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Manager's Update to Shareholders regarding Fourth Quarter 2013 Activities

January 31, 2014

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TCA's 4th Quarter Portfolio

The Fund's equity exposure increased to 61.53% at quarter end from 56.70% at the end of the 3rd quarter. Europe remained the largest regional exposure at 23.54% of the Fund's total exposure, down almost 3% from the 3rd quarter, due mainly to: (i) the buyout of the position in Egis Pharmaceutical by its majority shareholder; (ii) the fund's liquidation of its position in Prime Office; (iii) significant reductions in the Fund's holdings in Greece's Eurobank

Properties and France's Societe de la Tour Eiffel. The sales were partially offset by the Fund's acquisition of a block of stock in the Serbian agrochemical producer Galenika Fitofarmajcia, vaulting the Fund into the company's top 10 largest shareholders.

The allocation to Asia continued to increase reaching 16.80%, mainly through the acquisition of additional Korean preferred shares of Daelim Industrial and Kumho Petro Chemical. The allocation to the Middle East rose to 10.21% on the addition of positions in Lebanon and Bahrain. The allocation to Africa rose to just over 6% as the Fund finished its allocation to Onatel in Burkina Faso. The portfolio allocation to the Americas reached almost 5% on a nearly 44% return (including dividend) in the Argentine REIT IRSA and the acquisition of shares in the National Commercial Bank of Jamaica.

Other Relevant Events

In December the Board published the Fund's dividend policy and in a public announcement (RNS Number: 3227W) it advised that beginning with the fiscal year 2013, the Company will take specific measures (detailed in the announcement) to provide shareholders with an annual dividend of at least 3.5% of the Company's December 31st NAV. The specific measure can be found on the Fund's website http://terracapitalplc.com in the "Investor Centre" tab, under the subtitle "Regulatory News". Immediately prior to the release of this update the board issued public notice RNS Number: 9339Y, in which it advised that the dividend for fiscal 2013 will be 3.35 cents per share, calculated as 3.5% of the announced unaudited NAV of US$0.956 per share on Dec. 31, 2013.

Based on the sales midpoint of the Company's shares on 30 January 2014 this represents a dividend yield in excess of 4%. This dividend will be paid on 7 March 2014 to shareholders found on the Fund's stock register as at 14 February 2014 (the "Record Date"). The corresponding ex-dividend date will be 12 February 2014.

Purchases

The Fund continued to deploy additional capital into 6 current positions and initiated investment in 5 new positions (please refer to accompanying table on following page).

National Commercial Bank of Jamaica (NCBJ)

Background: National Commercial Bank of Jamaica (NCBJ) is the largest commercial bank in Jamaica with more than 38% of the Jamaican banking market's loans and deposits; along with Scotia Bank Jamaica (another Fund position), the two banks control over 70% of the domestic banking market.

Investment Rationale: NCBJ's dominant market position allows it to earn an attractive net interest margin of 6.5%, while highlighting that over 50% of the bank's interest-earning assets are Jamaican Government bonds held as "available for sale" or as collateral for repo agreements. NCBJ has delivered a fairly consistent 15% shareholder return (equity gain plus dividends) over the past decade, measured in U.S. dollars, and yet it trades at a price-to-earnings multiple of 5 and a price-to-book multiple of 0.6. Despite the macroeconomic turbulence and fiscal challenges Jamaica has experience over the past 4 years, the bank's capital position is solid as risk-based capital adequacy was 12.6% at the end of the Q3 2013, NPLs were only 4.8% of the gross loan book (which itself is only 43% of its interest earning asset base), and the bank's provisioning for its NPLs stood at 120% of the regulatory requirement.

Potential Risks: NCBJ, like the Fund's other Jamaican bank holding, Scotia Bank Jamaica, was adversely affected by the Jamaican government's two recent "voluntary" debt exchanges in 2010 and 2013, where the government elicited support from the owners domestically issued Jamaican debt (over 90% of which is owned by domestic financial institutions) to exchange the old bonds for new bonds with lower interest rates and extended maturities. The exchanges were preconditions for Jamaica to receive assistance from the IMF and for other multi-lateral lenders to work with Jamaica to reduce the government debt-to-GDP ratio that has risen to 140%. The failure of the first exchange to successfully restructure the government's position and the need to request a second exchange highlights the risk of future restructurings. As one of the largest owners of Jamaican Government debt, NCBJ remains vulnerable to this possibility. The 2013 exchange of which is owned by domestic financial institutions) to exchange the old bonds for new bonds with lower interest rates and extended maturities. Those bond exchanges were preconditions for Jamaica to receive assistance from the IMF and for other multi-lateral lenders to work with Jamaica to reduce the government debt-to-GDP ratio that has risen to 140%. The failure of the first exchange to successfully restructure the government's position and the need to request a second exchange highlights the risk of future restructurings. As one of the largest owners of Jamaican Government debt, NCBJ remains vulnerable to this possibility. The 2013 exchange ended up costing NCBJ approximately J$2.7 billion or 30% of its net 2013 profit. Although the potential for future default permutations is a concern, the bank has proven resilient at weathering Jamaica's risks and its current valuation makes those risks palatable as an investment position for the Fund.

