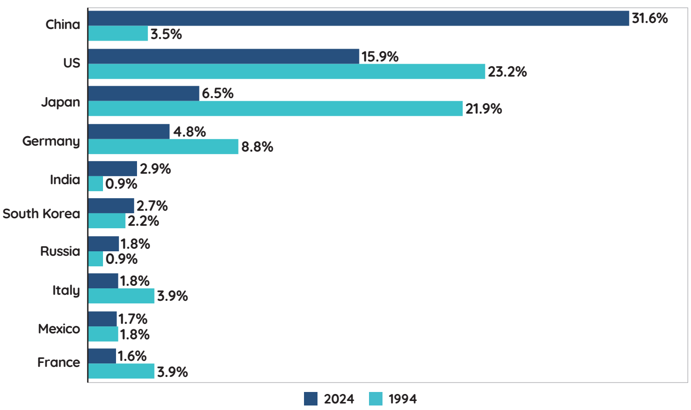
Source: Talaria, FRED

Second, trade and capital flows became increasingly unbalanced. Most notably, the United States ran simultaneous fiscal and current account deficits financed by inflows of foreign capital with little upward pressure on either interest rates or the dollar. In 2024 the U.S. required approximately USD 1.9 trillion in net foreign capital to fund the gap in its balance of payments. Notably, and perhaps contrary to popular perception, the bulk of this financing came from the foreign private sector rather than foreign governments.

This flow is not guaranteed. As economic nationalism gathers momentum, governments are increasingly finding ways to steer capital inward. These need not incorporate mandating the sale of existing offshore holdings, but it is likely to disincentivise investing abroad. Even subtle shifts in policy or regulation can alter the marginal flow of capital, especially when domestic funding needs are rising.

Third, the global manufacturing map shifted. Developed market firms, with access to cheaper labour abroad, moved production offshore. The COVID-19 pandemic exposed the risks of extended, offshore supply chains and underscored the lack of resilience in domestic manufacturing in the West. Governments and companies discovered that global efficiency was not without its costs. Lately, a shift in U.S. policy, America First, has further driven a turn inward, firstly in the U.S. but then in other countries that had previously been happy to rely on overseas production.

Share of World Manufacturing Output in 1994 and 2024



Source: Talaria, United Nations - Department of Economic and Social Affairs - Statistics Division

Conclusion

To return to our initial theme, there is a lot of noise in financial markets today. The deliberate flooding of the zone and the broader battle for attention that now drives the media has resulted in a distracting cacophony.

Beyond the noise there are several significant developments for investors to consider, but if we had to identify a single item not to lose sight of it would be this: as the monetary regime transitions, the conditions that underwrote ever rising valuations across a range of assets are no longer in place. In particular, the multi-decade divergence of nominal cash flow growth and the cost of finance has, at minimum, ceased and may actually reverse.

This has implications for asset allocation. Therefore, we believe investors should prioritise short duration, strong balance sheets, real assets, and diversification. Underlying this view is our premise that while valuation has always mattered, it hasn't always mattered to everyone. This ought to change.

June 2025 Quarterly Performance

The second quarter of 2025 was a quarter of extremes. A market rout in early April was followed by a powerful rally. Risk appetite returned with renewed optimism in tech and a rotation back into growth stocks. Defensive sectors underperformed. Although Europe appeared to lag the US, adjusting for significant US dollar weakness showed both regions delivered similar returns in constant currency.

Liberation Day tariff announcements drove a pronounced sell-off in early April. Volatility, measured by the VIX index, spiked to above 50 only for the third time this century. A war between Israel and Iran pushed oil prices sharply higher. However, a subsequent postponement of tariffs and the announcement of a ceasefire helped spur investor risk appetite. As a result, investors shrugged off the apparent risks these events posed to global growth and drove global equity indices to new all-time highs. Momentum and growth were the best performing factors.

By region, headline indices delivered strong gains in the US (S&P500 & NASDAQ up 10.6% and 17.7%, respectively) and Japan (Nikkei up 13.7%), while Europe lagged (Stoxx600 up only 1.4%); however, these differences were largely obscured by the pronounced weakness in the US dollar. When viewed in constant currency terms, index returns were much more uniform with all regions delivering similar high single to low double digit returns.

Against this backdrop the Fund delivered a return of -1.76% for the quarter.

Distributions: The Fund paid a June 2025 quarterly distribution of 26.4 cents per unit taking its 12-month income return to +8.45%.

By sector, IT performed best, up 23%, powered by AI optimism and good results from mega-cap tech. Communication Services was also strong, up 18.7%, as digital infrastructure demand remained robust. Despite a war induced temporary spike in oil prices, energy was the weakest sector for the second quarter in a row, down -5.8% due to oversupply concerns. Healthcare was also weak, down -4.4% as managed care (United Health down -40%) and medical products providers reported a significant reversal in earnings momentum.

