

## Terra Funds Quarterly Update & Performance Report

We are pleased to present the June 30, 2018 quarterly update for the Terra 2018 Short-Term Flow-Through LP and Terra Mutual Funds.

### Performance Overview

As of June 30, 2018, the unaudited net asset value of the Terra Small Cap Growth Fund was \$10.33 per R class share, TerraTundra Dividend Growth Fund was \$13.01 per R class share, and TerraTundra Money Market Fund was \$10.00 per share. See pages 3 and 4 for the portfolio holdings of the Small Cap Growth Fund and TerraTundra Dividend Growth Fund.

For the quarter, R class shares for the Terra Small Cap Growth Fund increased 4.01%, R class shares for the TerraTundra Dividend Growth Fund increased 4.03% and TerraTundra Money Market Fund remained unchanged at \$10.00 per share.

### Portfolio Manager's Comments –2nd Quarter 2018

World equity markets experienced continued volatility over the second quarter of 2018, but generally posted modestly positive returns. The US\$ strengthened notably however, impacting foreign market returns in US\$ terms. Developed markets were strongest, with Canada leading the way up 6.8% (all numbers in US\$ except Canadian markets in C\$). The S&P/TSX Composite index hit a record high during the quarter, driven by a strong Energy sector that benefitted from an ongoing rally in oil prices. The S&P 500 in the U.S. was up 3.4%, while Europe declined a modest 0.9% and Japan dropped 2.8%. Emerging Markets were weakest, down 7.9% as rising interest rates, a stronger US\$ and trade war concerns weighed on investor sentiment.

Taking a closer look at the Canadian equity markets, the S&P/TSX Composite's 6.8% gain was broad based as all sectors were in positive territory with the exception of Utilities, down a modest 0.4%. Interest rate sensitive sectors in general lagged, with Telecoms, Consumer Staples and Real Estate joining Utilities amongst the weaker performing sectors. Energy was the strongest performer, up 15.8% as West Texas Intermediate (WTI) oil gained the exact same amount, 15.8% to reach US\$74.15/bbl. Health Care was also strong, up 14.3% as Valeant Pharmaceuticals gained 49% on a strong quarter, potentially signalling the start of a turnaround for the company. Small-caps performed in line with large-caps over the quarter, with the S&P/TSX SmallCap Index up 6.6% versus the Composite up 6.8%. Strong outperformance by small-caps early on was given up later in the quarter in the midst of increasing uncertainty and flows to the safety of large-caps. While most small-cap sectors underperformed their large-cap peers, this was mostly offset by the small-cap index's heavier

weighting in the top-performing Energy sector and a much smaller weighting in the weak Financials sector.

In the Energy space, the oil price rally has seen WTI climb to levels not seen since December 2014. Strong global demand, shrinking global inventories, heightened geopolitical risks and OPEC production restraints have contributed to the strong performance of the commodity. Longer-term we believe current price levels are adequately supported as robust demand growth led by emerging markets is met with prolonged supply disruptions from Venezuela and sanctions on Iran. Further, the steep drop of capital investment in upstream activity globally and lack of spare capacity in OPEC and Russia could create a very tight oil market over the medium term. However, we do see potential for volatility in the short-term as there is a timing mismatch between OPEC increasing exports versus pending supply reductions from newly imposed Iran sanctions.

Looking beyond equity markets the Canadian economy has remained resilient, with unemployment remaining near the lowest levels seen in over 40 years at 6.0%. Despite the NAFTA trade concerns facing Canada, slack in the economy is disappearing, wage gains have remained firm and consumer and business confidence has appeared resilient. Driven by the solid fundamentals, following quarter-end the Bank of Canada implemented another 25bps rate hike in July, its fourth of this tightening cycle as it continues to normalize rates and remove stimulus from the economy.

In the United States, the Federal Reserve also hiked rates, by another 25bps in June. We expect that the Fed will continue to hike, and at a faster pace than Canada, particularly in the face of Trump stimulus that could potentially overheat an economy already at full employment. Trump successfully passed his tax reform plan at the end of the 2017 and the unemployment rate has dropped to the lowest levels since 2000, with expectations that it will continue to decline. A steady pace of Fed rate hikes combined with the gradual unwind of quantitative easing are expected to continue driving interest rates higher.

