TERRA CAPITAL

Natural Resources Fund

December 2023 Quarterly Update

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Performance

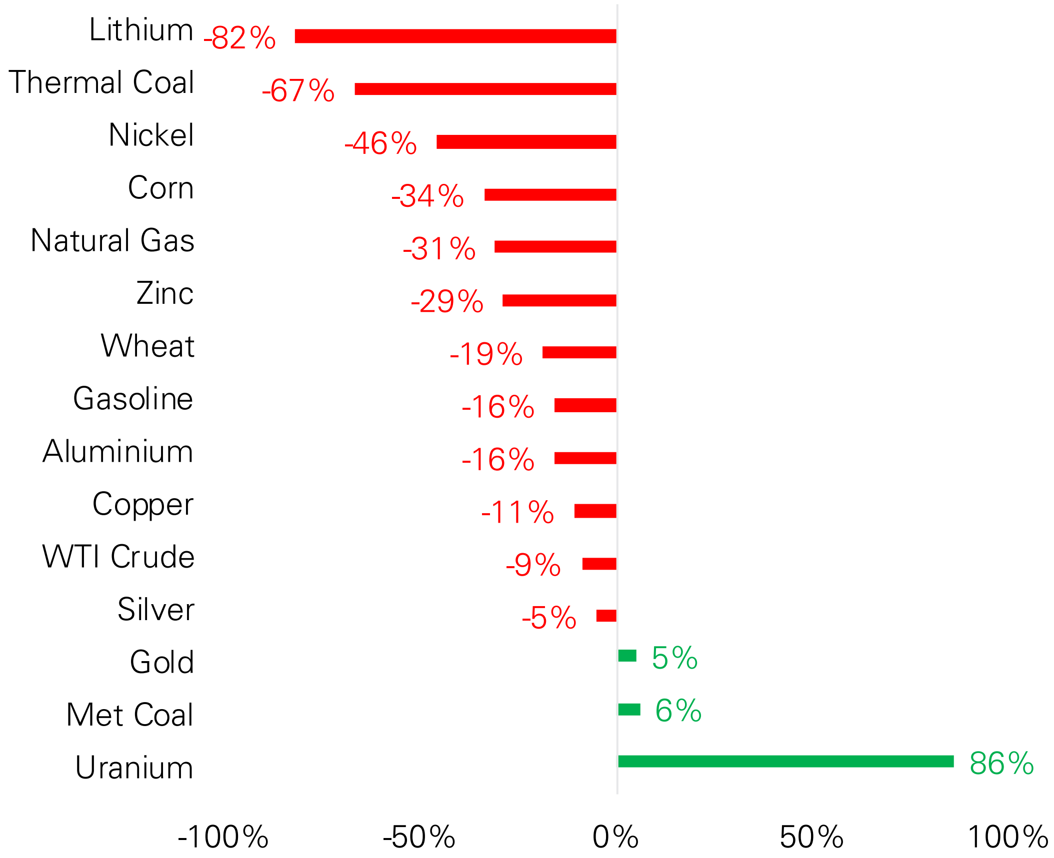
The Fund was up 5.8% in the month of December, 0.7% for the quarter and 1.3% for the calendar year.

The Unit Price is currently $3.2551.

Market Commentary

The Fund had a strong end to what was overall a challenging year for commodities. High rates, high US dollar and soft Chinese demand, particularly early in 2023, meant that there were few commodities with positive performance in 2023.

Figure 1: Commodity Price Change 2023 (%)



Source: Bloomberg, Iress, Kitco, Global Coal, SMM

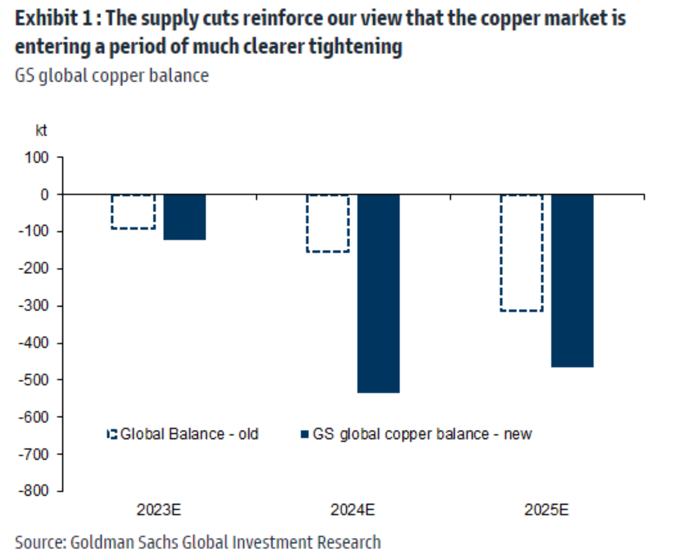
Despite this we believe 2024 is shaping up to be a much stronger year for both commodities and related equities, as the shorter-term macroeconomic backdrop begins to turn positive for the sector while the tailwinds of the longer-term structural bull market for commodities continues to play out. It is our view the last few years are merely a pause in what will be a sustained bull market for mined commodities.

A period of a weaker US dollar, lower bond yields, Fed rate hold/cuts, stability in China, booming demand in India, energy transition demand for metals and ongoing mine supply constraints all bode positively. The free cash flow generation in many of the companies we own is exceptional which should lead to valuation re-rates from the current low levels as the global allocation to the sector increases.

On a 6-12 month view we prefer high-quality miners that have strong balance sheets, low geopolitical risk and low-cost assets that are trading at low valuations and high FCF yields over those companies that are simply high beta plays on the cycle. While that may seem like a long list of characteristics to find in a company, we are surprised at how easy it is to find miners that satisfy these criteria. As we mentioned in the last quarterly, we have been rotating towards larger market capitalisation producers.

