

TERRACAPITAL

NATURAL RESOURCE FUND

MARCH 2016

	1M	3M	FYTD	1Y (rolling 12mths)	3Y (p.a.)	Inception (p.a.)	Inception (cumulative)
Terra Natural Res. Fund	8.67%	33.32%	18.74%	50.97%	21.62%	25.35%	359.76%
ASX All Ords	3.16%	4.50%	14.89%	19.49%	7.56%	9.39%	83.32%
ASX 300 Mining	-0.79%	1.97%	29.47%	49.26%	0.28%	-1.84%	-11.76%
ASX Small Resources	-3.20%	-0.55%	5.73%	35.21%	-0.51%	-10.98%	-54.41%
Unit Price	\$3.12						

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 -0.8% and the ASX Small Resources Index was lower 3.2%. The ASX All Ords were up 3.2% for the month. Against this backdrop the Fund was up 8.7%.

The Unit Price is currently \$3.12

AUSTRALIAN MARKETS OVERVIEW

A strong month for the market with the ASX200 rising 3.3% and finishing just a touch off a two-year high. The market showed significant resilience, absorbing a six-day string of losses out of the US as disappointment around President Trump's policy proposals intensified.

The major banks led performance (CBA, NAB and WBC all returning more than 4%) as investors cheered out-of-cycle rate rises that came despite a flattening domestic yield curve. Broader financials also delivered strong returns, with Div Fins (+4.2%) and Insurers (+3.1%) both posting gains.

With the exception of Materials, Telecoms and Real Estate, it was a solid month for the remainder of the market.

GLOBAL MARKET OVERVIEW

Despite Global Equities led higher by Europe which absorbed UK exit plans (triggering Article 50) as well as elevated political risk out of France. Better-than-expected economic data and the potential for the ECB to be confident enough to accelerate the reversal of its bond-buying programme were generally behind the upbeat sentiment. In the US, after swinging in and out of negative territory, the S&P 500 (+0.1%) ended the month largely unchanged, but up ~5.5% for the quarter. Overall, the market showed strong resilience, after investor confidence

was shaken following Trump's failure to gain enough support for proposed healthcare reforms, which in turn has triggered concerns about his ability to push through tax cuts.

Shares in Asia were mixed. The Hang Seng (+1.7%) was up for the month but the SSE (-0.6%) retreated on the back of tightening liquidity concerns and stepped-up regulation in the housing market. Positive data on industrials profits was not enough to see the index finish in positive territory - PMI readings suggest that China's economy continued to perform well in March. The official manufacturing PMI was up from 51.6 in February to 51.8 on its way to a five-year high.

The Nikkei (-0.4%) was also down during March as the yen climbed to its highest level against the dollar since November, on the back of rising US uncertainty.

COMMODITY OVERVIEW

It was a mixed month for commodity markets. Amongst the Industrial Metals, Aluminium prices (+2.7%) were a highlight, reaching two-year highs and finishing the month at \$1,946.50, on hopes that China will follow through with its pledge to cut aluminium capacity by 30% in winter, to curb pollution.

Precious metals were all down - Silver (-1.2%) and Platinum (-7.9%). Gold slipped ~\$10 to \$1,244.85/ounce, leaving it 0.9% lower for the month. Base metals were mixed with Copper (-1.5%), Lead (+1.7%), Nickel (-9.1%), and Zinc (1.1%).

The prices of most agricultural commodities fell through March, with the biggest fall seen in the price of sugar (-13.2%).

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Crude fell ~5%, from \$55.59/bbl to \$52.8/bbl (hitting a low of \$50.75/bbl), as speculation that OPEC will extend output cuts beyond the June deadline failed to excite the market. There was some recovery of losses in the last week of the month following renewed fighting in Libya which disrupted oil production, and positive economic data (oil demand) coming out of Europe.

PORTFOLIO COMMENTARY

Despite all the headlines regarding Trump, his actions, policies, and what they will end up doing to financial markets, there's an underlying feeling of positivity. On the one hand, on there's Trump's political news that whiffs of insecurity and indecision but rather than reacting in a negative fashion there has been a sense of optimism.

Current volatility (VIX 12.39) remains low compared to historical levels (10 year average of 20.70), the Dow Jones has hit a record high as investors have been quick to price in hints of good news and worry later if it comes through.

US margin debt climbed to a record high in February, a fresh sign of bullishness for perplexed investors trying to navigate the political and economic currents driving markets. The amount investors borrowed against brokerage accounts climbed above \$525 billion in February, according to the most recent data available from the NYSE. There's nothing alarming in that data by the way, it's a sign of confidence rather than over-levered enthusiasm at this point.

Consider the US consumer confidence survey figure for March and the Case Shiller house price growth in the US and you see how there's a fair amount of momentum in that market.

This is all highly positive for our Natural Resource portfolio which we feel is exposed to the synchronous recovery we're seeing in developed markets (DMs) and emerging markets (EMs) alike. DMs are exiting a period of deleveraging and EMs are moving out of adjustment to recovery. This means global growth should stay firm and at close to or slightly above the long-term average over the next few years.

We continue to pick and hold what we think are the optimal exposures to the themes we consider to have the most merit.

Among the largest contributing stocks to our portfolio this month was Tawana Resources (ASX:TAW) who are 50/50

on a WA lithium project with the best metallurgy of any lithium project in the country. In addition, Kalium Lakes (ASX:KLL), a smaller position was also up strongly in March as they gradually prove to the market the quality of their Potash asset portfolio.

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