NATURAL RESOURCE FUND

MONTHLY REPORT – AUGUST 2015

	Terra Res. Fund	ASX All Ords	ASX 300 Mining	ASX Small Res.
1 Month	-5.2%	-7.3%	-3.9%	-8.3%
3 Month	-14.2%	-8.6%	-15.9%	-26.0%
FYTD	-19.3%	-3.4%	-6.8%	-16.6%
Incept (p.a.)	21.6%	8.3%	-7.4%	20.9%
Unit Price	$1.61			

FUND PERFORMANCE

During the month the ASX 300 Metals and Mining lost 3.9% and the ASX Small Resources Index lost 8.3%. The ASX All Ords lost 7.3% for the month of August. Against this backdrop the Fund was lower 5.2% in August.

The Unit Price is currently $1.61.

MARKET OVERVIEW

The S&P/ASX300 Accumulation Index recorded its worst monthly performance since Oct 2008, falling -7.7% and wiping out previously positive CYTD returns (CYTD now -0.7%). The Market ex Resources (-7.8%) modestly underperformed Resources (-7.2%), with Banks (-11.7%) the key drag. Small Caps (-4.9%) held up much better than the Large Caps (-7.9%).

It was a volatile month for global equity markets, the MSCI World Index finishing down -6.1% as disappointing Chinese data and a surprise move by the PBoC to devalue the RMB fuelled concerns about the impact of a hard landing on the global economy. China was the worst performer (Shanghai Composite Index -12.5%, now -0.9% CYTD), despite further monetary stimulus from the PBoC, and US equity markets finished 6-7% lower (S&P 500 -6.3%, Nasdaq -6.9%).

Mounting global deflation fears on the back of China's currency moves have seen expectations for US rate hikes pushed out. The market is now pricing in a ~25% chance of September lift-off, down from 50% a month ago. However muddying the waters was last week's Q2 GDP revision, which revealed the US economy grew at an annualised pace of 3.7%, up from a prior 2.3% estimate.

The FY15 profit reporting season was the key focus for domestic equity investors this month with earnings growth coming in slightly below expectations. Macquarie's All Companies FY15 EPSg saw modest slippage over the month (-0.8ppt) to finish at -2.2%, and FY16 EPSg was also revised lower (-0.5ppt to +3.1%) on the back of downgrades to Industrials ex Fins estimates (-1.8ppt to +9.2%) and LPTs (-1.6ppt to +7.4%).

COMMODITY OVERVIEW

Commodities delivered mixed results as investor uncertainty and lower than anticipated growth rates coming out of China dominated the monthly rhetoric. Base metals such as nickel, tin and zinc experienced the more significant declines, while crude oil prices fell below the US$50 per barrel mark this month, an emotive threshold for many commentators.

Indonesia's stance on ore exports appears to have provided little comfort to both nickel and tin producers this month, with both commodities continuing downward trends with nickel and tin retreating 8.7% and 12.1% respectively. Crude oil prices experienced a decline of 7.3% to close at US$48.93 per barrel. There are continued concerns of a global oversupply, on the back of data showing an increase in the U.S active crude oil rig counts over the past few weeks indicating that over the long run, crude oil production might increase. Experts also cited the Chinese stock market crash as a contributor to softening demand given economic concerns mount in the second largest crude oil consumer.

On a positive note, precious metal prices fared comparably well, as investors gravitated away from volatile equity markets and into safe haven assets. Gold outperformed its precious metal stablemates, silver and palladium, posting the biggest gain amongst commodities surveyed with a 3.3% climb as investors turned their focus to the safe haven asset, away from the continuous volatility in the equity market and U.S. dollar and the expectation of a possible increase in interest rates in the U.S. by the Federal Reserve.

On the bulk commodities, Iron ore remained relatively stable this month posting a modest gain of 1.8% to close at US$56.5 per tonne. Iron ore was able to shrug off the fear of the Chinese market crippling global equity and commodity markets, although given the concerns surrounding Chinese economic performance volatility in iron ore prices has certainly not finished.

Lastly, uranium posted an increase of 2.1% during the month. The increase in uranium price is in response to global uranium production falling. Since April 2015, uranium has started to make a comeback when the first nuclear agreement between India and Canada's largest uranium producer, Cameco Corp. was penned. Significantly, uranium is the only commodity that has actually increased in price over the last 12 months.

OUTLOOK

The current market in mining and energy is going through a process that's distilling the market. Filtering down to the most resilient and competent management teams and the best projects into a much smaller universe of companies that are the cheapest they've been in 15 years. We don't know how much longer this bear market will last however there are now some spectacular opportunities in addition to those very good companies that are still making progress.

Slowing growth in China is not good news for commodity producers. What's more, at face value the plunge in commodity prices over the last year is consistent with a global recession as severe as that in 2008-09.

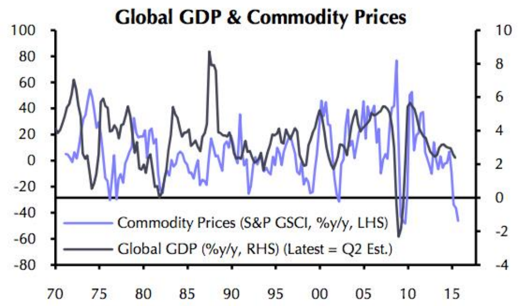

Figure 1: Capital Economics

But as economic conditions and prospects are nowhere near as bad as they were then, this supports our view that the present negative sentiment in commodity markets is overdone.

Capital Economics recently made an obvious observation, but one not repeated enough when talking about China and mining. While China's GDP growth is expected to slow to below 7% in 2015, the country would be adding some $700 billion to gross domestic product. That's greater than the size of mainland China's entire economy in 1994 and also bigger than Switzerland's economy and worth almost 2 times that of South Africa and 4 times that of New Zealand.

The much larger size of China's economy as a result of the previous years of rapid expansion means that its contribution to global demand has been relatively stable over this period.

August was a particularly difficult month and particularly so in small cap mining and energy. During the month we saw capitulation and margin calls across stocks in the mining sector. We are of the view that this frenzied selling has created incredible value propositions and we look forward to taking advantage of these opportunities over the coming months as commodities stabilise.

We thank you for your continued support.