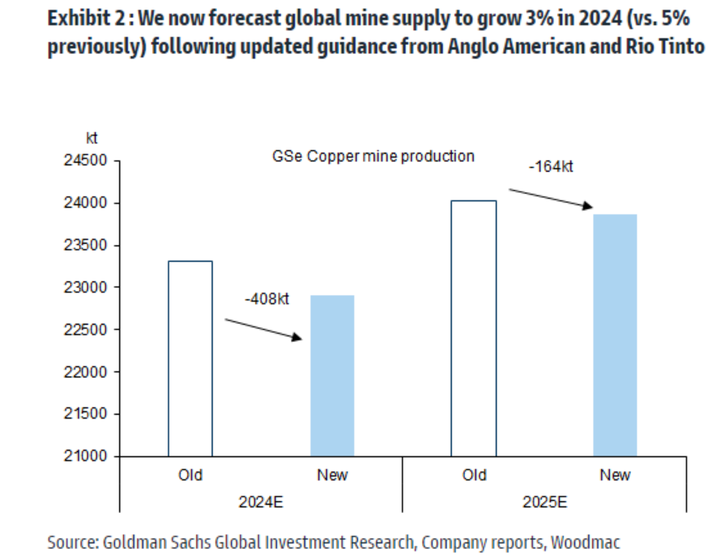
In 2023 we saw de-stocking across the commodity complex which obscured the structural deficits that exist in most commodities today. The one bright spot in 2023, Uranium, highlights what can occur when these deficits become insurmountable for end users. Even more recently we are starting to see consensus surpluses of copper in 2024 evaporate. With only a few key mine closures and downgrades and we are now looking at a significant deficit, highlighting the fragility of supply in markets where there has been very little capex for new projects or simply to sustain and maintain existing operations.

Figure 2: Global Market Copper Balance (kt)



Source: GS

Figure 3: Global Copper Mine Production (kt)

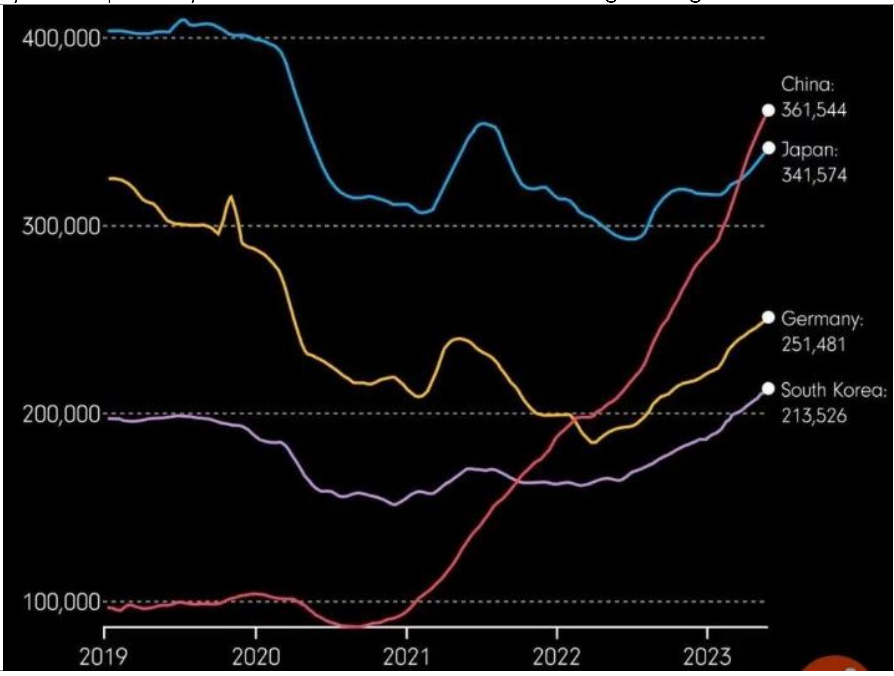


Source: GS

On the demand side, China micro conditions are better than expected e.g. copper wire and cable fabricators operated at >90% utilisation rate in October for the first time since 2021. We anticipate grid orders will remain strong in 2024 given the need to boost capacity to deal with the high volumes of distributed solar currently planned across the country.

China macro is OK and certainly not as dire as the mainstream media would have you believe. We certainly think that **the risk here is for more stimulus than expected, rather than less**. China property will remain a drag on sentiment, however wider market expectations for China in 2024 seem too negative. In particular, we see manufacturing and infrastructure spending remaining robust, while the shift up the export value chain is going to continue, with energy transition-related products to the fore, an example being China's desire to dominate the EV market, there is no change here (impressive chart below) and we expect this to continue to be an area of strong commodity demand.

Figure 4: Monthly Car Exports by Select Countries (12 month moving average)

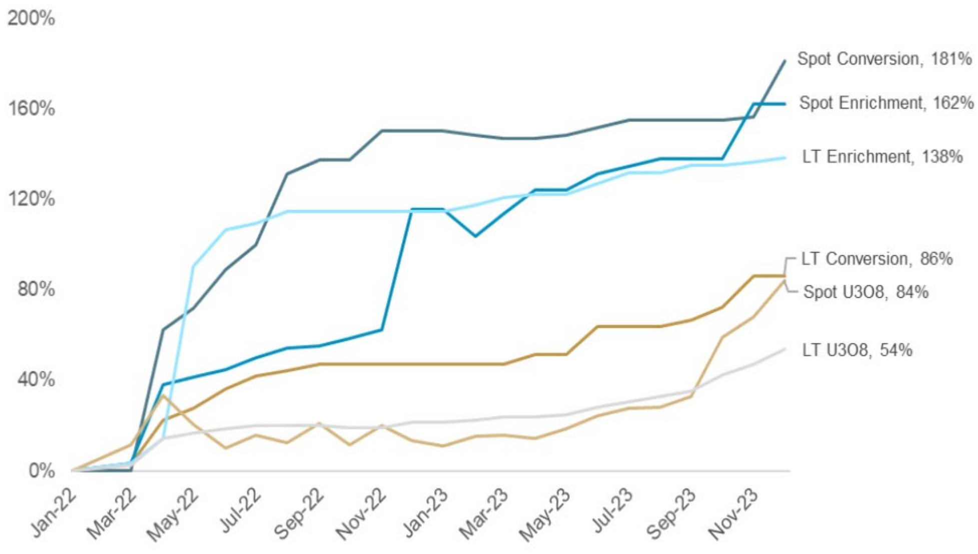


Source: Financial Times with Terra Capital Edits

Uranium – best performing commodity of the year

Nuclear fuel cycle prices have continued to rip higher. Spot yellowcake prices have advanced to >US$100/lb, LT and spot SWU prices remain elevated at decade-highs of US$150/SWU and US$152/SWU respectively, approaching an all-time high of US$164/SWU seen in 2009. LT and spot conversion prices are currently at all-time highs of US$45/kgU and US$33/kgU respectively.

