TERRACAPITAL

NATURAL RESOURCE FUND

OCTOBER 2017

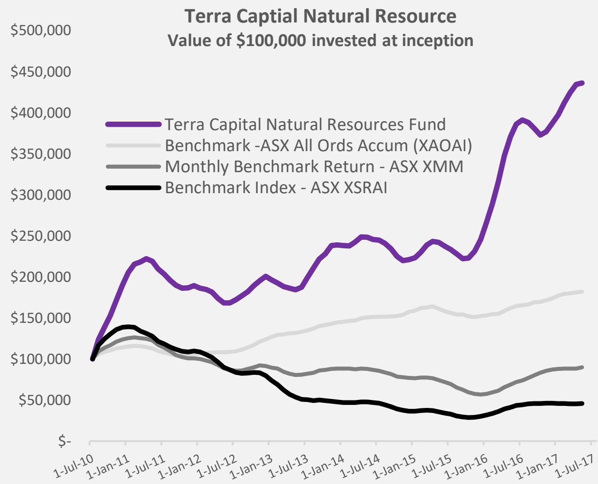
	1M	3M	6M	FYTD	1Y (rolling 12mths)	3Y (p.a.)	Inception (p.a.)	Inception (cumulative)
Terra Natural Res. Fund	13.4%	14.4%	12.3%	17.9%	31.1%	28.3%	24.4%	397.1%
ASX All Ords	4.1%	4.9%	2.7%	5.1%	15.5%	7.3%	9.1%	89.8%
ASX 300 Mining	3.9%	7.5%	15.0%	14.4%	21.9%	7.3%	-0.1%	-0.5%
ASX Small Resources	6.5%	16.8%	22.1%	20.2%	18.1%	11.0%	-8.1%	-46.3%
Unit Price (lead series)	$2.85							

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

FUND DETAILS

NAV	$2.8482	
Entry Price	$2.8482	
Exit Price	$2.8482	
Fund Size	$57.5M	
APIR Code	TER0001AU	
	Terra NRF	**Small Res. Index**
Sharpe ratio (3Y)	0.97	0.29
Sortino ratio (3Y)	1.12	0.32
Std Deviation (3Y)	26.2%	28.0%
% Positive Months (3Y)	61.1%	55.6%

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.

INDUSTRY EXPOSURE

Cobalt	15.4%
Base metals	15.4%
Gold	14.2%
Lithium	14.6%
Fertilisers	9.9%
Coal	5.9%
Oil and Gas	3.7%
Silver	2.0%
Uranium	2.1%
CASH	16.8%

PERFORMANCE + OVERVIEW

The Fund returned 13.4% after fees for the month of October 2017. Since inception (July 2010) the Fund has returned +397.1% after fees vs. the small resources accumulation Index -46.3%.

The Unit Price is currently $2.85

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%	-0.4%	1.3%	13.4%			**39.1%**

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AUSTRALIAN MARKETS OVERVIEW

Australian equities were caught up in the euphoria that engulfed risk assets through October as improving economic growth, a better-than-expected US reporting season, greater confidence around US tax cuts and a continuation of relatively dovish central bank signalling helped propel markets higher.

As we have seen in recent months, isolated political risk (i.e. the Catalonian crisis, which saw Madrid reassert control over the breakaway region) did little to upset the positiveness around a strengthening growth backdrop with all major PMIs well into expansionary territory (US, Europe, China). On a similar note, Australia had its own political event with the High Court ruling Deputy Prime Minister Barnaby Joyce was ineligible to hold his seat alongside four other senators who were deemed ineligible to be in Parliament. Joyce now faces a by-election for his New England seat and neither the Government nor the opposition now has a ruling majority.

Australian equities performed strongly (+4.0%) despite returns being hampered by Retail (-0.7%) which was the only sub-sector to suffer a decline, Real Estate (1.4%) and Telcos (2.8%). Banks were small underperformers (2.8%) early into the reporting season on a disappointing release from ANZ (1.0%) where underlying earnings trends were softer than expected. BEN (-2.0%) also finished the month weaker as macro-prudential measures were seen to have slowed balance sheet growth momentum. REITs had a mixed month (despite a move lower in long bond yields) although Lend Lease fell -9.5%, dragging Real Estate down, following its divestiture (retirement stake to APG) and construction cost overruns.

GLOBAL MARKET OVERVIEW

It was a powerful month for global equity markets led by US tech giants which rose strongly off the back of better than expected quarterly results from the likes Amazon, Alphabet, Microsoft and Twitter, Global markets have been helped along by expectations that Trump will be able to negotiate through the House/Senate some form of tax stimulus as early as 1Q2018. As a result, US tech was the leader for markets with the NASDAQ +3.6, S&P500 +2.2%, DOW +4.3% all posting positive months.

