TERRACAPITAL

NATURAL RESOURCE FUND

APRIL 2016

	1M	3M	FYTD	1Y	3Y (p.a.)	Inception (annualised)	Inception (cumulative)
Terra Natural Res. Fund	14.4%	50.1%	31.2%	39.2%	26.0%	23.9%	248.5%
ASX All Ords	3.2%	6.5%	1.3%	-3.6%	5.4%	8.2%	58.4%
ASX 300 Mining	19.0%	41.4%	-2.3%	-11.0%	-4.0%	-5.8%	-29.6%
ASX Small Resources	16.3%	43.0%	9.7%	-1.7%	-10.2%	-14.8%	-60.8%
Unit Price	$2.6212						

FUND PERFORMANCE

During the month the ASX 300 Metals and Mining was up 19.0% and the ASX Small Resources Index jumped 16.3%. The ASX All Ords were up 3.2% for the month. Against this backdrop the Fund was up 14.4% after fees.

The Unit Price is currently $2.62.

MARKET OVERVIEW

The Australian equity market finished April at near 8 month highs after posting a strong 3.4% gain. Returns were the result of continued gains by the commodity and energy related areas with materials up 14% and energy 8%. The index was dragged lower by weak returns from Consumer Discretionary (-1.7%) (Retail and Media, lower -2.6% and -4.6%, respectively) and weakness across the yield sensitive sectors – Utilities (-0.3%) and Telco's (+0.5%).

Large cap stocks were finally outperformers versus their smaller cap counterparts but this reflected performance by the global reflation stocks rather than a shift in positioning and performance towards the other (long term) large cap underperformers (Banks (+1.5%), Consumer Staples (1.1%) and Telco's (+0.5%)).

Global markets survived a month end sell-off driven by an injection of FX volatility post the BoJ's surprise decision not to extend its current monetary policy easing stance. On the other side of this trade, the USD continued to weaken as the US Federal Reserve maintained its dovish stance and expectations for a resumption in rate hikes were pushed further into the back end of 2016. FX trends were the primary driver of performance differentials across risk assets with the Nikkei (-0.6%) suffering a savage sell-off (in-line with the appreciating Yen) while commodity sensitive markets benefited from further strength in commodity prices (both reflationary and deflationary trades).

Technology stocks showed some worrying signs with the NASDAQ down 4% from its most recent high, led in large part by Apple which is down ~25% from its 2015 peak. In China, the equity market continued to move in the opposite direction to the recent improvement in growth momentum with the Shanghai Composite falling -2.2% but H-shares rising +1.4%. European markets also posted marginal gains by the German DAX (+0.7%).

COMMODITY OVERVIEW

Base metals turned up sharply with the LME metals index rising 6.3%. Nickel (+11.4%), aluminium (+10.5%), zinc (+6.9%), lead (+6.4%), copper (+3.8%) AND TIN (+3.2%) all rose over the month.

Iron ore rose 23.2% to $66.24/mt. The sharp rise in iron ore was driven in particular by the announcement of production cuts from the 'Big 3' (BHP, RIO and Vale). Further signs of improving economic conditions in China also served to support sentiment.

Brent and WTI established year-to-date highs, rising 16.2% and 19.8% respectively to $47.37/bbl and $45.92/bbl. A rapid escalation in outages and improving Chinese economic data underpinned the move.

Thermal coal was among the weakest in the commodities complex; falling 0.7% to $51.00/mt across the month. Contrastingly, metallurgical coal was up above $100/mt during the month.

Silver was the major mover in precious metals over the month rising 15.6% to $17.85/oz. Gold also rose 4.9% to

$1,292.99/oz. The gold to silver ratio contracted from 80:1 to 72:1.

OUTLOOK

Our top three holdings; Nexgen Energy (NXE.TSX), Galaxy Resources (GXY.ASX) and Troy Resources (TRY.ASX) performed well during April and thus far into May. We continue to believe these stocks have considerable upside over the medium term.

In additional to our larger holdings; gold stock Oklo Resources (OKU.ASX) and lithium explorer Dakota Minerals (DKO.ASX) and also added to our positive performance.

It would be easy to dismiss the statement by BHP Billiton Chief Executive Andrew Mackenzie that commodity prices have bottomed as the wishful thinking of a mining executive keen to see some improvement in profit margins. While it's likely that the boss of the world's biggest mining company is hoping for an end to five years of a declining price trend for many of the commodities his company produces, there is enough price evidence to suggest he’s right.

The fact that it is now possible to construct a narrative, with supporting price data, for a recovery in commodities is something of a sea change. For at least the past five years it has been virtually unrelenting doom and gloom in the sector, with any price rallies proving to be false dawns as the industry battled oversupply as well as slowing demand growth in top consumer China.

The oversupply was a problem the industry created for itself, having believed the hype that commodity demand and prices would rise for decades on Chinese demand, with supporting roles from India and other developing Asian nations.

The slowing demand growth in China was always inevitable, but it arrived sooner than virtually anybody expected. However given Beijing's successful efforts to move to a more consumer-led economy, it's possible to see the overall strength of the economy starting to have a positive impact.

So why is the boss of BHP expressing some optimism that the outlook for commodities is improving? "If you look at the basket of commodities that we deal with, the numbers are self-evident: the fall has stopped," Mackenzie was quoted as saying in the interview published on April 9.

This certainly gives cause for some optimism with prices having arrested their declining trend. Whilst we have benefited recently with increasing commodity prices we continue to assess and invest in those best-in-breed companies that fit our investment criteria and will rise in periods of commodity price stagnation. As such we expect to continue to provide our investors with uncorrelated positive returns.

We thank you for your continued support.