



# Talaria Global Equity Fund Foundation Units

**Quarterly Update** December 2025

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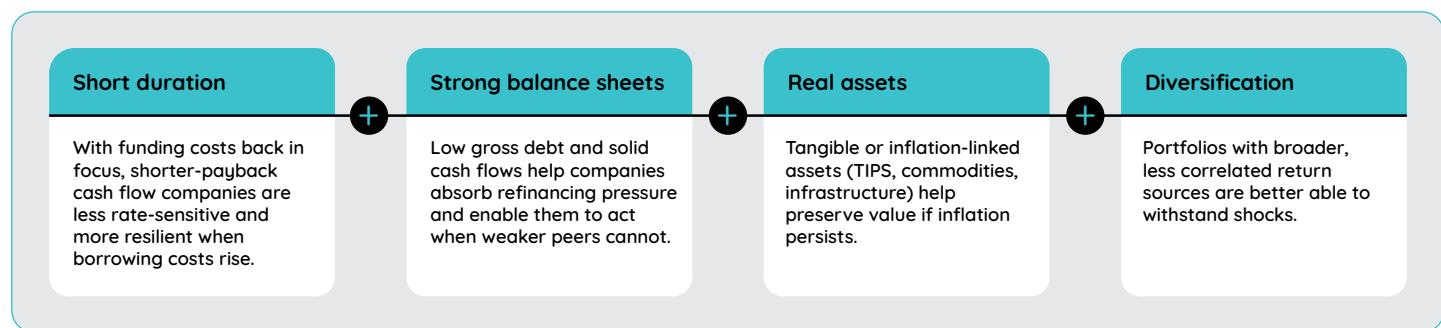
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# Investment Insights

The key structural theme for financial markets is the transition in monetary regimes. The world is moving away from the deep global integration that shaped the thirty years from the early 1990s towards a regime that will see a steady unwinding of many of globalisation's consequences. This is central to how we think about an investor's playbook.

In this environment we like short duration equities, strong balance sheets, real assets and diversification. We favour alternative sources of return including spreads such as the volatility risk premium, a form of insurance that remains central to our investment process.

## Playbook



There is value away from expensive headline indices and mega-cap stocks. It remains possible to find attractive opportunities without taking a view on whether there is a bubble or whether artificial intelligence is the game changer that is priced into shares.

Strikingly, there is an opportunity in those stable shares, now trading at a discount, that usually command a premium. The market's move away from these equities is corroborated by our bottom-up work. The Talaria portfolio trades at an unusually high discount while offering attractive characteristics in terms of earnings quality and balance-sheet strength. It is in part for this reason that we feel positive as we move into a new year.

## Investing in the new regime

### Overview

We consider the defining structural theme for financial markets to be that of monetary regime change. The world is exiting a thirty-year period of deep global integration and entering a period that is unwinding the dynamics that went before.

Populism, in large part a response to globalisation's unequal rewards, is behind efforts to rebalance the returns to capital and labour. Governments are adopting a more interventionist role in managing their economies, often prioritising political goals over purely economic ones.

*“Consider what a rich realm you abdicate when you become a conformist.”*

– Ralph Waldo Emerson, adapted

A further dimension of this shift is what we have termed a great separation. This is marked by economic nationalism as countries seek greater self-reliance and step back from interdependencies that are no longer secure. At heart, this means a fight for capital.

There are also efforts to address the major imbalances that accumulated from the early nineties onwards. These include vast levels of non-financial debt to GDP, enormous US twin deficits reliant on foreign funding, and a distorted global manufacturing map. In relation to the first of these, people often overlook the boon that this has been to corporate earnings.

