



Talaria Global Equity Fund Foundation Units

Quarterly Update September 2025

Talaria Asset Management
Level 14, 330 Collins Street
Melbourne, VIC, Australia 3000
+61 3 8676 0667
talariacapital.com.au
AFSL 333732



Signatory of:



Investment Insights

*“If you’re going to walk on ice,
you might as well dance.”*

– Anon

The clunking fist

In the United States, the invisible hand of the market is giving way to the clunking fist of government. The world’s largest economy has long mixed private enterprise with government involvement, but the balance has tilted more heavily in recent years.

Dirigisme, the French idea of government direction in the economy, was evident in the CHIPS and Science Act and the Inflation Reduction Act. But today’s administration goes further. Rather than simply setting direction, it is actively managing the economy with political considerations taking priority over economic ones.

This is not just about headline-grabbing attempts to bring the Fed to heel. The move towards fiscal dominance, in which monetary policy is subordinate to the needs of government, is only part of a broader shift toward a political economy.

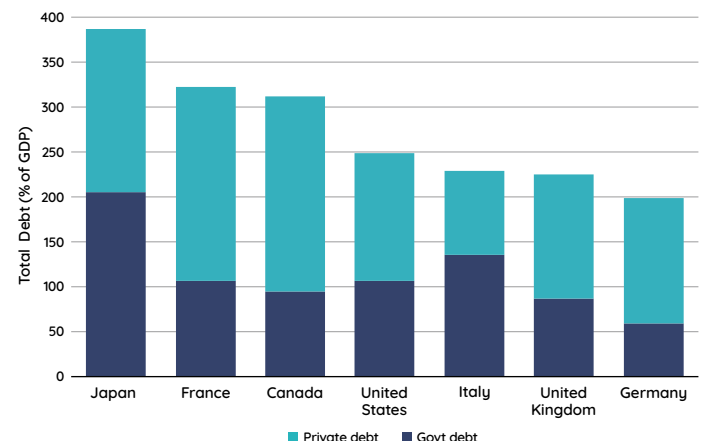
There are many examples. The government has taken a retrospective 10% stake in Intel. A sovereign wealth or “national security and economic fund” is in the works, and Washington has secured a golden share in US Steel. There is talk of further interventions in semiconductors, defence, utilities, infrastructure, cloud services, and even space.

Enormous debt and persistent deficits have supplied the wedge that has allowed the US government to grow its influence. And the extended reach is not confined to commerce as the US now incorporates an enormous entitlement and insurance framework that affects many of its citizens.

This trend of growing government interference enabled by enormous public indebtedness is not unique to the US. As the chart of G7 debt-to-GDP shows, high indebtedness is widespread but how it plays out differs across countries.

In France, a combination of enormous public and private sector debt magnifies the risks. Capital controls and financial repression are not out of the question. In Japan, low domestic yields encouraged households and institutions to recycle savings into higher-earning foreign assets, above all US Treasuries. But if this year’s sharp rise in JGB yields draws those savings back home, an important source of external funding could shrink.

G7 Countries: Debt to GDP (%)



Source: Talaria, Bank for International Settlements Data Portal

Opportunity

For investors, governments directly participating in private sector cash flows distort the usual signals of market pricing. When politics as well as profits steers capital allocation, valuations become harder to pin down and it is more costly to be an outsider.

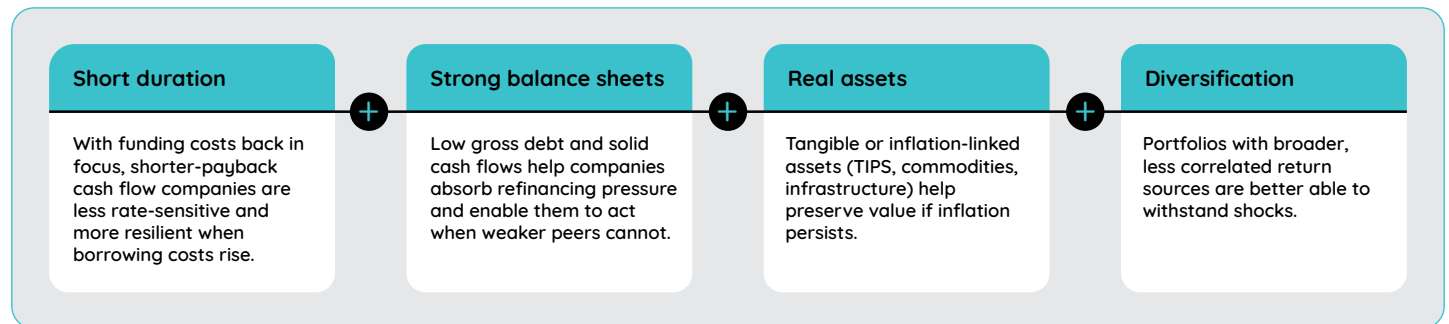
We also believe market operators have responded to greater government intervention with an increased appetite for speculation and a growing disregard for the dangers of illiquidity. There may be a shared sense that the government will act as a shield from disaster. “If you are going to walk on ice, you might as well dance,” especially if someone is there to catch you should you fall.