The VIX closed the quarter at 16.7, down significantly after spiking to 50 in early April during the Liberation Day turmoil. The USD was notably weak, with the DXY index down -7% as fears of unchecked fiscal spending in the US undermined confidence. The US 10-year yield remained virtually unchanged at 4.2%, despite volatility in risk assets and shifting inflation expectations. The oil price closed the quarter at $65.1, down from $71.5 in March.

The largest contributor to portfolio returns in the quarter was CF Industries on the back of robust fertilizer demand and pricing. Bayer, a German health and nutrition company, was another large contributor to fund returns as the market looked ahead of improved profitability. Newmont, a gold miner, was also very strong, benefitting from higher gold prices and operational improvements. We continue to hold all three companies as we see further upside to fair value.

The largest detractor to performance in the quarter was Bunzl, a UK distributor. A downgrade to the margin outlook given mis execution in its US business in H1 was the main driver. Another detractor to performance was Sanofi, a French pharmaceutical company. A disappointing pharma pipeline update and general weakness in global pharma drove the weakness. We continue to hold both companies on valuation grounds.

The fund initiated two new positions during the quarter. The new investments include Canadian Utilities, a Calgary-based provider of gas and electricity services, and Osaka Gas, a Japanese utility company. Both offer compelling valuations with stable earnings profiles.

The fund exited two positions during the quarter, Japanese security firm Secom and Japanese telco giant NTT, both on valuation grounds.

Stock in focus: EOG Resources

EOG Resources is one of the largest and most efficient independent oil and gas producers in the United States, listed on the NYSE.

Business Overview

EOG Resources produces approximately 1 million barrels of oil equivalent per day, split roughly evenly between oil and natural gas liquids/gas. Over the past decade, the company has delivered an average annual production growth rate of 6.5%, underpinned by a multi-decade resource base and a strong focus on cost efficiency.

EOG's production is primarily US-based, but the company has recently expanded internationally, securing a significant exploration concession in Abu Dhabi in early 2025. This move diversifies its resource base and positions EOG for potential long-term reserve growth beyond its already substantial US footprint.

The company's business model is built on low-cost operations—cash costs are below $15 per barrel, with all-in costs around $25–$30 per barrel—enabling EOG to generate attractive returns even in challenging commodity price environments. The required oil price for a 10% return on capital employed (ROCE) has dropped from $85 to $44 per barrel over the past decade, reflecting ongoing efficiency gains.

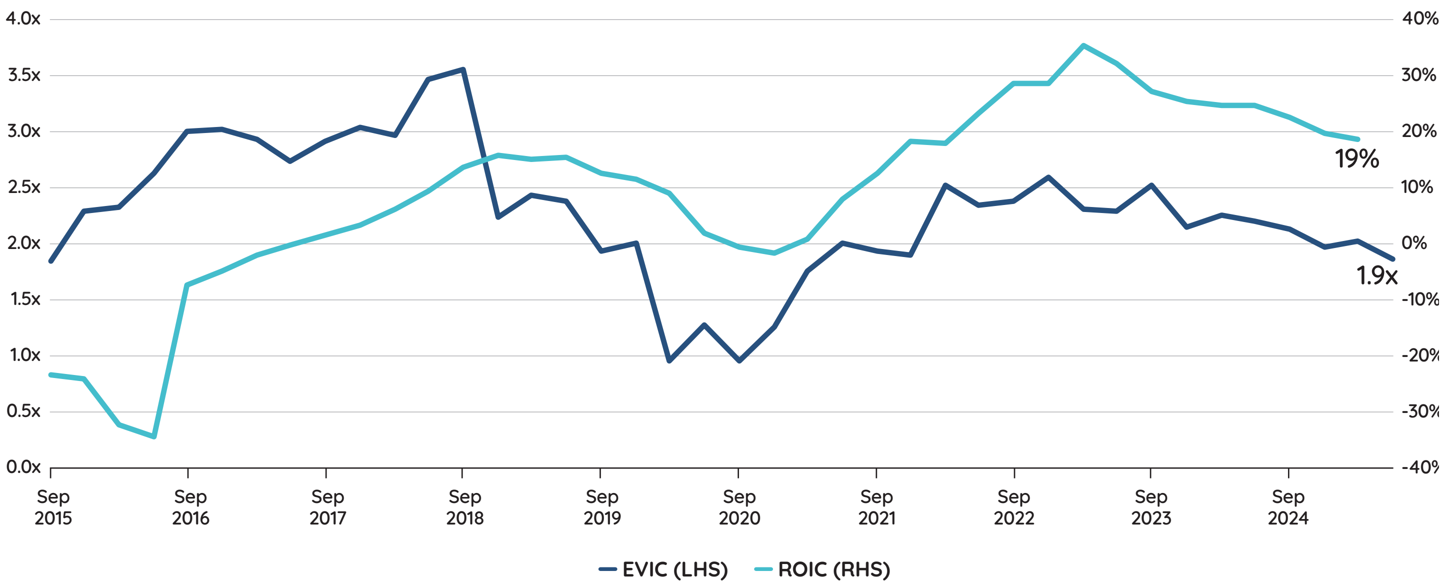
Investment Case in a Nutshell

EOG offers a compelling combination of financial strength, capital discipline, and shareholder returns:

