TERRACAPITAL
NATURAL RESOURCE FUND

OCTOBER 2016

	1M	3M	FYTD	1Y (rolling 12mths)	3Y (p.a.)	Inception (p.a.)	Inception (cumulative)
Terra Natural Res. Fund	-4.6%	-10.3%	-2.1%	67.4%	15.9%	23.4%	279.2%
ASX All Ords	-2.2%	-3.1%	3.0%	6.6%	4.3%	8.1%	64.4%
ASX 300 Mining	2.2%	9.8%	19.7%	24.0%	-2.7%	-3.2%	-18.4%
ASX Small Resources	-2.5%	-3.8%	5.4%	45.8%	-4.1%	-11.7%	-54.5%
Unit Price	$2.58						

FUND PERFORMANCE

During the month the ASX 300 Metals and Mining was up 2.2% whilst the ASX Small Resources Index was down 2.5%. The ASX All Ords were down 2.2% for the month. Against this backdrop the Fund was lower % after fees.

The Unit Price is currently $2.58

AUSTRALIAN MARKETS OVERVIEW

The market had a tough month, falling -2.2% with broad based sector weakness and some heavy stock specific losses. The equity market had to absorb an indifferent AGM season where, despite some positive guidance, corporates generally erred on the side of caution - emphasising 2H strength over near-term improvement and a further rise in bond yields that proved unrelenting for the interest rate sensitive sectors despite having already suffered 2 months of declines.

GLOBAL MARKETS OVERVIEW

Global equity markets showed large performance dispersion through October. The majority of markets suffered from a rise in bond yields and a steepening in global yield curves led by the US, which saw 10 year bond yields from 1.59% to 1.85% and global bond indices suffered their worst monthly return since May 2013 (the taper tantrum).

US equities were down ~2% over the month after reaching a record high. However, despite the weak US lead, many other developed markets still finished in positive territory. UK equities were up +1% for the month although recorded a large 5% decline in US$ returns as a result of GBP weakness. Other European markets were broadly flat to positive as a weaker Euro provided some offset to the move higher in bond yields (10 year Bunds rose from -0.122% to +0.164%, Italian 10 year yields from 1.18% to 1.58% and France 10 year yields from 0.187% to 0.464% despite the ECB reaffirming its plans to maintain QE at current levels). Japanese equities were up, ~+6%, on the back of a weaker Yen as were China equities (Shanghai Comp +3.2%), which benefited from positive growth data out of the mainland.

COMMODITY OVERVIEW

The Bloomberg Commodity Index lost 0.73% with Oil the big mover through the month, continuing the uptrend established in the prior month on the back of potential OPEC restrictions and more favourable inventory data. However, this proved short lived as concerns regarding implementation of cuts took prices down 9% over the final week of the month. This saw Brent peak intra month at US$52.95 (up 26% on the August low of US$41.88) but finished down at US$46.97.

Gold was weaker on the back of a broadly stronger US$ with spot falling 4% to US$1,272oz. Gold traded-up sharply on Wednesday (pre-election result), trading above US$1,330/oz before giving up most of its gains, as a victory speech from U.S. president-elect Donald Trump helped the dollar rebound.

Once more, coal and iron ore were the stand outs amongst a relatively weak month for industrial metals. Iron ore finished the month at its high (US$63.10/t) despite more obvious efforts from Chinese policy makers to slow selected housing markets down. Coal was again up with hard coking coal surging to ~A$230 (up from ~$75-80 a few months ago) and thermal coal surpassing $100, ending its five-year bear market (when prices hit as low $40). It was a good month for soft commodities with wheat, soy and corn all stronger – in contrast to the economically sensitive metals (copper, nickel, zinc), which were volatile but relatively flat despite the move higher in inflation expectations and bond yields.

As I'll touch on in the outlook, Copper rallied to a 15-month high yesterday and supported other metals higher too as investors speculated that a Donald Trump presidency could drive a significant fiscal stimulus and in turn, boost demand for metals.

OUTLOOK

We're maintaining and want to emphasise our bullish attitude to resources, believing a change occurred early this year on the back of operational and capital cost-out over a number of years and a bottoming in commodity prices. The repercussions of the US election result are supportive of an improving aggregate demand outlook for commodities given infrastructure spending, potential tax cuts, rising inflation etc.

While the exact pathway to resources return to favour is unclear, our view is that the upwelling in some commodities was a relief rally that is likely to continue and broaden into a wider recovery for commodities generally. This change is visible in base metals, with strong gains posted in copper, nickel, aluminium, zinc, lead, and nickel over the last week.

Interestingly on the Trump victory, Richard Grace, the global head of currency strategy at the Commonwealth Bank of Australia, said the gloom in global equity markets is set to snap back in a big way. A Trump win in the U.S. election, coupled with Republican control of Congress, means the pledge to sharply lower corporate taxes in the U.S. is suddenly a real thing. It is hyper-bullish for U.S. equities, Grace adds. This is a buying opportunity as capital is set to flow back into the U.S. Foreign money will aggressively chase the dividends set to flow from U.S. corporates, he says. Grace appreciates that markets don't like the current uncertainty, but in no way is he downbeat, saying global equity investors will eventually see the huge buying opportunity that looks set to emerge.

A further anecdote; as Donald Trump celebrated his surprise election win over Hillary Clinton and equity futures swooned in response, billionaire investor and Trump supporter Carl Icahn headed home to start trading.

Icahn, 80, left President-elect Trump's victory party in the early hours of the morning to bet $1 billion on U.S. equities, he said this morning in a telephone interview on Bloomberg TV.

"I would have tried to put a lot more to work, but I couldn't put more than about $1 billion to work, and then the market got away. But I'm still happy about it,'' Icahn said.

Whilst our performance this financial year has been somewhat disappointing (-2.1%) we were down 19.6% in September last year only to finish up 46.5%. This year uncertainty around the US interest rate rises has, like last year, kept investors on the sidelines, not to mention the impact of the US election. Overall, for the aforementioned reasons, our view on the fund is strongly positive and to that end, the manager is making a further investment personally into the fund this month.

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

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