# Talaria Global Equity Fund (Managed Fund)

**Quarterly Update** March 2024

**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

Perhaps the four most dangerous words in investing are: 'This time it's different.'

With a boom in Artificial Intelligence (AI), a rise in big government spending programs and employment still high it is tempting to think that this time, yes this time, it is indeed different. Certainly, that's the impression given by some media and markets. Just open the Financial Times, your CNBC app or your preferred markets newspaper and you are hit with headlines of record highs in indexes from Japan to Europe to the US. Forget about a "soft landing", a new bull market seems to price in economic acceleration.

Scratch under the surface, however, and a different picture emerges.

Particularly in the all-important US, corporate earnings' forecasts overall are stagnant or getting worse, the employment outlook is weakening and valuations are rising from already extended levels. In previous quarterly publications we have shown in depth that higher interest rates lead to slower economic growth with a lag of 24 months. This relationship is very much alive and well with both recent macro and micro economic data painting a picture consistent with previous tightening cycles.

But regardless of where you sit on the economic debate, the idea that you should spread your investments across different asset classes is especially true in 2024. Stretched valuations, elevated index concentration and high cross-asset correlations make portfolios vulnerable and diversification essential.

## Markowitz meets Kahneman

One mechanism for diversifying, for gaining exposure to uncorrelated returns is investing in the persistent advantages, or the proven edges offered by risk premia like the volatility risk premium. In employing such a mechanism you are supported by distinguished academics.

In terms of diversification, you have on your side Harry Markowitz, a Nobel Prize winning economist and the father of Modern Portfolio Theory. He famously joked that the only free lunch in investing is diversification. In his theory, first published in a paper in 1952, he showed how uncorrelated assets complement each other, lowering risk while at the same time increasing expected returns.

In terms of the volatility risk premium, a form of insurance, you have another Nobel Prize winner in your corner. Late economist Daniel Kahneman, the co-author of Prospect Theory and known for first spotting behavioural biases, argues that people are risk averse – we hate large losses. In order to avoid those large losses we all, on average, pay too much for insurance. No surprise then that insurance is a very profitable industry that generated $225bn of profits in the past 12 months alone.

Talaria offers diversification and exposure to an attractive risk premium. We have a second lever of returns that comes from exploiting the persistence of a volatility risk premium (investors' aversion to losses and their willingness to overpay for protection) by selling insurance (cash backed put options) on collateral we like (the companies we buy). The volatility risk premium has very low to negative correlation with other types of risk premia, like equity risk premium, and offers uncorrelated returns ideal for building a well-diversified portfolio.

## Portfolio Construction

As readers will know, in the most basic sense diversification is achieved by investing in different asset classes that are expected to have low correlation with one another – Equities, Bonds, Real Estate, and Cash.

### Four risk premia

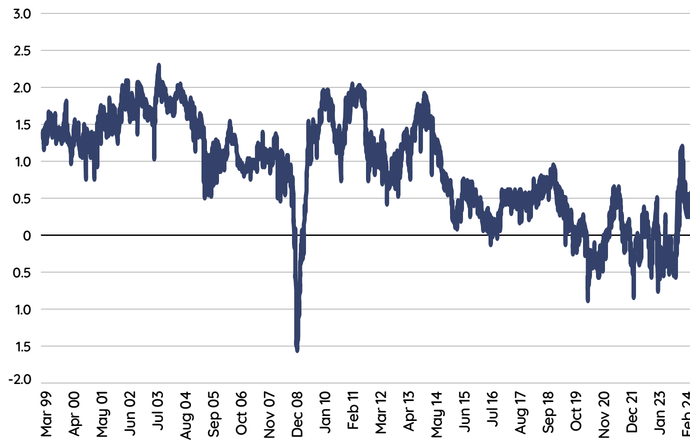
What drives that low correlation is the different primary risk that each asset class is exposed to. Investors are compensated with a "risk premium" over a reference rate – the so-called risk-free rate – for putting their money in a specific asset. For example, high yield bonds are exposed to a risk of default (a credit risk premium), government bonds to surprises in inflation or a government default (term premium) and equites to market risk (equity risk premium).

The following set of charts give an idea of where the most popular US risk premia are sitting today. Starting with the chart on the top left of the next page, is the term premium. It has trended lower for the past 25 years as inflation expectations have collapsed. A recent increase indicates investors are perhaps unsure of the longer-term outlook for inflation or concerned about the increase in sovereign debt, but a reading of a still low 0.5% compared to an average of 0.9% (it is higher 71% of the time) suggests relative complacency.

Next on the complacency train is the credit risk premium, the spread of high yield bonds over treasury bond yields. It sits at 3.1%, close to the bottom of its historic range (the average is 5.2%, and it is higher 92% of the time).

