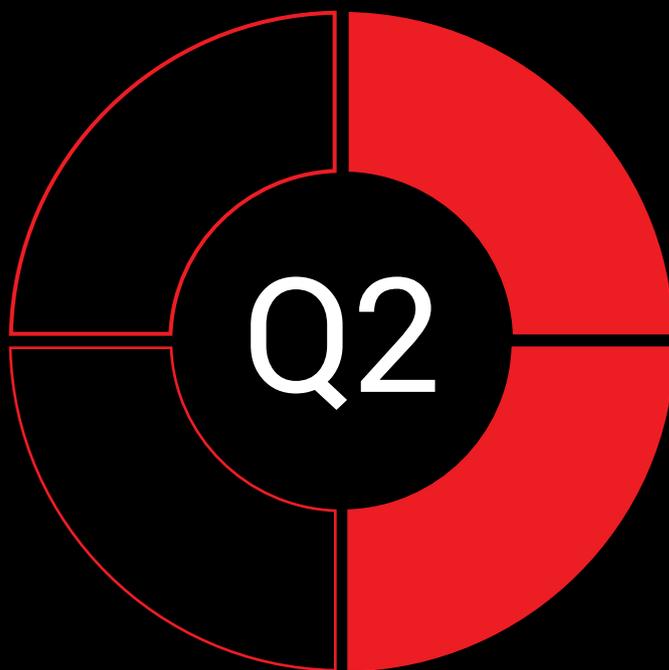


i Capital International Value Fund ARSN 134 578 180



Quarterly Investment Report
For the period 1 October 2017 to 31 December 2017

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Investment Objective

To achieve long-term capital appreciation

Who should invest?

Investors seeking a value investing style, exposure to the global stock markets, who are able to adopt a long-term outlook and endure performance fluctuations

Entry Fee

Nil

Withdrawal Fee

Nil

Exit Fee

Nil

Transfer Fee

Nil

Bid/Offer Spread

Nil

Performance Fee

20.50% p.a. only chargeable if the following three criteria are met in the same period

1. Market value exceeds 6% annual rate of return *and*
2. Market value exceeds 6% annual compound rate of return *and*
3. Both annual and annual compound returns must still be above 6% if a performance fee is chargeable

Management Fee

Approx. 1.5375% p.a. of the NAV

Administration Cost

Approx. 0.9843% p.a. of the NAV. These expenses are paid as and when they occur.

Other Expenses

As our direct investor, no commission or additional fees associated with distributors or financial advisers are applicable to you.

A number of other expenses can be paid from the fund if incurred. However we decided not to recover these expenses from the Fund, e.g.

- Printing of quarterly and annual reports
- Costs associated with establishing the fund
- Professional assistance operating the fund
- Independent performance verification.

ICIVF AT A GLANCE

| | |
|------------------------------------|-------------------|
| Inception Date | 1 July 2009 |
| Minimum Investment (AUD) | \$20,000 |
| Additional Investment (AUD) | \$2,000 |
| Income Distribution | Annually (if any) |

The table below gives an example of how the fees and costs in the Fund are charged based on your investment over a one year period. The example does not include the performance fee that may apply to your investment as we do not have a reasonable basis for estimating the performance fee.

| | |
|----------------------------|---|
| Example: | Fee charged per year for an investment balance of \$50,000.00. |
| Management Fee | $\$50,000.00 \times 1.5375\% = \768.75 |
| Administration Cost | $\$50,000.00 \times 0.9843\% = \492.15 |
| Total Fee Per Year: | \$1260.90 |

PERFORMANCE REVIEW

By 31 December 2017, the Fund has, from its inception in July 2009, delivered an annual compound return of 4.68%, net of expenses. This is commendable as the return was generated during a very turbulent period and is higher than the average return obtained from a 1-year time deposit. The cumulative total return of the Fund is 47.55%. Comparative benchmark figures are shown in **figure 1** and **table 1**.

During the 1 October 2017 to 31 December 2017 quarter, the Fund returned 2.59% after fees. This compares with the MSCI ACWI Index and ASX200 in AUD (benchmark) return of 5.71% and 6.75%, resulting in relative performance of -3.11% and -4.16%. For the year ending 31 Dec 2017, the Fund returned 5.07% after fees which compares with the benchmark returns of 12.59% and 7.06%.

MARKET REVIEW AND OUTLOOK

AGAIN, DOES VALUATION MATTER?

