

# TERRACAPITAL

## NATURAL RESOURCE FUND

FEBRUARY 2019

### Overview

The Fund returned 6.0% after fees for the month of February 2019. Since inception (July 2010) the Fund has returned +315.9% after fees vs. the ASX Small Resources Accumulation Index -40.9%. The cumulative return over the previous 5 years is 63.6% vs the ASX Small Resources Accumulation Index 23.3%.

The Unit Price is currently \$2.38

### Portfolio Commentary

While 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.

Small and mid-cap mining and energy names, despite the strong performance of BHP and RIO have lagged and look relatively well priced as a sector.

We think the catalysts for a resurgence in resources will depend, as usual, upon the two countries which make up 40% of global GDP; the US and China.

In the US, with its hand forced by slowing growth we see an accommodative FED coupled with a President wanting to make the US economy look its best coming into the US presidential election year 2020.

In China during the past year, the economy has been adversely impacted by policies enacted to restructure shadow banking and to deleverage SOEs.

However, in the medium term we have the hundredth anniversary of the Chinese Communist

Party's founding in 2021 and in 2022 the 10th anniversary of Xi's presidency.

In preparation for these significant milestones, by mid-year, with a push from fiscal and monetary stimulus and tax cuts, consumer spending together with real estate and infrastructure spending will result in what we think will be a better than expected recovery in the second half of this year.

To one of our holdings; Champion Iron (ASX & TSX: CIA) is a stock which has performed well in recent times as investors have begun to realise the significant value in the company's Canadian Iron Ore assets. The tragic Brumadinho dam disaster has highlighted just how tight some commodity markets are. Vale was forced to stop work at mines producing 75 million tonnes a year worth of iron ore supply in the aftermath of the collapse as Brazilian regulators demanded mines with similar tailings dams close for safety reasons.

Champion Iron's Bloom Lake (CIA 63.2%) iron ore mine is an expandable high grade, high margin operation, offering significant leverage to the premium price received for high grade iron ore.

Cash operating margins of 36% have been averaged since operations restarted, demonstrating the ability of management to deliver as promised. Previous owners had spent US\$3Bn+ on the mine, which CIA purchased (now famously) for C\$10m, with Phase 2 expansion already 75% complete. Phase 2 could see production increase from 7.4Mtpa of 66.2% Fe concentrate to 16Mtpa over a 20+ year mine life.

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

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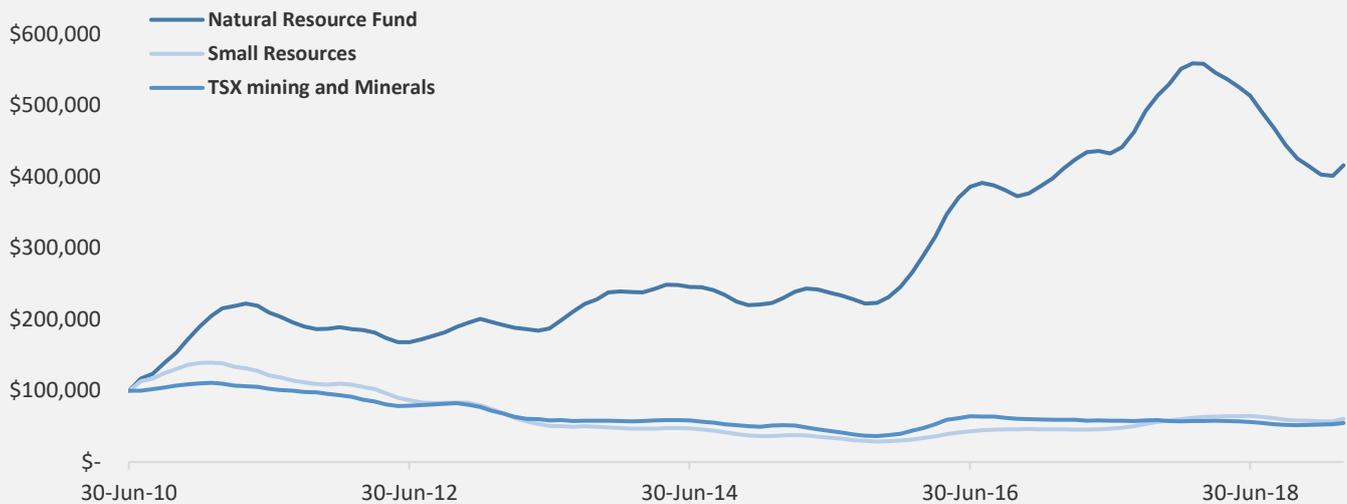
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### Annual Return and out/under-performance 2011

Calendar Year	(July-Dec)	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Natural Resource Fund</b>	89.76%	-9.18%	5.65%	22.61%	-4.98%	8.25%	50.17%	74.12%	-36.20%	8.57%
<b>ASX Small Resources</b>	47.06%	-31.76%	-18.70%	-42.26%	-28.44%	-14.73%	59.47%	37.91%	-16.00%	14.40%
<b>Outperformance</b>	42.70%	22.58%	24.35%	64.87%	23.47%	22.98%	-9.30%	36.21%	-20.20%	-5.83%
<b>TSX Mining and Min</b>	14.16%	-22.21%	-9.06%	-32.30%	-11.37%	-28.81%	6.62%	3.96%	-9.17%	0.96%
<b>Outperformance</b>	75.60%	13.03%	14.71%	54.90%	6.39%	37.06%	43.56%	70.17%	-27.02%	7.61%

### 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	\$2.3892
Entry Price	\$2.3952
Exit Price	\$2.3832

### Top 5 commodity exposure

Commodity	% of fund
Gold	18%
Cobalt	11%
Nickel	11%
Copper	11%
Manganese	9%

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