The final chart is the equity risk premium, the spread of earnings yield on the S&P 500 over the real ten-year Treasury yield. It dropped below 3% in November of 2023 for the first time since the dot.com bubble. This compares to a long-term average of 4.6%. The equity risk premium is higher than current levels 85% of the time.

### Term premium




Source: Durham, J. Benson, 2023, 'What Do TIPS Say About Real Interest Rates and Required Returns,' Financial Analysis Journal, vol. 79, no. 2, pp. 21-44.

### Credit risk premium

Source: Bloomberg

### Equity risk premium

Source: Bloomberg

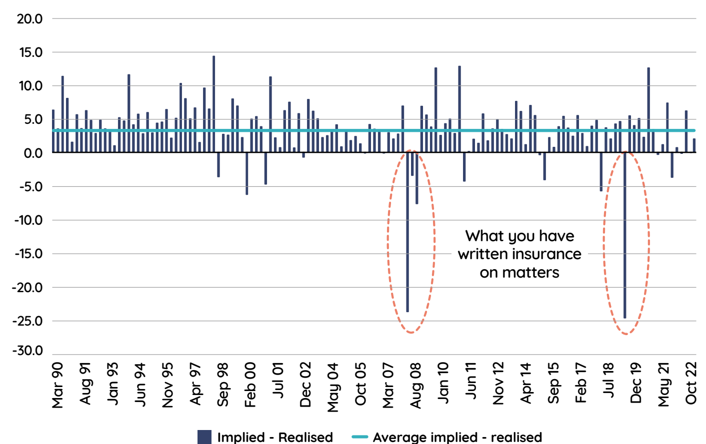
The striking fact about the three risk premia mentioned above is that they all share an assumption that the risk-free rate ascribed is right at any given time. Think back to 2022 and the shock that the rise in central bank policy rates caused to both stocks and bonds.

Fortunately for investors, there are types of risk premia that avoid reference to a risk-free rate. Volatility risk premium – the difference between the implied (or expected) volatility and the realised volatility of an asset – is one of these. The spread between implied and realised volatility is persistently positive over time and, as we've said, is driven by risk aversion.

Everyday insurance is a good example of how the volatility risk premium and risk aversion work in practice. The price we pay for insurance to protect us from events that are unlikely – like breaking a leg from a jet ski fall in Langkawi – is higher than the probability weighted cost of treatment. In other words, we overestimate how likely it is that we will get hurt or fall sick while on holiday (implied volatility) and therefore overpay for protection. The actual outcome (realised volatility) is, on average, more benign. Of course, there are instances where the outcome is severe – a broken leg, an operation, a lengthy stay in a hospital bed and cancelled flights – and our insurance policy has served its purpose well. But such outcomes are few and far between.

The chart below quantifies the quarterly volatility risk premium since 1990. Implied volatility, measured by the VIX index, has been consistently higher than the actual realised volatility with a median gap of around 350 basis points. Out of 137 quarters the premium has turned materially negative only 11 times, usually when the markets are undergoing severe stress like the dot.com bust in 2000, the Global Financial Crisis in 2008 and the COVID pandemic in 2020. Outside of these 11 quarters, the volatility risk premium averaged around 430 basis points.

### Volatility risk premium




Source: Bloomberg

### Benefitting from uncertainty

Our second lever of returns is driven by selling equity and cash backed options. For example, we sell insurance (put options) on collateral we like (companies we want to own in the portfolio). We have historically generated 5% per annum of premium income on insurance that was never exercised (two in every three put options we write expire unexercised). An annual contribution of 5% to our total returns coming from a completely uncorrelated source.

Of course, you are probably asking the question of what happens when realised volatility far surpasses implied volatility. You may rightly point out periods like the GFC and COVID, circled in red on the chart above.

There are two reasons why our strategy, in fact, can do relatively well in such periods. Firstly, as a value manager we put in a huge amount of effort on picking the right companies we write insurance on. Our portfolio companies are typically large, highly cash generative multinationals, with business models and balance sheets built to withstand a very wide range of adverse scenarios. Our portfolio companies are cheap without reference to growth. When the market falls, the companies we have written insurance on tend to do relatively well.

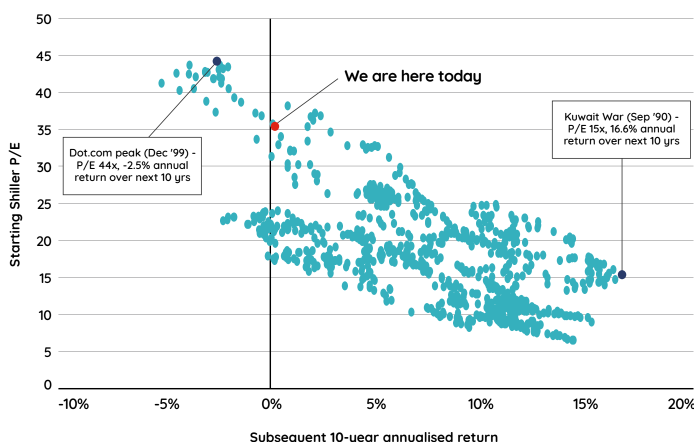
Secondly, we never use leverage. Every option we write is 100% backed by cash. In the event of extreme volatility we simply convert this cash into equity of companies we want to own.

