

TERRACAPITAL

NEW HORIZONS FUND

FEBRUARY 2017

	1M	3M	FYTD	1Y (rolling 12mths)	Inception (p.a.)	Inception (cumulative)
Terra New Horizons Fund	-4.53%	-2.97%	10.44%	18.49%	22.45%	24.63%
ASX All Ords Acc.	2.09%	5.53%	11.37%	21.32%	11.99%	13.10%
ASX Small Ords Acc.	1.31%	2.40%	4.60%	16.77%	10.86%	11.86%
Unit Price	\$ 1.25					

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 2.1% and the S&P/ASX Small Ordinaries Accumulation Index was higher 1.3%. Against this backdrop the Fund was lower 4.5%.

The Unit Price is currently **\$1.25**

AUSTRALIAN MARKET OVERVIEW

A month of two halves for the market with strong early gains somewhat reversed by month end. While the market finished with a reasonable gain (+2.1%), the reporting season was the dominant driver – albeit not always in the direction of earnings misses and beats (i.e. miners).

On a US dollar basis, MSCI Australia continued its outperformance trend versus World Equities, with A\$ gains contributing to local currency performance (US\$ 3.3% vs. A\$ 2.0%).

On balance the reporting season was better than expected with 35% beats versus 27% misses although some large scale misses has resulted in growth estimates for the Industrial universe falling significantly from 9.2% to 5.7% in 2017 although largely offset by a rise in 2018 expectations from 7.1% to 10.0%. It was hard to ignore the operating misses, which have in some cases been savage. However, the underlying story is one of reasonable revenue growth, solid cost control but little new cost initiatives, active capital management with slightly higher dividends, conservative capex guidance and muted optimism.

GLOBAL MARKETS OVERVIEW

Despite rising political unease, Global Equities finished the month in positive territory, led higher by

the US market where the Dow Jones recorded 12 straight consecutive new highs before breaking this run on the last day of the month. Internals show that returns were generally a reverse of the prior month with defensive sectors significantly outperforming cyclicals. Healthcare, Staples and Utilities led the gains with Financials continuing to add to returns despite a flattening in global yield curves – particularly Bunds.

Emerging Markets led equities by region rising 3.0%. Europe was the laggard as concerns around France's leadership increased sharply. Marine Le Pen - France's far right candidate and a proponent of a Eurozone exit – helped drive the spread with Bunds towards a post Eurozone crisis high. German Bunds rallied strongly with the 10 year yield falling as low as 25bps. Part of the strength in Bunds was on safe haven demand particularly as there was no evidence of weaker economic or inflation data but it did provide a reminder that confidence is not yet ready to absorb a prolonged spike in political uncertainty. The EuroStoxx rose 2.4%, hampered in part by Italy (MIB 1.7%) and France (CAC 2.0%). Germany the safe haven for the month (DAX 2.5 %).

The commodity producing exchanges were generally beneficiaries of stronger currencies and commodity prices (Bovespa +3.1%).

PORTFOLIO OUTLOOK

One of our portfolio stocks; Wastewater treatment company Emefcy Group Limited was named during February as one of four Finalists for “The Breakthrough Water Technology Company of the Year Award”.

Emefcy is shortlisted due to its being:

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"..an unstoppable force in 2016, leading the charge in the low-energy wastewater treatment revolution, completing installations in Israel, China and the US Virgin Islands within the first year of introducing its new MABR product. It also successfully closed an equity placement of A\$31.6 million as it ramps up its global commercial activity...; Also, for closing deployment partnerships with four large engineering companies in China enabling access to the rural villages market offering them modular decentralized systems..."

The winner will be announced at the Global Water Awards ceremony on 24th April 2017 in Madrid, Spain.

Emefcy's decentralized systems are quiet and odourless, enabling water re-use for irrigation, landscaping and much safer discharge to the environment. They feature high effluent quality, low CAPEX and OPEX and low sludge yield. Most importantly Emefcy wastewater treatment systems use 90% less energy than traditional treatment systems making them significantly more attractive to municipalities and private communities alike.

Last month was a tough month for small industrials with 8 of our top 10 holdings all lower for the month. Whilst none of them were significant falls it was a tough month to make money. We would like you to note that at the time of writing we have recovered 3.7% from the end of February.

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