TERRACAPITAL
NATURAL RESOURCE FUND

SEPTEMBER 2016

	1M	3M	FYTD	1Y (rolling 12mths)	3Y (p.a.)	Inception (annualised)	Inception (cumulative)
Terra Natural Res. Fund	-0.6%	2.6%	2.6%	83.7%	16.8%	24.7%	297.4%
ASX All Ords	0.4%	5.3%	5.3%	14.0%	6.4%	8.6%	68.0%
ASX 300 Mining	8.1%	17.1%	17.1%	27.1%	-2.3%	-3.5%	-20.2%
ASX Small Resources	5.2%	8.1%	8.1%	73.8%	-3.0%	-11.5%	-53.4%
Unit Price	$2.7000						

FUND PERFORMANCE

During the month the ASX 300 Metals and Mining was up 8.1% and the ASX Small Resources Index was up 5.2%. The ASX All Ords were up 0.4% for the month. Against this backdrop the Fund was lower -0.6% after fees.

The Unit Price is currently $2.70

AUSTRALIAN MARKETS OVERVIEW

Despite central bank speculation, oil price volatility, and the first US presidential debate, the ASX 200 finished the month largely flat at +0.5%. At a sector level, Materials (+5.7%), Staples (+1.6%) and IT (+1.5%) led monthly returns.

General bond proxies were extremely weak on the month with REITs (-4.0%) and Utilities (-3.2%) both down as the market reacted to rising bond yields. Telcos fell (-4.0%), the largest drag being TPM (-29.3%) following disappointing guidance and concerns over the NBN rollout. The Energy (+0.1%) sector recovered the entire month declines following OPEC's decision to cut supply.

GLOBAL MARKETS OVERVIEW

Global markets were mixed through September as all the major developed market central banks held monetary policy meetings. In the US, equities finished the month flat (S&P500 0.0%). The Fed kept rates unchanged at 0.25-0.50% but stated that "the case for an increase in the federal funds rate has strengthened". The FOMC continued to signal that cumulative progress in the US economy is positive and that the appropriate rate should be higher by the end of the year. The Euro Stoxx also finished the month flat while the German DAX was dragged down –3.8%, by Deutsche Bank concerns - the bank faces US$14bn in fines over claims it mis-sold mortgage-backed securities – more than its market capitalization at its lowest point. In Asia, the Bank of Japan (BoJ) shifted the focus of its stimulus from expanding the money supply to controlling interest rates (recommitting to reach its elusive 2% inflation target). Abandoning its base money target, the bank has implemented the "yield curve control", a policy under which it will buy long-term government bonds – at a pace that ensure its holdings increase by 80tr yen per year – and designed to keep the 10-year Japanese government bond yield near current levels, around 0%. The yen initially weakened against the USD before reversing to trade at 101.76, the strongest in almost a month. Japanese shares fell, with the Nikkei 225 index down - 1.9% at month's close. There was a large divergence of performance between the Hang Seng (+1.5%) and the Shanghai Composite (-2.6%).

COMMODITY OVERVIEW

Overall, commodities had a strong month, the Bloomberg Commodity Index +3.1% positing its first increase since June. Oil gained 7.9% after the OPEC said it would cut output to 32.5m – 33m barrels per day (from 33.5m barrels per day).

September's manufacturing PMIs bounced back to recent highs on better results from the developed economies (in particular the US ISM PMI bounced back from a poor August, to 51.5, gaining 1.1 points) which in turn supported broad strength in the LME which has now hit bull market status.

Coal was the standout hard commodity with coking coal rising to ~US$223 toward the end of September, up from US$142/t at the beginning of the month. Iron Ore was also a strong performer trading broadly within the US$54-57t range and failing to fall as most proponents have expected. FMG towards month end dismissed claims that the market was in oversupply, suggesting that the market was entering a cyclical upswing.

Gold lost its lustre as risk fears fell and concerns that the Fed is now close to raising shorts rates resurfaced towards month end. China as the largest gold importer also paired back demand with imports from Hong Kong falling 45% MoM and ETF flows stagnating.

Commodities and gold in particular will react to economic data, to the election and to US corporate earnings (which have now declined six quarters in a row), all the while pricing in a December rate hike (expectations of a hike boosted the US dollar 1.3% in the first week of October, amplifying gold's slide).

