TERRACAPITAL
NATURAL RESOURCE FUND

FEBRUARY 2017

	1M	3M	FYTD	1Y (rolling 12mths)	3Y (p.a.)	Inception (p.a.)	Inception (cumulative)
Terra Natural Res. Fund	13.59%	23.96%	9.27%	61.56%	18.50%	24.47%	323.07%
ASX All Ords	2.09%	5.53%	11.38%	21.33%	6.54%	9.12%	77.71%
ASX 300 Mining	-3.77%	5.80%	30.50%	60.81%	-0.73%	-1.76%	-11.05%
ASX Small Resources	-0.19%	5.26%	9.22%	43.82%	-1.51%	-10.80%	-52.91%

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 3.8% whilst the ASX Small Resources Index was down 0.2%. The ASX All Ords were up 2.1% for the month. Against this backdrop the Fund was up 13.6%.

The Unit Price is currently $2.87

AUSTRALIAN MARKETS OVERVIEW

A month of two halves for the market with strong early gains somewhat reversed by month end. While the market finished with a reasonable gain (+2.1%), the reporting season was the dominant driver – albeit not always in the direction of earnings misses and beats (i.e. miners).

On a US dollar basis, MSCI Australia continued its outperformance trend versus World Equities, with A$ gains contributing to local currency performance (US$ 3.3% vs. A$ 2.0%).

On balance the reporting season was better than expected with 35% beats versus 27% misses although some large scale misses has resulted in growth estimates for the Industrial universe falling significantly from 9.2% to 5.7% in 2017 although largely offset by a rise in 2018 expectations from 7.1% to 10.0%. It was hard to ignore the operating misses, which have in some cases been savage. However, the underlying story is one of reasonable revenue growth, solid cost control but little new cost initiatives, active capital management with slightly higher dividends, conservative capex guidance and muted optimism.

GLOBAL MARKETS OVERVIEW

Despite rising political unease, Global Equities finished the month in positive territory, led higher by the US market where the Dow Jones recorded 12 straight consecutive new highs before breaking this run on the last day of the month. Internals show that returns were generally a reverse of the prior month with defensive sectors significantly outperforming cyclicals. Healthcare, Staples and Utilities led the gains with Financials continuing to add to returns despite a flattening in global yield curves – particularly Bunds.

Emerging Markets led equities by region rising 3.0%. Europe was the laggard as concerns around France's leadership increased sharply. Marine Le Pen - France's far right candidate and a proponent of a Eurozone exit – helped drive the spread with Bunds towards a post Eurozone crisis high. German Bunds rallied strongly with the 10 year yield falling as low as 25bps. Part of the strength in Bunds was on safe haven demand particularly as there was no evidence of weaker economic or inflation data but it did provide a reminder that confidence is not yet ready to absorb a prolonged spike in political uncertainty. The EuroStoxx rose 2.4%, hampered in part by Italy (MIB 1.7%) and France (CAC 2.0%). Germany the safe haven for the month (DAX 2.5 %).

The commodity producing exchanges were generally beneficiaries of stronger currencies and commodity prices (Bovespa +3.1%).

COMMODITY OVERVIEW

It was another mixed month for commodity markets. Gold hit a post Trump high of US$1,248oz on a general lack of confidence in the reflation trade with silver also continuing its recent strong run.

Industrials metals were on the whole stronger lead by copper which rose to an intra month high of $6,058t to reach its highest level in nearly 2 years as a strike at the world's largest copper mine (Escondida) and potential production issues at Freeport-McMoran's Grasberg mine in Indonesia raised global supply concerns. Aluminium (+4.6%) and nickel (+11%) were also up for the month.