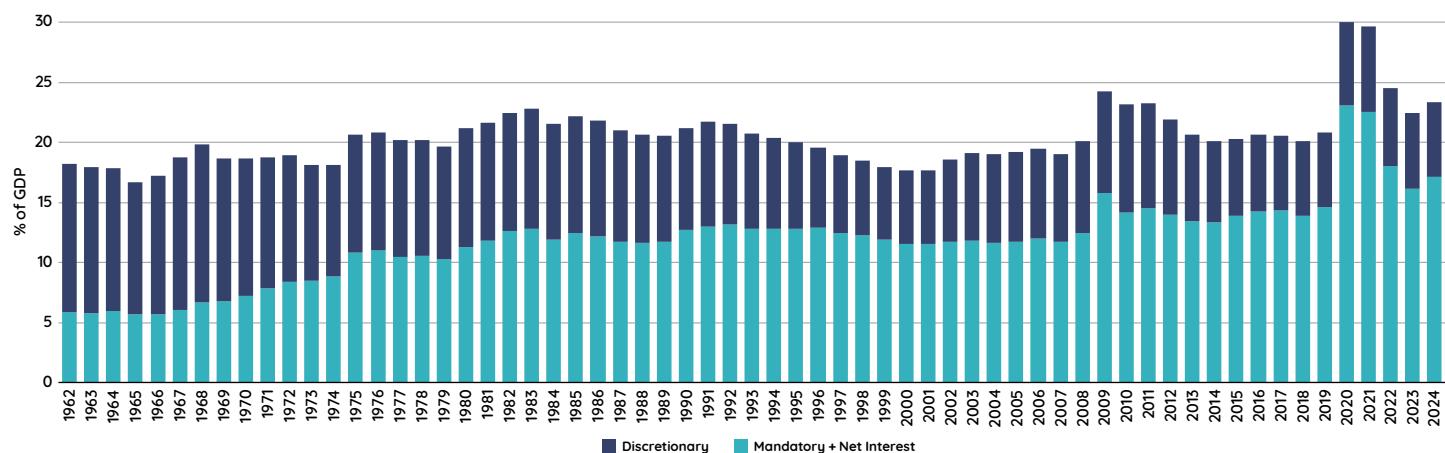
We expect governments to employ financial repression to normalise debt levels as growth and austerity are effectively not options. Repression is a mechanism that keeps interest rates below the level of inflation, eroding the real value of government debt and transferring wealth from savers to borrowers, governments being the biggest borrowers of all. A necessary requirement is a limitation of the free flow of capital through the web of incentives and disincentives governments employ to direct savers' money to governments' advantage.

### Focusing on debt and earnings

Modern Monetary Theory may argue that solvency is not the issue if inflation stays under control, but history shows that higher debt service costs, weaker market confidence and reduced ability to respond to shocks still matter.

In the US, as debt has accumulated, the consequences have become clearer. Debt servicing now absorbs a much larger share of budgets, and fiscal flexibility has shrunk as mandatory outlays and interest payments dominate. For context, interest payments on public debt are now around USD 1 trillion while the total corporate tax take is just USD 452 billion.

### Mandatory spending now dominates US outlays, discretionary at historic lows



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

The gap between the ambitions of the apparently now defunct Department of Government Efficiency and its limited achievements underscores how difficult it is for governments to cut spending in any meaningful way.

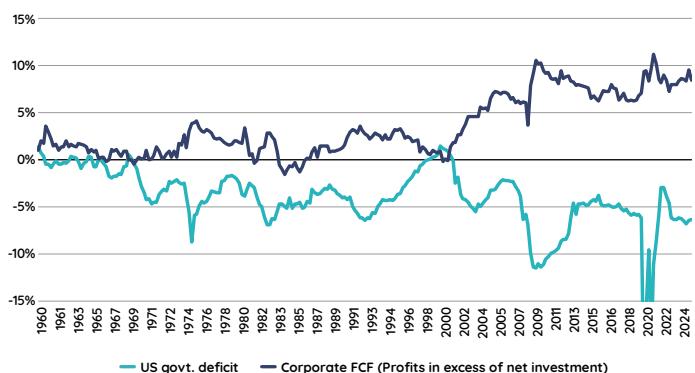
**“Once mandatory programmes consume most of the budget, even the highest-profile initiatives struggle. Less Department of Government Efficiency, more Dead On Arrival.”**

There is the level of debt and then there is the debt cycle.

Five indicators mark an economy late in the cycle. These are high absolute debt levels, persistent and rising deficits, rising debt service costs, diminishing discretionary spend and shortening maturities. Many developed economies now satisfy these conditions. In the United States, debt held by the public has reached very high levels, deficits are entrenched, interest outlays have risen and discretionary spending has fallen to a small share of total outlays.

What is often overlooked is the extent to which deficit spending and debt accumulation have supported the growth in the corporate profit pool; a deficit in one area of the economy is a surplus in another.

