

TERRACAPITAL

NATURAL RESOURCE FUND

JANUARY 2019

Overview

The Fund returned 2.4% after fees for the month of January 2019. Since inception (July 2010) the Fund has returned +292.5% after fees vs. the ASX Small Resources Accumulation Index -42.6%. 5-year performance for the Fund is 79.6% vs the ASX Small Resources Accumulation Index 23.3%. Cumulative return over the previous 5 years is 79.6% vs the ASX Small Resources Accumulation Index 23.3%.

The Unit Price is currently \$2.25

Portfolio Commentary

The factors that hurt us in Q418 - US Fed quantitative tightening, continued trade war rhetoric regarding China, and escalating worries over slower global growth somewhat eased in January as the market began to look to the resolution of these issues.

Further, the trend that began mid-2018 which saw those commodity markets driven primarily by physical buyers and sellers outperform commodity markets driven principally by financial players, changed with base metals, as an example, performing well for the month.

Exemplifying this phenomenon in Q418; iron ore, metallurgical coal, and uranium—all markets little influenced by financial players—saw prices rise in the six months to December 2018. In comparison, the base metal complex fell 25% while oil fell over 30%. That weakness in base metals and oil implies that global growth is about to slow significantly in the coming years, and yet the strength in both iron ore and met coal indicates that growth, primarily in China, remains solid.

Looking forward, copper continues to be our favourite base metal. Since peaking at \$3.30 per lb. in June of 2018, copper prices have pulled back 20%. Although much has been written about the slowing Chinese economy, according to the World Bureau of Metal Statistics, Chinese copper consumption for the first 10 months of 2018 grew almost 6%, a significant acceleration compared to lacklustre demand in 2015, 2016, and 2017.

Global copper exchange inventories continue to fall, indicating to us that the copper market remains in deficit. On the supply side, copper mine supply has stagnated after growing strongly in 2015 and 2016 and our modelling has been confirmed by mine data.

We question the now settled consensus that there has been an end to structural demand growth for metals. Five years after the peak in the mining capex cycle, inventories in base metals are low by historical standards and falling and bulk commodity prices have firmed. Even before recent supply disruption news, iron ore prices have been cycling around prices almost double the troughs of 2015, and the multi-hundred million tonne surpluses expected at the end of this decade have simply not materialised.

These commodity specific factors add credibility to our thesis that given tight fundamentals and unchallenging valuations, we believe there is currently a strong case for including mining stocks in portfolios.

As an example, the major miners are trading at very reasonable multiples 2019e EV/EBITDA 5.1x, P/E 11.1x, dividend yield 4.6%. Further, there are a number of juniors with highly compelling growth stories, where cash flows within a couple of years are similar to current market capitalisations.

The performance of battery related commodities hurt us in 2018 with prices of lithium and cobalt declining after very strong performances in 2016 and 2017. The continued negative pricing sentiment in the market fails to reflect a longer-term demand outlook that continued to strengthen this month with news that Toyota would increase its focus on electrification through a partnership with Panasonic.

In addition, another of Panasonic's EV partners, Tesla, pushed ahead plans for the Gigafactory 3 in China, with the company breaking ground at a new facility in Shanghai which is targeting first production by the end of the year. For the EV ambitions of OEMs to be met in the coming years, the lithium industry will need to accelerate supply expansions throughout 2019.

As with all our exposures, we have resolved to stick to what we have done for years. Finding, assessing and investing in what we believe are the best risk-adjusted exposures to the commodities we believe will perform well. The leverage in our portfolio to rising commodity prices is strong and we have seen the unit price continue to rise into February at the date of circulation of this newsletter.

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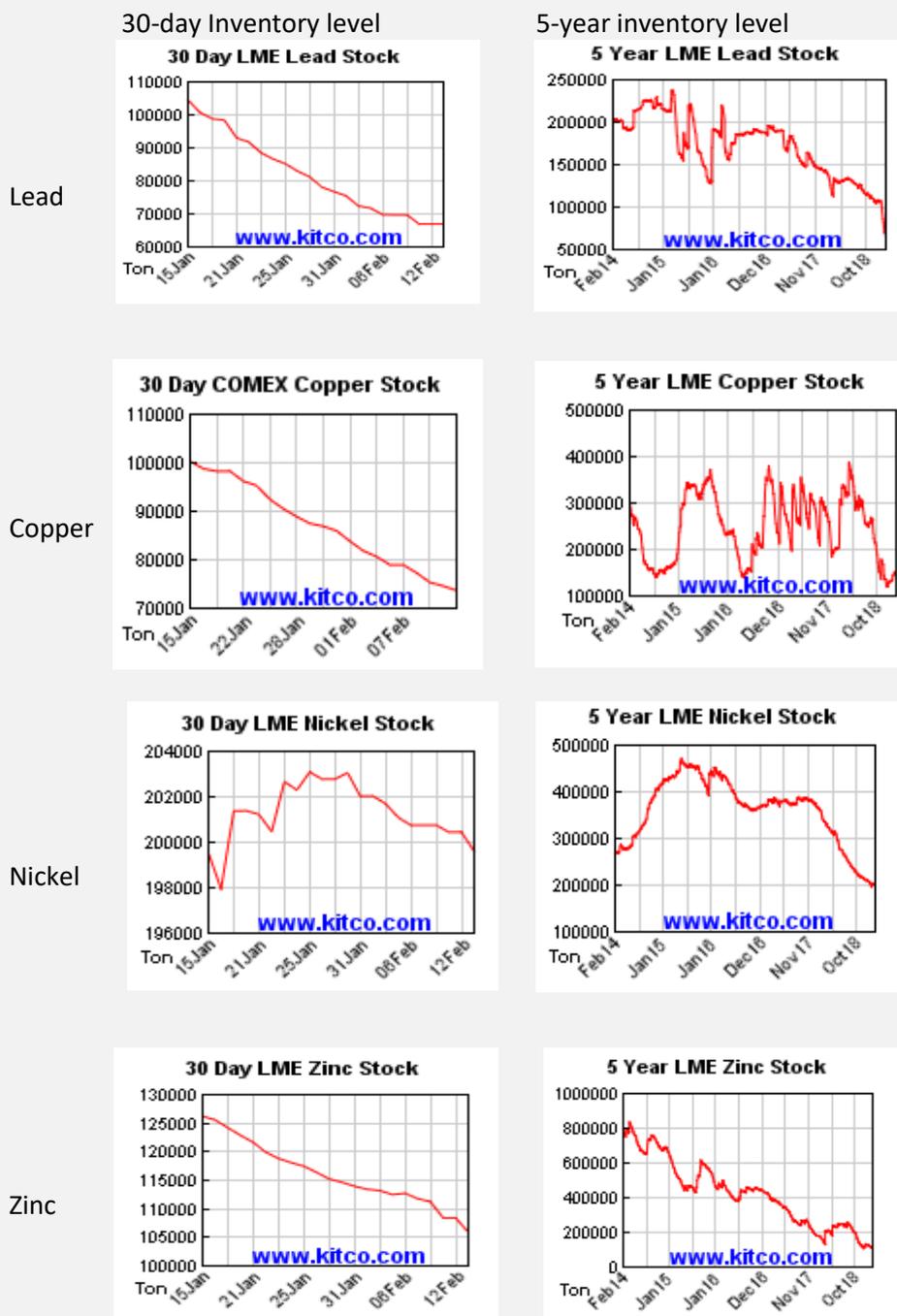
Inventory Levels