We further believe that peer pressure has compounded these tendencies. Calls to get with the programme and acronyms like FOMO capture the mood. Government and large investors add weight, leaving smaller participants feeling less agency and more compelled to follow.

Whether or not this behavioural analysis is the precise explanation, crowding into what is fashionable or favoured has opened an opportunity in shares that investors have neglected, often companies with stable cash flows, strong balance sheets, good returns and attractive valuations. As we show in the Portfolio in Focus section, prudence trades at a discount.

Playbook

The playbook we continue to recommend has four elements, each to be achieved with the best liquidity possible:



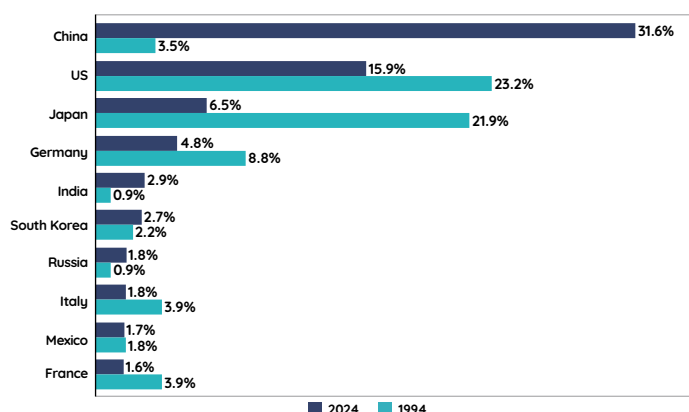
We also like the alternative sources of return available from spreads that sit outside of or benefit from market stress. The volatility risk premium, the persistent return earned by selling insurance to other investors seeking protection, is a good example and one that is central to our own strategy.

Regime transition, valuation matters

In our last quarterly we argued that we are in a monetary regime transition that has significant implications for investors. We said that the world is now experiencing a shift from the deep global integration regime that started in the early 1990s to a successor that is a reaction, what might be called a great separation, at heart a fight for capital.

The deep global integration monetary regime brought great benefits, but it also created imbalances: vast levels of non-financial debt to GDP, enormous US twin deficits reliant on foreign funding, and a distorted global manufacturing map. From a societal point of view the disproportionate returns earned by capital over labour resulted in the inequality that has been a significant force behind the last decade's rise in populism.

Share of World Manufacturing Output in 1994 and 2024



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

As the world attempts to unwind these imbalances, 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 funding has ceased and may even reverse.

This is at the heart of our belief that the concept of valuation in investment should come back into focus. A factor that many investment strategies have ignored or at least de-emphasised should regain prominence as funding is no longer free or near free and "separation" takes back some of the globalisation driven growth dividend.

Late in the debt cycle

In this quarterly we want to investigate government debt starting by looking at the debt cycle.

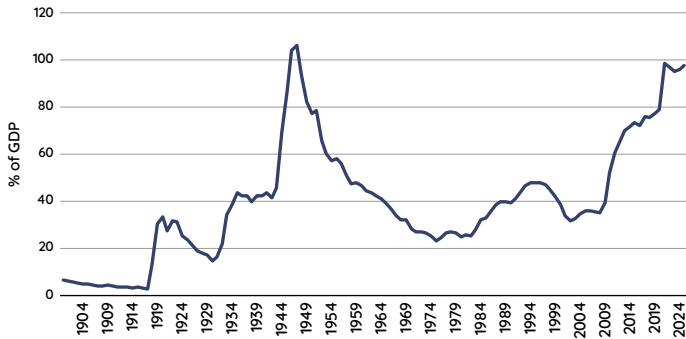
Focusing on public debt, what matters is that its rise cannot be limitless. In its early stages, borrowing supports growth. Over time, leverage increases but delivers diminishing returns. Eventually the cycle matures, debt burdens mount, flexibility shrinks and there are solvency issues. Economies face pressure to adjust, whether through growth, inflation, austerity, restructuring, or repression - alone or in combination.

