

# TERRACAPITAL

## NATURAL RESOURCE FUND

JULY 2018

	1M	3M	6M	FYTD	1Y (rolling 12mths)	3Y (p.a.)	Inception (p.a.)	Inception (cumulative)
Terra Natural Res. Fund	-3.4%	-7.6%	-9.7%	-3.4%	16.9%	31.0%	22.3%	407.9%
ASX All Ords	1.2%	5.7%	5.7%	1.2%	14.9%	8.4%	9.5%	107.8%
ASX 300 Mining	-0.4%	4.6%	8.9%	-0.4%	30.7%	20.1%	2.4%	20.9%
ASX Small Res.	-2.6%	0.5%	3.5%	-2.6%	41.1%	25.9%	-5.2%	-35.2%
Unit Price	\$2.9099							

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

### Performance & Overview

The Fund returned -3.43% after fees for the month of July 2018. Since inception (July 2010) the Fund has returned +407.9% after fees vs. the small resources accumulation Index -35.2%.

The Unit Price is currently \$2.91

### Markets

The Australian market (+1.4%) closed above 6,300 points for the first time since April 2008 late in the month.

The best performing sector was Telecommunications (+7.9%) with the sector looking relatively cheap to history in comparison to other sectors. Utilities (-1.4%) was the weakest performing sector as the ACCC put forward measures to rein in electricity prices.

### Commodities

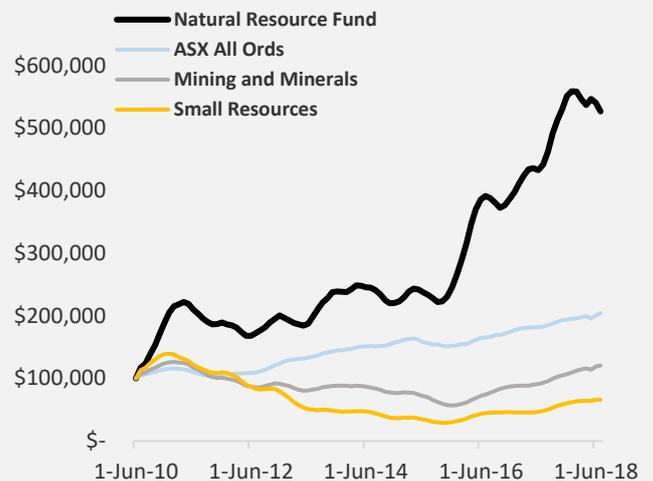
During the month iron ore declined 2% to US\$65/t. Spot coking coal gained 4% to US\$197/t. Other metals were weak with zinc down 6%, Aluminium down 6%, Copper down 3% and nickel down 1%. Gold declined 4% and silver declined 2%.

The energy sector continued its strength with the crude oil price gaining 11% to US\$74 per barrel. The US natural gas price declined 1%.

### Portfolio

Small companies, particularly those under \$500m market cap have performed poorly for the last 7 months and our Fund has come off as a result. Despite market vagaries, we still believe we are in the early

### Value of \$100,000 invested at inception



stages of a late-cycle commodities bull market and think mining stocks should perform well, broadly based on the following:

- Global commodity markets continue to be supported by credit-/govt-backed growth and broad-based industry reform
- Modest lift in materials-intensive growth in the US/Europe has provided new demand-side driver for metals
- China's supply-side reform continues (capacity cut, output stable, utilization rate high/rising), lifting industry profitability
- Electric vehicles promise extension to global commodity demand growth
- We believe large cap miners have three levers to pull to drive ROIC higher and valuations higher:

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- 1) latent capacity,
  - 2) cash returns,
  - 3) disposals
- As we've seen in the press recently (today included) the majority of the mining sector is (still) averse to M&A, preferring high-return organic growth options – we think this will change
  - Large Cap miner returns are likely to exceed the market's expectations as de-gearing accelerates and growth capex is contained – history shows that when this occurs, share price performance of large caps flows to small and mid-caps

In addition to the above points and relevant to our portfolio is the performance of battery related commodities which over the past few years have shown some seasonality based on 4<sup>th</sup> quarter annual price setting. Prices for lithium and cobalt are set in the 4<sup>th</sup> quarter for the following year's production. This results in a firming of prices from August to December. Following this, prices often come off as some producers sell excess production into the illiquid spot market. Despite the small volume of these sales they impact the advertised process of these commodities and therefore the sentiment in equities. If history repeats we should see a firming of battery related commodity prices between now and the end of the year, resulting in a more positive sentiment for battery related equities.

One of the largest detractors of our performance in the past 6 months has been our Canadian listed exposures. The mining market there has been decimated and we have been able to find extremely compelling value. While the value on the TSX is evident, thus far our holdings there have languished. Given the performance of large cap names globally and the gradual return to favour of mining stocks generally, we expect the valuation gap to close.

In addition to current holdings we have some interesting listings to come in the following months such as Euro Manganese as mentioned in the [AFR this week](#).

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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	\$2.9172
Entry Price	\$2.9245
Exit Price	\$2.9099
Fund Size	\$76.6
APIR Code	TER001AU

### Top 5 commodity exposure

Commodity	% of fund
Cobalt	18%
Base	16%
Gold	14%
Lithium	14%
Oil & Gas	10%

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