While economic fundamentals remain solid, notably here in North America, rising uncertainty has driven a marked increase in equity market volatility this year following an unusually subdued 2017. Trump's tariffs, potential trade wars, increasing populism in Europe, combined with the usual geopolitical risks have conspired to impact equity valuations. While earnings growth has been solid to strong, declining multiples have largely offset this, resulting in generally flat markets. There may also be another factor, rising interest rates, that is beginning to have an impact on equity valuations. The yields on shorter duration fixed income instruments such as 2-Year U.S. Treasuries and investment grade

**Portfolio Manager's Comments continued...**

corporate bonds are back above the inflation rate for the first time in years, potentially reintroducing bonds as a viable investment alternative.

We maintain our preference for equities over bonds. The combination of equities' earnings growth and declining forward multiples has led to more attractive valuation levels, supported by a solid near-term outlook. However, with numerous risk factors (NAFTA negotiations and Trump-inspired trade wars foremost) and a very extended economic cycle, our preference is moderating. We expect continued volatility ahead and more muted returns for the Canadian and broad equity markets. In this environment we have generally increased the cash weighting of portfolios and continued to focus on diversification and holding quality companies that we believe are more resilient to trade issues or an economic downturn.

**Terra 2018 Short-Term Flow-Through LP**

The Terra 2018 Short-Term Flow-Through LP has commenced marketing and is now available for purchase. The Flow-Through LP will invest in a portfolio of primarily oil & gas firms as well as mining resource companies which the Portfolio Manager believes offer good value and potential for capital appreciation.

**Terra Small Cap Growth Mutual Fund**

The Fund generated a 4.01% return for the second quarter, underperforming the S&P/TSX SmallCap Index's return of 6.6%. While the Fund's holdings outperformed the benchmark in almost every sector, security selection in the two sectors where the Fund did underperform, Energy and Materials, led to overall underperformance. Sector allocation was also a modest drag on relative performance, driven largely by an underweight position in the top-performing Energy sector and an overweight position in the poor-performing Utilities sector. The largest contributors to relative performance were security selection in Industrials (Badger Daylighting +23%, WSP Global +17%) and Information Technology (Constellation Software +17%, Descartes Systems Group +16%).

The Fund held companies across a number of sectors, and particularly in Energy, that generated strong returns this quarter. The top performer was Element Fleet Management up 51% as a solid quarter helped restore some investor confidence following a period of operational challenges. Other top performers include Parex +37%, Aritzia +29%, Cuda Energy +28%, Badger Daylighting +23% and Leucrotta Exploration +23%. The Fund added a new name during the quarter, participating in the well-received IPO for Minto REIT, an owner of high-quality multi-residential rental properties (i.e. apartment buildings).

The Terra 2017 Short-Term Flow-Through LP was rolled over into the Terra Small Cap Growth Mutual Fund in late June 2018. As a result of the Flow-Through LP's focus on resources, Energy in particular, the Fund experienced a temporary increase in its Energy weighting to 43% at quarter-end. This will be expeditiously reduced with proceeds reallocated to other sectors in order to restore the broader diversification of the portfolio. Quarter-end sector weights were 43% Energy, 13% Materials, 9%

Industrials, 8% Real Estate, 6% Information Technology, 6% Consumer Discretionary, 4% Financials, 3% Utilities, 1% Consumer Staples, 1% Health Care, 3% U.S. Equities and 3% Cash.

**TerraTundra Dividend Growth Fund**

The Fund generated a return of 4.03% in the second quarter, underperforming the S&P/TSX Composite Index which gained 6.8%. With the Canadian equity market performing strongly, the Fund's allocation to other markets/investments was the driver of underperformance. Most notable were the impact from the Fund's position in preferred shares, an underweight position in the top-performing Energy sector, and the Fund's position in U.S. and International equities. An underweight position in the weak Financials sector was the top contributor from a sector allocation perspective. Security selection contributed to relative performance, driven by the Energy and Industrials sectors.