Throughout 2018 we mentioned in our monthly reports that we were seeing inventory stock piles being depleted to levels which we haven't seen in many years.

As we can see from the charts below, metal inventories are low, exasperated by the trade war rhetoric and

strong USD last year. Low inventories and tight markets have historically led to positive price reactions.

We have already seen the impact of tight markets, with this month's direct investment by Toho Zinc (Japan) into ASX listed Galina Mining Ltd, which is held by the fund, to secure Lead supply.



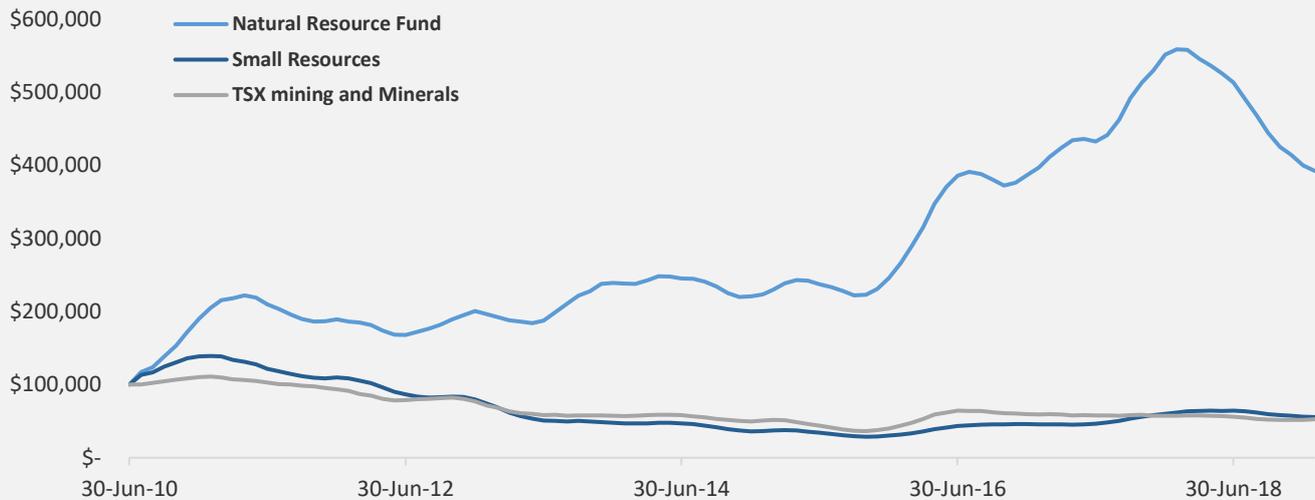
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Calendar Year	2011	2011	2012	2013	2014	2015	2016	2017	2018	2019
	(July-Dec)									
Natural Resource Fund	89.76%	-9.18%	5.65%	22.61%	-4.98%	8.25%	50.17%	74.12%	-36.20%	2.44%
ASX Small Resources	47.06%	-31.76%	-18.70%	-42.26%	-28.44%	-14.73%	59.47%	37.91%	-16.00%	8.13%
Outperformance	42.70%	22.58%	24.35%	64.87%	23.47%	22.98%	-9.30%	36.21%	-20.20%	-5.69%
TSX Mining and Min	14.16%	-22.21%	-9.06%	-32.30%	-11.37%	-28.81%	6.62%	3.96%	-9.17%	-0.08%
Outperformance	75.60%	13.03%	14.71%	54.90%	6.39%	37.06%	43.56%	70.17%	-27.02%	2.52%

Value of \$100,000 invested at inception



Value of \$100,000 calculated using exit NAV prices net of all fees

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	\$2.2543
Entry Price	\$2.2599
Exit Price	\$2.2487

Top 5 commodity exposure

Commodity	% of fund
Gold	19%
Cobalt	11%
Nickel	11%
Copper	10%
Manganese	9%

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