

TERRACAPITAL NATURAL RESOURCE FUND

OCTOBER 2018

	1M	3M	6M	FYTD	1Y (rolling 12mths)	3Y (p.a.)	Inception (p.a.)	Inception (cumulative)
Terra Natural Res. Fund	-12.8%	-19.1%	-25.3%	-21.9%	-17.4%	22.1%	18.5%	310.7%
ASX/TSX Composite**	-5.1%	-11.0%	-10.7%	-13.6%	2.3%	18.7%	-6.7%	-44.0%
ASX Small Resources	-6.1%	-10.1%	-9.6%	-12.4%	8.6%	23.2%	-6.3%	-41.7%
TSX Mining & Minerals	-1.8%	-13.4%	-13.7%	-17.0%	-12.7%	8.3%	-8.0%	-50.1%
Exit Unit Price	\$2.3533							

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

** ASX/TSX Resource Composite is a weighted average which best fits the mandate. 60% from ASX small resources and 40% TSX mining and minerals

Performance & Overview

The Fund returned -12.8% after fees for the month of October 2018. Since inception (July 2010) the Fund has returned +310.7% after fees vs. the small resources accumulation Index -41.7%.

The Unit Price is currently \$2.35

Markets

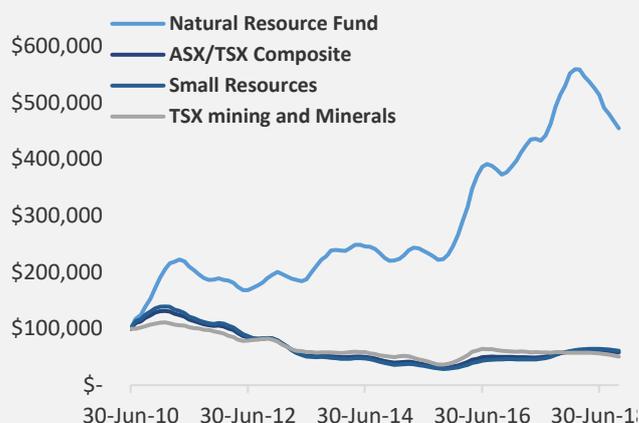
The S&P/ASX Small Ords index had its worst monthly performance since August 2015, losing -9.6% in October. The local market wasn't immune to the global sell-off of risk assets. Risk appetite collapsed with headwinds seemingly multiplying as an increasingly hawkish US Federal Reserve threatens to send monetary policy settings to levels that challenge asset valuations broadly. In addition to other risk factors including trade war concerns, weakness in emerging economies and higher crude oil prices (despite this month's fall), this proved to be a combustible combination.

Commodities

Base metals were lower in October, weighed down by the fall in global equity markets and concerns around global growth. Copper (-5.2%) was weaker despite a broader view of a tighter metal market because of the macro sentiment towards China.

Zinc (-3.8%) ended the month lower despite the market being impacted by US sanctions on Iranian companies and individuals. Although Iran's zinc industry is relatively small, China is typically its main trading partner and the potential loss of supply tightens an already scarce looking market.

Value of \$100,000 invested at inception



Precious metals were mixed but gold (+1.6%) managed a bit of a relief rally as equity markets sold off during the month. Despite the best one day rise since the 2016 Brexit vote, gold is still trading ~9% below the US\$1,350 levels it experienced between January-April. Gold also likely gained some interest given renewed concerns over Italy.

Crude oil was weaker (WTI -10.8% to US\$65.3/bbl) as the US government directed OPEC to lift its collective production rate to reduce prices. Saudi Arabia and Russia reportedly agreed to boost crude oil production output in order to reduce prices.

Portfolio commentary

After last month's sell-off we have carefully considered the negative opinions that globally, earnings have peaked, central bank bond purchases are reducing, the US Fed is raising rates, Chinese growth is slowing at a faster rate, and we are a decade in to a bull market so the likely next market move is lower.

Conversely, the current bull case is that bond yields are low, valuations in the majority of sectors are

TERRACAPITAL

NATURAL RESOURCE FUND

OCTOBER 2018

reasonable, there are few signs of distress in credit markets and the Chinese are loosening credit while being committed to supporting growth.

These views considered we believe that given recent falls, markets appear to now be suitably pricing the risks. As a result of this we have retained most of our positions over the past 6 months. The following paragraphs outline our positioning.

