

TERRA CAPITAL

NATURAL RESOURCE FUND

AUGUST 2016

	1M	3M	FYTD	1Y (rolling 12mths)	3Y (p.a.)	Inception (annualised)	Inception (cumulative)
Terra Natural Res. Fund	-5.4%	10.8%	3.3%	87.2%	27.2%	25.2%	299.9%
ASX All Ords	-1.3%	2.5%	4.9%	10.7%	7.1%	8.7%	67.3%
ASX 300 Mining	-0.6%	12.1%	8.4%	10.1%	-4.4%	-4.8%	-26.1%
ASX Small Resources	-6.2%	12.2%	2.8%	48.7%	-6.6%	-12.4%	-55.7%
Unit Price	\$2.7172						

All Terra performance is shown **net** of fees. Inception: 1st July 2010.

FUND PERFORMANCE

During the month the ASX 300 Metals and Mining was down 0.6% and the ASX Small Resources Index was lower 6.2%. The ASX All Ords were down 1.3% for the month. Against this backdrop the Fund was lower 5.4% after fees.

The Unit Price is currently \$2.7172

GLOBAL MARKETS OVERVIEW

Global markets were mixed through August, despite being dragged lower late in the month by US weakness. US Equities were flat (S&P500 +0.1%) but European markets still finished higher, led by Germany (DAX +2.5%). Asia was strong with Hong Kong and China rising +5.0% and +3.6% respectively. Despite a turn in the USD, this failed to stop the strong momentum in Emerging Asian markets (lead by Thailand +1.6%, India +1.4% and Malaysia +1.8%).

COMMODITY OVERVIEW

Base metals declined over the month, with the LME Metals Index falling 3.3%. Nickel (-8.3%), copper (-6.3%) and aluminium (-2.5%) led the declines, while tin (+5.8%), lead (+4.7%) and zinc (+3.4%) rose.

Iron ore edged down 0.7% to US\$59.0/mt. China's activity indicators were generally softer than expected and inventories at ports rose above the long-term average in days-of-supply basis and in absolute terms.

Oil prices staged a strong recovery in August following July's swoon. Brent rose 10.8% to \$47.0/bbl. Gold traded down 3.1% to \$1,309.0/oz. Demand for bullion through exchange-traded products slowed and gold futures fell, which is the first August decline since 2009.

Interestingly UBS recently upgraded iron ore and coal prices roughly 6%-13% across 2016e and 2017e, reflecting

i) better steel prices and mill margins in China than expected, supporting ii) higher iron ore & met coal prices at least in part due to industry structure and market power dynamics, plus iii) China's 276 day coal mine production rule which we now think won't be relaxed if /until outright thermal coal shortages manifest. This is possible during the usual pre-winter restocking which runs through October ahead of the commencement of China's public heating operations on 15th November. Met coal is currently \$160/t up from lows of \$80/t.

OUTLOOK

While during August we witnessed a pull-back in commodities generally in response to US rate uncertainty, positivity in the mining and energy sector remains.

Institutional demand and competition for mining placements and IPO's has increased to the point where very few investors are getting the allocations they want. This ties into a huge improvement in investor participation as generalist Funds move to market weight from underweight resources positions and investors generally begin to understand that the sector represents value.

Noteworthy are gold equities which are still strongly in favour and our investments in the sector are performing well. Whilst Aussie gold producers have performed well recently North American gold equities are still trading on multiples over 30% higher than Australian listed gold equities. This is despite the Australian stocks maintaining stronger margins. Unsurprisingly it appears that much of the buying in local gold producers appears to have come out of North American and European institutions.

Thank you for your support and we look forward to receiving any feedback.