As your fund manager, I scout for attractive stocks in many countries across many continents. Five years ago, when the US-led global financial crisis was gripping the global economy, I regularly visited the United States and Europe to look for bargains.

On a trip in Apr 2012, I was literally and figuratively trudging across the US. I started my research visits in Minneapolis, then hurried onto Houston before bustling over to two small cities in Florida. After that, I went up to New York and Boston. For those who are familiar with the airline industry in America, where the airlines operate on a hub-and-spoke model, flying from one city to another can be a tiring process.

One of the companies I visited on this research trip was HEICO Corporation, a company listed on the New York stock exchange. Before that, I went to see Roper Inc which is based in Sarasota, Florida. From there, there were no convenient flights, so I had to take a 4-hour car journey across Florida to visit HEICO, which is based in Hollywood.

HEICO is not a well-known global company, unlike say Boeing or Airbus. Through my research digging, I came across the company and was convinced enough that it was worth all the effort to see them in Hollywood. HEICO is an aerospace and electronics group focused on niche markets and cost-saving solutions for its customers, which include airlines, overhaul shops, satellite manufacturers, commercial and defense equipment producers, medical equipment manufacturers, etc. HEICO is the world's largest independent provider of commercial, FAA-approved aircraft replacement parts.

I visited HEICO on 25th Apr 2012 and the stock price then was around US\$20 (adjusted for subsequent stock splits). For financial year 2012, net earnings attributable to HEICO were US\$85.1 mln. The earnings per share based on the latest 108.47 mln shares were US\$0.7845 and, at around US\$20, the PE ratio was about 25.5 times.

After 2012, the share price of HEICO has done very well. It recently went above US\$80 (adjusted for the most recent 5-for-4 stock split). By financial year 2017, sales have risen to US\$1.52 bln and net earnings attributable have jumped to US\$186 mln, giving earnings per share of US\$1.71 based on 108.47 mln shares.

At the recent stock price of above US\$80, the PE ratio for HEICO was around 46 times. Had its PE ratio remained at 25 times, the price of HEICO would have been US\$43. The purpose of using HEICO as an example is to show why the NYSE and NASDAQ have rallied since 2009 and to have a sense of the market valuation.

The first reason is the recovery in US corporate earnings. Based on the earnings growth of HEICO and assuming its PE ratio in 2018 had remained the same as in 2012, its stock price would be trading around US\$43 – this is about 46% lower than what it was trading at recently. The second reason why the NYSE and NASDAQ, and a major reason at that, have rallied is the surge in valuation. Using HEICO again, a dollar of its earnings in 2012 was worth around US\$20. By early 2018, the same one dollar of earnings is valued at around US\$46.

Which valuation is correct or normal ? 25.5 or 46 times ? What makes sense ? In 2012, it was during the depths of the 2008 US-led global financial crisis and monetary policy in the major developed economies was extremely expansionary. The Federal Reserve was just beginning its quantitative

easing and the federal funds rate was near zero. 25 times seems appropriate - one could even argue that it was too rich, given the many uncertainties prevailing at that time.

At a valuation of 46 times, the environment in America is very different now. The economic recovery is maturing; the stock market rally is growing old. More importantly, the Federal Reserve has tightened and will be tightening further. It is highly unlikely that a valuation based on a PE ratio of 46 times can rise any further, especially as US monetary policy tightens further. What this implies is that even as HEICO grows its earnings, its stock price may not rise as the earnings growth is offset by a lower valuation. If the US monetary policy tightens more or its inflation rate rises more than what investors expect, or if earnings grow slower than what investors expect, HEICO may see its stock price falling.

Based on this simple example of HEICO, one can apply the same reasoning to the NYSE and NASDAQ. Both equity markets are richly valued and the risk that their valuations may not sustain is growing. Warren Buffett, CEO of Berkshire Hathaway, is itching to do a massive acquisition but is having a difficult time due to elevated valuations. "A sensible purchase price" is one of his buying criteria and according to him recently, that requirement has proven "to be a barrier to virtually all deals we reviewed in 2017, as prices for decent, but far from spectacular, businesses hit an all-time high." At the end of 2017, Berkshire Hathaway had US\$116 bln in cash and cash equivalents and Warren Buffett has always reminded his optimism about America.

Capital Dynamics (Australia) Ltd has previously expressed its concerns over the rich valuation of the US stock market based on the well-known CAPE (cyclically adjusted price earnings) ratio. Using HEICO as an example perhaps makes it easier to understand the problem people like Buffett is experiencing.