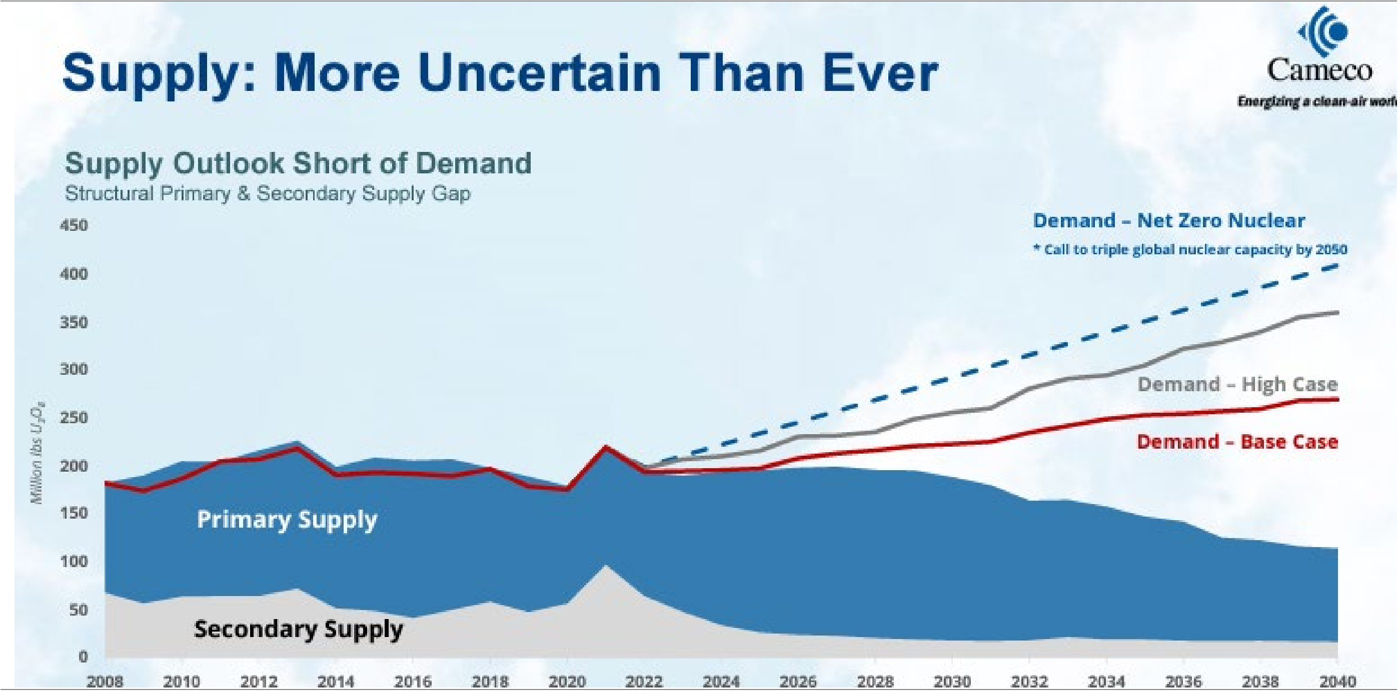
Figure 5: Uranium fuel price movements



Source: UxC, Numerco, EH edits

After uranium hit $100, the world's largest uranium producer, Kazatomprom, cut their production forecasts due to shortages of sulfuric acid and construction delays at newly developed deposits that are creating production challenges that could persist into 2025.

Figure 6: Uranium Market Balance (Million Pounds)



Source: UxC via Cameco with Terra Capital Edits

We think this trade has some time to run as the uranium market is in a structural deficit with limited signs of any improvement on the horizon. There's no ghost inventory anymore and no speed route to get restarts generating pounds. Yes, there are a few restarts, production will come online, but not enough. Success in long-term contracting and higher prices have supported near-term growth in primary mine supply, with a number of restart projects scheduled to come online in 2024 (EFR, EU, PDN, BOE). In our view, these are the relatively easy pounds given they are projects with existing infrastructure and minimal investment required to get to production, and while encouraging, we do not believe that these projects alone will be sufficient to rebalance the market. "Hard pounds" will need to get developed, and prices need to stay at high levels to incentivize the development of these more capital-intensive greenfield projects.

Cameco reports their results on February 8th – what we believe may happen is that because they buy pounds at spot and sell into contracts at $48/50lb, they will likely show a significant trading loss for the period. This lower realised price may cause some investors to move out of the largest listed western company into other high-quality names. We continue to like NXE as the largest, highest grade undeveloped uranium asset globally and Jeremy recently pitched it as his idea for 2024 at the Sohn Hearts and Minds.

Lithium– worst performing commodity of the year

2023 was a tough year in lithium but it's difficult to get too bearish on a commodity where production needs to increase by 50-100% in just 6 years. Early in the 2023 we did well to sell those companies we thought would be hardest hit by a falling spot price but we did not do well holding what we believe are the highest quality development assets as they too were hit hard.

The drop in the China spot lithium process has taken the lustre off the entire sector outside a few Western Australian stories. Canadian domiciled assets have been the hardest hit and while we are yet to reinvest there, we think there is inherent value in high quality deposits of scale, located nearby to North American automakers and battery plants.

The decline in prices is starting to bite as we have seen Core Lithium put their operation on to care and maintenance. LTR also recently announced a project review while last week ALB announced some belt tightening and CAPEX deferrals.

The press has focused on recent downgrades to EV sales forecasts by Tesla, Ford and the like but fail to mention that EV sales were roughly 10.5M units in 2022 and 14M units in 2023, while overall vehicle sales slowed. According to the China Passenger Car Association (CPCA), electric passenger vehicle (PV) wholesale units reached 1.1m units in December, up 15%/48% MoM/YoY. This marked record-high EV penetration at 40.8%, with 27.7% from battery electric vehicles (BEVs) and 13.2% from plug-in hybrid electric vehicles (PHEVs).

The diminished capital market interest in the sector only means one thing, and that is another lithium price spike in the future.