"Focusing on public debt, what matters is that its rise cannot be limitless."

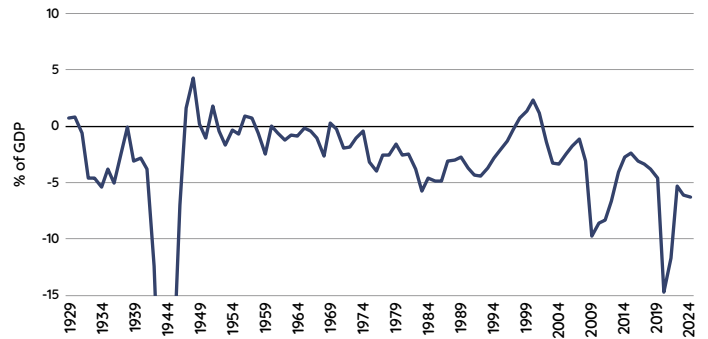
Modern Monetary Theory rejects this analysis. It argues that the challenge is not solvency but inflation; if inflation stays under control, governments can keep borrowing and creating money as long as they want. But history suggests that even monetary sovereignty does not do away with the risks of higher debt service, weaker market confidence, or a diminished ability to respond to shocks.

There are five indicators that place an economy late in the debt cycle. High absolute debt levels, persistent and rising deficits, rising debt service costs, diminishing discretionary spend and shortening maturities. By these measures, many developed economies are late in the cycle. As the charts below show, the United States clearly satisfies four of the five criteria. Recognising that different countries present the data differently, France and the United Kingdom also stand out.

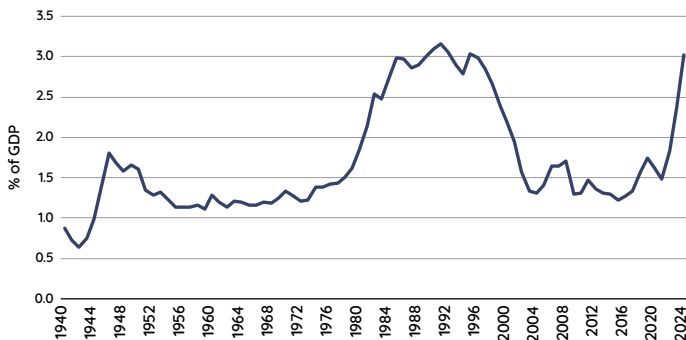
US Federal Debt Held by the Public



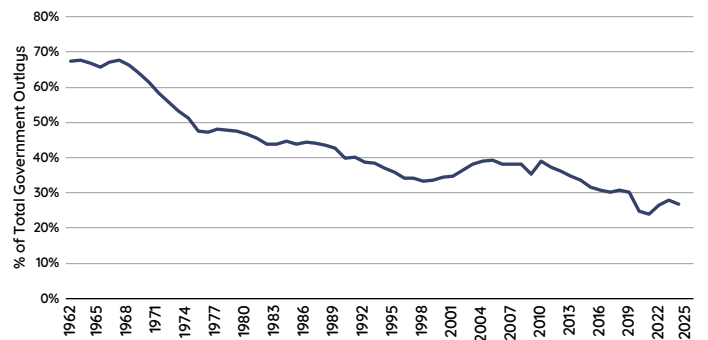
US Federal Surplus /(Deficit)