A rate hike does seem increasingly likely. Hawkish Fed members are getting more aggressive in pushing for a move; Jeffrey Lacker, for instance, is openly arguing for a raise right now so that the Fed is ahead of inflation. And while data continues to show an anaemic recovery, in many ways we're right back where we were a year ago: the Fed has talked about a hike for so long that they almost have to move to retain credibility, unless data turns decidedly down.

We see this volatility as a buying opportunity and believe that once the rates have been raised the commodity price trajectory can continue upwards. The world remains grounded in negative real rates, which means no incentive to hold cash or bonds. Inflation seems to be on the rise, amped by OPEC's oil output agreement that boosted the price of oil. All this bodes well for commodity prices on a medium term view.

OUTLOOK

The Funds' performance this month was impacted by a couple of capital raisings in some key names towards the end of the month. These were well supported and those companies can now move forward with strong balance sheets.

Despite the Fund's flat month we remain positive on commodities generally and are now particularly positive on a number of commodities with a 12 month view, in particular Copper, Nickel and Alumina. Further, unsustainably low spot prices against cost curves in Uranium, Nickel + Alumina and supply tightness in Zinc and Nickel again, are combining to provide a propitious outlook.

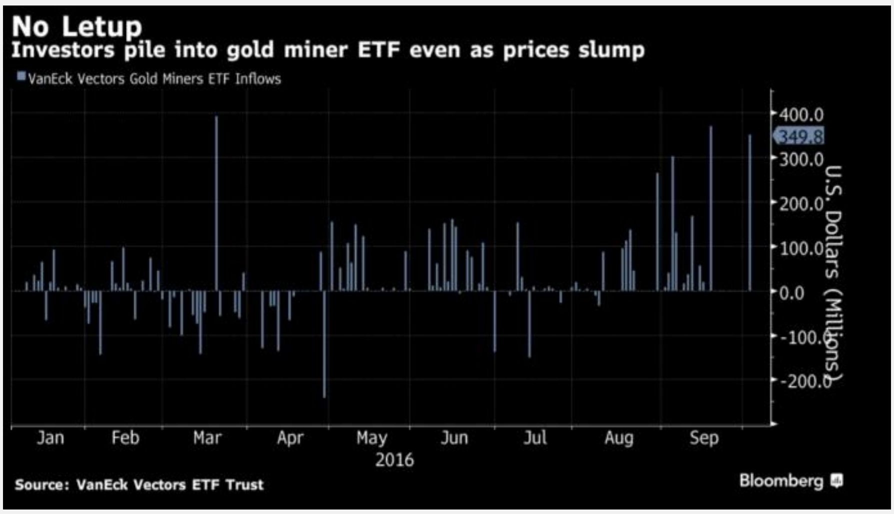
UBS commented during the month; "there has been very noticeable improvement in China's real underlying demand for copper which was subdued in 2016H1 as distinct to the strong apparent demand in 2016H1,"

"This is particularly so on the consumer side (A/C's, fridges, cars etc.) which followed the strong property sales in 2016H1."

As gold now behaves predominantly at the behest of Gold ETFs we keep a close eye on gold ETF flows as an indication of investor sentiment. To that end, last Tuesday (4/10), as gold sustained the biggest loss in almost three years, some $350 million poured into VanEck Vectors Gold Miners ETF, the third-largest daily inflow this year – chart below.

In the first half of this year we profited from the positions we took in lithium companies in 2014. Having exited most of those positions we refined our view of the battery thematic. This refinement led to our taking a pre-IPO and the IPO positions in Lithium Power International (LPI) who are aiming to bring the Maricunga lithium brine project into production.

Maricunga is regarded as the highest grade pre-production lithium project in Chile – with characteristics comparable to the world-leading Atacama deposit. Exploration drilling



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commenced later this month, aimed at expanding the existing resource base.

There's only one lithium brine in production on the ASX which is Orocobre's Salar de Olaroz, which the Fund has followed since IPO and owned previously. Orocobre is currently capped at AUD$700m which puts LPI's deposit into perspective.

Compared to Orocobre, LPI's Maricunga project has 81% higher lithium grade (1.25g/l vs. 0.69g/l) and 57% higher potash grade (8.97g/l vs. 5.73g/l). Whilst LPI has a smaller resource at this time our work suggests LPI is very attractive.

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