

TERRACAPITAL

ETHICAL EMERGING COMPANIES FUND

FEBRUARY 2019

Performance & Overview

The Fund returned -0.6% after fees for the month of February 2018. Since inception (Jan 2016) the Fund has returned +13.0% after fees.

The Unit Price is currently \$1.0948

Portfolio Commentary

February saw a results period that was broadly in-line with expectations, ongoing systemic risks, including the housing slowdown, a weak consumer, and intensifying regulatory and political risk mean that investors need to be wary of some domestic sectors. Despite the above risks, momentum has been strong, and the market has recouped the losses from the last quarter in 2018.

While the unit price has not yet improved, we are confident in the portfolio given the fund's investments, some of which will list in the coming two months.

Recently we invested into two Canadian companies which were attractively priced and are in sectors of the market that are seeing significant growth. The first of these investments was a Canadian listed cannabis brand called Plus Products focusing on US recreational sales which we have summarised below, and the second investment was into an eSports company base in Canada.

eSports

eSports is the fastest growing entertainment industry in the world and with over 300 million fans it is expected to have US\$1.6b in revenue by 2021.

Globally eSports teams are ranked by the annual prize money accumulated by its players. The average value of an eSports team in the global a top 10 team is ~CAD\$200m and Cloud 9, the top-ranking team in the world, had winnings in 2018 over CAD\$400 million. We have taken the view that much like a top-ranking tennis player the sponsorship value of individual players and teams are worth many multiples more than their accumulated annual prize money.

After closely following the industry since it began to gain traction in 2015, we have been looking for opportunities to invest in well-lead and globally focused eSports teams. Investing into specific sports teams is not uncommon in US where teams in both the NBA and NFL are privately owned. This is lucrative for the owners who have exposure to both the prize pool collected by the team as well as the lucrative marketing, sponsorship and merchandise deals. We also look forward to a day when eSports players are traded for many millions of dollars as they are in the English Premier League.

Our first investment into the sector is a Toronto based team which will be listing on the TSX next month. We will provide further details on this company later in the year. Interestingly, NBA and NFL teams have been investing and starting their own eSports teams to compete in the digital version of their own sports.

Plus Products (PLUS CN)

Plus Products Inc. is a leading branded cannabis product manufacturer based in California. Its products consist of cannabis-infused edibles, which it sells in adult-use recreational markets.

PLUS is currently one of the fastest-growing edible brands in California with 4 of the top 10 selling SKUs. The Company's mission is to make cannabis safe, and approachable which starts with manufacturing high-quality products delivering consistent experiences.

As mentioned in previous monthly reports, during 2018 Terra Capital visited North America several times to educate ourselves on the Cannabis market. We have taken the view that;

- Increased flower supply meant that cannabis was becoming commoditised and cannabis growers were losing pricing power
- Many Canadian focused companies are fully valued and trading on high future revenue multiples well above most analyst expectations
- US state legalisation would lead to growth in 2019 as several states were looking to legalise recreational use of cannabis
- Premium brands will maintain premium pricing and strong margins

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We invested in Plus Products due to its premium US based recreational brand and the attractive terms of the deal.

Terra Capital's investment in late January 2019 was made through an 8% Unsecured convertible note with a 24-month term - the convertible notes may be converted into common shares in the capital over the next 2 years which convertible note coming with a free attaching warrant. Given the volatility within the cannabis market investing in a convertible note protects down side risk of our investment which stabilises the return and allows equity upside. Both the stock and the warrants are tradable after four months (May 2019) which provides liquidity if needed.

As always, we welcome your feedback and look forward to updating you on our progress.

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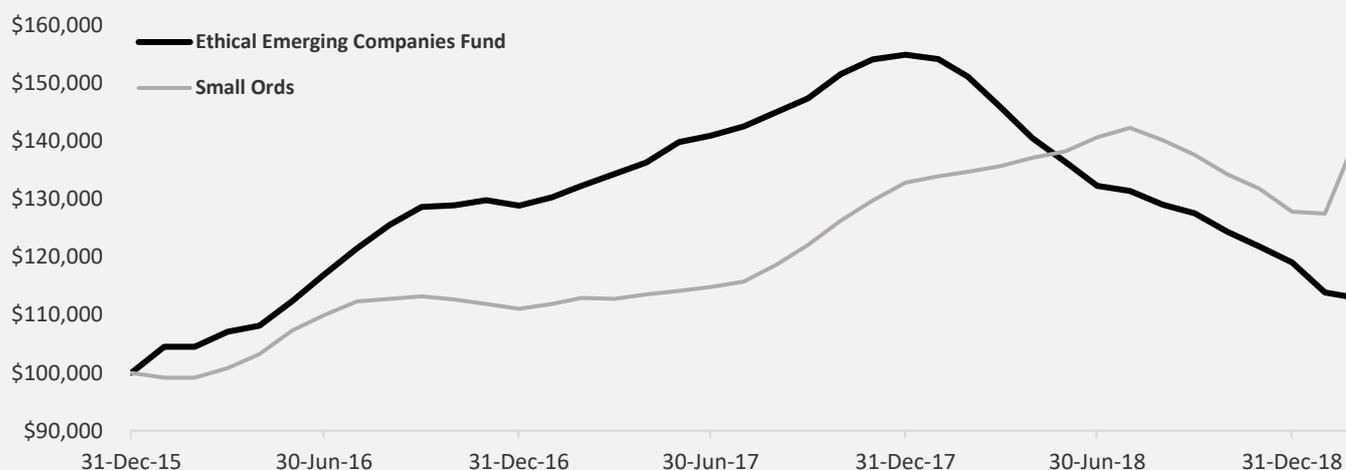
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Annual Return out/under-performance

Calendar Year Performance	2016	2017	2018	2019
Ethical Emerging Companies Fund	27.71%	27.68%	-30.07%	-0.89%
ASX Small Ords Accumulation Index	13.18%	20.02%	-8.67%	12.72%
Outperformance/Underperformance	14.53%	7.67%	-21.40%	-13.60%

Value of \$100,000 invested at inception



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

Ethical Emerging Companies Fund Strategy

The Fund is a global, long only emerging companies fund established in January 2016. 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 listed and a portion of unlisted companies.

Fund Details

NAV	\$1.0975
Entry Price	\$1.1002
Exit Price	\$1.0948

Fund Exposure

Software & Services	20%
Cannabis	20%
Technology Software & Hardware	18%
Media, Fintech & Financial Services	16%
Infrastructure & Services	8%

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