US Federal Interest Outlay



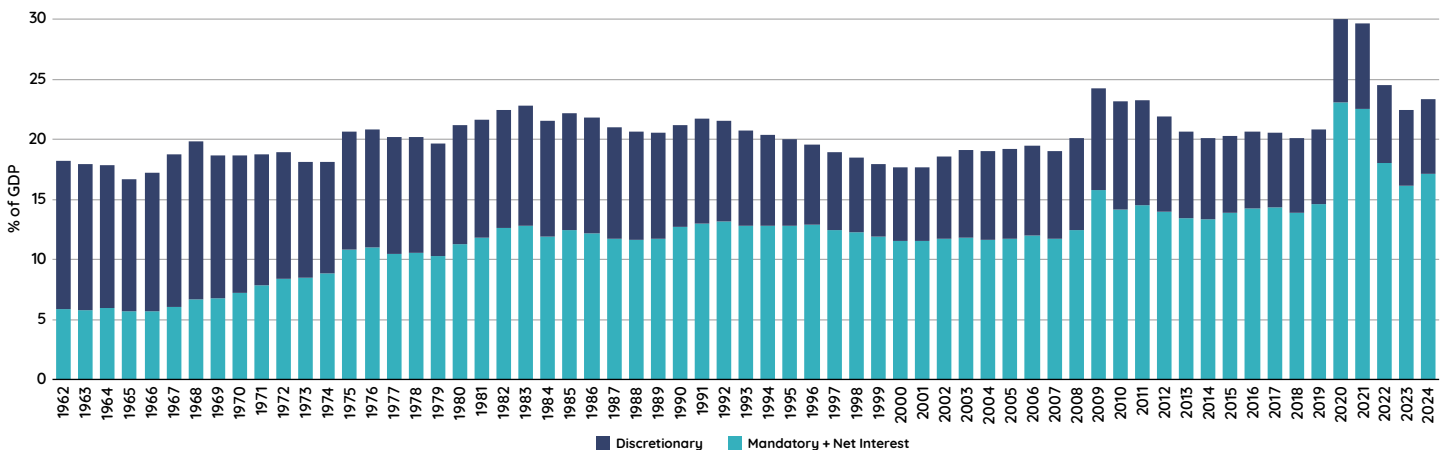
US Discretionary Outlay (as % of Total Outlays)



Source: Talaria, Bloomberg, FRED, US Treasury, US Congressional Budget Office, US Office of Management and Budget.

One way to see this late-cycle dynamic most clearly is in the United States. Looking at FY 2025's budget, discretionary spending is capped at about USD 1.6 trillion. That is only a quarter of total outlays, while mandatory programmes such as Social Security, Medicare and Medicaid, together with net interest, now account for around three-quarters. The rapid de-emphasis of the Department of Government Efficiency (DOGE) illustrates what happens when vast cost cutting ambitions meet the titanic reality of the challenge.

Mandatory spending now dominates US outlays, discretionary at historic lows



Source: Congressional Budget Office, Office of Management and Budget, Talaria.

Consequences of debt accumulation

When economies are late in the debt cycle, the effects are not theoretical but real.

First, debt servicing becomes more burdensome. Structures that looked sustainable at near-zero rates become fragile as interest costs rise and governments must refinance, leaving them vulnerable to sudden jumps in borrowing costs.

Second, fiscal flexibility shrinks. A growing share of budgets must cover mandatory and interest payments, reducing the discretionary part available to absorb shocks or for counter-cyclical support or new investment.

Third, as we have discussed at length elsewhere, financial repression becomes more likely. With debt levels high and deficits persistent, authorities may prefer to keep yields low compared to inflation. While this can stabilise debt to GDP, it also redistributes resources from savers to borrowers, the government being the biggest borrower of all.

As an aside, this is another reason companies with strong balance sheets are attractive. Under financial repression, governments may direct private savings to support government debt, crowding out private credit. In these circumstances, companies that need funding may find equity issuance is their only option.

Finally, high debt weighs on confidence and risk appetite. Corporates may hesitate to invest, expecting higher taxation or weaker demand, while investors may retreat if fiscal sustainability looks doubtful. The recent speculation that even large economies such as France or the UK might one day need IMF support shows how quickly solvency concerns can shift: how did they go bankrupt? “Gradually, then suddenly.” (Hemingway).

