

TERRACAPITAL

NATURAL RESOURCE FUND

AUGUST 2018

	1M	3M	6M	FYTD	1Y (rolling 12mths)	3Y (p.a.)	Inception (p.a.)	Inception (cumulative)
Terra Natural Res. Fund	-5.40%	-12.00%	-12.20%	-8.64%	11.00%	31.03%	21.18%	380.47%
ASX/TSX Composite**	-5.86%	-8.43%	-2.41%	-8.70%	12.39%	22.63%	-6.23%	-40.85%
ASX Small Resources	-4.10%	-6.62%	-1.12%	-6.61%	26.34%	27.77%	-5.65%	-37.81%
TSX Mining & Minerals	-10.94%	-13.60%	-6.21%	-14.61%	-16.24%	10.71%	-7.83%	-48.63%
Unit Price	\$2.75							

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

** ASX/TSX Resource Composite is a weighted average which best fits the mandate.

Performance & Overview

The Fund returned -5.4% after fees for the month of July 2018. Since inception (July 2010) the Fund has returned +380.5% after fees vs. the small resources accumulation Index -37.8%.

The Unit Price is currently \$2.75

Markets

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

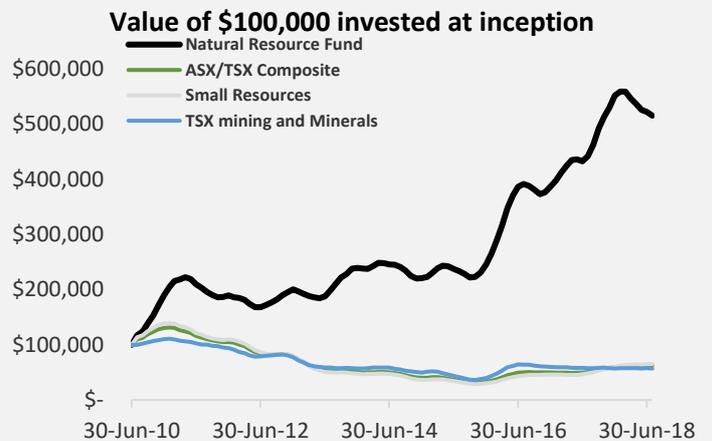
Reporting season recorded fewer beats (23%) relative to earnings forecasts than in previous reporting seasons.

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

Commodities

Most major commodities were weaker again in August, attributed to the uncertainty around escalating trade tensions between the United States and China. Both parties applied tariffs on US\$34bn of goods, taking effect on July 6, and a further US\$16bn taking effect on August 23. Nickel (-9.1%), Zinc (-6.4%) and Copper (-6.4%) were the weakest base metals.

Aluminium was +1.6% higher with the metal continuing to remain very sensitive to supply disruptions (Alcoa workers strike over labour agreements) as the global market has tightened this year on weaker-than-



expected alumina production and stable demand growth.

Precious metals were bid down despite the heightened geopolitical issues, with gold (-2.2%) and silver (-7.0%) receiving no support as traditional haven assets. The metals were likely pressured by the strengthening US dollar index (+0.7%) and US monetary policy tightening.

Spot uranium prices rebounded to over \$26/lb, an eight-month high. The key catalysts for the move include uranium investor, Yellow Cake fund, making its first purchase of 8.1Mlb of physical uranium (U3O8) in July, and Cameco confirming that it will keep McArthur River, the world's largest mine, indefinitely shut.

Portfolio commentary

Commodity markets continue to diverge as industry and traders continue to buy-up bulk and industrial commodities while speculators and funds lead LME and other major traded metals lower.

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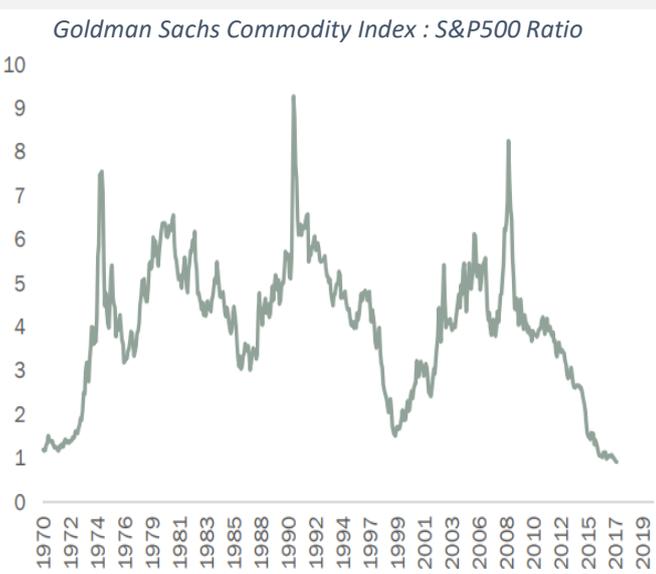
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The divergence reflects the impact of speculator and momentum selling caused by the stronger US dollar and flow of funds back into the US and the US dollar prompted by lower US taxes and higher US interest rates.

