

TERRACAPITAL

ETHICAL EMERGING COMPANIES FUND

AUGUST 2018

	1M	3M	6M	FYTD	1Y (rolling 12mths)	2Y (p.a.)	Inception (p.a.)	Inception (cumulative)
Terra Ethical Emerging	-2.9%	-7.6%	-16.1%	-4.1%	-13.3%	0.0%	9.1%	26.2%
ASX All Ords	1.7%	6.0%	7.3%	3.0%	16.0%	12.4%	11.8%	34.5%
ASX Small Ords	2.5%	2.5%	6.7%	1.5%	22.3%	12.4%	14.7%	44.3%
Unit Price	\$1.26							

Terra Capital Ethical Emerging Companies Fund movements are shown net of (after) fees. Inception: 1st Jan 2016

Performance & Overview

The Fund returned -2.9% after fees for the month of July 2018. Since inception (Jan 2016) the Fund has returned +26.2% after fees underperforming the market (All Ordinaries Accumulation Index) by -8.3%.

The Unit Price is currently \$1.22

Markets

The Australian market gained +0.6% in August despite the political instability that saw Malcolm Turnbull replaced as Prime Minister.

Reporting season recorded fewer beats (23%) relative to earnings forecasts than in previous reporting seasons.

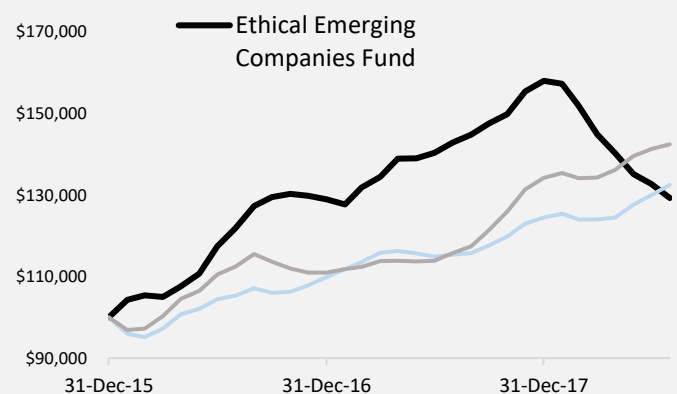
Information Technology (+12.3%), Telecommunications (+10.9%) and Health Care (+10.6%) were the best performing sectors in August.

Portfolio

An interesting dynamic exists in small and micro caps at the moment where extraordinarily, ~60% of the monthly return (~140bps) of the Small Ordinaries Index performance came from the performance of 4 stocks in the same sector (Info Tech); WiseTech, Appen, Altium and Afterpay; which rose ~34% (on average) on upward earnings revisions of 4-5%. These companies have provided most of the index's outperformance for the past 6 months.

Unfortunately, in the short term, this is a headwind for us. Firstly, all of these companies are out of our mandate and typical hitting zone of sub \$500m market cap, the smallest of these companies is Appen at \$1.5B market cap.

Value of \$100,000 invested at inception



Secondly the short-term success of these companies appears to be drawing funds from investors that would typically invest in smaller companies.

While this is short term negative, this phenomenon is typically ephemeral and despite the Fund's negative performance recently, we remain positive of the Fund's positions over the medium term.

We have previously mentioned our position in Identitii, the blockchain software business which will list within the next month. In addition to this we have a number of other businesses listing in the next two months which are exposed to the burgeoning cannabis market that we think are exciting.

The companies we have invested in are exposed to the Canadian and US markets where medicinal cannabis use alone is estimated to be a \$100B market by 2025 and the recreational market larger still.

We are of the view that the hype around the cannabis industry has been validated in recent months with a recent deal by Corona beer maker Constellation Brands (STZ.N), infusing \$4 billion into Canada's top cannabis producer Canopy Growth (WEED.TO), the biggest single investment in the industry to date.

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As a result of this interest, the performance of cannabis stocks has been exceptional and as we approach the date of legalisation of cannabis in Canada we expect this to continue at least for the short to medium term.

We have three cannabis investments listing this month including:

Canopy Rivers – The unique investment and operating platform of leading North American listed cannabis company Canopy Growth (WEED.TO).

Althea – ASX listed, Asian focused provider of medicinal cannabis backed by \$5B Canadian listed Aphria Inc.

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	\$1.2254
Entry Price	\$1.2285
Exit Price	\$1.2223
Fund Size	\$29.3m
APIR Code	TCN0001AU

Fund Exposure

Pharmaceuticals, Biotechnology & Life	16%
Software & Services	12%
Cash	11%
Internet Software & Services	11%
Technology Software & Hardware	9%

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