# TERRACAPITAL

## NATURAL RESOURCE FUND

JULY 2017

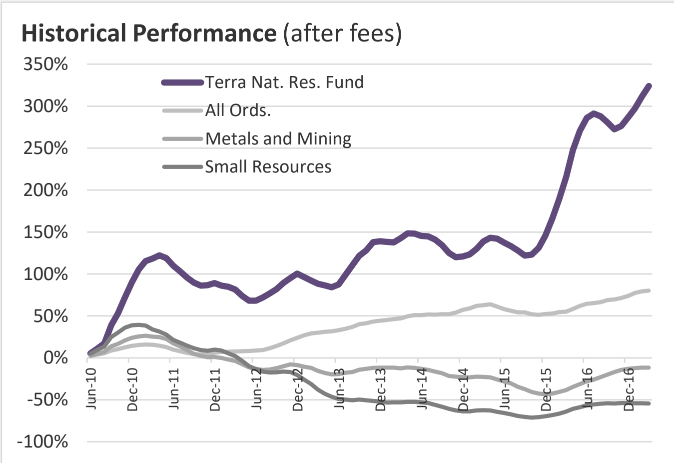
| | 1M | 3M | 6M | FYTD | 1Y (rolling 12mths) | 3Y (p.a.) | Inception (p.a.) | Inception (cumulative) |
|---|---|---|---|---|---|---|---|---|
| Terra Natural Res. Fund | 3.1% | -1.3% | 17.3% | 3.1% | 3.4% | 19.7% | 23.1% | 336.8% |
| ASX All Ords | 0.2% | -2.1% | 3.9% | 0.2% | 6.6% | 5.3% | 8.7% | 80.8% |
| ASX 300 Mining | 6.4% | 7.0% | 0.1% | 6.4% | 24.5% | 0.1% | -1.1% | -7.5% |
| ASX Small Resources | 2.9% | 4.5% | -2.6% | 2.9% | -2.7% | -3.3% | -10.4% | -54.0% |
| Unit Price | $ 2.49 | | | | | | | |

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

### FUND DETAILS

| | |
|---|---|
| NAV | $2.4895 |
| Entry Price | $2.4895 |
| Exit Price | $2.4895 |
| Fund Size | $45.9M |
| APIR Code | TER0001AU |
| Fund % Positive Months | 54% |
| Index % Positive Months | 44% |

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 3-5yr investment time horizon.

### PERFORMANCE + OVERVIEW

The Fund returned 3.1% after fees for the month of July 2017. Since inception (July 2010) the Fund has returned +337% after fees vs. the small resources accumulation Index -54%.

The Unit Price is currently $2.4895

### INDUSTRY EXPOSURE

| | |
|---|---|
| Gold | 19.1% |
| Cobalt | 16.8% |
| Lithium | 14.1% |
| Base metals | 11.0% |
| Fertilisers | 8.8% |
| Coal | 3.3% |
| Oil and Gas | 2.4% |
| Silver | 1.7% |
| Uranium | 1.7% |
| CASH | 21.1% |

### 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% | | | | | | **24.8%** |

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### AUSTRALIAN MARKETS OVERVIEW

July proved to be a volatile month for Australian equities but one where the key benchmark index ended flat (ASX 200 (0.0%)) – a repeat of the prior month. Small and mid-caps finished relatively flat with most of the outperformance coming through the large cap area of the market (ASX20 +1.1%, ASX Mid Cap 50 +0.2%, Small Ords 0.0%).

As a group, the Industrials and Healthcare stocks encapsulated the sell-off in offshore earners over the month as the A$ continued its relentless and non-consensus march upwards, hitting an intra-month high of US$0.8007. While this move higher was in large part the consequence of a weaker US$, domestic economic data did nothing to suggest that this appreciation trend did not have some fundamental support.

### GLOBAL MARKET OVERVIEW

Global equities finished the month with a minor wobble. This was largely driven by the US tech sector, which came under late selling pressure from AMZN's disappointing result. The US reporting season has been better than expected with strong results across cyclical sectors (i.e. CAT) as for the banks and brokers. The equity rally was once again given upside support following dovish comments by Fed Chair Yellen as well as solid growth data (2Q GDP at 2.6%) and slightly weaker inflation prints. German and French equity markets were weaker on the back of further gains in the Euro (hurting export competitiveness) following on from recent comments by ECB president Mario Draghi that the bank would begin removing monetary stimulus. The BoC followed up on its tightening rhetoric, with the first-rate rise since 2010 coming shortly before Canada posted its 7th straight quarter of GDP increases (the longest since 2014) on top of solid labour market gains.

