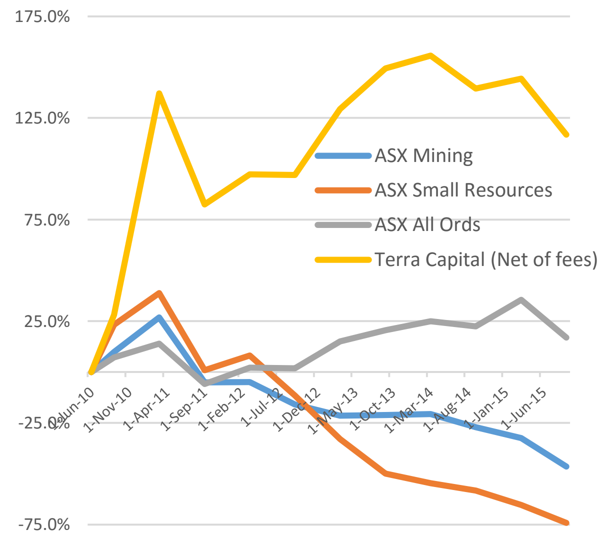
Natural Resource Fund

Quarterly Report – September 2015

	Terra Res. Fund	ASX All Ords	ASX 300 Mining	ASX Small Res.
1 Month	1.6%	-2.5%	-6.4%	-10.0%
3 Month	-17.9%	-5.8%	-12.8%	-24.9%
YTD	-17.9%	-5.8%	-12.8%	-24.9%
Incept (p.a.)	21.6%	7.6%	-8.5%	-22.2%
Unit Price	**$1.63**			

Fund Performance



*Terra Capital performance is net of fees

The ASX All Ordinaries Accumulation Index was lower 2.5% in June, while the ASX Metals and Mining Index and Small Resources Index fell 6.4% and 10.0% respectively. Against this backdrop the Fund was up 1.6% during September.

At 30 September the Unit Price stands at $1.63.

Market Performance

Coming off the back of its worst monthly decline since October 2008, the S&P/ASX300 Accumulation Index was down another 3.0% with returns over 3Q15 down -6.6%. Market trends remained broadly unchanged with Resources once again the loss leaders (-9.4%), followed by Small caps (-4.5%), Banks (3.1%), Large caps (-3.2%) and LPTs (-0.3%).

September continued the weak run for global risk assets with broad based declines across equities, commodities and most commodity sensitive currencies. On a quarterly basis, the MSCI World Index had its largest decline in four years, falling 8.9%. Broad risk asset declines were matched by a significant rise in volatility with the VIX touching its highest level (41) since August 2011 as a combination of factors stretching from Chinese growth, rising deflationary fears and Fed rate policy hampered markets.

Commodity Performance

It was another month of downward price movements in most commodities with oil and gold (USD) lower 5.6% and 1.8% respectively.

The most notable fall was zinc down 7.6% after already falling 10.0% in the previous two months after there was a large and unexpected spike in zinc inventories. Copper was flat for the month.

Uranium spot prices were steady Q-on-Q at US$36.50/lb. Inventory rundown and limited new mine supply bode well for a medium term price recovery. An increase in forecast Chinese nuclear power by 2030 in the pending 5 Year Plan may well be a catalyst

2015 marks the fourth year into the current commodities downturn. This phase of the cycle has been frustratingly slow for investors, influenced by fundamental drivers which we've discussed thoroughly in previous notes.

Positively though, the factors that will take us out of the current leg of the cycle are accelerating. Namely, capex reductions, capacity cuts and balance sheet strain amongst majors. Moody's estimates that half of current seaborne coal, nickel, aluminium, LNG and iron ore supply is uneconomic.

KEY HOLDINGS COMMENTARY

In what can only be described as another tumultuous month for resources companies we found it encouraging that bright patches emerged and we were able to find positive performance.

Notable areas include Australian domiciled gold producers and developers, many of which have run off the continued strength of the AUD gold price. Key stocks that have run in that space include DCN, SBM and RMS.

Further, we've seen positive performance from share price movements in the Lithium space as more investors understand the thematic. Lithium supply is somewhat constrained and future demand is strong with the likes of Tesla and others building battery factories which will be hungry for the material. As a further note we see lithium as the best way to benefit from the increase in battery production rather than graphite as many have touted previously.

OUTLOOK

Capitulation in the resources sector during the last month has seen many large mining companies share prices dramatically fall. The most notable of which was Glencore during the month when a note from Investec Asset Management predicted Glencore, which has more debt than most major mining companies, might soon be unable to keep up with its debt payments.

"If major commodity prices remain at current levels, our analysis implies that, in the absence of substantial restructuring, nearly all the equity value of both Glencore and Anglo American could evaporate."

Hunter Hillcoat, an analyst at Investec, said: "Mining companies gorged themselves on cheap debt in a race to grow production following the Chinese stimulus that occurred in the wake of the great financial crisis. The consequences are only now coming home to roost, as mines take a long time to build."

Glencore is being weighed down by a £20bn debt pile that is becoming increasing difficult to service as the company faces declining revenues as a result of falling commodity prices.

Many though, including Morgan Stanley feel that the tide is turning and the worst may be over. Morgan Stanley recently labelled the sector "attractive" and said valuations are at historically attractive levels. Morgan Stanley amongst others, also raised their recommendation for Rio Tinto and BHP Billiton to "overweight" from "equal weight" and for Anglo American to "equal weight" from "underweight."

Further, predictions are that commodity prices will rise by 19% by 2017, which would be a sharp reversal from the experience in the last 18 months. If this is the case, equities exposed to the sector, will outperform.

Emerging markets and China in particular remain key to commodities demand. In the next few months we expect the perception around this demand to improve. In particular the acceleration of financial and administrative stimulus policies in China in recent weeks should start to feed through in both actual activity levels and equity market expectations.

To this end, we're on the eve of China's Fifth Plenary Session of the Communist Party of China (CPC). The largest CPC meeting before the announcement of the 13th Five Year Plan. Details of the plan will become apparent during the debate.

At this stage we expect to see further loosening announcements adding to the recent Auto sales tax cut and Property down payment cut, potential announcements on Hukou and Land reform and further announcements on SOE reform. All of which will be highly beneficial in changing the markets view of "new China".

We look forward to seeing the plans of this evolving beast that is China and would like to thank our existing investors for their continued support.