### US government deficit and Corporate Free Cash Flow (% of GDP)



Source: FRED, Talaria

There is an inconsistency between the anxiety around debt, justified in our view, and the exuberance around earnings. The latter has been employed as a significant justification for high valuations. We consider these in the following section.

## Valuation and prospective returns

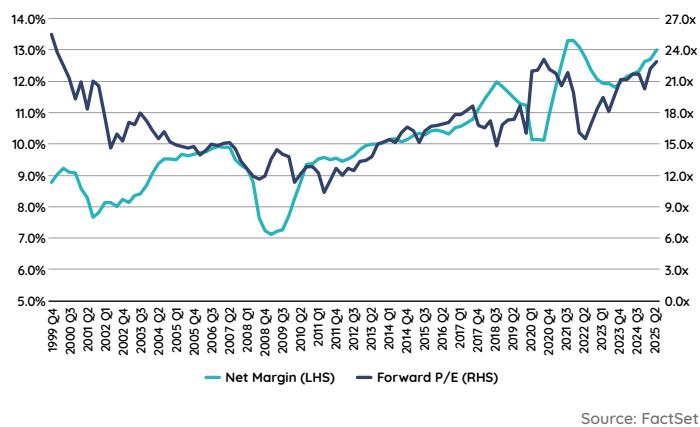
### Short-term valuation

From a short-term perspective, headline valuations for the S&P500 are stretched. Forward price-to-earnings multiples are near their highs and are based on earnings that assume profit margins that are themselves unusually elevated. This is a classic peak-on-peak set-up.

A useful comparison is the late 1990s. The market traded on a similar forward multiple, but with much lower net profit margins. Put differently, today's valuation incorporates materially higher profitability: if margins were still at late-1990s levels, the equivalent forward P/E would be in the low-30s.

In sum, even before considering longer-term valuation measures, the market is priced for very strong ongoing corporate profit growth.

### S&P 500 Net Profit Margin vs Forward P/E



Profit margins investors are capitalising today have been supported to a significant degree by fiscal expansion. Over the past decade the US corporate profit pool grew by roughly USD 1.7 trillion, and growth in the deficit explains almost ninety percent of that increase.

Large-cap companies have disproportionately captured this profit pool growth. Out of a total of nearly 35 million businesses, the 500 largest listed equities in the US captured around 70 percent of the increase or USD 1.2 trillion. This reflects a trend towards higher market concentration, clear since the turn of the century. In December 1999 the 500 largest listed companies accounted for some 41 percent of the profit pool compared to 61 percent today.

One of the main drivers towards greater market concentration, in some cases towards quasi monopolies, has been the way the price-to-the-consumer has become the key test for anti-trust authorities. Previously anti-trust considered competitive dynamics like consumer choice, quality, barriers to entry and anti-competitive M&A. Such factors as these were behind the pressure that forced IBM to unbundle software and services in 1969 and AT&T to break up in 1984. There are signs that policy is moving back towards consideration of non-price harms, but this may be a fruitless attempt to put the genie back in the bottle.

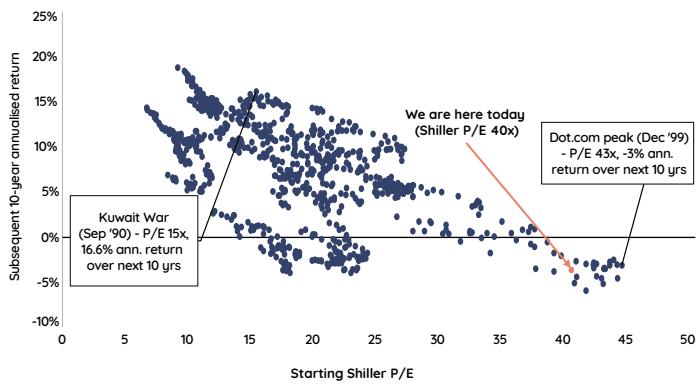
In part because of greater concentration, companies outside the S&P500 have been noticeably weaker. There is a growing cohort of zombie companies, elevated default rates in the leveraged loan market and a clear rise in bankruptcies. In 2024, US corporate bankruptcies reached their highest level since 2010 and filings continued at an elevated level in 2025.

### Long-term valuation

On any long-term measure, US equity valuations now sit at the extreme end of their historical range. The Shiller CAPE, which compares today's prices with a decade of inflation adjusted earnings, stands at 40. Since 1990, the market has only been more expensive about 4.9 percent of the time, and this was concentrated almost entirely in the peak months of the dot com era.