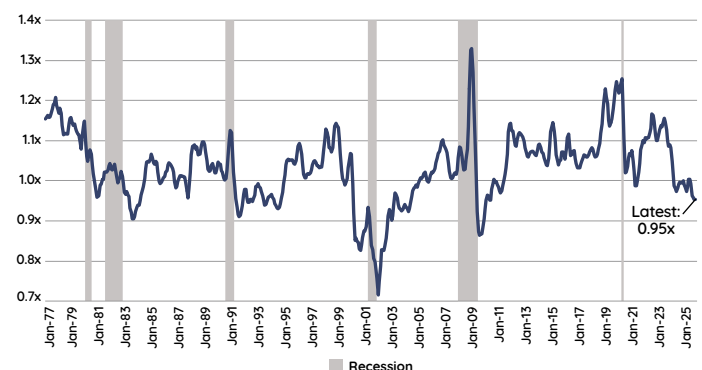
“Investors in long bonds are doing more than just paying for an earnings’ stream, they are expressing confidence that the state will ultimately deliver.”

Conclusion

Equities sometimes attract the charge of exuberance, even “irrational exuberance” as Greenspan put it. Consider the recent NYSE listing of Bullish (BLSH), an institutional crypto exchange with a chest beating name and a knowing ticker. To some, it captures the spirit of the times. As we have argued a sense of safety may feed that spirit, that feeling of “what is the worst that can happen?” that flows from a larger government presence in economies and markets.

Against this backdrop it is not surprising that traditionally defensive areas such as food and beverage, household products and health care have struggled. Granted, two of the three face industry specific challenges: food and beverage contend with GLP-1 effects and shifting consumer behaviour, and health care faces perennial, perhaps growing pressure on US drug pricing. But more broadly, if protection is perceived as abundant, the premium for safety narrows, even dissolves, and defensives look less valuable. In principle this creates opportunity.

Large-Capitalisation Stocks: Relative Forward-P/E Ratio¹ of Top Quintile of Fundamental Stability, 1977 Through Sep 2025



Finally, returning to the subject of debt, we would note that bullishness is not confined to equities. Government bonds have sold off this year, which speaks to real concern, but if you set liability matching aside, a buyer of long duration sovereign debt is, in many cases, still making an optimistic bet. A bond is worth only the present value of its coupons underwritten by tax receipts. Where deficits persist, the state is cash flow negative, so investors in long bonds are doing more than just paying for an earnings’ stream, they are expressing confidence that the state will ultimately deliver.”

Whether that confidence proves justified remains to be seen, but with all we have discussed it hardly looks risk free.

September 2025 Quarterly Performance

Global equity markets continued to rally in the third quarter of 2025. A rate cut in the US coupled with an improvement in economic data spurred most sectors and regions higher. But as markets reached new all-time highs, valuations climbed to new extremes as well.

Equity markets continued one of the sharpest rebounds that we've seen in history. Stronger leading economic data and softening labour markets in the US opened the door for the Federal Reserve to cut rates in September – their first since December of last year. Large tech companies exposed to the secular AI theme and smaller cyclical companies exposed to a perceived rebound in economic activity benefitted the most. Precious metals, meanwhile, continued their surge as fiscal largesse kept fueling the risk of a rise in inflation. After a strong start to the year Europe was the relative laggard.

All regional indices were up in the third quarter. In the US, big tech and small cap led the way. The tech-heavy NASDAQ was up 11.2%, followed closely by the small caps S&P600 index, up 8.7%, while the broader-based and larger caps S&P500 was up 7.8%. Asian markets were also strong. China's Shanghai composite was up 12.7%, boosted by domestic stimulus and growth in the technology sector while Japan's Nikkei was up by 11% on the back of a weaker yen and less uncertainty around trade with the US. Following a strong start to the first half of the year, Europe's Stoxx600 was up just 3.1% in Q3 weighed down by increased political risk in France and dissipating optimism about an industrial revival in Germany.

Against this backdrop the Fund delivered a return of +2.29% for the quarter.

Distributions: The Fund paid a September 2025 quarterly distribution of 8.51 cents per unit taking its 12-month income return to +8.76%.

Information Technology and Telecommunications were the best performing sectors, up 12.2% and 10.5%, respectively as the AI theme gained further momentum. Materials was also very strong, up 8%, mostly driven by the rally in gold and silver prices. Defensive sectors were the relative underperformers. Consumer staples was the only sector in the red, down 2.4%, dragged lower by weakness in consumer packaged goods as well as household and consumer products. Health Care was also a relative underperformer, up a modest 2.7% as drug pricing discussions continued to keep a lid performance.

