TERRA CAPITAL

NATURAL RESOURCE FUND

DECEMBER 2017

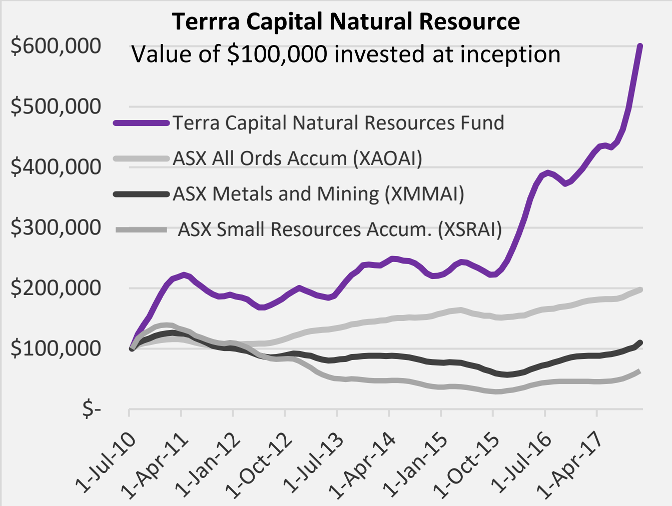
	1M	3M	6M	FYTD	1Y (rolling 12mths)	3Y (p.a.)	Inception (p.a.)	Inception (cumulative)
Terra Natural Res. Fund	9.3%	36.9%	42.4%	42.4%	74.1%	41.5%	27.0%	500.5%
ASX All Ords	2.0%	8.2%	9.3%	9.3%	12.5%	9.2%	9.5%	97.3%
ASX 300 Mining	7.3%	14.7%	26.2%	26.2%	26.8%	14.7%	1.2%	9.7%
ASX Small Resources	8.9%	25.4%	41.5%	41.5%	37.9%	23.3%	-5.9%	-36.8%
Unit Price (lead series)	$3.44							

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

FUND DETAILS

NAV	$3.4404	
Entry Price	$3.4404	
Exit Price	$3.4404	
Fund Size	$74.4M	
APIR Code	TER0001AU	
	Terra NRF	**Small Res. Index**
Sharpe ratio (3Y)	1.50	0.75
Sortino ratio (3Y)	1.71	0.84
Std Deviation (3Y)	25.79%	27.34%
% Positive Months (3Y)	66.67%	61.11%

Further information on the ratios can be found HERE.



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 return in excess of 10% p.a. after fees over a 3 – 5 year investment time horizon.

INDUSTRY EXPOSURE

Cobalt	16.8%
Base metals	13.7%
Gold	15.2%
Lithium	16.0%
Fertilisers	9.5%
Coal	6.2%
Oil and Gas	3.9%
Silver	1.8%
Uranium	2.3%
CASH	14.6%

PERFORMANCE + OVERVIEW

The Fund returned 9.3% after fees for the month of December 2017. Since inception (July 2010) the Fund has returned +500.5% after fees vs. the small resources accumulation Index -36.8%. The fund has returned 74% for the calendar year 2017.
The Unit Price is currently $3.44

MONTHLY PERFORMANCE BY CALENDAR YEAR

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2010							5.6%	4.6%	16.0%	10.1%	11.8%	20.3%	**68.4%**
2011	0.6%	17.1%	6.1%	-2.0%	-6.1%	-4.7%	2.7%	-4.7%	-10.4%	6.0%	-10.5%	-0.4%	**-6.3%**
2012	11.5%	7.6%	-4.6%	-11.1%	-6.2%	-7.7%	-3.1%	17.4%	13.9%	1.2%	-3.3%	-5.5%	**10.2%**
2013	5.8%	7.4%	10.8%	-24.0%	-3.6%	-6.3%	14.9%	7.4%	28.3%	-2.4%	-1.8%	-6.6%	**30.0%**
2014	-2.1%	16.3%	0.5%	-6.6%	-1.2%	7.0%	0.9%	-1.1%	-4.8%	-1.7%	-9.7%	-0.2%	**-2.8%**
2015	-6.4%	11.5%	10.3%	2.5%	0.6%	5.4%	-15.0%	-5.4%	1.5%	4.2%	-2.5%	4.2%	**11.1%**
2016	0.7%	13.2%	16.3%	14.4%	3.5%	7.3%	9.1%	-5.4%	-0.6%	-4.6%	-10.0%	1.0%	**45.1%**
2017	8.0%	13.6%	8.7%	-3.7%	-4.1%	-0.7%	3.1%	-0.4%	1.3%	13.4%	15.5%	9.3%	**63.9%**