The Shiller CAPE has its limitations, but its message is not an outlier. Empirically, the market is simply extremely expensive relative to its own history across a range of well-recognised valuation metrics.

### Shiller P/E & subsequent 10-year annualised return



This matters because valuation is one of the few indicators with demonstrable explanatory power for long run returns. Its role is directional rather than deterministic. The relationship is imperfect but not immaterial. So, whilst valuation shapes the distribution of outcomes it never promises any particular result.

Nevertheless, the starting point matters. When valuations reach the current level, the historical range of outcomes narrows. Across the dataset, CAPE readings around 40 have typically been followed by real returns of around 0% to minus 2% per annum over the next decade.

Again, this does not preclude stronger short-term performance, but it should anchor long-term expectations. In relation to the S&P500, the arithmetic that follows illustrates the point.

We begin with today's level of sales, earnings and price. We then project earnings forward using historical averages for revenue growth, net profit margins and P/Es over several past periods. We then translate the implied future price into a 5-year annualised return.

Even under the most favourable assumptions, using the post-Covid period that embeds unusually strong average revenue growth and historically high average margins, the implied return is only around 6% per annum. Under longer-run averages, the implied return falls to about 2-3% per annum. Even assuming no reversion from near record P/Es and profit margins at exit, only yields less than 5% per annum. We find this a useful framework for considering what is priced into the US equity market.

|                            | Average 20 yrs | Average 10 yrs | Average 5 yrs | Average 1 yr |
|----------------------------|----------------|----------------|---------------|--------------|
| Avg. revenue growth        | 4.8%           | 5.8%           | 8.4%          | 4.7%         |
| Avg. net margin            | 10.5%          | 11.6%          | 12.3%         | 12.7%        |
| Avg. P/E                   | 18.2x          | 21.0x          | 22.8x         | 24.5x        |
|                            |                |                |               |              |
| Implied 5-yr return (p.a.) | 2.2%           | 3.2%           | 6.1%          | 4.7%         |

Source: Bloomberg, Talaria

## Opportunities

None of this valuation evidence has any predictive power over the S&P500's path in 2026. But in the face of such an elevated starting point and high concentration, at the very least it is sensible for an investor to ask where they might diversify to find decent risk-adjusted returns for their incremental dollar.

As the analysis below shows, investors can sidestep the difficult question of whether major US indices are rationally priced because reasonable prospective returns are available in other parts of the market.

We looked at a wide opportunity set by plotting current real yields against the maximum drawdown each asset class has experienced. The horizontal axis shows how much pain investors have historically had to bear. The vertical axis shows today's real yield based on 5-year forward inflation expectations.

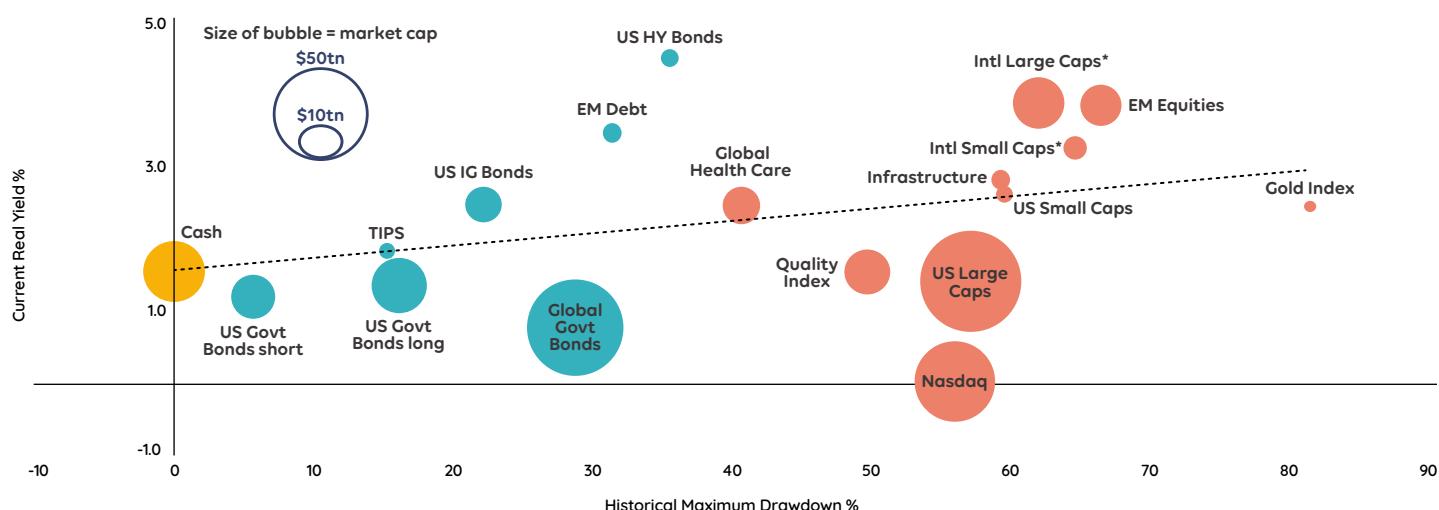
The dotted line is a line of best fit across the opportunity set. Its upward slope confirms the intuition that higher risk should be compensated for by higher reward. There have been periods when the relationship has been flat or even downward sloping. Those environments are far more challenging. Today the scatter around the trend line is wide and it is in those anomalies that the more interesting opportunities lie.