The US Fed cut interest rates for the first time since 2024 in September. Yields on the US 10-year fell by 8 basis points to reach 4.15% at the close of the quarter while the VIX moderated further, reaching 16.3, down slightly from 16.7 in June. After a very weak start to the year, the USD stabilised in the third quarter, with the DXY index up a modest 0.9%. The oil price closed the quarter at \$62.4, down from \$65.1 in June.

The largest contributor to portfolio returns in the quarter was Newmont, the world's largest gold miner. It benefitted from an increase in the price of gold while the free cash flow yield remains high. Johnson and Johnson, a global pharmaceutical giant based in the US, was another large contributor to fund returns on the back of improved guidance and EPS growth outlook. We continue to hold both companies as we see further upside to fair value.

The largest detractor to performance in the quarter was Pluxee, a French employee benefits and rewards provider. The main drivers for the weakness were adverse regulatory changes in Turkey and France. Another detractor to performance was Brenntag, a German chemicals distributor. Overcapacity in the global chemicals sector continued to weigh down on product pricing which, in turn, impacted revenues and margins. We continue to hold both companies on valuation grounds.

The fund initiated a new position in GSK, a UK based pharmaceutical company. It offers compelling valuation based on strong cash flows from its existing drug pipeline while its implied residual value trades at a discount to the value of new science (measured by R&D spend).

The fund exited Citigroup during the quarter after the outstanding puts expired. No further puts were written on valuation grounds.

Portfolio in focus: Talaria Capital Global Fund

This quarter we depart from our customary focus on an individual portfolio stock. Instead, we take a deeper look at the overall Talaria portfolio and how it is positioned.

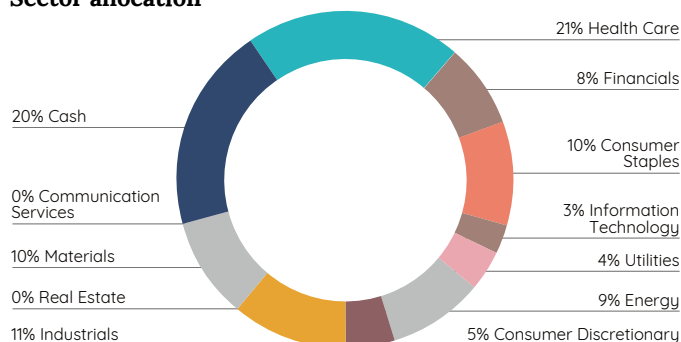
We explore the characteristics of its equity exposure – short duration, low leverage, attractive valuation and the optionality of holding cash. We also show that, though the equity portion of the portfolio trades at a substantial discount to the market, earnings growth among its companies has kept pace with the broader market.

Value, not vibes

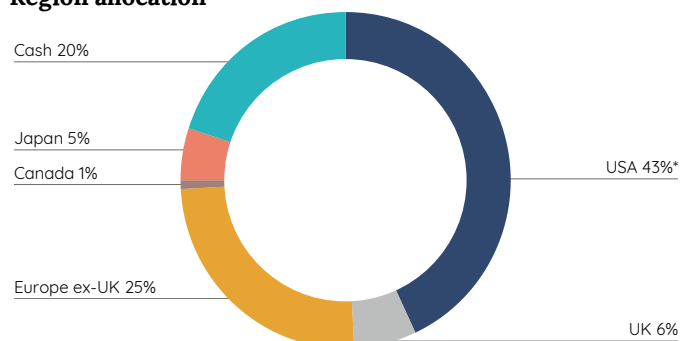
The Talaria portfolio is a function of our disciplined, bottom-up, value driven stock selection process combined with a risk management overlay. We set no targets for sector or regional exposure; they are simply an output.

In terms of the broad portfolio composition, the equity portion of gross capital at risk is 80% with cash at 20%, the maximum permitted by our mandate. This reflects the scarcity of ideas at current prices and preserves liquidity to act on any pullback. Focusing on the equity exposure, as at 30 September, Health Care remains our largest sector and Consumer Staples our third – both typically comprising businesses that sell essentials and deliver steadier cash flows. By contrast, our exposure to Technology and Communication Services, which are a home to the Magnificent 7 and other AI-exposed names, is just 3%.

Sector allocation



Region allocation



* USA includes American Depositary Receipts (ADRs) listings.

Source: Talaria

Focusing on the portfolio characteristics, the table below addresses these by treating the portfolio's gross equity holdings and the index as if each were one company, with sales set to 100. This common-size view shows investors what they own and how it differs from the index.