Address: **L12 Domain House, 139 Macquarie Street Sydney NSW 2000** | Phone: **+61 2 9252 2518** | **Email: info@terracapital.com.au**

TERRACAPITAL
NATURAL RESOURCE FUND

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PORTFOLIO COMMENTARY

Firstly, we would like to thank all our investors for their ongoing support in 2017. The Fund has continued to perform well in what is becoming a fully-fledged resources bull market and our investors support is crucial to our ability to back our instincts without trepidation, to place our investor's money into what we think are the best, risk-adjusted, sectors of the resources and energy spectrum to earn the greatest returns. So again, Thank you.

Whilst toward the end of 2017 we saw a broader based commodities rally, 2017 really was a year for the formerly esoteric metals of lithium and cobalt which continue to benefit from the growing adoption of batteries.

In 2017 the battery industry, driven by electric vehicles (EVs), reached tipping point, dramatically changing the sector. Several prominent countries worldwide announced mandatory EV adoption rates. Many car companies from the U.S. to China to Europe announced new EV cars or at times, introduced plans to electrify their entire fleet. Examples include:

- GM: at least 20 new EVs by 2023
- Mercedes: will electrify entire line-up by 2022
- VW: announced plans to invest $84b to bring 300 new EV models to the market by 2030
- Dyson: announced that they will spend 2b pounds to develop an EV using solid state battery technology
- Volvo: the more aggressive of the bunch announced that all their new models will be EV by 2019

Supply could not keep up with the rapid increase in demand which led to historic lithium and cobalt pricing which we, especially in the case of cobalt will persist through 2018.

Buoyancy in the lithium sector was exemplified by the JV transaction SQM made with Aussie junior, Kidman Resources (KDR). This marks the first time that a global market leader has invested in an area outside of their core expertise, and the first time the company, with global operations, has invested in Australia. SQM is the renowned brine expert and has taken a leap into hard rock production with its JV with Kidman Resources.

While we continue to monitor closely, demand estimates by global supply leaders Albemarle increased by 75% during 2017 and during their 2nd quarter earnings call, the company revised their estimates predicting annual demand growth as 12-18%.

In cobalt, the likes of Canadian bank BMO recently updated cobalt price assumptions as they expect cobalt supply/demand dynamics to lead to elevated prices over 2018 and 2019 and settle in at a revised long-term price of US$22.50/lb, up from US$15.00/lb previously.

Recently Cobalt Names (especially non-DRC) have performed well on the heels of a proposed new law in DRC. This law would introduce a higher royalty on copper and cobalt (up to 3.5%), a profit windfall tax and doubling the state free share to 10%. Local mining companies (Glencore, China Molybdenum, Randgold, Ivanhoe and MMG) sent letters to DRC Senate and National Assembly urging them to suspend the idea and arrange for a consultation. The New law would no doubt lessen confidence of investors in an already high-risk environment. Signatories offered to support a consultation to come up with another mining code during 2018. This new proposal and equities performance in relation to it are examples of the fragility of the supply side of the cobalt market.

Outside the battery related commodities and as mentioned earlier, we are now seeing a broader based commodity rally. The Fund has invested in several bulk commodity names in 2017, commodities which we had previously avoided. In addition, we continue to expand our base metal positions and continue to profit from strong bottom-up stock selection in gold names.

AUSTRALIAN MARKETS OVERVIEW

A strong finish to the year for Australian equities with broad based gains across both small (2.9%) and large cap (1.9%) sectors mirroring the trend in global markets as Trump tax cuts and continued strong growth data supported risk assets. The ASX200 finished the year rising 1.6% in December to post a 12-month return of 7.0% (11.8% including dividends).