## Longer-term, equity markets face poor return prospects

The market is offering very few opportunities for investors to make decent returns. As bottom-up value investors a key criterion for this assessment is the number of stocks to which we can gain exposure that are offering 25% upside to fair value.

This lack of bottom-up opportunity is, unsurprisingly, reflected top-down at the index level. The longer one looks, the harder it is to see a positive outlook for savers. Starting equity valuations are stretched, especially for investors in US equities. The latest Shiller P/E* of 35x is in the top 3% of history.

### Shiller P/E* and subsequent 10-year annualised return




Source: Robert J. Shiller (Shiller Data)

*Cyclically-Adjusted P/E (CAPE) or simply known as Shiller PE was developed by another Nobel Prize winning economist, Professor Robert Shiller. It compares prices of the S&P 500 index with inflation-adjusted earnings over the previous decade—a long enough period to smooth out the economic cycle.

The chart shows the relationship between S&P 500 valuations and subsequent ten-year returns going back to the Second World War. Each dot represents the starting Shiller P/E (Y-axis) and the annualised ten-year return that followed (X-axis). The higher the starting P/E the worse the subsequent performance and vice versa (negative correlation). For example, whenever the Shiller P/E is above 38x, the market has always been negative over the next ten years. For a Shiller P/E above 30x, the market has never returned more than 6% annualised in the decade that follows, and the average has been 0%. We are currently sitting where the red dot is on a Shiller P/E of 35x. It has been this high or higher only 3% of the time.

In fact, since its previous peak in late 2021 (Shiller P/E of 39x) the S&P500 has been flat in real terms. Unfortunately, this is representative of what we think investors should expect to get over the next decade. The longer your time horizon, the less and less US equity exposure you want.

To visualise this, we return to a concept we first introduced in a report published in October of 2020. The total return of an index over a specific period, say 10 years, is based on the sum of just three factors – the dividend yield, the growth in earnings and the change in valuation (P/E multiple expansion).

The table below shows what a base case looks like. Assume that annual sales growth remains strong at 4.1% (in line with nominal GDP growth), net margins stay constant (at current elevated levels of 11.4%), and the trailing 12 months P/E ratio falls from 24.5x to a past-decade rolling average of 20.1x. Under such a scenario, investors make just 3.6% per annum in nominal terms and just over 1% in real terms.

### Steady as she goes

| | |
|---|---|
| Using the current dividend yield: | 1.5% |
| Adding the last decade's sales growth rate: | 4.1% |
| Assume the average rolling 10 year P/E of the last decade as an exit multiple | -2.0% |
| **Implies a nominal annual total return of:** | **3.6%** |
| *Adjusting for inflation* | -2.4% |
| **Suggests a prospective real return from the US market of** | **1.2%** |

Source: Bloomberg, Talaria

You might say, what about the bull case? The case in which investors subconsciously expect to get from their investment in the S&P500, the same 10.5% nominal return that the index has delivered, on average, since the end of the Second World War when the Shiller P/E was just 13x.

To achieve this, sales growth needs to accelerate to over 5% per annum, margins need to expand to the all-time high of 13.3% and the trailing P/E multiple needs to hit 30.6x, the same as the dot.com bubble peak (see table on following page).

### Party like it's 1999

| | |
|---|---|
| Current dividend yield unchanged: | 1.5% |
| Add sales growth of 5% and margin expansion to 13.3%: | 6.8% |
| Assume P/Es exit multiple of 30.6x,<br>the multiple at the peak in 1999: | 2.3% |
| **Implies a nominal annual total return of:** | **10.5%** |
| *Adjusting for inflation* | -2.4% |
| **Suggests a prospective real return from the US market of** | **8.1%** |

Source: Bloomberg, Talaria

Unfortunately, we don't believe we are living through an "average" period – both valuations and margins are sitting near record highs, nowhere near the long-term average.