For now, the speculative selling led by expectations for an increase in Trump Tariffs and some slowing of Chinese and global growth is leading base metals lower despite the strong indication from bulk and industrial commodity markets that growth remains solid and news that China will continue to support areas impacted by new Tariff demands.

It's still all about a speculative response to the unresolved China-US trade conflict. The market is not pricing metals on their unchanged fundamentals. Instead, it's attempting to price them on the basis of a possible collapse in both global trade and aggregate demand.

Out of trader's world though, fundamentals are not only intact, they're robust. Base metal markets feature a universal, persistent inventory draw of all major exchanges, buoyant physical/merchant premia are being reported in all key metal-consuming regions. These signals are consistent with China's Jul-18 trade data (released 3 weeks ago), featuring stable-to-strong trade flows.



Source: Bloomberg, Goehring & Rozencwajg

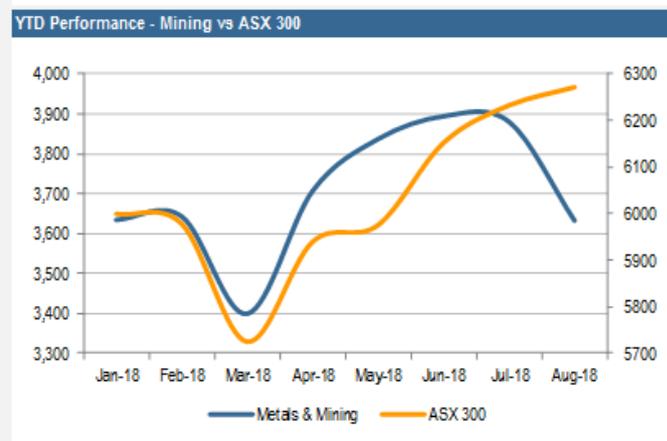
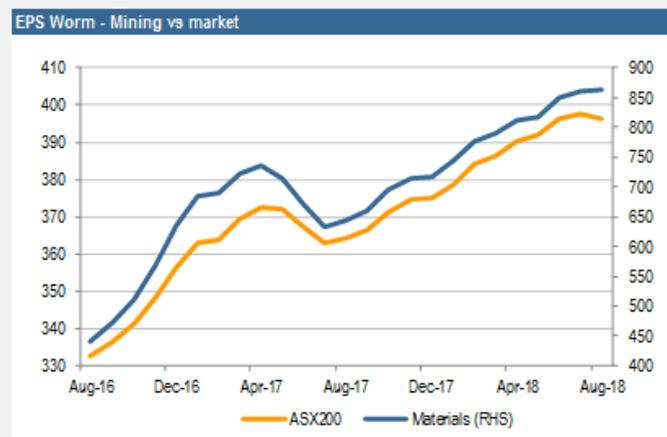
There's no significant change in the global market backdrop that we can flag here as a basis of the last quarter's (or last month's) metals' selling. Macro-data in all major economies reflect good momentum, such

that economists continue to forecast above average growth for the remainder of 2018. Further, commodities have rarely been cheaper relative to equities. The below chart shows that relative to the S&P500, commodities are cheaper now than at any time in the past 50 years.

In addition to overall commodity price and relative economic strength there are a number of other factors impacting our assessment of the commodity market.

Firstly, Chinese fiscal and monetary policies aim to support domestic demand in 2H18. This should cause a moderate improvement in industrial activity from September onwards and is particularly aim at Fixed Asset Investment which benefits commodities.

Additionally, YTD equity performance has been poor relative to EPS. As other sectors look expensive this should cause a re-rate in resource equities.



Source: Bloomberg, JPM estimates

Considering these factors impacting short term prices, we continue to be bullish for commodities and for the

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Terra Capital Natural Resources Fund performance over the medium term. As most investors are aware though, we have been saying this now for 6 months and fund performance has been negative. So, while we remain bullish, we must point out to investors that Fund performance may continue lower before it gets better. We reiterate that we still believe it is a good time to invest in small to mid-cap mining and energy companies and we in fact are excited by the opportunities the market volatility is providing us.

We are always available to talk to investors, please let us know if you would like a call or meeting.

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Natural Resource Fund Strategy

The Fund is a global, long only mining and energy fund established in July 2010. 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 companies in the mining and resources sectors.

Fund Details

NAV	\$2.7598
Entry Price	\$2.7667
Exit Price	\$2.7528
Fund Size	\$72.7
APIR Code	TER001AU

Top 5 commodity exposure

Commodity	% of fund
Cobalt	18%
Base	17%
Gold	14%
Lithium	14%
Oil & Gas	9%

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