TerraCapital
NATURAL RESOURCE FUND

April 2017

	1M	3M	FYTD	1Y (rolling 12mths)	3Y (p.a.)	Inception (p.a.)	Inception (cumulative)
Terra Natural Res. Fund	-3.69%	18.88%	14.36%	27.06%	22.86%	24.33%	342.79%
ASX All Ords	0.78%	6.13%	15.79%	16.65%	7.38%	9.40%	84.75%
ASX 300 Mining	-2.03%	-6.47%	26.84%	22.84%	-0.97%	-2.11%	-13.55%
ASX Small Resources	-3.55%	-6.81%	1.98%	12.12%	-1.30%	-11.33%	-56.03%
Unit Price	$ 3.01						

Terra Capital Natural Resource Fund movements are shown after fees. Inception: 1st July 2010

Fund Performance

During the month the ASX 300 Metals and Mining was down -2.03% and the ASX Small Resources Index was lower 3.55%. The ASX All Ords were up 3.2% for the month. Against this backdrop the Fund was lower 3.7%.

The Unit Price is currently $3.01

Australian Markets Overview

It was a solid month for Industrials (+4.1%), IT (+3.5%), Healthcare (+3.4%), Utilities (+3.1%), REITs (+2.5%) and Financials (+1.9%) with Resources, Staples and Telecoms all suffering small losses, and Telcos down nearly 10%.

The month was largely one of stock-specific action outside of the interest rate sensitive areas, which benefited from a further rally in bonds (the Australian 10 year bond yield bottomed intra-month at 2.47% after hitting a February high of 2.98%). Resources (Energy and Materials both down -0.6% and -0.2%, respectively) were dragged lower by continued weakness in commodity prices (iron ore in particular) but we also saw a late month sell-off in crude oil prices that was replicated in price action for the oil majors. Telcos (-9.5%) were led lower by TLS, TPM and VOC (-20.6%), the worst ASX 100 performer for the month. Banks (+1.6%) continued to add to recent gains despite rising concerns of an imminent slowdown in the property sector. Banks also continue to benefit from flows out of TLS and the Resources.

Despite a volatile month for sentiment (driven by concerns around North Korea, French and UK politics and Chinese growth), offshore exposed stocks came through largely unscathed. In fact, Healthcare (+3.4%) outperformance was largely driven by offshore-exposed large caps CSL (+5.8%) and COH (+3.8%).

By size, large caps again outperformed small caps (All Ords up +0.8% vs Small Ords down -0.2%)

Global Market Overview

A reasonable month for equity markets led by EMs with the MSCI EM index rising 2.4% as Asian bourses mostly recorded positive returns (Hang Seng 2.1%, KOSPI 2.1% and Nikkei 1.5%). European markets were the strongest of the developed world following favourable market reactions to the first round of the French Presidential election and the snap election called by UK Prime Minister May. Rising tensions around North Korea failed to have a sustained impact on US equities with the Nasdaq hitting all-time highs and the S&P500 less than 1% off its record highs following strong results from tech stocks (in particular Alphabet and Amazon). Late in the month, the VIX hit a three-year low as concerns around the French election moderated and Trump released his plans for growth-friendly tax cuts. The VIX is hovering around 10.30 versus a post-crisis low of 9.97 reached in February this year. Chinese equities were the big loser for the month falling 2.1% as growth data continued to moderate and additional liquidity tightening progresses.

Commodity Overview

Iron Ore was the major commodity hit through April with prices tumbling 23% intra-month on the back of elevated inventory and signs demand is peaking (from $81.00/t to a low of $62.50/t before recovering marginally to $67.50/t). This shouldn't be too much of a surprise to most given the lower cost producers are all producing at a cost of around $20/t – those type of margins tend not to last.

Industrial metals were also weaker as Chinese growth indicators slowed down. The CRB Commodity Index was down 2.2% with the Raw Industrials Index also falling 2%. Copper -2.74%, Zinc -5.2%, and Lead -1.3%.

Precious metals were bid higher through the month on rising geopolitical risk with Gold rising 3% to an intra-month high of US$1290oz before falling back marginally as risk aversion declined. US gasoline prices hit a fresh 2 month low following a large surprise inventory build. Crude oil had a roller coaster month rising sharply in the first half before collapsing 7% on doubts that output cuts by OPEC were enough to bring inventory levels down. Domestically, Australia announced plans to introduce export controls on LNG in an effort to address the domestic gas shortage but with little detail and no timeline there was no favourable impact on prices.

Portfolio Commentary

The general malaise in small caps has been particularly severe in the resources sector over the past six weeks. While it's always difficult to see our stocks pull back it's understandable given the run the portfolio has had over the past 3 months and the cyclical effect we experience almost every year during the June quarter.

Overall stronger and synchronized global growth (particularly in the UK and Europe) are generally providing benefit to equities despite Asia and Australia showing signs of being somewhat softer in the short term.

Given our Fund's performance historically post the months of May and June we would like to remind investors that historically this has been the best time of year to invest in the Fund.

We look forward to updating you on our progress and welcome any feedback.

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