A number of the Fund's holdings posted strong returns for the quarter, dominated by Energy or Energy-related names. Badger Daylighting led the way, up 23%, followed by Suncor Energy +21%, Canadian Natural Resources +18%, Enbridge +18%, Vermilion Energy +16% and Pembina Pipeline +15%. Non-Energy names that performed well included Cott Corporation +15%, Canadian National Railway +15%, Clearwater Seafoods +14% and Tricon Capital +13%.

The portfolio maintains a more diversified, relatively defensive positioning versus the S&P/TSX Composite. The Composite is heavily concentrated in three large sectors, with Financials at 33%, Energy at 20% and Materials at 12%. The Fund is underweight these three sectors at 18% Financials, 12% Energy and 3% Materials, and overweight more defensive income-oriented sectors. Notably Real Estate is at 6% versus 3% for the Composite. Other quarter-end sector weights were 6% Consumer Discretionary, 4% Consumer Staples, 4% Industrials, 4% Utilities, 2% Telecom and 5% Cash.

The Fund also holds 11% in Preferred Shares and 23% in U.S./International equities. The Fund continues to maintain exposure to U.S. and International equities, representing 16% and 6% of the portfolio respectively at quarter end. The portfolio manager believes these investments provide the benefit of diversification as well as the opportunity to capitalize on potentially stronger equity markets outside of Canada. These US\$ denominated holdings may provide a further potential benefit, as they gain in value when the Canadian dollar declines.

**TerraTundra Money Market Mutual Fund**

The Fund currently holds a mix of cash and bankers' acceptances (BAs) with staggered maturities. The BAs yield on average 1.6%, providing the Fund with a solid short-term yield in the current low rate environment and a yield pickup relative to similar term government bonds or high interest savings accounts.

Yours truly,

Cypress Capital Management Ltd.

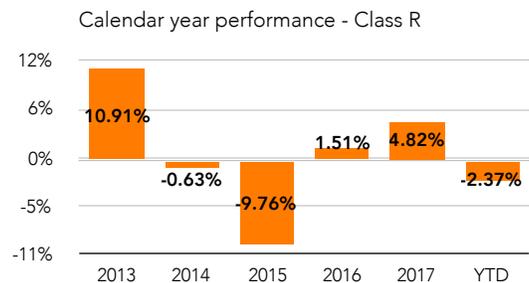
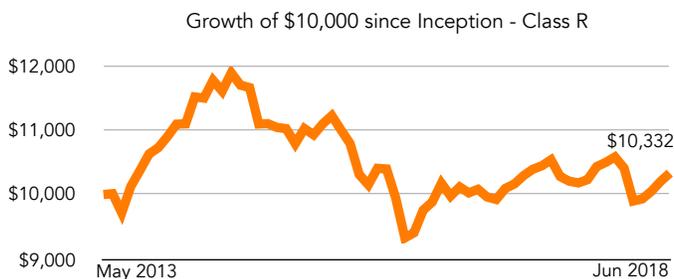
## Terra Small Cap Growth Fund

As of June 30, 2018 (unaudited)

Portfolio Investments - Top 10	Symbol	%
Kelt Exploration	KEL	6.26%
iShares S&P/TSX Capped Energy	XEG	6.00%
Whitecap Resources	WCP	3.39%
Parex Resources	PXT	2.98%
TORC Oil & Gas	TOG	2.65%
Tricon Capital	TCN	2.21%
MEG Energy	MEG	1.88%
DREAM Unlimited	DRM	1.87%
CCL Industries	CCL.B	1.84%
Broadview Energy	Private	1.79%
<b>Total percentage of top 10 investments</b>		<b>30.87%</b>
All Other Investments		69.13%

