

TERRACAPITAL

NEW HORIZONS FUND

DECEMBER 2016

	1M	3M	6M	FYTD	Inception
Terra New Horizons Fund	-0.57%	-1.17%	13.17%	13.17%	27.7%
ASX All Ords Acc.	3.61%	-2.45%	5.84%	5.84%	13.2%
ASX Small Ords Acc.	4.17%	4.41%	9.94%	11.64%	11.6%
Unit Price	\$1.28				

Terra Capital New Horizons Fund movements are shown after fees. Inception: 1st Jan 2016

FUND PERFORMANCE

During the month the S&P/ASX All Ordinaries Accumulation Index was up 3.6% and the S&P/ASX Small Ordinaries Accumulation Index was higher 4.2%. Against this backdrop the Fund was down 0.6%.

The Unit Price is currently **\$1.28**

AUSTRALIAN MARKETS OVERVIEW

A continuation of the Trump growth led rally, supported by the Fed's decision to lift interest rates and a good old fashioned Christmas rally led the Australian market significantly higher in December (ASX 300 +4.3%) with broad based gains in large cap stocks.

GLOBAL MARKETS OVERVIEW

Global equity markets rallied strongly on the back of increased optimism that president elect Donald Trump will increase infrastructure spend and cut taxes and as the Energy sector rose strongly off the back of OPEC agreeing to cut production by 3.7% from October levels.

The Dow Jones and S&P 500 were up +3.3% and +2.0% respectively, and Europe and Asia also posted solid gains - German DAX up +7.9%, Euro STOXX +7.1%, the UK FTSE 100 +5.4% and the Japanese Nikkei 225 +4.6%. The US market posted strong annual gains - the Dow Jones rising +13.4% in 2016 as earnings expectations were reset higher in the wake of the US election and as Fed rate hikes did not eventuate as expected keeping bond yields well behaved but for the final quarter of the year.

Global markets took their cue from a strong US with European markets also rallying strongly through the year. The FTSE 100 rose +19.1% (benefiting from a

weaker sterling despite BREXIT), German DAX +6.9%, and the Euro STOXX +4.2%. Asian markets had a more roller coaster ride through, generally weak into mid-year before finishing 2H strongly but generally underperforming Europe and US. Hong Kong led major Asian markets rising +4.3% with Japan following up +2.4%.

MARKET OUTLOOK

After years of lack lustre economic growth, it appears global growth is set to improve in 2017, as suggested by the OECD Leading Indicator indexes for G7 and BRIC countries. The JPMorgan Global Composite PMI and the IFO World Economic Expectations index are entering 2017 in a strong uptrend (Figure 1). In fact, for the first time since 2006, the global economy could experience a "late-cycle" growth synchronisation between developed and emerging market economies (DMs and EMs, respectively). The IMF pegs global GDP growth at 3.4% (up from 3.1%) for 2017, with EMs expected to account for 78% of world GDP growth.

Canaccord Genuity pertinently reminds investors that global growth reacceleration does not necessarily imply the outperformance of growth vs. value stocks. In fact, there is a negative correlation as investors pay a premium for growth only when it is scarce. When global growth accelerates, globally geared (i.e., technology and industrials) and resource sectors (energy and materials) usually lead markets.

PORTFOLIO OUTLOOK

Moving to our portfolio, we are happy with a return of 27.7% after fees in the Fund's first year of operation and have positioned the portfolio to continue to outperform over the next 6-12 months.

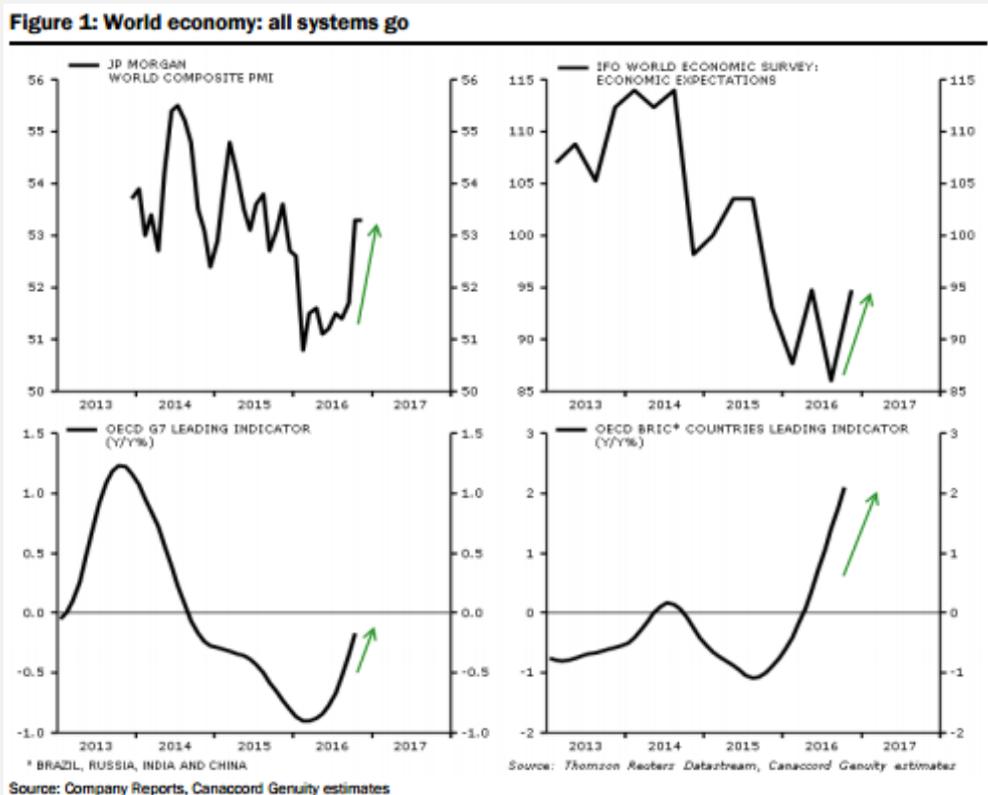
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Unlike many of our competitors we managed to avoid earnings downgrades that plagued former market darlings in the December quarter.

and vegetable purees, protein meals, cereals and healthy toddler snacks. Bubs also produce Advanced + milk formula which is made in Australia and available in 3 stages from infant to toddler.



As we have said to investors we continue to source stocks and opportunities that our investors and other market participants will struggle to access. Two recent examples include Sensera Limited (ASX:SE1) and Bubs Australia Limited (ASX:BUB), both of which have performed well.

We took Pre-IPO and IPO stock in Sensera Limited which is an industrial company with a tech slant. The business owns a facility in the US which provides design and manufacturing of specialized high performance microsensors and micro-fabricated components for the Healthcare, Industrial, Defense and Aerospace markets. We were attracted to the business because of its high calibre management team who have delivered significant shareholder returns in their previous businesses.

Bubs Australia Limited produces Australian-made, certified organic infant food products under the BUBS brand. It includes first and second stage fruit

The fund has investments in a broad variety sectors which include businesses involved in waste water treatment, a recycled plastic pallet manufacturer, real estate technology, marine equipment and vegetable seed IP to name a few.

This diverse range of businesses that comprise the portfolio creates an uncorrelated return profile that we look forward to explaining further as our investee businesses progress.

We welcome any feedback and thank you for your ongoing support.