Battery Metals - Despite the performance of this sector in CY18, the need for raw material inputs for use in electric vehicles and energy storage systems isn't going away. In 2018, while generalist investors questioned the thematic the industry trajectory intensified. As an example, lithium demand was up 22% YoY in 2018. In our portfolio we have maintain a position in the hard rock lithium company producing the best lithium concentrate (highest grade, lowest impurities, highest value) in the country & potentially globally. As battery chemistry changes over time and batteries become more efficient, relatively more lithium will be consumed.

In addition, (in our opinion) we own the best first world, primary cobalt company which also has significant optionality and high-quality management. Cobalt demand will continue to surge despite thrifting. A 4x increase of battery grade cobalt output is needed by 2028 (2017: 50,000tpa to 218,000tpa). Given our conviction on the thematic we have continued to hold these positions despite negative contribution to our portfolio during the year.

Uranium - At the current uranium price the vast majority of producers do not make money, nor is the current price conducive for producers to contract at. Concurrently, geopolitical issues are creating uncertainties that prevent some utilities from getting more aggressive in the spot market that would in-turn push prices up. This can't last forever, as uranium is a

depleting commodity and uranium consumption in 2018 for use in power generation is at the highest level ever. At some point soon, utilities must enter the market in order to reload their reactors with fuel.

Copper/Nickel - While demand risks are rising due to an escalating global trade war, as we have written previously we anticipate the next commodity bull cycle to be primarily driven by the supply side following several years of underinvestment in new capacity. Moreover, and what may come as a surprise to many, the fundamental picture for most commodities (including Cu) has improved during CY18. The outlook for Cu and Ni continues to improve with respective bull markets on the horizon; we anticipate physical tightness for Cu and Ni to arrive at latest by 2020. Further to this, there is a dearth of high quality small and mid-cap base metal names globally but particularly in Australia and we see this potentially creating outsized return potential.

Gold - We continue to retain a tactical position in high quality gold names. If equity sentiment remains on edge, especially as US-China trade rhetoric begins to pick up again, we wouldn't be surprised to see spot gold around the recent highs. Otherwise our stock selection should see upside as our companies progress operationally.

While the Fund performance has been disappointing over the last 6 months, we remain committed and confident in our process and analysis. We are well aware of our areas of expertise in the market and are sticking with them, we believe that if we continue to do this Fund performance will improve.

We thank you for your ongoing feedback and would like to invite you to reply to this email if you would like to arrange a call or meeting to discuss the Fund.

TERRACAPITAL

NATURAL RESOURCE FUND

OCTOBER 2018

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	\$2.3592
Entry Price	\$2.3651
Exit Price	\$2.3533
Fund Size	\$62.0M
APIR Code	TER001AU

Top 5 commodity exposure

Commodity	% of fund
Cobalt	17%
Base	15%
Gold	14%
Other	14%
Lithium	10%

This document is issued by Evolution Trustees Limited ABN 29 611 839 519, AFSL 486 217 (ETL) as responsible entity of the Terra Capital Natural Resource Fund ARSN 624 739 493 (Fund). Terra Capital Holdings Pty Ltd ABN 85 622 649 647 (Terra Capital) is the investment manager of the Fund. The Fund was registered with ASIC on 15 March 2018. Terra Capital is a corporate authorised representative (CAR 001260962) of ETL, for the purposes of dealing in derivatives only, and PT Asset Management Pty Ltd (AFSL 318961). The information provided in this document is general in nature and does not constitute investment advice or personal financial product advice. This information does not take into account your investment objectives, particular needs or financial situation. You should seek independent financial advice. The content of this document does not constitute an offer or solicitation to subscribe for units in the Funds or an offer to buy or sell any financial product. Accordingly, reliance should not be placed on this document as the basis for making an investment, financial or other decision. Neither ETL nor Terra Capital accepts liability for any inaccurate, incomplete or omitted information of any kind or any losses caused by using this information. You should obtain and carefully consider the Product Disclosure Statement (PDS) for the Fund before making any decision about whether to acquire, or continue to hold, an interest in the Fund. Applications for units in the Fund can only be made pursuant to the application form attached to the PDS. Performance figures assume reinvestment of income. Past performance is not a reliable indicator of future performance. Performance comparisons are provided purely for information purposes only and should not be relied upon. Neither ETL nor Terra Capital give any representation or warranty as to the reliability, completeness or accuracy of the information contained in this document.