Table 1: Common size analysis: portfolio holdings and the index (Indexed, sales = 100)

Metrics (Index 100 = Sales)	Talaria Portfolio	FTSE Developed
Income Statement Figures		
Sales	100	100
EBIT	13.3	17.7
Interest Paid	1.1	2.3 ⁽¹⁾
Pre-Tax	12.2	15.4
Tax Rate	25%	20% ⁽¹⁾
After-Tax Profit	9.1	12.3
Balance Sheet Figures		
Equity (Book Value)	54	77
Debt	34	94
Cash	14	65
Net Debt	20	29
Total Capital (Equity + Debt)	73	105
Leverage Ratios		
Debt / Equity	63%	122%
Net Debt / Equity	37%	37%
Net Debt / Total Capital	27%	27%
Efficiency/Profitability Ratios		
Sales / Total Capital	136.1%	95.0%
EBIT / Total Capital	18.2%	16.8%
ROE	17.0%	16.1%
Return on Total Capital	12.4%	11.7%
Valuation Figures		
Price	109	251
Price / Sales	1.1	2.5
Price / Book Value	2.0	3.3
Price / Earnings	11.9	20.4
Earnings Yield	8.4%	4.9%
Dividend Yield	3.8%	1.8%
Retained Earnings Yield	4.6%	3.1%
Dividend Payout Ratio	45%	36%
Enterprise Value / EBIT	9.6	15.8

Notes: (1) Based on Talaria estimate of index interest expense and tax rate ex financials. All other figures based on next 12 month estimates.

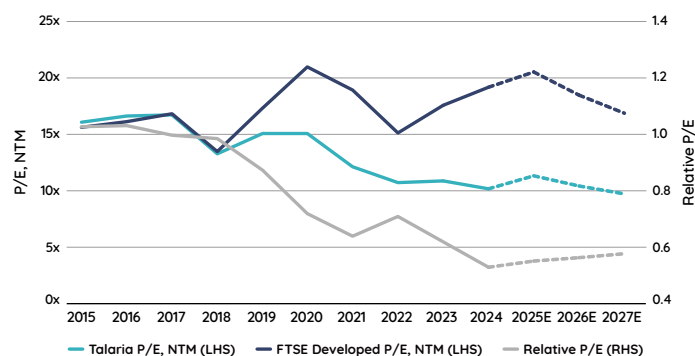
Source: Bloomberg

In summary, the Talaria portfolio is:

- Cheaper: Price-to-earnings and price-to-book ratios indicate better value than the overall opportunity set.
- Higher Quality: Holdings generate higher returns on capital and return on equity.
- Has lower balance-sheet risk: Lower gross debt-to-equity reduces refinancing risk and sensitivity to wider credit spreads.
- Is shorter duration: Lower starting valuation means faster payback with stronger returns on total capital supporting a higher dividend yield and larger retained earnings to reinvest at attractive rates.

Zooming in on valuation alone, the equity portion of the Talaria portfolio has seldom looked cheaper versus the opportunity set. A representative broad global equity index now trades at 20x+ forward earnings which is well above its long-run average (dark blue line). By contrast, the equities in our portfolio are trading at 11.2x, their lowest absolute level in the last decade (teal). For a value manager a discount is expected; historically ours averaged ~17%. Today it is at a deep ~45% (grey line).

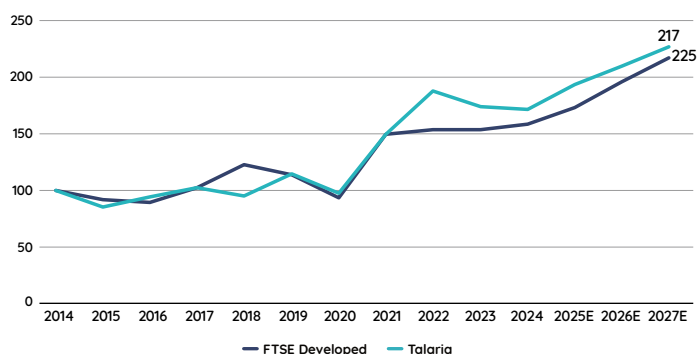
NTM P/E and Relative P/E



Source: Bloomberg

Crucially, that discount doesn't come from slower growing businesses. Despite our holdings using less leverage, portfolio EPS growth has tracked the index over the past decade (see chart).

