

TERRA CAPITAL

NATURAL RESOURCE FUND

NOVEMBER 2016

	1M	3M	FYTD	1Y (rolling 12mths)	3Y (p.a.)	Inception (p.a.)	Inception (cumulative)
Terra Natural Res. Fund	-9.9%	-14.6%	-11.9%	53.8%	12.6%	23.4%	241.3%
ASX All Ords	2.5%	0.6%	5.5%	9.9%	5.6%	8.1%	68.4%
ASX 300 Mining	3.0%	13.8%	23.3%	44.3%	-1.11%	-3.2%	-15.9%
ASX Small Resources	-1.6%	0.9%	3.8%	53.3%	-0.6%	-11.7%	-55.3%
Unit Price	\$2.32						

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 up 3.0% whilst the ASX Small Resources Index was down 1.6%. The ASX All Ords were up 2.5% for the month. Against this backdrop the Fund was lower 9.9%.

The Unit Price is currently \$2.32

AUSTRALIAN MARKETS OVERVIEW

It was a positive month with broad-based sector gains for the Australian market (ASX 200 up +3.0%), despite a surprise US Trump election early in the month, which was initially thought to be negative for risk assets but which quickly reversed into a risk-on rally as global inflation expectations reversed course and spending intentions were ratcheted up. Bond yields rose a massive 35 basis points to take the 10-year yield up to 2.73%—a move that saw spreads with US long rates remaining constant.

GLOBAL MARKETS OVERVIEW

Global developed equity markets had a strong month led by the US (S&P500 + 4%) as expectations around Trump's spending programs accelerated.

Global developed equity markets had a strong month led by the US (S&P500 + 4%) as expectations around Trump's spending programs accelerated. This was despite a strong rise in US bond yields (10-year yields rose from 1.83% to 2.39%) which crimped performance of yield-sensitive sectors across the globe. On the other side of this trade were emerging markets, which as a result of the 'triple whammy'—Trump's protectionist policies, a stronger US\$ and capital outflows—were down significantly with a performance differential of 5% versus developed markets. As expected, and in a stronger US\$/weaker Yen backdrop,

the Nikkei was up strongly (+5%) to lead returns for the region. Europe was a laggard as fears of potential political change (the Italian referendum will be the first test in December) continued to overhang performance despite a weaker EUR.

COMMODITY OVERVIEW

Commodity markets advanced in November as expectations for Trump to drive stronger growth filtered through to Industrial demand-sensitive assets. Copper was up +20% with Nickel rising 15% and Zinc up 10%. Gold plunged as a stronger US\$ and more hawkish expectations for Fed tightening saw it down 8% for the month and to its lowest level since February. Iron Ore touched \$81/t before tailing off strongly into month end but still finishing at \$75t posting a monthly rise of 17%. Met Coal followed a similar path rising to US\$300t despite the Chinese relaxing production limits from 276 days up to 330 days. Expectations that mothballed capacity will begin to have an impact on helping to bring prices back down are rising quickly. Palladium was the standout commodity, rising 25% on the back of rising Industrial demand—posting its largest monthly move since 2008.

OUTLOOK

As mentioned above, recently we've seen our small and mid-cap equities ignoring the surging commodity prices, instead stagnating into what is traditionally a quiet month for equities. In addition with the strength of the USD and poor performance of gold and gold equities our performance was worse than our indices for the month.

Historically though, when the US and Chinese output gap closes and inflation begins to rise, this has been a strong buy signal for commodities. We believe the recent re-

TERRACAPITAL

NATURAL RESOURCE FUND

NOVEMBER 2016

acceleration in global PMIs suggests commodity markets are entering a cyclically stronger environment. Additionally, supply restrictions from policy actions should benefit oil, coking coal and nickel in the near term and we are positioned to take advantage of this.

We're very confident that post this week's FOMC meeting, stabilisation in markets will occur and confidence will return over the coming months leading to greater market participation. Stock specifically, significant catalysts are imminent in a number of our key holdings.

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