- Strong Balance Sheet: Net cash position of over $1bn and a history of prudent financial management.
- Sustainable Growth: Production growth of 5–7% is supported by disciplined capex (~$2bn above maintenance), and substantial reserves with an average life of 12.5 years at the end of 2023.
- Attractive Free Cash Flow (FCF) Yield: 6.5 % FCF yield, with nearly 100% of FCF returned to shareholders via dividends and buybacks, even after the $2bn per annum growth capex.
- Compelling Valuation: Shares trade at 1.9x Enterprise Value/ Invested Capital (EV/IC), near 10-year lows, with a ~19% ROIC (see chart).
- ESG Progress: CO_2 emissions have risen just 5% since 2018 despite 37% higher production, and water recycling has improved significantly.

At $65 oil, EOG's expected return profile is a blend of ~6.5% from cash flow (dividends and buybacks) and ~5% from organic growth. If oil prices rise to $100, the upside is substantial, with FCF yield exceeding 14% and the potential for a share price approaching $220 (versus $121 as of 1st of July).

EOG, EV/IC and ROIC



Source: Talaria, Bloomberg

Talaria Global Equity Fund - Foundation Units

Top 10 Holdings*

Company name	% weight
Roche	5.6%
Johnson & Johnson	5.2%
Sanofi	5.2%
Newmont	4.7%
Everest Re	4.6%
Henkel	4.5%
Bunzl	3.6%
Essity	3.4%
Bayer	3.2%
CF Industries	3.2%

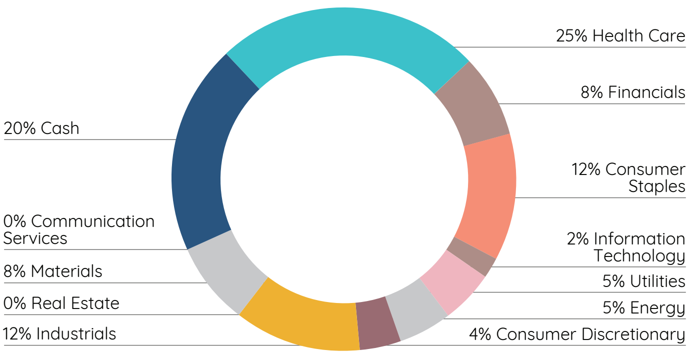
* Weightings include option positions held and cash backing put options. It assumes that put options will be exercised. Should the put option not be exercised the cash will revert to the unencumbered cash portfolio or may be used to cover further put options..

Performance at 30 June 2025[1]

Period	Total Return	Average Market Exposure[4]
1 month	-1.01%	58%
3 months	-1.76%	60%
6 months	2.84%	64%
1 year	11.26%	65%
3 years p.a.	8.52%	59%
5 years p.a.	10.23%	58%
7 years p.a.	7.87%	58%
10 years p.a.	6.95%	60%
Since Inception p.a.[2]	7.55%	61%

1 Fund Returns are calculated after fees and expenses and assume the reinvestment of distributions.
2 Inception date for performance calculation is 1 October 2005.
3 Past performance is not a reliable indicator of future performance.
4 Average Market Exposure calculated on delta-adjusted exposure of underlying portfolio.

Sector Allocation[5]



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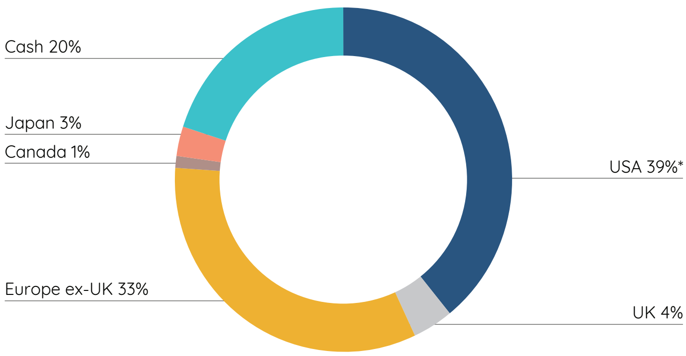
Regional Allocation[5]



* USA includes American Depositary Receipts (ADRs) listings.

Quarterly distribution

Period	Cents per Units	Reinvestment price
June 2025	26.400	$5.1902
March 2025	1.7888	$5.5518
December 2024	8.5585	$5.3207
September 2024	5.3809	$5.2890
June 2024	17.3304	$5.0482
March 2024	7.1577	$5.4311
December 2023	9.8624	$5.3614
September 2023	5.80605	$5.4423
June 2023	8.1576	$5.3852

Asset allocation

Asset allocation	% weight
Global equity	49.5%
Cash – put option cover	30.7%
Cash	19.7%
Total	**100%**

Portfolio contributors	Portfolio detractors
CF Industries	Bunzl
Bayer	Sanofi
Newmont	Johnson & Johnson
Randstad	Sodexo

Portfolio contributors and detractors are based on absolute quarterly contributions to return, including option positions

Talaria Global Equity Fund - Foundation Units

Fund snapshot

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