TERRACAPITAL
NEW HORIZONS FUND

FEBRUARY 2016

	New Horizons	ASX All Ords	Small Ords
1 Month	-2.2%	-1.5%	0.9%
2 Months	5.2%	-4.2%	-6.7%
Unit Price	$1.052		

FUND PERFORMANCE

During the month the S&P/ASX All Ordinaries Accumulation Index was lower 1.5% while the S&P/ASX Small Ordinaries Accumulation Index was up 0.9%. Against this backdrop the Fund was lower 2.2%.

The Unit Price is currently $1.05.

MARKET OVERVIEW

ASX 200 equities continued their weak start to the year, falling a further 2.5% on top of the 5.5% decline suffered in January. Volatility remained elevated, with the market down 5% early month before pairing the decline in the final two weeks – helped in large part by a rebound in materials and energy. The reporting season was slightly better than expected, although this was on expectations that had been lowered significantly in the lead up to the result round. Approximately 70% of companies reported in line/above expectations, with only minor downward revisions to aggregate 2016 EPS growth (from -6.8% to -8.0%).

Global markets exhibited large dispersion although all on the downside, with US (S&P500 -0.4%) outperforming both Europe (Euro Stoxx -3.7%) and Japan (Nikkei -8.5%). China (Shanghai Comp -1.8%) was choppy, receiving little reprieve in the lead up to the G-20 meeting or additional monetary easing (credit growth exploded in January).

OUTLOOK

Overall during February our investments performed well however the baby was thrown out with the bath water in one case which caused our negative performance for the month.

Internationally, Google, Facebook, Apple and Amazon all had negative months as investors question the companies' valuations. Whilst these companies have very large valuations, there is a lot to say for the future of these businesses and their profitability. We HIGHLY RECOMMEND you watch the following video, sent to us by Aviate Global, it's great watching:

http://avc.com/2016/02/video-of-the-week-scott-galloway-on-facebook-amazon-apple-google/?utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+AVc+%28A+VC%29

We have identified a number of other opportunities that fit our investment criteria, that being emerging companies that lack formal research coverage, lack institutional investors, but with exceptional management and businesses.

An example of a business where brokers have now initiated and larger institutions are now looking at the stock is digital outdoor advertiser XTD Ltd (XTD). We purchased our position in the stock before most brokers and investors realised it existed. The stock continues to excite us, as outdoor media companies benefit from the digitisation of billboards and signs, and the fragmentation of alternative media.

Digitised signs can carry more ad inventory and are more reactive to advertiser needs, given they can be updated multiple times a day, compared with the fortnightly or monthly rotations typical with static billboards. As traditional media fragments, outdoor audiences are increasing because of population growth and urbanisation.

There are a numerous other stocks in our investment universe that also have compelling businesses but lack attention from brokers and professional investors which is as a result of a number of factors. During the past 5 years the ASX Small Ordinaries Index has been in almost constant decline, down 27.3%. Given the positivity of global markets and the performance of large cap stocks (ASX 200 accumulation index +25%) over the same period this lack of performance is quite surprising.

Given this performance the majority of investors have lost their appetite for investing in the sector. Whilst this is cyclical and history has shown this sentiment is usually ephemeral it has created further opportunity to own businesses ignored by both retail and institutional investors. The rise of the on-line broker has rewarded investors with lower brokerage costs, but at the cost of little or no investment advice. Full service brokers who historically did prepare research on emerging companies have suffered with lower corporate and brokerage income, which has meant culls to research departments and an increase in informational inefficiency.

This is our advantage and we look forward to updating you on our progress as we continue to selectively deploy capital in the months ahead.