Blom Bank

Background: Blom Bank is the 2nd largest bank in the Lebanese market with just over 16% of the country's banking assets. The three largest Lebanese banks (Audi, Blom and Byblos) control just over half of the market. The Lebanese banking system differs from many frontier market banking sectors in that credit to the domestic private sector accounts for only a minority of the system's balance sheet (25% as of Nov. 2013). Almost 57% of the commercial banking assets in Lebanon are deposits at the Central Bank of Lebanon or government bonds. Blom Bank's balance sheet reflects the overall composition of the larger Lebanese banking system with less than 25% of its assets composed of loans to the private sector; in fact, its deposits with the central bank alone exceed its loan book.

Investment Rationale: Blom Bank currently trades at price-to-book of 0.84 and a price-to-earnings ratio of 5.5. Despite a very conservative loan profile and a low interest rate environment, the bank has managed to maintain its ROE above 15% through very tight cost control. Furthermore, the bank's dividends have generated a yield above 5% and dividend growth has been consistent over the long-term, approaching 5%.

Potential Risks: Like all banks in Lebanon, Blom has a large exposure to Lebanese government debt and that government has a gross debt-to-GDP of 140%. In the recent past, the Finance Ministry and Central Bank have worked out swaps that resulted in the government restructuring its holdings in terms of currency or maturity. This indicates some degree of stress within the government. If future restructurings are required, they may well go beyond the Central Bank to the commercial banks. However, the country's foreign reserves currently exceed $36 billion, enough to cover more than 20 months of imports and more than sufficient to maintain the peg to the U.S. dollar. Given the larger macro risks in the region and the state of the government's finances, the Fund has limited its exposure to this position to around 1%.

Region	Country	Security	Shares	Market value	% of Fund	Price Performance (local currency)
Europe	Hungary	Any Security Printing Co.	553,679	1,504,186	2.26%	11.39%
	Serbia	Galenika-Fitofarmacija	41,372	1,469,013	2.21%	-2.89%
	Montenegro	Crnogorski Telekom	222,624	1,286,371	1.93%	10.17%
	Switzerland	U-Blox	21,904	1,270,469	1.91%	28.99%
	Greece	Eurobank Properties	109,166	1,213,540	1.82%	8.75%
	Germany	Vib Vermoegen	74,979	1,202,800	1.81%	6.00%
	France	Ciments Francais	15,620	1,188,182	1.78%	8.71%
	Croatia	Hrvatski Telekom	36,228	1,154,309	1.73%	1.41%
	Portugal	Portucell	259,423	1,038,620	1.56%	8.34%
	Estonia	Silvano Fashion Group	267,000	980,794	1.47%	4.71%
	Russia	JSC Acron	308,792	975,783	1.47%	-1.25%
	Macedonia	Komercijalna Banka	22,845	915,426	1.37%	-0.56%
	France	Ste de la Tour Eiffel	13,450	898,764	1.35%	-0.47%
	Ukraine	Kernel Holding	45,558	574,131	0.86%	-22.34%
	Hungary	Egis	0	0	0.00%	1.08%
	Germany	Prime Office	0	0	0.00%	-2.38%
				15,672,390	23.54%	
Asia	Georgia	Bank of Georgia Holdings Plc	38,300	1,519,207	2.28%	23.96%
	Australia	Ardent Leisure Group	807,977	1,450,262	2.18%	8.65%
	Bangladesh	Square Pharma	486,752	1,192,046	1.79%	9.18%
	Korea	Hyundai Motor Co. preferred	9,760	1,162,126	1.75%	15.74%
	Bangladesh	Brac Bank	2,436,275	1,022,630	1.54%	18.12%
	Korea	Daelim Industrial Co. preferred	33,290	967,179	1.45%	3.04%
	Korea	Kumho Petro Chemical preferred	28,940	957,959	1.44%	-5.95%
	Vietnam	Imexpharm Pharmaceutical	534,772	945,579	1.42%	5.37%
	China	Qingling Motors	3,020,000	897,567	1.35%	1.75%
	Vietnam	Hung Vuong Corporation	481,000	837,959	1.26%	11.36%
	Vietnam	Hau Giang Pharmaceutical	41,890	226,379	0.34%	3.64%
	Bangladesh	Heidelberg Cement	850	4,167	0.01%	0.82%
				11,183,060	16.80%	
Middle East	Oman	Oman Cement	720,950	1,542,980	2.32%	2.90%
	Qatar	Al Khaliji Bank	273,078	1,499,143	2.25%	9.23%
	Oman	Oman Refreshment	175,000	1,181,787	1.78%	10.64%
	Qatar	Masraf Al Rayan	135,000	1,160,437	1.74%	8.87%
	Lebanon	Blom Bank	74,023	640,299	0.96%	0.58%
	Lebanon	Soldiere	56,485	615,687	0.92%	-1.89%