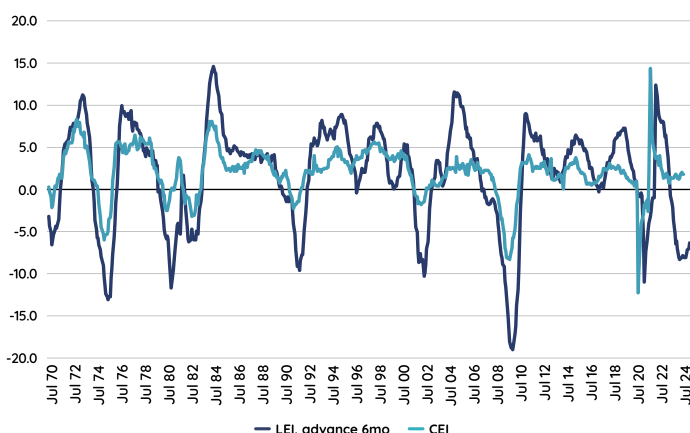
And it can get a lot worse. All else equal, if one were to stress the net margin and assume it falls to the historic average of 8%, down from 11.4%, and that the trailing P/E ratio falls from 24.5x to 20.1x (the base case example), nominal returns collapse to 0% and real returns fall to -2%.

## Strong Markets, Shaky Fundamentals

What the mathematics of long-term returns do not tell you is what the market will do in the short-term. The S&P 500 index, the world's largest, has returned 16% to Australian based investors this quarter. The FTSE World has returned 13% for the same period. The Talaria Global Equities portfolio has largely side-stepped the momentum-driven rally, returning around 3%. These matters are considered in more detail in the next section.

In contrast to strong markets, economic data continues to track lower. This is in line with what one would have expected given the rise in interest rates over the last 24 months. Growth in Leading Economic Indicators (LEI) remains negative in the first quarter (see chart). Coincident Indicators (CEI) like gross domestic product (GDP) and company earnings closely follow. If this historic relationship were to hold, CEI are set to fall.

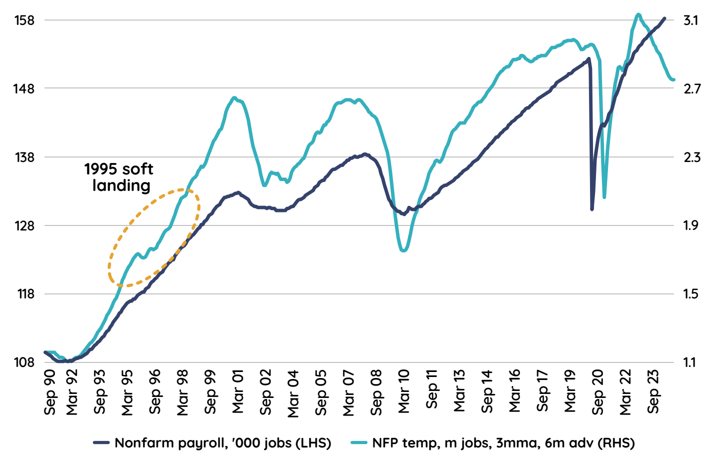
### US Composite Indicators YoY%




Source: Bloomberg

As for the outlook for unemployment, temporary jobs can give early signs of what may come for the headline unemployment index. An index that tracks temporary workers' employment has been falling since the start of 2022 (see chart). Proponents of a soft-landing cite 1995– an example of Fed tightening that did not lead to a recession – when temporary services employment was very healthy and rising (circled below). The story today could not be more different.

### Nonfarm Payroll: total versus temp services



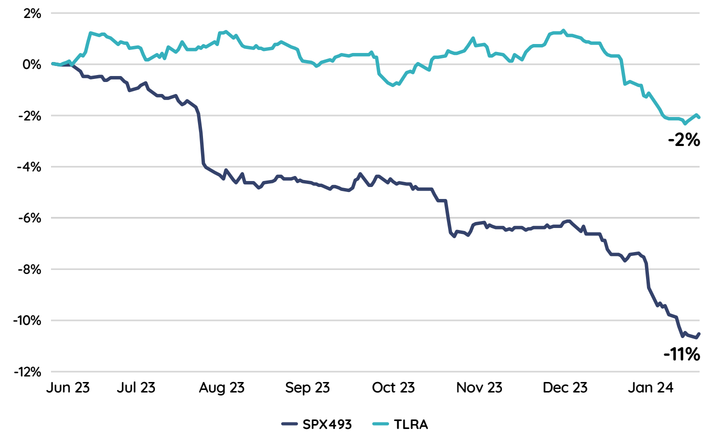

Source: Bloomberg

It is not just the outlook for employment that is poor. Company earnings (EPS) strongly correlate with GDP. Expectations for corporate profits in the US outside of a handful of tech giants has declined markedly since the middle of last year, for both this year and next. LEI suggest further pressure to earnings forecasts is to be expected.

Stripping out the earnings estimates of the Magnificent Seven from the S&P 500, earnings estimates since July 1st 2023 for the remaining 493 companies have declined by more than 10% for both FY24 and FY25 (see charts on the following page). At the same time, equity prices are up on the hope that earnings will "grow into the multiple" – even after the downgrades, FY25 EPS are forecast to be 23% higher than the earnings in FY23.

