TERRA CAPITAL
NATURAL RESOURCE FUND

MAY 2016

	1M	3M	FYTD	1Y	3Y (p.a.)	Inception (annualised)	Inception (cumulative)
Terra Natural Res. Fund	3.5%	37.8%	35.8%	43.2%	29.0%	24.2%	360.8%
ASX All Ords	3.1%	11.5%	4.4%	-1.2%	8.1%	8.6%	63.6%
ASX 300 Mining	-6.4%	19.1%	-8.5%	-17.4%	-6.9%	-6.8%	-34.1%
ASX Small Resources	0.8%	20.7%	10.6%	-1.8%	-8.3%	-14.5%	-60.5%
Unit Price	$2.7139						

FUND PERFORMANCE

During the month the ASX 300 Metals and Mining was down 6.4% and the ASX Small Resources Index was up 4.1%. The ASX All Ords were up 3.1% for the month. Against this backdrop the Fund was up 3.5% after fees.

The Unit Price is currently $2.71

MARKET OVERVIEW

For the first time in years the adage 'sell in May and go away…" didn't hold true with the Australian equity market having a strong month up 2.4% to mark it the best month of May since 2005 and up 10% from the February low. The rally was supported late in the month by a positive reaction to news the Fed is at ease with the growth outlook to continue the rate tightening cycle which was put on hold after a volatile 1Q.

After a number of exceptionally strong months, bulk commodity stocks were lower, corresponding with a reversal in US$ weakness. Materials fell 3% and Energy was down 2%. This was despite oil posting another strong month with the WTI edging marginally below US$50bbl.

Global markets started the month off on a weak note that was reversed into month end as sentiment turned up following a positive narrative by the Fed on growth and the potential for resumption in rate hikes that would reflect a stronger outlook. This saw the USD gain momentum against the majors with the DXY now having recouped around 50% of its early year decline (from 93.1 to 95.8). European markets were also buoyed by news that a BREXIT is looking less and less likely as the UK approaches its June 23rd referendum. The continued move higher in oil continues to create some breathing room for a much troubled energy sector and oil producing nations (despite its consumer sapping offset).

Broadly speaking, weakness in the leading cyclical sectors (US Transports and Small Caps) has not appeared to trouble most markets with majority of the major global benchmarks now back into positive YTD territory. Brazil was a significant laggard over the month (Bovespa -10.1%) as the political crisis intensified and concerns about the ability of the government to support growth damaged by the ongoing corruption scandal.

COMMODITY OVERVIEW

Base metals declined sharply over the month, with the LME Metals Index Falling 6.9%. Nickel (-10.8%), aluminium (-7.5%), copper (-7.3%), led (-6.1%), tin (-5.4%) and zinc (-0.5%) declined.

Iron ore traded down 24.3% to $50.15/mt. The clamp down on speculative trading in iron ore futures on the Dalian Commodity Exchange underpinned the move.

Brent and WTI established year-to-date highs, rising 3.2% and 6.9% respectively to $49.69/bbl and $49.10/bbl. Faster declines in mature, high cost production areas underpins the rebalancing of the market, augmented by outages in Nigeria, Canada and Libya.

Gold fell 6% to $1215/oz. The most immediate reason for gold's woes is the stronger dollar. An added factor being the increasing likelihood of a Fed rate hike.

OUTLOOK

During the month Terra attended the 8th Annual Lithium Supply and Markets Conference in the US. First and foremost, as you may imagine, sentiment was extremely positive as markets grapple with the fact that it's now indisputable that battery and therefore lithium consumption is up strongly and will only increase.

As battery pack's cost per kWh has fallen dramatically and Government incentives grow due to policy decisions around emissions and fuel efficiency targets, EVs and home batteries become more affordable. It's clear that adoption will be strong and therefore the demand side of the lithium equation continues to grow while the supply side takes some consideration.

The world's major producers (ALB, FMC and SQM) were all at the conference and indicated plans to increase production but given they're predominantly brine operations this will take time. A raft of juniors were also present at the conference, some of which we've owned, but most of which won't produce anything until 2019 at the earliest. It's those companies that can take advantage of both current and future pricing that interest us most. These are the companies which we continue to hold. The key take-away from the conference - the future is green and lithium battery powered.

Our major positions, including NXE, TRY and GXY continue to perform well and we look forward to updating you as share price catalysts take place.

We thank you for your continued support.

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