	Bahrain	SEEF Properties	365,469	155,106	0.23%	13.48%
				6,795,439	10.21%	
Africa	Kenya	Housing Finance Kenya	4,057,200	1,480,902	2.22%	27.00%
	Kenya	Equity Bank	3,731,400	1,329,554	2.00%	-9.56%
	Burkina Faso	Onatel BF	9,617	1,226,594	1.84%	10.91%
				4,037,050	6.06%	
Americas	Argentina	IRSA	145,630	1,763,579	2.65%	35.76%
	Jamaica	National Commercial Bank Jamaica	3,656,255	620,901	0.93%	-4.26%
	Jamaica	Scotia Group Jamaica	4,729,031	892,310	1.34%	-4.95%
				3,276,790	4.92%	
		Total Equity Holdings		40,964,729	61.53%	
		Cash		25,519,801	38.33%	
		Hedging		95,000	0.14%	
		Total Fund		66,579,530		

Solidere

Background: Solidere is Lebanon's largest real estate developer, founded in 1994 by the late Prime Minister Rafiq Hariri to rebuild Beirut's Central Business District after the country's ruinous civil war. Hariri's idea was to harness private capital for the task since the government was effectively bankrupt and incapable of funding the estimated US$400 million reconstruction. Private property owners were given shares of Solidere as payment in-kind for their land and Solidere accumulated over 4 million square meters of built-up area, which is the entire area allowed to be built up on a property in regard to constructing a building, including its common areas and balconies on all floors (BUA). This is prime waterfront lands constituting the Beirut Central Business District and is arguably the most valuable area in the country. Solidere has about 1.8 million square meters of BUA remaining and retains its role as the master planner for all real estate and infrastructure development in the area.

Investment Rationale: Land sale is Solidere's core activity, owning a vast bank of waterfront located in the heart of the Beirut Central District. Solidere values its land at cost (1994 prices), estimated at US$ 505 per sqm of BUA. The value reported in the balance sheet is at a substantial discount to the potential realizable value of its land bank. Solidere's balance sheet lists the value of "inventory of land and projects in progress" as $1.2 billion, or about 12.5% of the potential value of only the land. The worst case scenario is that the property is only worth its stated net book value.

We estimate that Solidere's equity value is 4-5x its stated book value which implies the stock is trading close to a 0.2 price-to-book ratio. Furthermore, under our estimates the debt-to-equity ratio plunges from the stated 50% to 10-12%.

Potential Risks: The most obvious risk is the geopolitical turmoil in the Middle East. Damascus is 88 km (55 miles) from Beirut and the civil war there has negatively impacted the Lebanese economy through declines in trade, tourism, and foreign investment, as well as the additional costs housing and feeding refugees has imposed on the Lebanese government. Further escalation in the conflict, or if Lebanon became directly embroiled in it, would both impair real estate values and sales; however, apart from a war equivalent to the 1975-90 civil war, it is difficult to fathom how the value of the land would drop beneath the 1994 values held on Solidere's financials.

Kernel Holding

Background: Kernel Holding is a diversified agribusiness company located in the Black Sea region and listed on the Warsaw Stock Exchange. It handles about 5 million tons of agricultural commodities per year and its business is divided into 6 units:

- Bulk sunflower oil production: it is the largest bulk oil producer and exporter in Ukraine (controlling 17% of global sunflower oil production)
- Refined sunflower oil production and bottling: largest bottler in Ukraine
- Grain exports: international distribution management for Ukraine's farming industry
- Agricultural export terminals: 2nd largest grain export terminal in Ukraine
- Silo services: 2.7 million tons of grain and oil seed storage capacity
- Farming: 330,000 hectares of farmland