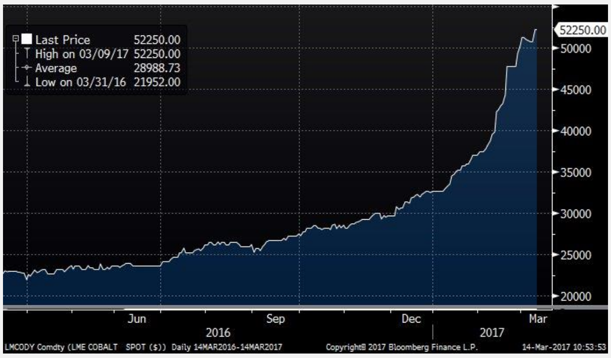
Oil hit its highest level for the year (US$56.95bbl) after the American Petroleum Institute reported a surprise decline in US crude and gasoline stocks but settled slightly lower by the end of the month at $54bbl. Iron Ore hit an intra-month high of $95/t before settling above $90/t by month end despite fears that Chinese growth momentum is beginning to weaken.

PORTFOLIO OUTLOOK

This month's performance shows the impact of stock selection on the portfolio with the Fund showing returns not correlated to resource indices.

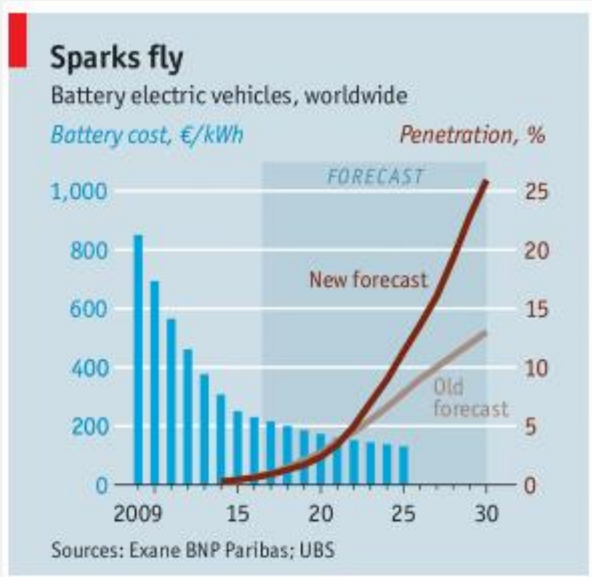
As mentioned recently in the *The Australian Financial Review* we're exposed via equities to the recent strong performance of cobalt. Like we did last year with lithium and Aussie domiciled gold producers, we have selected those companies' that represent the best risk adjusted exposures to the commodity. This process meant that part of the Terra team travel to a number of cobalt mines in North America last year to conduct due diligence. What we saw then is benefiting the portfolio now and we expect it to continue over the months ahead.

Cobalt price continues to move up strongly:



Source: Bloomberg

Further on the energy storage theme, China's State Council recently made supporting comments on the roll-out of electric vehicles. In early February, it announced that China plans to build 800,000 charging points in 2017, including 100,000 public ones. Citing the National Energy Administration, 100,000 public charging points were installed in 2016 lifting the overall total to 150,000. Additionally, a total 14,000km of highways are now equipped with charging stations (average spacing of circa 50km). The 13th Five-Year Plan (2016-2020) includes completion of a nationwide charging-station network sufficient to support an electric vehicle fleet of 5 million by 2020.



Source: The Economist

In cobalt our largest position is in eCobalt Solutions Inc (ECS.TSX) which is the only North American pure play cobalt developer with their Idaho Cobalt Project. The project is relatively advanced with environmental permits and advanced studies in hand offering investors a unique; fully integrated, proximal to end-user, ethical, secure source of cobalt.

Whilst we are leverage to and benefiting from our cobalt exposures they remain only part of the portfolio. We continue to observe improved liquidity in other parts of the mining and energy market where we have exposure.

Considerable improvements have been seen base metals and uranium. We look forward to updating you on these positions in the future and we welcome any feedback.

Address: **L12 Domain House, 139 Macquarie Street Sydney NSW 2000** | Phone: **+61 2 9252 4293 or +61 2 9252 2518**