Metallurgical Coal: the 'good' coal

We remain bullish Metallurgical coal ('Met') over the both the short and longer term. We remind investors to distinguish between the two types; 'Good' (Met) and 'Bad' (Thermal) as there is no substitute for 'coke' in making steel. We are increasingly concerned with mine supply declining due to western environmental policies that are attempting to legislate coal mines out of existence. Like most fossil fuel producers, coal equites remain cheap (often 1-2x EBITDA) are cash flow machines and rapidly returning it to shareholders. We think met coal should trade at a premium to thermal coal due to its necessity. Our preferred exposure is for high quality producers who produce predominantly Met coal (>95%), have long mine lives with long dated operating licenses.

Figure 7: Australian Hard Coking Coal Prices (FOB)

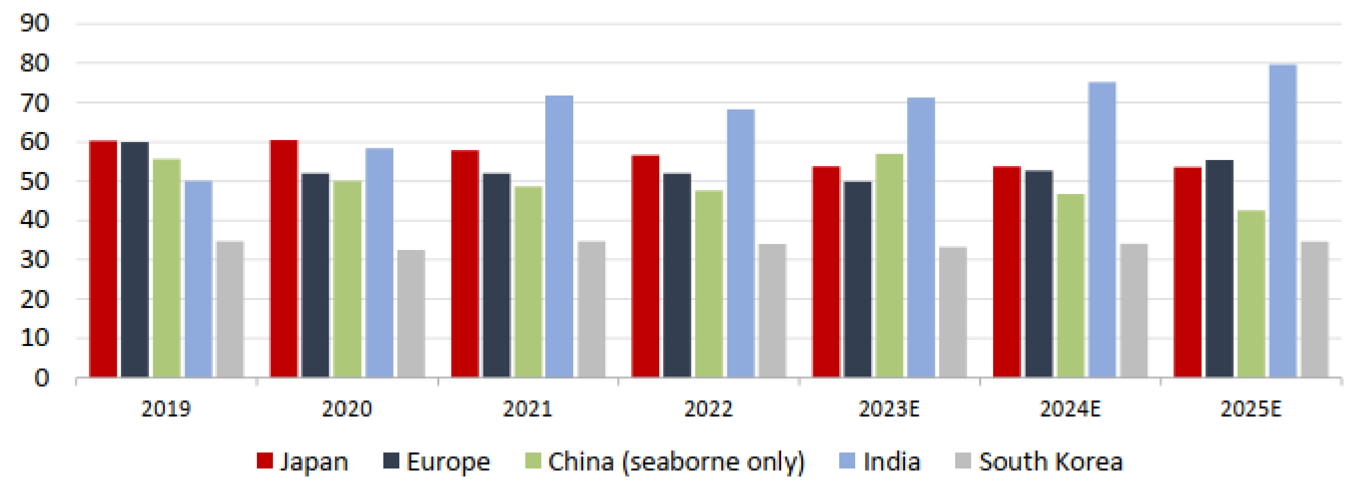
Source: Bloomberg

Met Coal Market

Coal is one of the most abundant fossil fuels, with a record 8 billion tonnes consumed in 2022. There are two key types with different end uses; **'Thermal'** for energy generation (88%) and '**Met coal'** for steel making (12%). 'Hard Coking Coal' (HCC) is converted into 'coke' and added to a blast furnace as an essential ingredient to the metallurgical process. Each tonne of steel requires 770 kilograms of met coal. There is no substitute in the process. In addition, the higher the quality of coal, the more efficient and less CO_2 emissions are generated.

Demand is driven by global steel production and the availability of supply from nearby mines. In 2023 the 'contestable' seaborne market was ~300 million tonnes ('mt'). The largest consumers are India (70mt), China (60mt) and Japan (55mt). Over the past 5 years seaborne demand has declined by ~10% or 30mt due to falls in China's steel production as well as strong domestic China supply of 'fat' coking coals (~700mt).

Figure 8: Major Metallurgical Coal Importers (million tonnes)

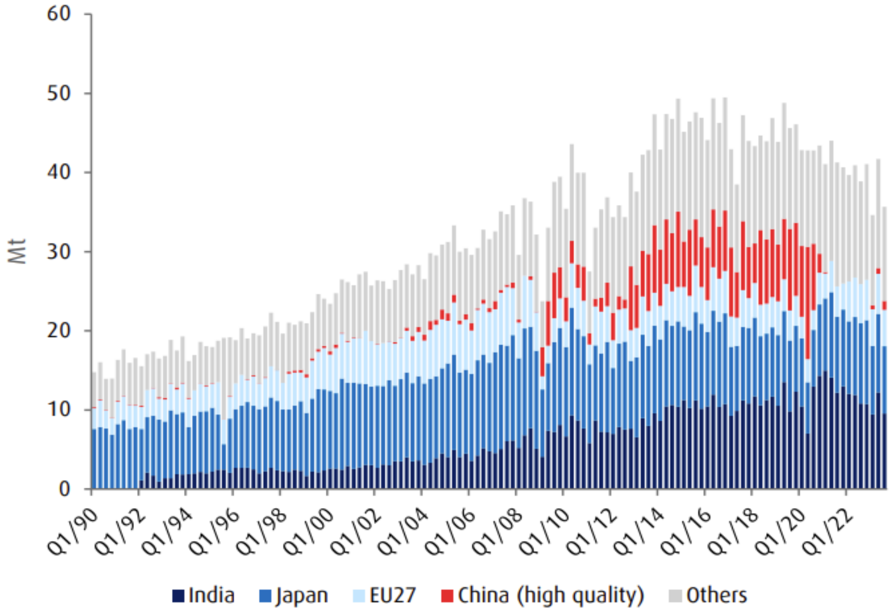


Source: Wood Mackenzie via Jefferies

The biggest and best quality met coal is found in Australia's Bowen Basin which accounts for roughly half the world's seaborne supply (~160mt in 2023). However, Australian exports have dwindled by ~15%, since its 2016 peak of 188mt. This is due to a combination of closures, mine maturity, permitting constraints and a dearth of investment. Similar issues also appear to be impacting other major exporters such as Canada which has declined 20% over the past 5 years to 25mt in 2023.

We are increasingly concerned at the supply outlook from these two basins. Despite their significant geological endowments and first world infrastructure the current political climate appears to be legislating and or taxing mines out of existence. Australia's two primary coal states have materially increased coal royalties, with Queensland imposed a whopping 40% for prices over US$300/t. In response, several producers have publicly shelved growth plans.