**Evolution of earnings estimates - Talaria versus S&P 493 FY 24**

**Evolution of earnings estimates - Talaria versus S&P 493 FY25**




Source: Bloomberg, Talaria

## Summary

We have spent much of this investment insights discussing portfolio diversification and the benefits of the volatility risk premium as a source of uncorrelated returns. We also argued that equity returns over the next ten years are likely to be poor given stretched starting valuations. And finally, we showed that long-established relationships between lead and coincident economic indicators are consistent with historic trends and signal ongoing challenges for economic activity and corporate earnings.

We are not making a forecast on what the future holds. Instead, we look at the odds and probabilities and caution that the path to prosperity for equity markets is becoming increasingly narrow. Diversification is therefore crucial in making portfolios resilient.

# March 2024 Quarterly Performance

Global equity markets performed very well in the first quarter with strength broadening throughout the period. Many developed world indices reached fresh all-time highs as a combination of, amongst others, AI enthusiasm and rising hopes of a US soft landing contributed to the positive sentiment.

Japan's Nikkei225 was the standout performer, finishing up 20.6%, and finally eclipsing its previous 1989 record high. Fuelling this strength had been signs that after years of moribund pricing in the general economy, inflation was finally taking hold. Also influential was greater interest from overseas investors following broader recognition of a series of structural reforms spearheaded by the Tokyo Stock Exchange aimed at improving corporate governance across listed Japan Inc.

US large caps delivered an impressive quarter's performance with the S&P500 and NASDAQ up 10.2% and 9.1% respectively. Both indices set new record highs in March, as did the S&P500 Equal Weight Index demonstrating the degree of breadth improving. For now, investors seem happy to focus on decent economic data, dismissing several stronger-than-expected inflation prints which scaled back investors' expectations of Fed easing. US small caps struggled in a relative sense but made up some lost ground in March to close the quarter up 2%.

European bourses were mixed. Germany's DAX led performance (+10.4%) with, amongst other factors, ECB rate cut expectations helping propel the index to new highs. France's CAC40 also did well, up 8.8% also setting new highs. In contrast, the UK FTSE100 meaningfully underperformed, finishing up just 2.8% for the quarter, weighed down by the softer economic backdrop.

China's Shanghai Composite Index also struggled to deliver much in the way of performance. While it finished up 2.2% over the quarter, performance was very volatile on a monthly basis as ongoing debt issues, a sluggish economy, and geopolitical tensions weighed on sentiment towards Chinese equities.

Performance on a sector basis broadly reflected the above themes with Information Technology and Communications both up more than 12% thanks to the AI/Magnificant-7 exposure. Energy, Finance, and Industrials were also up around 9%, indicative of investors' receding concerns over a US recession. This also helps to explain the weakness in defensive sectors. For example, Staples and Utilities were up 2.9% and 0.6%, respectively.

Against this backdrop, the Fund delivered a return of 2.95% for the quarter, taking its 12-month return to 9.27%. While markets will focus on different things at different points of the cycle, nothing has changed in terms of how we manage the Fund. We continue to focus on identifying undervalued securities based on bottom-up, fundamental analysis, starting with the financial statements of each prospective investment.

**Distributions: The Fund paid a March 2024 quarterly distribution of 7.6 cents per unit taking its 12-month income return to 7.67%**

The AUD fell 4.3% against the USD over the quarter. Commodities were broadly weaker with the Bloomberg Commodity Index up 0.9% helped by a stellar 16% rise in WTI crude oil prices. VIX rose 0.56 points to close at 13 which remains low in an historical context. Yields on 10yr US Treasuries rose 32bps to close at 4.20%.

The Fund initiated new positions in Bayer (a German agri/healthcare group), Newmont (a gold miner), and Nestle (a global beverages and foods business) which is this quarter's 'Stock in Focus'. Additionally, the Fund received shares in rewards company Pluxee after it was spun-out from Sodexo.

Japanese carmaker, Subaru was also added to the portfolio during the quarter. As a leader in the fast-growing US SUV category, with ~9% market share, Subaru is one of the best quality automakers. This is evident in its high operating margins, low inventory and lack of incentives needed to drive sales. While Subaru is still relatively early on its EV transition journey, something that will ultimately consume substantial resources, it is starting with significant net cash on hand (>¥1trillion vs ~¥2.5 trillion market cap) and partnering up with bigger players to share the burden. With the stock trading on an EV/EBIT of less than 4x, we also think a lot of this risk is reflected in the valuation. Given strong fundamentals and a solid balance sheet, we think Subaru makes for a compelling investment proposition.

The Fund sold a large part of its holding in Japanese telco, KDDI, and wrote calls on its holding in H&R Block (tax advisor), Henry Schein (dental distributor), Secom (security firm) and Wheaton (metals streaming) on a combination of valuation grounds and, in KDDI's case, a change to the investment thesis.