Within equities, the dispersion is striking. International large cap equities sit well above US large caps in terms of real yield for a similar level of historical drawdown, and the gap is wider still when compared with the Nasdaq. In the case of the Nasdaq, investors are effectively receiving no real yield for taking on full equity drawdown risk.

For any investor considering their portfolio, this analysis is a natural starting point.

***"Even before drilling down into individual securities, the opportunity set outside US large caps offers a materially better trade-off between risk and expected real return than the headline US indices do today."***

## Asset class yields v drawdowns



\* Intl Large Cap & Intl Small Cap = EAFE (Developed markets ex-US)

Source: Talaria, Bloomberg, Board of Governors of the Federal Reserve System (US)

In the S&P500 there is a striking potential opportunity for those shares that have the highest levels of fundamental stability.

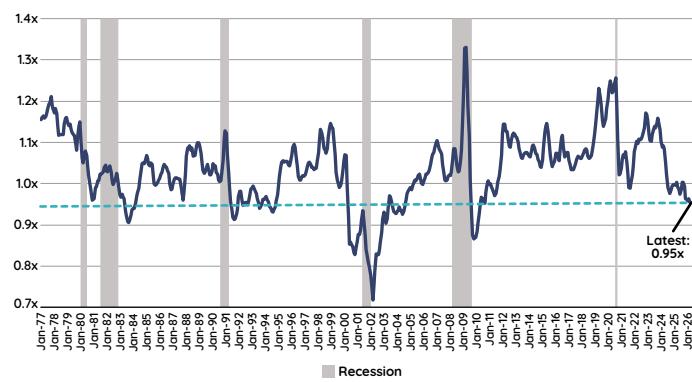
For most of the past fifty years, these companies have traded at a premium to the broader market as investors have prized certainty. Today they trade at a discount.

In our last quarterly we suggested this may reflect a belief that the authorities will increasingly insulate investors from harm. If that belief proves correct, then safety is abundant and the discount is rational. But if the world has not changed to that degree, this looks like an anomaly that should not persist.

### Large-Capitalisation Stocks

#### Top Quintile of Fundamental Stability

#### Relative Forward-P/E Ratio<sup>1</sup> 1977 Through Late Nov 2025



1 Equally-weighted data, smoothed on a three-month basis.  
 Source: Talaria, Empirical Research

## Conclusion

With equity indices and valuations near historic highs, it is encouraging that there remain ways to build portfolios with reasonable prospective risk-adjusted returns.

Returning to the quotation that opened this piece, the balance of probabilities in global equities supports a mild degree of non-conformist behaviour: selectively looking at some of the market's less popular areas. Some of these areas offer unusual combinations of stability and interesting valuation.

In that context, our portfolio is trading at a notable valuation discount to broad global indices while offering balance-sheet strength, low refinancing risk and competitive returns on invested capital. The portfolio is attractive in absolute terms and compares well with the opportunity set shown in the risk/return analysis above, with a real yield of 6.66% and a max Strategy drawdown of 25%.