Share Price	
A Class	\$10.3709
R Class	\$10.3317
F Class	\$10.7501

Sector Allocation	
Energy	42.90%
Materials	12.80%
Industrials	8.80%
Real Estate	8.30%
Information Technology	5.90%
Consumer Discretionary	5.50%
Financials	4.40%
Utilities	3.30%
Consumer Staple	1.20%
Health Care	0.80%
US Equities	2.80%
Cash	3.30%



Performance - %									
Class	YTD	1M	3M	6M	1 YR	Annualized Returns			
						3 YR	5 YR	SI May 2013	
A	-2.40	1.25	4.00	-2.40	0.46	-2.08	1.31	0.71	
R	-2.37	1.25	4.01	-2.37	0.51	-2.08	1.24	0.64	
F	-1.98	1.32	4.22	-1.98	1.33	-1.28	2.02	1.42	

All returns are net of fees and annualized if the period is greater than one year. The inception date for the fund is May 2013. The performance table is used only to illustrate the effects of compound growth and is not intended to reflect future values of the mutual fund or returns on investment in the mutual fund. Top ten equity holdings and sector allocations are a percentage of net asset value. Mutual funds are not guaranteed; their values change frequently and past performance may not be repeated. Investors will pay management fees and expenses, may pay commissions or trailing commissions, and may experience a gain or loss. Please read the offering memorandum before investing. Numbers may not add up due to rounding.

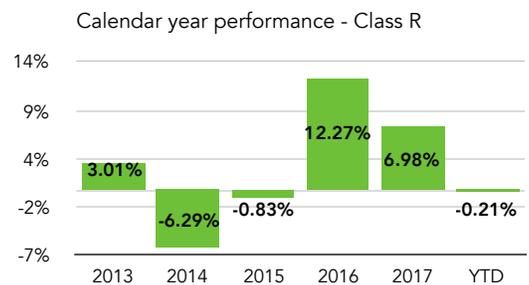
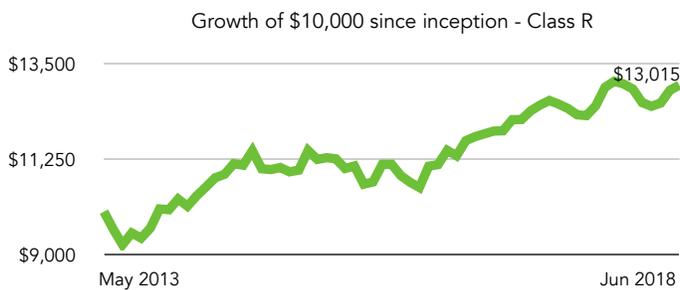
## TerraTundra Dividend Growth Fund

As of June 30, 2018 (unaudited)

Portfolio Investments - Top 10	Symbol	%
Brookfield Asset Mgmt	BAM.A	4.14%
Toronto Dominion Bank	TD	3.94%
Royal Bank of Canada	RY	3.85%
Magna International	MG	3.46%
Bank of Nova Scotia	BNS	3.37%
Alimentation Couche-Tard	ATD.B	3.33%
Canadian Natural Resources	CNQ	2.46%
Manulife Financial	MFC	2.45%
Suncor Energy	SU	2.42%
Tricon Capital	TCN	2.36%
<b>Total percentage of top 10 investments</b>		<b>31.78%</b>
All Other Investments		68.22%

Share Price	
A Class	\$13.0268
R Class	\$13.0146
F Class	\$13.1072

Sector Allocation	
Financials	18.20%
Energy	11.70%
Real Estate	6.40%
Consumer Discretionary	6.10%
Consumer Staples	4.40%
Industrials	4.30%
Utilities	3.50%
Materials	3.20%
Telecom Services	2.20%
US & Int'l	22.70%
Preferred Shares	11.10%
Cash	6.20%



Performance - %									
Class	YTD	1M	3M	6M	1 YR	Annualized Returns			SI May 2013
						3 YR	5 YR		
A	-0.21	0.93	4.02	-0.21	4.46	5.69	7.16		5.30
R	-0.21	0.93	4.03	-0.21	4.46	5.68	7.15		5.28
F	-0.24	0.68	3.86	-0.24	4.49	5.86	-		5.42

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