Brazilian brewer, Ambev, was a major detractor to fund performance over the quarter. Its shares sold off following a disappointing FY23 result mainly driven by Argentinian currency devaluation and its impact on revenues and operating income. Forward cost guidance was also somewhat disappointing relative to expectations. However, the stock is now very cheap on a range of metrics with current prices capitalising decade low margins/returns into perpetuity. We think this is overly pessimistic, and at some point, margins and returns should normalise. Furthermore, we think significant downside from here is capped thanks to a solid balance sheet which also affords management time to assess a new capital structure in light of changing tax law in Brazil.

On the flip side, Japanese trust banking group, Sumitomo Mitsui was the biggest contributor to performance with shares fully participating in the Japanese equities' rally. Driving this is the fact that Sumitomo Mitsui remains very well positioned to benefit from higher rates' outlook in Japan. The stock has also enjoyed some earnings upgrades over the quarter on the back of a more favourable operating environment.

Spanish utilities business Redeia, was also a meaningful contributor to performance with shares performing well after announcing larger than expected capex plans in coming years. As a regulated utility, its earnings are largely a function of its regulated asset base (RAB) times a regulated return, something we think has scope to move up in coming years.

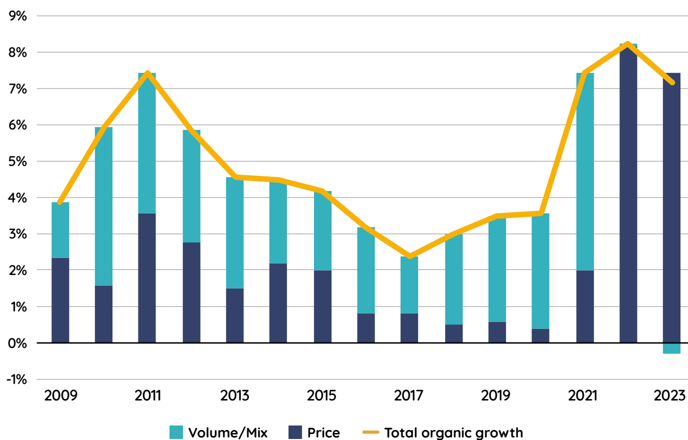
# Stock in focus: Nestlé

Nestlé owns a collection of high-quality brands in high growth categories. However, a series of operational missteps, and a desire to protect the long-term driver of value creation (volumes/mix) by sacrificing short term margins has contributed to its shares de-rating. We think these pressures will turn out to be temporary and given the long-term growth algorithm remains intact (volumes/mix strength), we think current prices offer compelling value with ~28% upside.

Nestlé is the world's largest consumer foods business with an enviable collection of premium brands exposed to some of the fastest growing categories. With over 30 billion-dollar brands in its stable, it also dominates most of these categories in terms of market share. For example, in global coffee with brands such as Nespresso and Nescafe, Nestlé enjoys a 22% market share which is almost three times larger than the next biggest player, while in US pet care, Nestle's Purina commands a 29% share, larger than the second and third player combined.

The power of these brands is also apparent throughout Nestlé's financial statements, which as bottom-up analysts, is our primary focus and the real litmus test. Organic sales have consistently grown at ~5% per annum since 2009 with volume/mix contributing around half of this, arguably the best measure of brand health.

### NESN Organic sales growth %

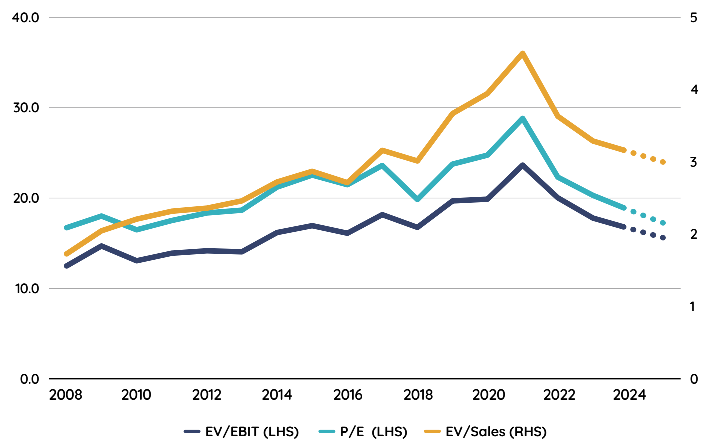



Source: Company reports, Talaria estimates

It is also no surprise that as the largest player with enormous scale benefits, Nestlé generates an industry leading ROIC (return on invested capital) of ~17%. In contrast, most other peers across the sector generate returns anywhere from low-teens to high single-digit levels. Active portfolio management has also played a crucial factor in ensuring group returns remain attractive, with proceeds from divestments of lower returning assets recycled over the years into higher margin/growth categories such as Pet Care, Powdered Beverages (Coffee) and Nutrients, with these three now accounting for ~60% of sales vs ~40% in 2008.