## December 2025 Quarterly Performance

Global equity markets delivered modestly positive returns in the fourth quarter of 2025. A partial reversal of the momentum trade in November and December was the most noteworthy development. But, despite the wobble, markets across the globe ended the year near all-time highs.

The momentum trade took a pause in the quarter. Questions around the pace of AI adoption relative to the enormous CAPEX spend led to a partial rotation out of tech. The main beneficiaries of the rotation were the healthcare sector as well as out of favour European shares. Gold prices climbed to new highs while oil prices fell further. The Japanese yen weakened significantly against all major currencies, which, in turn, gave rise to a very strong performance for Japanese equities in local currency.

By region, US markets were the relative laggards with the S&P 500 rising just +2.3% and the NASDAQ advancing +2.6% over the quarter. European equities did better, with the Stoxx 600 gaining +6.1%, supported by strength in the UK. The FTSE 100 rose +6.2%, while France's CAC 40 gained +3.2% and Germany's DAX increased +2.6%. Asian markets were led by Japan, where the Nikkei jumped +12%, supported by the appointment of a new prime minister and a weaker yen. China's Shanghai Composite posted a more modest gain of +2.2%, reflecting ongoing caution around the domestic economic outlook.

Against this backdrop the Fund delivered a return of +2.06% for the quarter.

**Distributions: The Fund paid a December 2025 quarterly distribution of 7.43 cents per unit taking its 12-month income return to +8.56%.**

Sector performance reflected a partial reversal of the momentum trade. Healthcare was the best outperformer, rising +10.3% on the back of solid earnings and regulatory clarity. Materials also generated solid gains of +5.0%, supported by higher gold and silver prices. On the other end of the spectrum were sectors associated with the momentum trade. IT and Consumer Discretionary, posted only very modest gains of +1.3% and +0.7%, respectively. Energy also lagged the broader market, up just +1.2%, reflecting a weaker oil price.

Market volatility declined further during the quarter, with the VIX falling from 16.3 to 15.0. Bond yields edged higher, with the US 10-year Treasury yield rising 2 basis points to 4.17%. The US dollar strengthened modestly, with the DXY index up +0.6%, while the Japanese yen weakened 6% against the US dollar. Oil prices declined sharply, falling -7.9% over the quarter, weighing on energy markets but providing support to inflation-sensitive sectors.

The strongest contributors to portfolio performance during the quarter were Roche, Bayer and Newmont. Bayer benefitted from a positive development around its long-running Roundup glyphosate litigation in the United States. Roche benefitted from a successful Phase 3 drug trial, while Newmont, as the largest gold miner in the world, rallied on the back of a higher gold price and its positive implication for company earnings.

The main detractors from portfolio performance were Bunzl, Sodexo and CF Industries. Bunzl underperformed amid concerns around margin pressure (muted top line pricing and rising SG&A), while Sodexo lagged following disappointing FY26 guidance. Unfavorable gas price developments contributed to weakness in CF shares. We continue to hold the shares as valuation remains compelling across all three companies.

During the quarter, the Fund initiated a new position in A. O. Smith, the largest manufacturer of hot water heaters in the US. The company combines a strong competitive position with a conservative balance sheet and high returns on capital.

The Fund exited Nestlé, Ambev and Cenovus on valuation grounds following strong prior performance.

## Stock in focus: Everest Group

US listed Everest Group is one of the largest global reinsurance companies. It primarily operates in the United States, with significant exposure to the UK/London market and selective international operations across Europe, Canada, Latin America and Asia Pacific.

Recent developments have altered the structure of the business. Following a material earnings miss in the third quarter of 2025, Everest announced the exit from a significant portion of its retail insurance operations. While the announcement prompted a sharp share price reaction, the strategic implications warrant a more measured assessment.

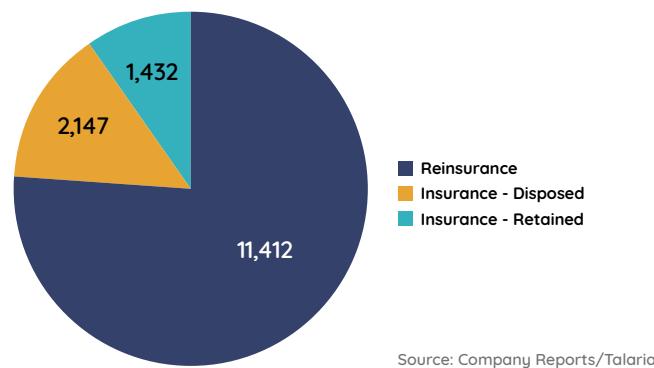
This note revisits the investment case in light of these changes.