Figure 9: Australia Metallurgical Coal Exports by destination (Quarterly)



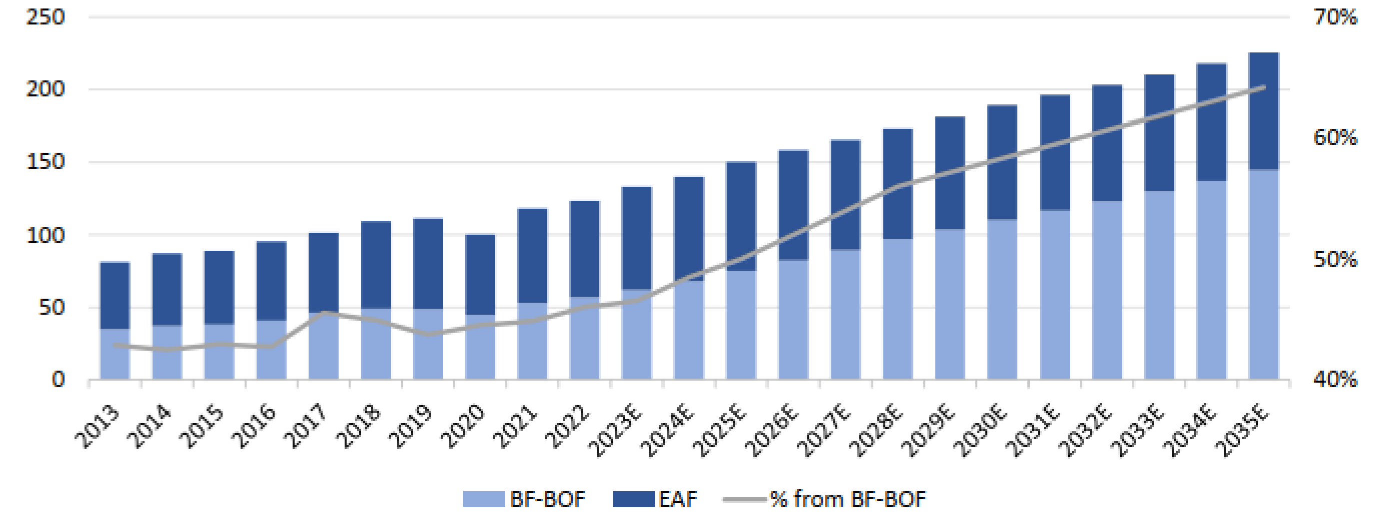
Source: Australian Bureau of Statistics via BMO

Get it 'In-dia'

In scenes reminiscent of China from the late 1990's, India's steel consumption appears set to rapidly accelerate. In 2023 India consumed ~120mt of steel, predominantly via scrap in electric arc furnaces ('EAF') (55% of 170mt of capacity). By 2030, consumption is expected to double to 250mt, via a significant domestic build out in blast furnace capacity (blast furnaces needs met coal, EAF does not).

However, unlike China, India lacks geological reserves of metallurgical coal. Since 2019, India has been the world's largest importer, with 2023 reaching ~70mt (20% of seaborne). We believe potential shortages of metallurgical coal in the seaborne market may hinder its steel production growth. Prominent Indian steel producers and government officials have made increasingly bold outcries for Queensland to open more coal mines.

Figure 10: Indian Crude Steel Production by Process



Source: World Steel Association, Wood Mackenzie via Jefferies

Coal Equities: Printing Cash

Coal equities are broadly consistent with other fossil fuel producers which are characterised by:

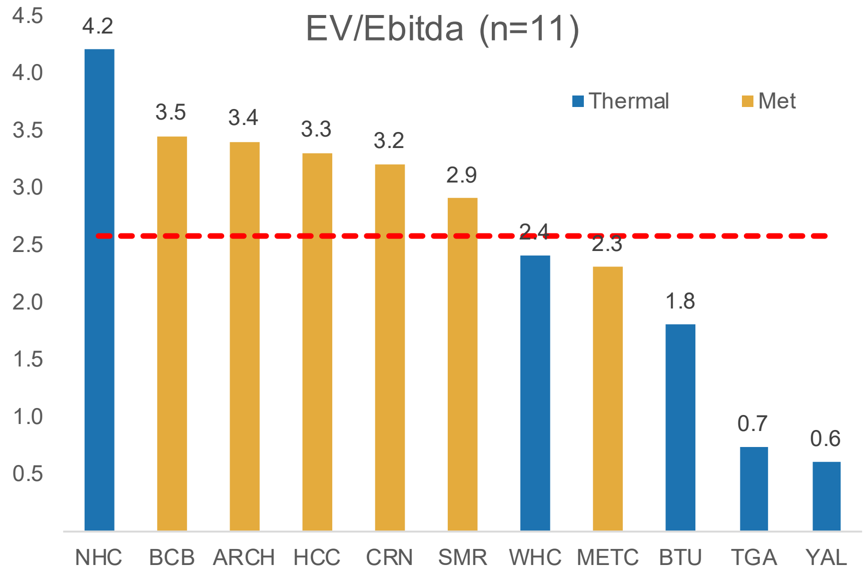
1. Low earnings multiples with EV/Ebitda of ~2.5x
    a. Met coal names trade at 3.1x a 60% premium to thermal on 1.9x (see table below)
2. High cash generation, with free cash flow yields of ~13%
3. Strong capital return profile with dividend yields of 5%

Our preferred sector exposure is via opencut pure play met coal producers with good balance sheets, long dated operating permits and organic growth potential. We would avoid exposure to leveraged underground coal mines, that produce predominantly thermal coal (along with lower spec met coal) and those with fixed price legacy contracts with utilities and steel mills.

Preferred Exposure: Stanmore Resources

Our preferred exposure is for ASX listed Stanmore Resources ('SMR' MC A$3.6bn) which has 3 opencut coal mines in Queensland's Bowen Basin. 2024 guidance is ~12.5mt coal sales at cost of US$100/t. We like SMR's met coal exposure (98% of production), net cash (US$126m) balance sheet, strong cash flow (12% FCF yield) and near-term capital return upside (consensus dividend yield ~3%). Following the acquisition of 2 assets from BHP in 2022, we see several opportunities for optimisation and growth at limited incremental cost.