In Europe, economic conditions surged to their highest level in 17 years despite rising political concerns in Spain following the Catalonian crisis (which saw Madrid reassert control over the breakaway region, driving bond yields lower and the domestic equity market higher) and being just a month out from Angela Merkel's Christian Democrat party taking parliament in German elections. The Eurozone's industrial sector is now running at its best level since 2000 with cyclical industries such as consecution showing a strong rebound. It was this more positive outlook that prompted the ECB to signal its intention to wind back its QE by €30m a month starting in 2018. European markets were strong including the UK (FTSE +1.6%), France (CAC+3.3%) and Germany (DAX +3.1%) led by deep cyclicals and financials. A reversal of the strong run in the EUR:US$ also supported the export sensitive areas of equities space.

In China, the 18th Party Congress was held over the month, with President Xi cementing his power with an opening 3.5 hour speech. As our China economist highlights (China Macro – After thoughts from the 19th Party Congress: What's Next), the Party Congress meeting was more about personnel changes than introducing new reform plans. With political power being much more consolidated than five years ago, now the challenge for top leaders is to justify that power by continuing to deliver on their key mandate: the Chinese Dream (i.e., to make China great again). To do that, they need to overcome two potential traps: the middle-income trap and the Thucydides trap (i.e., managing a peaceful rise as a great power). Regionally the Shanghai Comp (1.3%) was an underperformer with the Hang Seng rising 2.5% and other Asian markets also taking a stronger lead from the US.

COMMODITY COMMENTARY

October commodity prices experienced a mixed month, balancing supply and demand pressures from China as government restrictions continue to affect mines and factories. Nickel stepped out in front this month, boosted by anticipated opportunities from electric-vehicle growth, while crude oil was bolstered by Saudi support for extended OPEC output cuts. Electricity demands pushed up the prices of thermal coal, while coking coal and copper prices fell as concerns for reduced steel production grew.

Nickel led the base metals this month, strengthening 11.7% to US$11,630.50 per tonne at the end of October. A positive wave of investor sentiment has driven the price per tonne higher as it anticipates that demand from electric-vehicle batteries, for which nickel sulphate is a key ingredient, will offer opportunities for price growth.

Copper regained ground lost in September, rising 6.3% to $6,839.00 per tonne at the end of the month. The driver of the increase is based on expectations of strong demand from China, the largest consumer of the metal globally, combined with continued restrictions on polluting mines and smelters in China depressing domestic supply.

Crude oil rose 5.0% to US$60.44 per barrel during October. Prices were bolstered by Saudi Crown Prince Mohammed Bin Salman's backing of an extension of OPEC output cuts beyond March 2018, following Russia's stated openness to extend cuts to the end of 2018. Production in the US fell sharply at the beginning of the month, with 92% of oil production facilities in the Gulf of Mexico shut down as the area braced for Hurricane Nate. While the storm impacted stockpiles, infrastructure remained largely unscathed and operations were restored during the month.

Thermal coal prices increased by 4.7% to $99.40 per barrel at 31 October 2017, supported by increased Chinese demand for the fuel. The nation's electricity requirements surpass the presently viable renewable energy options, and their own supply of the commodity is currently restricted by the government's pollution crackdown. Delays in the nuclear energy uptake in South Korea has additionally increased demand for coal in the meantime.

In contrast, coking coal fell 3% during the month to finish on $159.00 per tonne. With investors worried about the impact steel production limits in China would have on winter demand, China's steel industry grew at its slowest in six months. Further, the reopening of several Chinese coal mines in the next month is expected to bring down domestic prices as well.

Iron ore prices also continued to feel the impact of the Chinese steel production, dropping by 3.7% to US$60.00 per tonne in October. With government restrictions still tightening on environmental pollution, Chinese demand has stalled with increasing steel mill production cuts across the country.

PORTFOLIO COMMENTARY

As mentioned in this section of the report last month we expected a strong October and we're pleased with the numbers whilst still confident of our performance for the rest of the year and 2018.

Our confidence comes from the supply and demand dynamic we're seeing in commodities globally in addition to the under-ownership of resource stocks.

At the end of October Goldman Sachs published a report titled "Underspending their way to the next super cycle" which as the title suggests, focuses on exploration spend as a proportion of metals market revenue which is at its lowest level since 1990 (absolute spend in 2016 was c.US$8bn, which is back down to 2005 levels). Exploration success is the genesis of the mining industry – assets can't be mined until they are found – and thus their conclusion is that the underspend on new project discovery may be sowing the seeds for future production challenges.

Interestingly GS point out that legacy assets continue to dominate the mining universe. Over 60% of the top 100 mines in the world (as determined by annual mine revenue) were built last century. Furthermore, around 50% of the top 100 mines were developed before 1990, and accounted for c.65% of revenue in 2016.

Focusing on large caps momentarily, over the past 12 months, GS expectations of CY18 operational cash flow for their mining stock universe has increased by c.US$20bn (a c.40% uplift). Their forecasts indicate that 53c out of every dollar of that higher cashflow is being allocated to cash returns to shareholders. The allocation of money to capital returns has been more than double the amount of incremental cashflow we see being allocated to capex. With miners still appearing to be focused on a period of returning excess capital to the market, GS do not believe that we will see any significant new industrywide mine development in coming years.

This is super bullish for commodities generally and is in addition to Chinese supply restrictions and the electric vehicle/battery thematic that we see continuing.

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

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