### Business mix and strategic shift

Everest operates through two principal segments: reinsurance and insurance. The reinsurance business remains the core of the group and continues to perform in line with expectations with historical top tier performance. The insurance segment, by contrast, has been more problematic. Management disclosed that the retail commercial lines now being exited have consistently generated combined ratios around ten percentage points worse than the remainder of the insurance portfolio.

Roughly 60% of the insurance division, representing about 15% of group business, will be removed (see chart). This simplifies the group and concentrates capital on higher-return activities. The move appears less a reaction to a single bad quarter than a belated acknowledgement of structural underperformance.

### Everest Group: Net Premium Written in FY25e (\$m)



### Insurance performance drivers

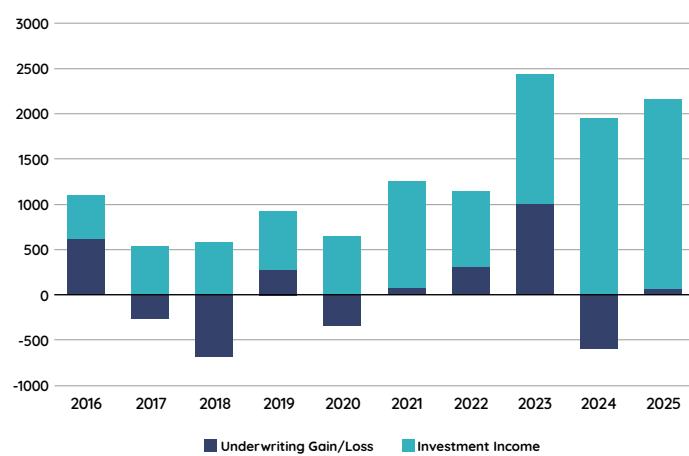
Reinsurance underwriting remains stable. Premium volumes have softened modestly, but loss experience in 2025 has been materially better than in 2024, particularly with respect to catastrophe losses. Prior-year reserve development has been favourable, supporting the view that underwriting discipline has been maintained.

This meant the insurance segment absorbed the bulk of the third-quarter shock. The deterioration in results was driven primarily by adverse reserve development rather than current accident-year losses. This distinction matters. It suggests that the earnings miss reflects legacy issues rather than a broad weakening of current underwriting standards.

### Investment income and earnings power

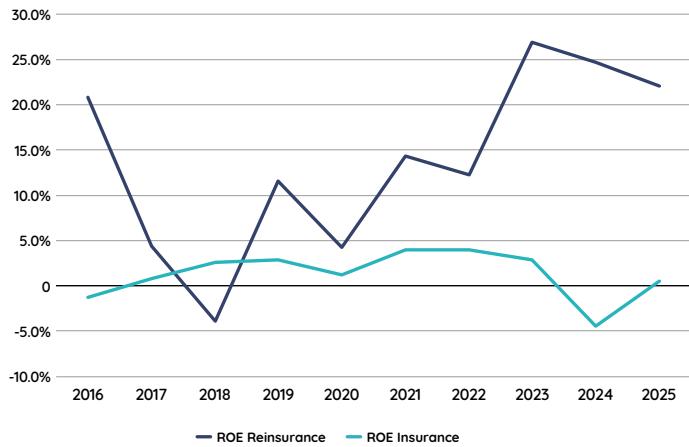
Investment income has become an increasingly important contributor to group earnings. Higher interest rates have lifted yields across the fixed income portfolio, and this tailwind is expected to persist. The exit from retail insurance will reduce annual investment income by an estimated USD 60 million, but this is modest relative to current investment income of around USD 2 billion.

### Everest Group: Sources of Income



Adjusted book value is estimated at roughly USD 368 per share following the charges. We expect book value to grow by around USD 50 per share per annum from this base, implying a return on equity in the low-teens. This would represent a clear improvement on the group's pre-pandemic return profile (see ROE by division chart)

### Everest Group: ROE by division



Source: Company Reports/Talaria

### Investment case in a nutshell

With organic growth opportunities constrained and the shares trading at a discount to book value, returns of capital to shareholders are likely to play a larger role. The disposal of the retail insurance business should release additional capital, supporting further buybacks.