Figure 11: Coal Sector EV/EBITDA Multiple (+1Yr)



Source: S&P with Terra Capital Edits

India

We expect India, the economic boy who cried wolf, to finally begin to meaningfully contribute to global GDP and therefore consumption of commodities. A consultant of ours recently returned from a trip and reported that the economy was vastly different to his last visit.

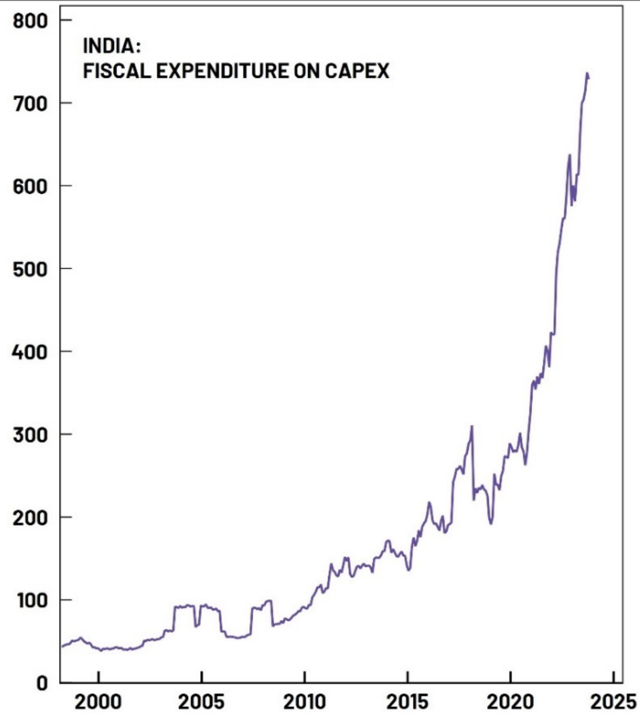
His report out lined that infrastructure development is progressing at a significant pace, with much improved road, rail and air transportation networks, and abundant power supply meaning blackouts are a thing of the past. Sentiment among the middle classes is very positive, with a real belief that the future will see improved opportunities and higher wages consequently supporting rising consumption. The private housing market is also building significant momentum in the major cities, as cultural changes are seeing more younger people looking to live separately to their parents supporting the buildout of high-rise apartments.

Government policies such as "Made in India" together with the much-improved power supply situation, financial industry structure, and broader streamlining of regulatory frameworks, are all encouraging significant volumes of foreign investment which should see India's share of global manufacturing surge alongside its consumption.

While there may be some slowing in economic activity around the general election in April or May, the expectations for another five years of Modi led government should mean economic momentum and investment levels continue to build post the election, and the country can become a significant tailwind to global metals demand.

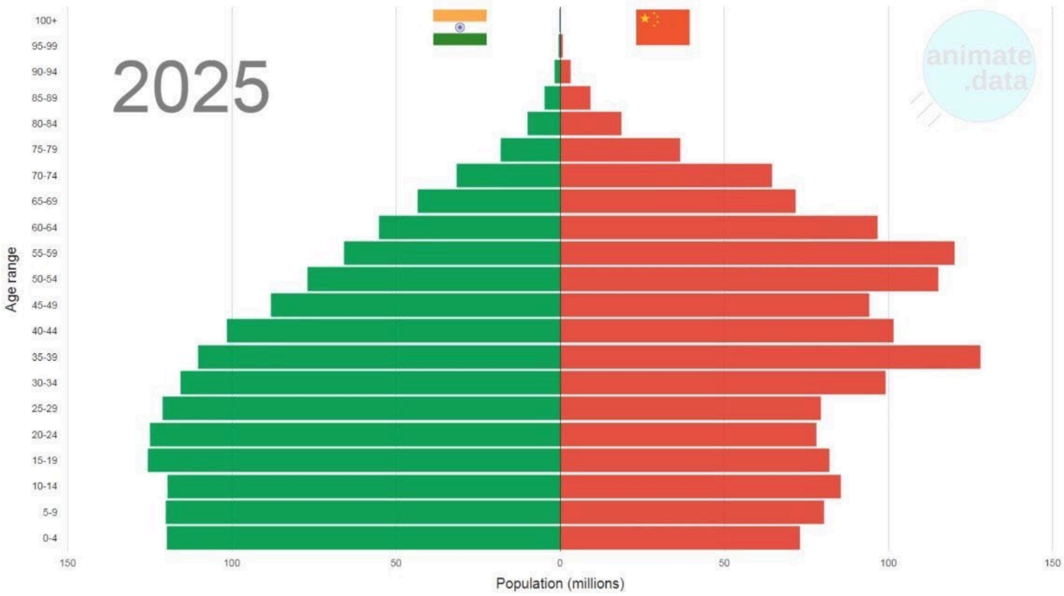
Given their lack of geological reserves, metallurgical coal and copper are the two commodities which stand to benefit the most from the evolution in the Indian economy. However, there are also plenty of other beneficiaries beyond these. Aluminium in particular looks well placed given the lack of appetite to invest in new smelters domestically on environmental pressures, despite the abundance of bauxite reserves. Indian scrap imports across the ferrous and non-ferrous space have seen substantial growth in recent years, and this will continue near term as the government shows little appetite to clamp down environmentally on smaller scale smelters. The one uncertainty is in thermal coal, where demand is set to boom as the government recently raised the thermal coal power installation target to 80gw from 50gw, but the role of imports will be more dependent on policy decisions around domestic mine supply growth which has been surging recently despite the environmental consequences.

