TerraCapital

NATURAL RESOURCE FUND

February 2016

	Terra Res. Fund	ASX All Ords	ASX 300 Mining	ASX Small Res.
1 Month	13.2%	-1.5%	11.2%	19.4%
3 Month	18.9%	-4.3%	0.7%	16.4%
FYTD	-1.4%	-6.4%	-23.2%	-8.4%
Gross Incept (p.a.)	24.1%	7.0%	-9.9%	-17.9%
Unit Price	$1.9697			

Fund Performance

During the month the ASX 300 Metals and Mining was up 11.2% and the ASX Small Resources Index jumped 19.4%. The ASX All Ords were lower 1.5% for the month. Against this backdrop the Fund was up 13.2%.

The Unit Price is currently $1.97.

Market Overview

ASX 200 equities continued their weak start to the year, falling a further 2.5% on top of the 5.5% decline suffered in January. Volatility remained elevated, with the market down 5% early month before pairing the decline in the final two weeks – helped in large part by a rebound in materials and energy. The reporting season was slightly better than expected, although this was on expectations that had been lowered significantly in the lead up to the result round. Approximately 70% of companies reported in line/above expectations, with only minor downward revisions to aggregate 2016 EPS growth (from -6.8% to -8.0%).

Global markets exhibited large dispersion although all on the downside, with US (S&P500 -0.4%) outperforming both Europe (Euro Stoxx -3.7%) and Japan (Nikkei -8.5%). China (Shanghai Comp -1.8%) was choppy, receiving little reprieve in the lead up to the G-20 meeting or additional monetary easing (credit growth exploded in January).

Commodity Overview

The commodity rally these past few weeks means that prices are now higher than they exited 2015, in some cases appreciably so. The best performing commodities YTD are manganese (+49%); iron ore (+31%), alumina (+21%) & zinc (+21%).

There are a few macro influences at play. Firstly further policy support in China & a renewed focus by the Central Government on economic growth rather than reform has boosted demand expectations. Probably more importantly changing rates expectations in the US has brought USD weakness. Naturally, short covering has played its part too. Oil rallied strongly with WTI (US$33.75) and Brent (US$36.64) close to YTD highs on talk of OPEC supply cuts (later dismissed) and a combination of supply disruption fears out of Nigeria and Iraq.

The current surge in commodity prices may be a short term phenomenon from oversold market recovery and/or as a result of seasonal factors. At this time of year, restocking activity and a normal lift of China's materials consumption approaching mid-year could be at play. Alternatively, we may actually find in a few months' time that a fundamental tightening of markets occurred in Q1 2016.

Outlook

Our exposure to gold producers continued to pay off during February as the companies and management teams we have backed continue to operate with considerable margins.

Lithium continues to be a theme favoured by the market. We believe we have aligned ourselves with the best management team on the ASX in this commodity, and look forward to the company realising significant profits via spodumene sales within the next 5 months.

Our strong performance during February (and at the time of writing March) hasn’t changed our cautious outlook but the market has shown what will be achieved when the market for mining and energy stocks does change: Freeport +65.9%, Glencore +48.9%. Indeed, volumes in resource stocks across the board have increased significantly over the last month. This bodes well for sentiment in the sector.

We continue to position ourselves in the best mining and energy names globally and will reflect the benefit of this that as the market understands the quality of these businesses.

We thank you for your continued support.