At around USD 340 per share, Everest trades at approximately 0.8–0.9 times adjusted book value. If the group can deliver sustainable returns on equity of 12–15%, a valuation at or above book value is reasonable. Even without a re-rating, retained earnings growth and buybacks point to respectable medium-term shareholder returns.

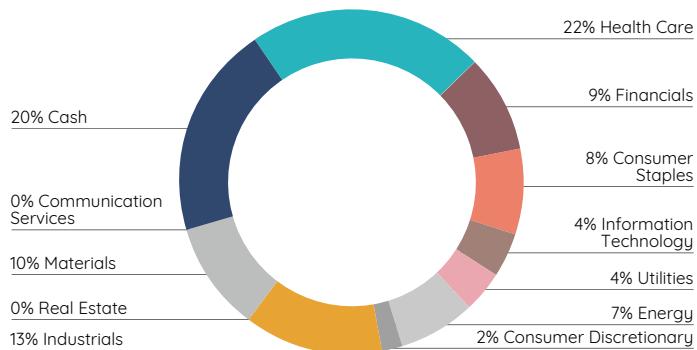
# Talaria Global Equity Fund - Foundation Units

## Top 10 Holdings\*

| Table title       | % weight |
|-------------------|----------|
| Newmont           | 6.0%     |
| Essity            | 5.1%     |
| Roche             | 4.8%     |
| EOG Resources     | 4.6%     |
| Everest Group     | 4.4%     |
| Bayer             | 4.1%     |
| Bunzl             | 4.0%     |
| CF Industries     | 3.7%     |
| Johnson & Johnson | 3.7%     |
| Chubb             | 3.6%     |

\* 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>5</sup>



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.

## Quarterly distribution

| Period         | Cents per Units | Reinvestment price |
|----------------|-----------------|--------------------|
| December 2025  | 7.426153        | \$5.2570           |
| 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           |

## Performance at 31 December 2025<sup>1</sup>

| Period                            | Total Return | Average Market Exposure <sup>4</sup> |
|-----------------------------------|--------------|--------------------------------------|
| 1 month                           | 0.19%        | 56%                                  |
| 3 months                          | 2.06%        | 58%                                  |
| 6 months                          | 4.40%        | 58%                                  |
| 1 year                            | 7.36%        | 61%                                  |
| 3 years p.a.                      | 8.33%        | 60%                                  |
| 5 years p.a.                      | 10.06%       | 58%                                  |
| 7 years p.a.                      | 8.72%        | 58%                                  |
| 10 years p.a.                     | 7.50%        | 59%                                  |
| Since Inception p.a. <sup>2</sup> | 7.58%        | 61%                                  |

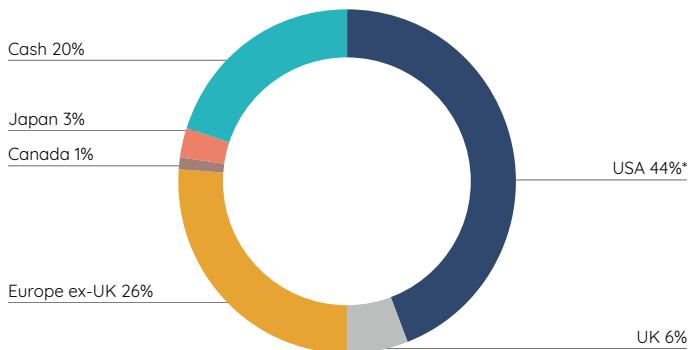
1 Fund Returns are calculated after fees and expenses and assume the reinvestment of distributions.

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.

## Regional Allocation<sup>5</sup>



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

## Asset allocation

|                         | % weight             |
|-------------------------|----------------------|
| Global equity           | 54%                  |
| Cash - put option cover | 26%                  |
| Cash                    | 20%                  |
| <b>Total</b>            | <b>100%</b>          |
| Portfolio contributors  | Portfolio detractors |
| Roche                   | Bunzl                |
| Bayer                   | Sodexo               |
| Newmont                 | CF Industries        |
| Chubb                   | 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

|                           |                                 |                          |                        |
|---------------------------|---------------------------------|--------------------------|------------------------|
| <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

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