In more recent years, however, Nestlé has been plagued by a series of operational missteps and persistent margin pressures which, in addition to higher interest rates, have contributed to the stock's meaningful de-rating.

### NESN Valuation multiples




Source: Bloomberg

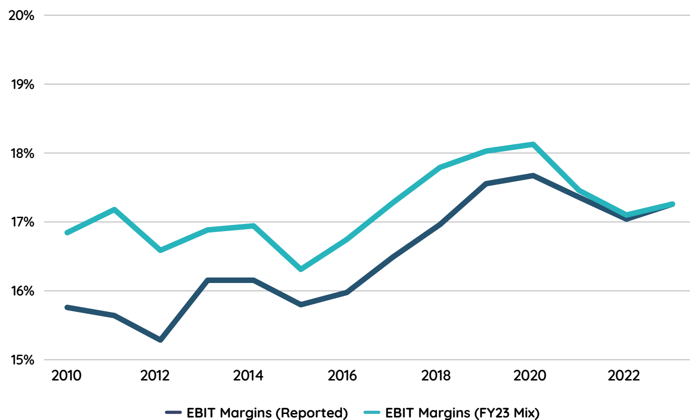
The most damaging hiccup has been Nestlé's failure to properly integrate the packaging sites of its recently acquired health science businesses, which in turn has compromised its ability to fulfill orders. This has resulted in lost sales, lower margins, and significant write-downs within the Nutrient segment, with management attributing a ~50bps headwind to Q4 group organic sales from this integration issue alone. Disappointingly, management have also pushed back the expected date for when these issues will likely be resolved by six months to "end of H1 24", illustrating just how complex a task this is proving to be.

However, we do think that 157 years of supply chain management counts for something and while we are under no illusion as to the challenges management face, we do think they will eventually manage to turn the ship around in time. Nestlé has also flagged a pause in health science M&A, affording those responsible time and resources to focus on rectifying these problems. Ultimately, we believe this is a case of fix-it or sell-it, with Nestlé proving amenable to selling underperforming assets in the past while also noting that a ROIC improvement KPI accounts for 20% of the CEO's long term incentive bucket.

Nestle has also had to contend with rising raw material and distribution costs, which have weighed heavily on margins. However, a contributing factor to this margin pressure has been Nestle's deliberate strategy of remaining competitive on prices to protect long-term volume trends which are the real drivers of long-term value creation. Historically, Nestlé has leaned far less on pricing to drive growth relative to most other peers. While this obviously knocks around short-term margins, particularly in a rising cost environment, the flip side is that Nestle's volumes have proven far more resilient than those of the broader sector's, which has witnessed volume weakness thanks to the rise of private labels (i.e. brands owned by supermarkets themselves) and changes in consumer preferences. Encouragingly, this trend has persisted over more recent quarters with Nestle recording volume losses of less than 1%, vs mid-single digit declines for most other food peers.

This recent bout of weakness has also meant that operating margins are now at far more defendable levels. This is particularly the case when we adjust for business mix changes, with overall margins now appearing to have already troughed, i.e. FY23 margins were up ~20bps on last year. Looking out further ahead, management have flagged FY25 EBIT margin targets of between 17.5% to 18.5% implying ~70bps upside from current levels.

**NESN EBIT Margins %**




Note: FY19 Milk margins have been used as steady-state given historical divestments.

Source: Bloomberg, Talaria estimates

In addition to margin targets, management have also provided annual organic growth targets of mid-single digit levels out to FY25 (broadly consistent with historical delivery) and constant currency EPS CAGR targets of 6% to 10% over the same period. While the weakness in Nutrients obviously poses some risk to FY25 targets, even with a one-year delay in achieving margins of ~18%, we think the stock could potentially be worth ~₣120/share by FY26, inclusive of dividends, or around 28% upside from current levels.

Obviously more operational issues in Nutrients could delay a recovery even further, however the real risk to our investment thesis is if Nestlé fails to get volumes firmly back into positive territory. While Nestlé has, to date, done relatively well on volumes versus most other food peers, the jury is still out as to whether this is simply a case of 'last domino to fall' or indeed a testament to Nestle's enduring brand strength.

We think all the evidence suggests it is the latter, and so given some decent upside should Nestle broadly be able to achieve FY25 targets, very little balance sheet risk (net debt is broadly offset by Nestlé's interest in L'Oreal), good relative valuation support, and most importantly, no obvious signs that long term value drivers are impaired (i.e. volumes), we've taken advantage of recent share price weakness to accumulate a position in Nestlé.