Investment Rationale: Kernel is a contrarian investment. It was negatively impacted by the 2012 drought in Ukraine, an event that materially impacted the production of raw sunflower seeds and therefore reduced the amount of seeds available to process in its crushing, bottling and export operations to the end of fiscal 2013. However, 2013 appears to have produced a historically large crop so the segment should return to normal. This augurs well for the company not only in its own farming operations, but in its processing and distribution businesses that are not highly sensitive to the underlying commodities' prices, rather they are related to utilization of the fixed infrastructure. The company's operational leverage, increasingly vertical integration of the sunflower oil production process and its advantages through of economy of scale provide scope for significant upside off of what was an undeniably disappointing 2013. At the end of 2013 it was trading at a price-to-book of 0.77 and a trailing price-to-earnings of 24.7. We discount the current price-to-earnings ratio, as 2013 was an aberration in the company's business; 2012's earnings were more than 4 times 2013's. Further, starting from FY 2014 results, Kernel intends to maintain an annual dividend of US$0.25 per share.

Potential Risks: Kernel's development of the most robust infrastructure for collection, storage, processing and shipment of sunflower oil and grains in the Ukraine provides a formidable barrier to existing and potential future competitors, but the risk of competition for scarce output following seasons affected by poor weather conditions may potentially either impact margins or result in under-utilization of the company's capacity. Furthermore, although we have not been able to infer any negative impact on Kernel resulting from Ukraine's current political turmoil, such instability has the potential to destabilize the country's economy. However, the political battles have been largely confined to Kiev, far from the agricultural production and Kernel's operations on the Black Sea.

Portfolio Sales

Terra's focus on deploying the Fund's capital was balanced with reducing exposure to positions that managed to eliminate a portion of the undervaluation we had previously identified. Within Europe, the Fund slightly trimmed back Montenegro Telecom (8% sold), while it reduced its position more substantially in Eurobank Properties (25% sold) and Ste de la Tour Eiffel (38% sold). In view of U-Blox almost doubling in price in a short time, it seemed prudent to realize some of those gains and we sold shares covering about 94% of our original cost in 2013 while maintaining the size of this counter in the portfolio. In Asia, we took advantage of strong gains to pare back our position in Bank of Georgia (6% sold) and Qingling Motors (25% sold within 2 cents of its 52 week high). Within Africa, the Fund's exposure to Equity Bank was trimmed (7% sold), and in the Americas the Fund sold a slight amount of IRSA (1.2% sold) following its large gain. In regard to the liquidation of positions, the Fund finalized its sale of Egis Pharmaceutical to its majority shareholder who had tendered for the remaining shares at a 33% premium, and the exit from Prime Office was completed.

Significant Events in Current Positions

Eurobank Properties: Eurobank proceeded with its rights offering on January 8, 2014 that engineered an increase in Canada's Fairfax Financial Holdings' stake in Eurobank from 19% to 42%. This was accomplished by Eurobank selling its rights to Fairfax and Fairfax exercising both those rights and its own. In this manner, Fairfax will be investing 164 million euros into Eurobank Properties. We took into account the spread between the selling price of the rights and the cost of following them and buying the underlying stock and alternatively sold either rights or shares, depending on the spread, to maintain our position in this counter at the same level.

Egis Pharmaceutical: Arts et Techniques du Progrès, a wholly owned subsidiary of France's Servier Group, a privately held pharmaceutical concern had offered HUF 28,000 per share for the 49% of Hungary's Egis Pharmaceutical it did not own back in September. The Fund sold its remaining shares during the quarter and Egis has been de-listed from the Budapest Stock Exchange.

Acron Group: This company, a vertically integrated fertilizer producer, owns a stake in the Russian potash miner Urakali that amounted to 40% of its equity at the end of the 3rd quarter. Acron sold 38.5% of its stake in Urakali for $170 million in December, reducing its stake in Urakali from 2.88% to 1.77%.

IRSA: Argentina's central bank increased the pace of the peso devaluation in the fourth quarter resulting in an official devaluation of -11.17%, whereas the "Blue-Dollar" parallel exchange rate, that has existed since the Argentine Government imposed capital controls in 2011, remained stable. However, the accelerated depreciation resulted in even higher imports and more restricted exports, further exacerbating the country's foreign reserves crisis. In mid-January 2014, the central bank devalued the peso to 8:1 US$, a -19% decline in January alone, with the "Blue-Dollar" rate depreciating -20%. IRSA's debt is largely in US$ and we estimate that its real book value is at least 3x its current debt load. The existence of peso assets and US$ debt creates the possibility of a mismatch; however, the company's assets are mainly in the form of shopping malls and other hard real estate assets, which tend to use US$ prices as their price index and therefore do not depreciate with the peso. We will monitor the position for any sign that this is decoupling; however, IRSA's next major repayment date is in 2017, after the next Presidential election, so there are no immediate liquidity issues.