EPS: Talaria vs FTSE Developed (Index 2014 = 100)



Source: Bloomberg

Prudence that trades at a discount

Based on valuation, investors in global equity indices are paying a multiple of record earnings that implies they are optimistic about the future. This may prove to be justified. However, our approach is different, buying cash flows at discounts to fair value in shares that have strong balance sheets, good earnings growth and attractive returns on capital. This approach, which incorporates the somewhat out of fashion concepts of prudence and long-termism, means we rely less on optimism than many.

Talaria Global Equity Fund – Foundation Units

Top 10 Holdings*

Table title	% weight
Newmont	6.1%
Johnson & Johnson	4.7%
Roche	4.4%
Everest Re	4.4%
Bunzl	3.8%
Essity	3.4%
Chubb	3.4%
CF Industries	3.4%
EOG Resources	3.4%
Bayer	3.3%

* 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 September 2025¹

Period	Total Return	Average Market Exposure ⁴
1 month	-0.32%	58%
3 months	2.29%	59%
6 months	0.49%	59%
1 year	7.53%	63%
3 years p.a.	8.96%	60%
5 years p.a.	10.69%	58%
7 years p.a.	7.53%	58%
10 years p.a.	7.30%	59%
Since Inception p.a. ²	7.57%	61%

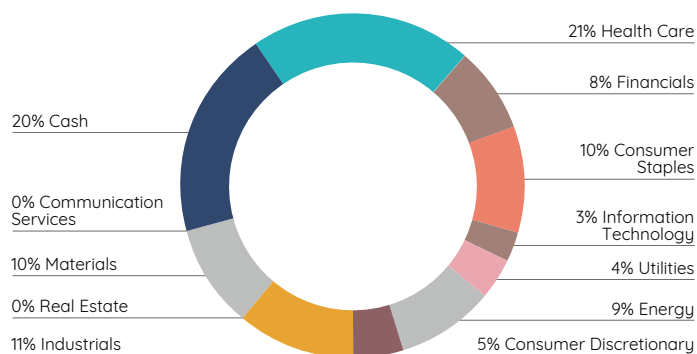
¹ Fund Returns are calculated after fees and expenses and assume the reinvestment of distributions.

² Inception date for performance calculation is 1 October 2005.

³ Past performance is not a reliable indicator of future performance.

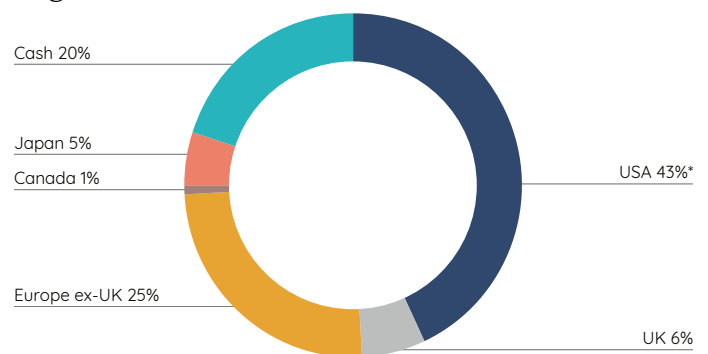
⁴ Average Market Exposure calculated on delta-adjusted exposure of underlying portfolio.

Sector Allocation⁵



⁵ 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..

Regional Allocation⁵



* USA includes American Depositary Receipts (ADRs) listings.

Quarterly distribution

Period	Cents per Units	Reinvestment price
September 2025	8.510	\$5.2238
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

Asset allocation

Asset allocation	% weight
Global equity	53%
Cash – put option cover	27%
Cash	20%
Total	100%

Portfolio contributors

Portfolio contributors	Portfolio detractors
Newmont	Pluxee
Johnson & Johnson	Brenntag
Cenovus	Essity
Subaru	Robert Half

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%

Important Information

Equity Trustees Limited ("Equity Trustees") (ABN 46 004 031 298), AFSL 240975, is the Responsible Entity for the Talaria Global Equity Fund – Foundation Units. ("the Fund"). Equity Trustees is a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX: EQT).

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 Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P") and is licensed for use by Talaria Asset Management. Neither MSCI, S&P nor any third party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.