

TERRACAPITAL NATURAL RESOURCE FUND

NOVEMBER 2018

	1M	3M	6M	FYTD	1Y (rolling 12mths)	3Y (p.a.)	Inception (p.a.)	Inception (cumulative)
Terra Natural Res. Fund	0.6%	-14.0%	-24.3%	-21.4%	-24.8%	23.3%	18.4%	313.3%
ASX/TSX Composite**	-3.9%	-9.1%	-16.7%	-17.0%	-7.0%	21.1%	-7.1%	-46.2%
ASX Small Resources	-4.1%	-10.1%	-16.0%	-16.0%	-3.6%	25.7%	-6.7%	-44.1%
TSX Mining & Minerals	-3.2%	-5.9%	-18.7%	-19.7%	-15.8%	10.7%	-8.3%	-51.7%
Exit Unit Price	\$2.3682							

Terra Capital Natural Resource Fund movements are shown net of (after) fees. Inception: 1st July 2010

** ASX/TSX Resource Composite is a weighted average which best fits the mandate. 60% from ASX small resources and 40% TSX mining and minerals

Performance & Overview

The Fund returned 0.6% after fees for the month of November 2018. Since inception (July 2010) the Fund has returned +313.3% after fees vs. the small resources accumulation Index -44.1%.

The Unit Price is currently \$2.37

Markets

The Australian market (-2.8%) continued its decline in November and underperformed global markets.

In the US (S&P 500) defensive sectors including utilities (+5.0%), consumer staples (+3.9%) and real estate (+3.5%) were the only sectors in the black over the past two months.

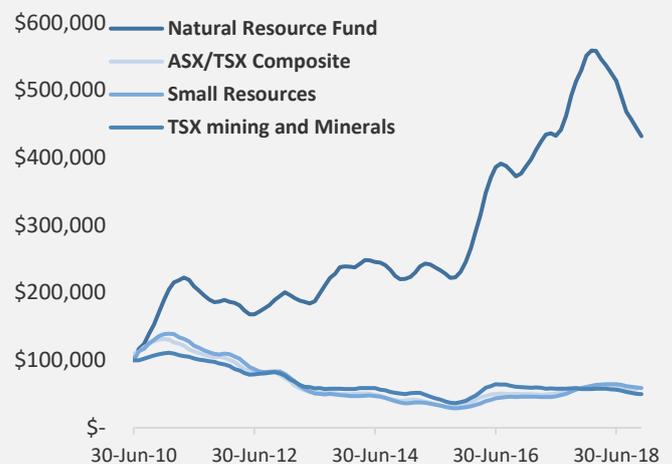
European equities were some of the worst performers in November reflecting weaker than expected economic data. The FTSE 100 was -2.1% weaker, the CAC 40 lost -1.8% and the DAX moved -1.7% lower.

Asian equities bounced back from a very weak October, with the Hang Seng rising +6.1% and the Nikkei 225 gaining +2.0%. The Shanghai Composite was modestly weaker at -0.6%.

Commodities

Crude oil prices collapsed (WTI -22% to US\$51/bbl) to the lowest level since August 2017. A major driver of the move has been Saudi Arabia delivering a surplus to trade, lifting production to a record high rate during November (running at >11.1mbpd). Presumably this supply spike was in response to a US government call for a supply boost, however, it is at odds with Saudi Arabia's call to OPEC members for a general cut to

Value of \$100,000 invested at inception



stabilise prices. Oil markets now await details of OPEC's next meeting on the 6th of December in Vienna.

The fall in crude oil prices should provide some cost relief to miners though, particularly in iron ore and coal, who are seeing delivered costs falling thanks to declining freight rates.

Base metals were mostly higher in November despite some weak sentiment. Nickel (-2.8%) was the exception, losing its 2018 gains amid increasingly bearish sentiment, and concerns about slowing economic growth in China and Europe. The fall in Nickel prices has come despite an ongoing deficit between supply and demand. In the short run, our Commodities team note that there are increasing signs of distress in the stainless-steel market, which accounts for 70% of nickel's use. Stainless steel prices have been falling sharply in Europe and the USA and global stainless steel has stopped growing altogether.

The Philippines' Ministry of Environment is considering permitting the reactivation of nine mines that were

TERRACAPITAL

NATURAL RESOURCE FUND

NOVEMBER 2018

closed in 2017 for violating environmental regulations. Timing of the restarts is unknown, but six of these mines are nickel operations.

Aluminium (+0.4%) was higher as the market digested news at the beginning of the month that a Brazilian federal judge upheld restriction to Norsk Hydro's activities in Barcarena city, in connection with its 6Mtpa Alunorte alumina refinery.

Lead (+2.3%) prices spiked on news of environmental clampdowns on smelters in China's provinces of Henan, Hunan and Yunnan.

Iron ore (-12.4%) prices tumbled as a build-up in steel inventories at Chinese mills fuelled concerns that steel production is outstripping demand in China, putting downside pressure on steel prices and profitability. There are a number of short-term factors at play including falling margins for rebar (factoring in cost of running pollution controls at facilities), environmental restrictions, and the seasonal pullback given the northern winter.

Portfolio commentary

After another volatile month in the market, we were happy to end in the black and ahead of our indices. The volatility provided us opportunities to adjust positions while not significantly changing our overall positioning or view of the market.

We view the current malaise as a mid-cycle hiatus, with generalist investors still unable or unwilling to accept the fact that mining and oil and gas companies can deliver solid returns to investors. We believe the sector leaders will be re-rated as other investments with higher valuations and less robust earnings disappoint in an environment of modest growth and interest rate rises. We see the continuing performance of larger, multi-national miners as an entrée to mid and small cap performance.

Our view is that there are numerous companies that are undervalued due to volatility in commodity prices, a stronger US dollar, the threat of trade disruptions and the risk of a slowdown in China, and as a result we continue see the outlook for quality natural resources equity as positive.

We thank you for your ongoing support and would like to invite you to reply to this email if you would like to arrange a call or meeting to discuss the Fund.

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NATURAL RESOURCE FUND

NOVEMBER 2018

Natural Resource Fund Strategy

The Fund is a global, long only mining and energy fund established in July 2010. The Fund's strategy is fundamentally driven, high conviction, high concentration and we pride ourselves on our relationships with our investors. Terra Capital's research driven process and true active management is complimented by a focus on risk management.

The objective of the Fund is to deliver superior absolute returns over the medium to long term by investing in small to medium-sized companies in the mining and resources sectors.

Fund Details

NAV	\$2.3741
Entry Price	\$2.3800
Exit Price	\$2.3682
Fund Size	\$60.7M
APIR Code	TER001AU

Top 5 commodity exposure

Commodity	% of fund
Cobalt	17%
Base	15%
Gold	15%
Other	14%
Lithium	10%

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