# Talaria Global Equity Fund (Managed Fund)

## Top 10 Holdings*

| Company name | % weight |
|---|---|
| Sanofi | 5.3% |
| Johnson & Johnson | 5.1% |
| Roche | 5.0% |
| Gilead | 4.9% |
| WEC Energy | 4.3% |
| FEMSA | 4.1% |
| Nestle | 3.9% |
| Bunzl | 3.6% |
| Ambev | 3.5% |
| Medtronic | 3.3% |

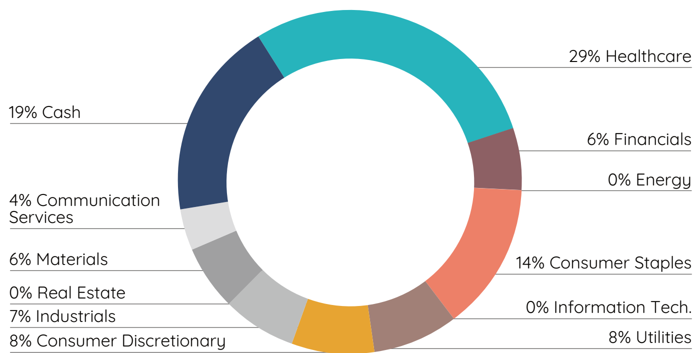
* Weightings include option positions held and cash backing put options. It assumes that put options will be exercised.

## Performance at 31 March 2024

| Period | Total Return | Average Market Exposure |
|---|---|---|
| 1 month | 1.47% | 57% |
| 3 months | 2.95% | 57% |
| 6 months | 3.00% | 57% |
| 1 year | 9.27% | 57% |
| 3 years p.a. | 12.12% | 56% |
| 5 years p.a. | 9.85% | 56% |
| 7 years p.a. | 9.26% | 58% |
| 10 years p.a. | 8.91% | 59% |
| Since Inception p.a. | 7.48% | 61% |

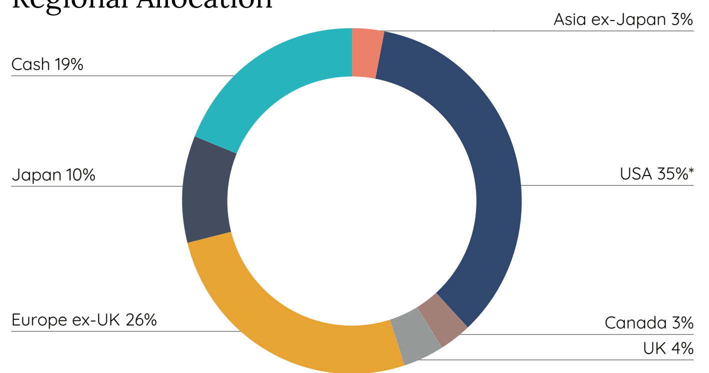
1 Fund Returns are calculated after fees and expenses and assume the reinvestment of distributions
2 Inception date for performance calculations is 18 August 2008
3 Income Return includes realised capital gains
4 Past performance is not a reliable indicator of future performance
5 Average Market Exposure based on delta-adjusted exposure of underlying portfolio

## Sector Allocation




* Weightings include option positions held and cash backing put options. It assumes that put options will be exercised.

## Regional Allocation




* USA includes American Depositary Receipts (ADRs) listings.

## Quarterly distribution

| Period | Cents per Units | Reinvestment price |
|---|---|---|
| March 2024 | 7.600 | $5.0606 |
| December 2023 | 7.600 | $4.9896 |
| September 2023 | 7.300 | $5.0630 |
| June 2023 | 14.4457 | $5.0085 |
| March 2023 | 7.250 | $4.9811 |
| December 2022 | 7.000 | $4.8288 |
| September 2022 | 7.000 | $4.6234 |
| June 2022 | 11.564 | $4.6553 |
| March 2022 | 7.250 | $4.6553 |

## Asset allocation

| Asset allocation | % weight |
|---|---|
| Global equity | 51.0% |
| Cash – put option cover | 30.0% |
| Cash | 19.0% |
| **Total** | **100.0%** |

| Portfolio contributors | Portfolio detractors |
|---|---|
| Sumitomo Mitsui | Roche |
| Redeia | Ambev |
| Johnson and Johnson | Gilead |
| Secom | Bunzl |

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

# Talaria Global Equity Fund (Managed Fund)

## 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** | $5.12630 (31 Mar 2024) |
| | | **Buy / Sell Spread** | 0.20% / 0.20% |
| **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

Units in the Talaria Global Equity Fund (Managed Fund) (the Fund) are issued by Australian Unity Funds Management Limited ABN 60 071 497 115, AFS Licence No. 234454. 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 objectives, financial 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 Product Disclosure Statement (PDS) and the target market determination for the Fund and consider whether the product is appropriate for you. A copy of the PDS and the target market determination is available at australianunity.com.au/wealth or by calling Australian Unity Wealth Investor Services team on 1300 997 774. Investment decisions should not be made upon the basis of the Fund's past performance or distribution rate, or any ratings given by a rating agency, since each of these can vary. In addition, ratings need to be understood in the context of the full report issued by the rating agency itself. The information provided in the document is current at the time of publication.

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