Figure 12: India Fiscal Capex Expenditure (Bn INR) (12 Month Moving Average)



Source: India Ministry of Finance via Macrobond

Figure 13: Demographic Pyramid – India & China



Source: United Nations, [Visual Capitalist]

Vicuna Site Visit

A large part of our job is to get boots on the ground and visit different mines around the world. Last week Jeremy attended a site visit to the Lundin group of companies in the Vicuna district on the border of Chile and Argentina. These companies perfectly encapsulate the attributes we look for when we invest. The companies are entrepreneurial, dynamic and fantastically run by the Lundin family who has invested billions of their own money into these companies. Each company holds a world class asset that would rank it the top quarter of copper assets globally. The visit provided valuable insights into political support, regulatory landscape, and the vision guiding Lundin ventures in the region. This is an important emerging copper district that Lundin controls directly via 'Lundin Mining' (LUN.TSX) and indirectly via stakes in 'Filo Mining' (FIL.TSX, 33% LUN) and NGEx (NGEX.TSX, 35% LUN). The key projects and prospects in the region include:

- **Candelaria (80% LUN):** is a large opencut and underground mining complex located 75km south- east from the port of Caldera. In 2023 the mine produced 152kt of copper and 90koz of gold (100% basis).
- **Caserones Mine (51% LUN)**: an opencut copper and molybdenum mine in Chile which produced ~130kt of copper in 2023 at cash cost of ~$2.0/lb. LUN acquired part of the project in July 2023.
- **Josemaria (100% LUN):** shovel ready copper development project in Argentina. Potential beachhead for the district on the Argentina side due to its advanced stage, its proximity to both Filo del Sol and Lunahuasi, and favourable topography for processing infrastructure. Despite its marginal economics, we expect construction to move ahead and eventually see mill feed supplemented by high grade ore from Lunahuasi.
- **Filo del Sol (100% FIL):** is a high grade copper gold porphyry discovery. While yet to define a resource, metal content would rank as one the largest and richest in the world. The project could result in an expansion (perhaps doubling) of the Josemaria plant, along with back-end infrastructure to treat the high-enargite Flo del Sol ore (likely requires a roaster).
- **Los Helados (NGEX 69%)**: is an underground development project in Chile 13 km from Caserones. Hosts a significant high grade copper endowment (570mt at 0.72% copper) and has potential synergies with Casarones plant. Several studies have been undertaken to develop the project as a block cave transporting ore via conveyor to Caserones.
- **Lunahuasi (100% NGEX):** new high grade discovery made in April 2023, revealed promising copper grades (>5%). Only 8km from Josemaria, the synergies for development are plainly obvious. The project doesn't require a shaft, rather access from a drift on the side of the mountain. 25 holes planned for this season, only 2 have been released.

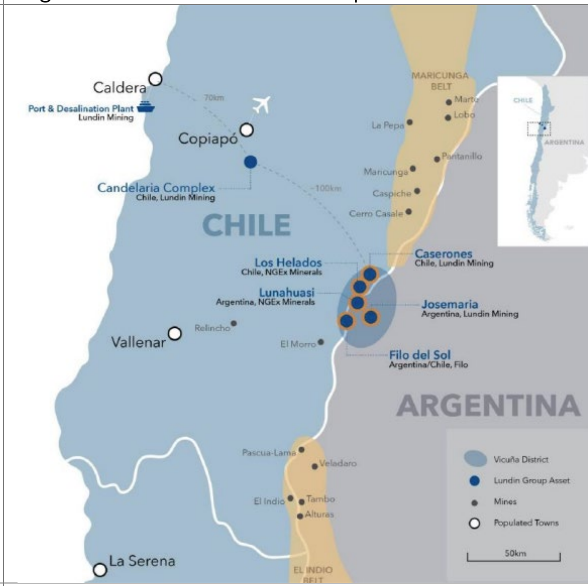
Key take aways included:

1. **Consolidation:** the various assets in the Vicuna district must be consolidated to capture operational and ESG synergies. While unlikely to happen imminently, we believe it will happen by country:
    - **Argentina:** Josemaria, Filo del Sol and potentially Lunahuasi
    - **Chile**: Caserones and Los Helados
2. **Political Support**: Meetings with Governors of Atacama, Chile, and San Juan, Argentina showcased robust bilateral support for Lundin Group projects on both sides of the border. Both governors expressed strong support for integration initiatives, such as utilizing desalinated water from Chile in Argentina and optimizing transportation routes for copper concentrates. The Governor of Atacama shared insights into a pending Chilean reform expected to streamline the permitting process, reducing political influences and empowering regional authorities. This reform, exemplified by Rio2 heap leach permits, indicated a favourable shift.
3. **Infrastructure:** Chile infrastructure that supports both Candelaria and Caserones mines underscored Lundin strategic position in the region. The visit showcased impressive desalination water plant which can be scaled up incrementally to provide water to the district.

Figure 14: Caserones Processing Plant

Source: Terra Capital

Figure 15: Vicuna District Map



Source: Company Reports

Families such at the Lundins, think generationally when they invest. We have no doubt that this district will be the next great copper producing district globally and we are excited to invest alongside them.