Over the month, in a sign of market conditions, corporate actions dominated returns with Tabcorp finalizing the Tatts transaction (rising 15%). Westfield (13%) following the announcement that Unibail-Rodamco would acquire all outstanding shares. Other strong performances came from BSL (13%) which upgraded guidance, FXJ (+11%) and TPM (+10%). The oil majors (OSH (11%) and STO (7%)) were stronger off the back of a further increase in crude (the WTI hit US$60/bbl, its highest level since 2015) while Miners were also supported through the month by the continued run in iron ore (which was up from US$58/t in October to finish the year at US$71/t) and stronger industrial metal prices (copper 8%).

The big stories and underlying themes throughout the year were:

1. Strong performance of building and construction related areas (including the capex sensitive names;
2. Another strong year for commodity stocks (both resources and oil);
3. Continued re-rating in offshore exposed stocks (both industrial and healthcare); and
4. Ongoing pressure on interest rate sensitive areas as well as banks (the latter due to rising political risk rather than any meaningful deterioration in earnings fundamentals).

GLOBAL MARKET OVERVIEW

It was It was another strong month for global equity markets led by the US where Trump's tax cuts were finally approved. The S&P inched up 1.0% to post a 12-month return of 19.4% and while tech

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stocks (particularly the high flying FAAMGs – Facebook, Apple, Amazon, Microsoft and Google (Alphabet)) came under some late month selling pressure, the NASDAQ also finished the year on a strong note, posting a 28% return.

In Europe, momentum behind economic indicators remained strong with the market rising a further 1.4% to post an annual return of 22.1%. The EUR has been one of the better performing currencies versus the US$ as Eurozone growth has continually surprised on the upside (manufacturing LEI's are at 17-year highs) and as regional political risk has receded.

The UK was the standout performer, rising 5% to post a 12-month return of 7.6% as the manufacturing sector showed further strength and BREXIT implications turned less negative. This move was in line with a broadly stronger GBP which finished the year a touch off the high at US$1.35 but substantially up from the low of US$1.20.

Across Asia, markets were also stronger as materially weaker Chinese growth failed to emerge and political risks around North Korea continued to fade. Hong Kong marched higher with the Hang Seng (+2.5%) and up +36.0% on a 12-month basis – led most recently by a savage re-rating of the HK/China developers. Japan was relatively flat through December, rising only 0.2% but posted a strong 19.1% annual return.

COMMODITY COMMENTARY

Global commodity markets surged higher in December, supported by firmer expectations of global synchronised growth as well as firm demand whilst markets struggle with supply disruptions. The continued decline of the US dollar against the broader basket of global currencies also supported commodities. These factors were broadly a 2017 story and supported base metals and crude oil primarily.

Crude oil was perhaps the biggest commodity story in December with prices reaching levels not seen since 2015 (WTI +5% to above US$60) on strong global demand and falling inventories. Supply disruptions including pipeline outages in Libya and the North Sea also supported prices. The price response in December gives an indication that the crude oil market is rebalancing in response to OPEC's production cut commitments. OPEC President Khalid al Falih indicated that he does not expect rebalancing to occur until the second half of 2018 at the OPEC meeting in Vienna this month.

In base metals, copper was one of the best performers, rising 8% over the month and hit a four-year high on supply concerns. China's largest producer, Jiangxi Copper Company, was ordered by the government to reduce production for one week. This is a continuation of China's attempt to focus more on reform following the 19th National Congress held in October. This includes reducing pollution by, for example, forcing materials producers to reduce output and in some instances, close heavily polluting illegal factories.

In bulk metals, iron ore climbed to levels not seen since September (+6% to US$72t) as markets reacted to forced closures of China's steel mills by demanding higher quality iron ore as the government combats high levels of smog. Markets also expect steel mills to re-stock the material prior to the end of the production curb in March which is also supporting prices.

Precious metals were also strong performers despite the continuation of the risk on environment that we have experienced in 2017 and a move higher in bond yields mid-month. The selloff in Bitcoin potentially spurred the rotation of funds into haven assets such as precious metals which saw gold rise +3% to breach US$1,300.

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

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