The story for equity markets shifted towards the East through July as strong Chinese growth data (in particular on the construction side) provided a boost for building and construction and early cycle cyclicals throughout the region. The Heng Seng rose 6% while the Shanghai Comp rose 2.5% over the month. Miners had a strong July while it was the best month in some time for oil (Brent was up 12%), helping support global Energy stocks.

### COMMODITY COMMENTARY

A significant rebound in oil was the big story in the commodity space with Brent rising 12% and in turn recovering almost all of June's losses. A decline in US stockpiles was the major driver as US Energy Department data showed a larger-than-expected draw of 7.2m bbls. On top of better-than-expected inventory levels, a weaker US$ was adding to the oil price, as were comments from Saudi Arabia that it would again target supplies to provide a boost to the oil price.

Iron ore continued its bull market run, adding another 11% to the ~14% it put on in June as Chinese steel makers ramped up demand, construction related data came in broadly ahead of expectations and the PMI was also stronger than expected. Other industrial related metals were also given a boost, with copper rising to new 2-year highs on concern that China may move to ban imports of scrap metal, which raises demand for refined products. Copper was trading at US$6,300t on the LME. Zinc, which has been in a 2-year bull market (rising 60% in 2017), consolidated gains through July but has been increasingly volatile as fears of a ramp up in new supply in response to higher prices begins to weigh on sentiment.

Precious metals had a solid month with both gold (US$1,259oz) and silver (US$16.69oz) recovering off early loses to post gains in the region of 5%.

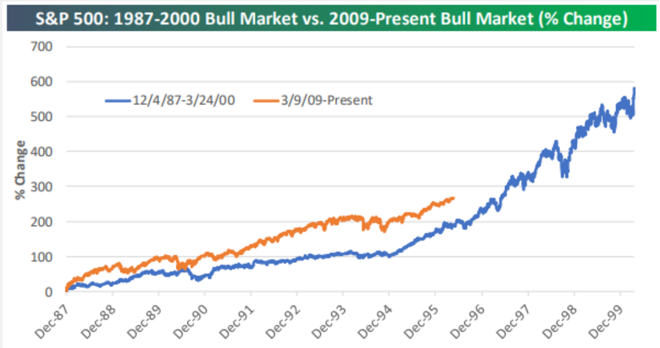
### PORTFOLIO COMMENTARY

Over the past few weeks and months we've heard numerous market commentators talk about the market being in a bubble and that we're due for a severe correction.

I've written about it before here and outlining the theory of the depression baby effect when markets continue to perform well for a longer period than most expect after a significant negative event such as the GFC.

As the bull market continues, calls that the bubble is about to burst continue to come in waves. Certainly, some tech stocks in the US are trading on significant multiples but we would argue that not only are we not in a stock market bubble, but that we're not in a tech stock bubble either. We are of the view that we're in a long- term upswing in the business cycle that has yet to reach the extremes that we see before bubbles burst.

As an example of a bull market that has lasted longer, during the rally from December 1987 through March 2000, the S&P 500 rallied nearly 600% without experiencing a 20% drop at any point. Compared to the current bull market, the '87-'00 bull saw double the gains and lasted another 1,400+ days.




*Source: bespokepremium.com*

### ONE BELT, ONE ROAD

I've included information in these reports about the One Belt, One Road policy in the past but as US results season gets underway, we're now seeing an impact.



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The strength of the Chinese economy is being shown through the results of Caterpillar and Komatsu as well as a plethora of other Chinese equipment manufacturers. President Xi Jinping is the most influential leader China has known in forty years and his top priorities are the reduction in Chinese credit and the development of the One Belt One Road, a policy that covers 65% of the world's population and one third of global GDP.

To give some context to the size of this commitment, China's stated commitment is to import $2T worth of goods as part of the OBOR initiative. OBOR could be at least 12X the size of Marshall Plan which helped Europe rebuild after WWII.

According to the BoE, just one aspect of the plan, the opening up of the Chinese economy, could add 30% to global nominal GDP. Certainly worthy of consideration for overall portfolio positioning.

## TAWANA RESOURCES (ASX:TAW)

Part of the Terra team travelled to Kalgoorlie last week and had another site visit to Tawana's Bald Hill lithium project. The company's updates are significant and include recent new high-grade drill results outside the starter pit, with a resource upgrade due October. The appointment of the acclaimed Bob Vassie who did an incredible job at St. Barbara and that the company will be producing first half next year. This final point is of critical importance, given Tawana needs only minor modification to an existing plant, they'll be in production before the vast majority of their peers and at a volume comparable to Galaxy's Mt Cattlin.

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