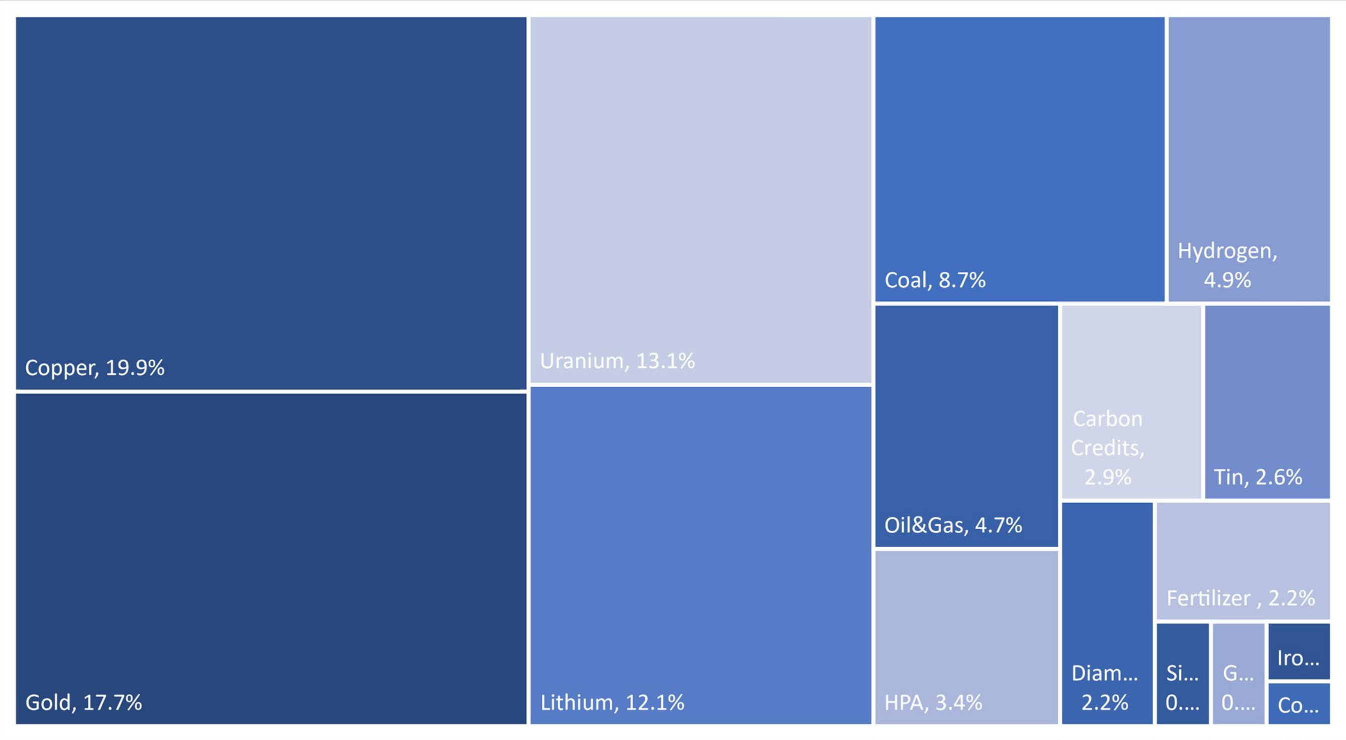
Summary

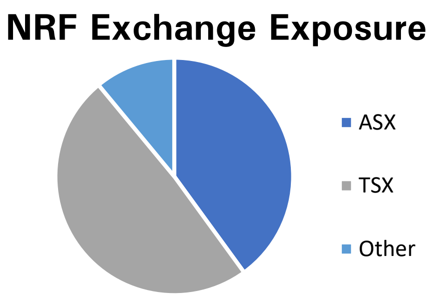
We are convinced that the market remains far too negative on mined commodity equities which continues to provide an opportunity. We continue to provide our investors with a portfolio of high quality equities in commodities with tailwinds.

Please feel free to get in touch if you want to chat further on any of these commodities or the Fund in general.

As always, we greatly appreciate your support and welcome any feedback you may have.

Terra Capital Natural Resources Fund Exposure





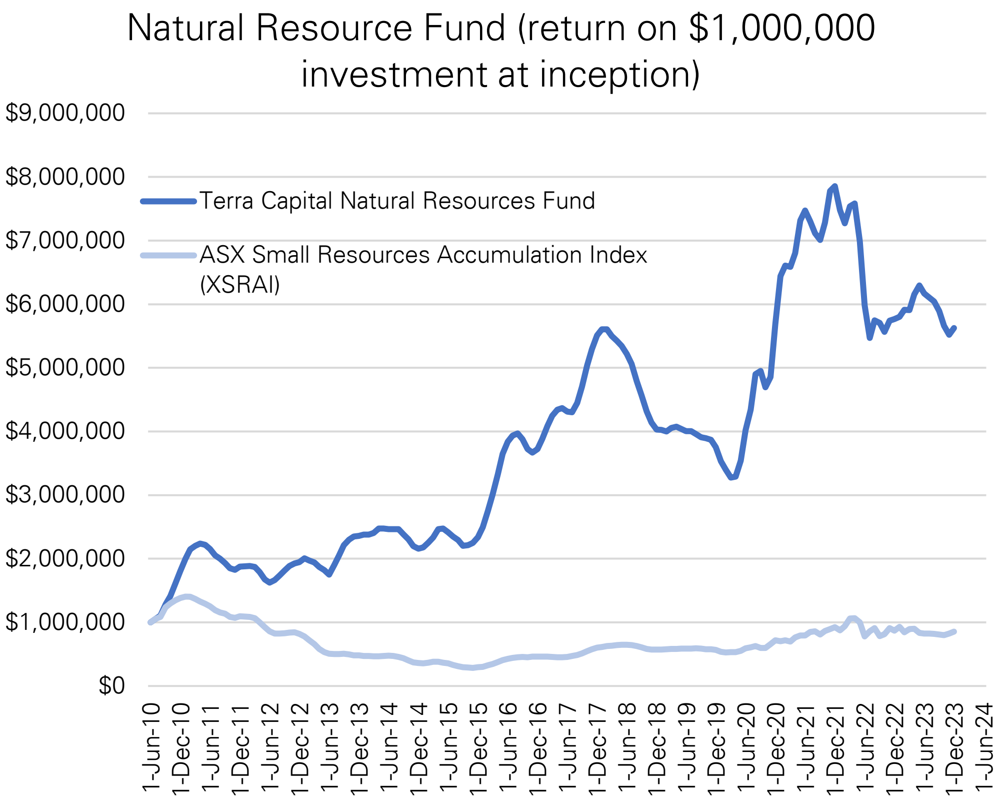
Performance since inception

2010	2011	2012	2013	2014	2015	2016	2017
89.8%	-9.2%	5.7%	22.6%	-5.0%	8.2%	50.2%	74.1%
2018	2019	2020	2021	2022	2023	Per Annum	Cumulative
-36.2%	2.1%	61.2%	22.2%	-25.9%	1.3%	13.9%	478.2%

Natural Resources Fund Strategy

The Fund is a global mining and energy equities fund established in July 2010. The Fund's strategy is fundamentally driven, high conviction, high concentration and we pride ourselves on our relationships with our investors. Terra Capital's research driven process and true active management is complimented by a focus on risk management.

The objective of the Fund is to deliver superior absolute returns over the medium to long term by investing in small to medium-sized companies in the mining and resources sectors.



*Performance is quoted net of all fees.

Fund price details:

NAV	$3.2551
Entry Price	$3.2632
Exit Price	$3.2470

About Terra Capital

Founded in 2010, Terra Capital is an Australian based specialist investment manager for wholesale and sophisticated investors. Based in Sydney, the firm has established itself as one of the best performing specialist Fund managers in Australia. Terra Capital has a proven track record of performance and a management team that is strongly aligned with investors. The Terra Capital Natural Resource and Green Metals Funds are authorised representatives of AFSL 318 961

Since the fund's inception, our established investment process and experience result in an enduring competitive advantage that has allowed the Terra Capital Natural Resources Fund to significantly outperform sector indices.

General advice warning

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