

TERRACAPITAL

NEW HORIZONS FUND

JUNE 2016

	1M	3M	Inception
Terra New Horizons	0.04%	9.2%	12.8%
ASX All Ords Acc.	-2.3%	4.0%	1.5%
ASX Small Ords Acc.	-1.3%	5.8%	6.9%
Unit Price	\$1.13		

New Horizons Fund movements are shown after fees

FUND PERFORMANCE

During the month the S&P/ASX All Ordinaries Accumulation Index was down 2.3% and the S&P/ASX Small Ordinaries Accumulation Index was down 1.3%. Against this backdrop the Fund was up 0.04% after fees.

The Unit Price is currently **\$1.13**.

MARKET OVERVIEW

Global markets had a roller coaster ride in June driven by the UK referendum and FOMC's potential stance. The MSCI World index started the month off on a high note in the first week of June as the market priced out the risk of a Fed rate hike in Jun and July on the back of much weaker than expected US non-farm payroll. However this strength was short lived and the index -4% in the following week on heightened uncertainty on the UK referendum (the odds of leaving spiked). This move was reversed mid-month after the Brexit fears faded and after FOMC members unanimously voted to keep rates unchanged at 0.25%-0.5% at the overnight monetary policy meeting, while slightly more dovish comments pushed implied yields from Fed Fund futures and UST yields lower.

The World index had its most pronounced fall (-6%) since Feb as the market comes to terms of the unexpected Brexit vote before recovering some of its losses to end the month -1.1%, which is underpinned by an increasing likelihood of a rate cut in the UK. European markets weakened expectedly on the back of surprise Brexit vote on the 23rd before rebounding almost halfway for both Euro Stoxx and German DAX to end the month down 6%. The most prominent move came from FTSE 100 which has soared in the last few trading days of the month and made its 10 months high +4.7% for June (up 2.8% since Brexit) as Bank of England raised the prospect of a summer stimulus. The pound dropped to a two year low against the Euro -7.7% for the month.

The Emerging markets surged +4.1% for the month as central banks signalled readiness to tackle challenges post the Brexit vote

OUTLOOK

June's Brexit vote wrong-footed many investors and created significant volatility, especially in large caps. Bond yields around Europe fell following the result and we have seen defensive, high yielding and gold stocks outperform over the short term.

Our view is that despite a relatively low global growth environment, equities, especially small caps will perform well once the volatility dissipates.

We have continued to identify situations and stocks that will provide our investors returns throughout the cycle. Further we think we will continue to provide our investors uncorrelated returns.

The companies we have invested in and continue to look for have high calibre management teams who have successfully developed businesses that will perform almost regardless of the prevailing economic climate. These businesses will often have industry tailwinds which will lead to an increase in their ability to generate recurring earnings that will in-turn positively impact share prices.

One of the companies we have invested in is Abundant Produce (ABT) who are involved with non-genetically modified plant breeding. In simple terms ABT's scientists identify the attractive genetic traits of the various vegetables they work with and breed them to eventually end up with a new version of a vegetable that is more pleasing to farmers and customers.

ABT is working with a variety of vegetables including cucumbers and tomatoes. As an example, Chief Research Scientist Dr Nabil Ahmad had the following comments on ABT's tomato breeding:

"We have carefully selected our tomatoes with a high Brix number, which indicates better flavour. Some of our lines are showing Brix levels more than 2.3 times higher than tomatoes currently selling through Australian grocer retailers. By combining this with other sensory attributes to optimise colour and aroma, we are crafting unique edible experiences."

ABT is proceeding to commercial tomato seed trials over the next two months with a range of interested parties and is further progressed with other vegetables. The farm trials should lead to highly lucrative agreements with global seed distributors across multiple product lines.

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In addition we have number of investee companies that will be coming to market from July onwards. We look forward to updating you on these in the months ahead.

In Terra Capital news we're adding another staff member as of August and have also increased our number of outsourced analytical and operations staff. In line with best practice, as pioneered by leading funds in the US, our outsourced team who look after unit registry and trade settlement has been complimented by a highly credentialed team that looks after detailed financial modelling and analytics. The group we have engaged and have begun using have incredible capabilities which we look forward to utilising for the benefit of all unit holders.

We thank you for your support and we welcome any questions or feedback.