The NAV of the *i* Capital International Value Fund can be viewed at either www.capitaldynamics.com.au or www.funds.icapital.biz.

Best wishes,



Tan Teng Boo
Capital Dynamics (Australia) Limited
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25th February 2018

FUND PERFORMANCE 1

Figure 1 Total return (%)

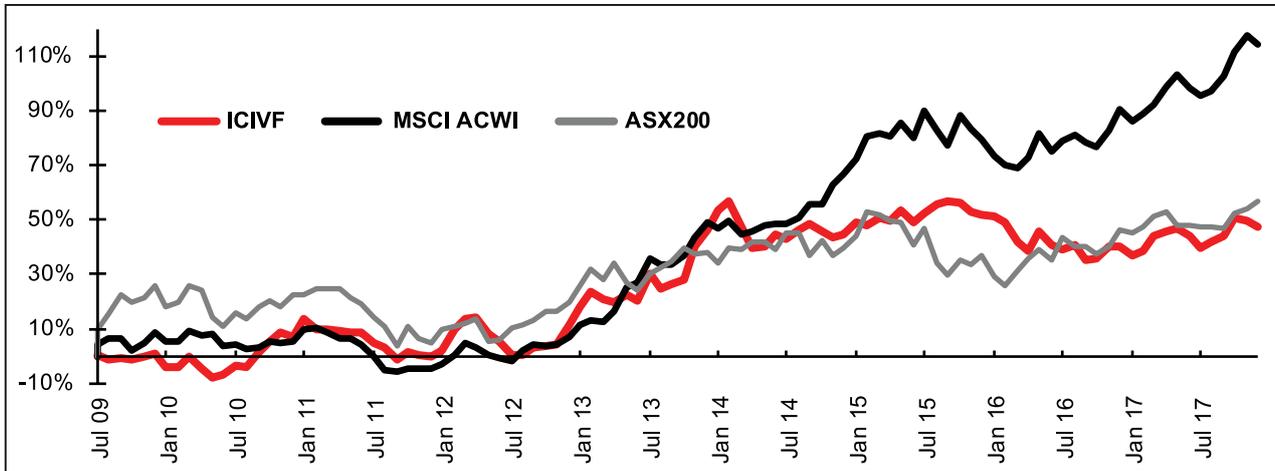


Table 1 Cumulative Total Return and Compound Return

| | Cumulative Total Return (%) | | | Compound Return (%) |
|-----------------|-----------------------------|---------------|-----------------|---------------------|
| | 1-Year-Return | 2-Year-Return | Since Inception | Since Inception |
| ICIVF (AUD) | 5.07% | -2.80% | 47.55% | 4.68% |
| MSCI ACWI (AUD) | 12.59% | 19.49% | 114.25% | 9.37% |
| ASX200 (AUD) | 7.06% | 14.52% | 56.56% | 5.41% |

Note : Past performance is not a reliable indicator of future performance. Performance is calculated in Australian dollars, net of ongoing fees and expenses and assumes reinvestment of distributions.

FUND PERFORMANCE 2

Table 2 Top 2 performing stocks (in local currency)

| | Quarter ending 31 Dec 2017 (% of change) |
|----------------------------|--|
| CLOVER CORPORATION LIMITED | 64.04% |
| AIR CHINA LIMITED | 46.07% |

The table above presents the top 2 performing stocks your fund held at some time within the referenced quarter. The stocks do not necessarily need to be bought at the start of the quarter (i.e. 1 October 2017), and held till the end of the quarter (i.e. 31 December 2017). Stock performance will only be measured over the specific period that your fund held the stock in the referenced quarter. This means

that, for example, if Air China Limited was bought on 21 Oct 2017 and sold on 31 Dec 2017, its performance is only measured over 21 Oct 2017 to 31 Dec 2017 and not over the full quarter. Similarly, if it was bought on 1 Oct 2017 and sold on 11 Dec 2017, its performance is measured over the period 1 Oct 2017 to 11 Dec 2017.

FUND PERFORMANCE 3

Table 3 shows the percentage gain or loss of each company held by your Fund as at 31 Dec 2017. This table assumes no impact from currency movements or constant exchange rates.

Table 3 Percentage gain or loss arising from stock price changes

| Security | Average Cost (A\$) | Price Dec 2017 (A\$) | % Change |
|--|--------------------|----------------------|----------|
| AIA GROUP LTD | 9.56 | 11.22 | 17.38% |
| AIR CHINA LIMITED | 1.01 | 1.60 | 58.51% |
| CHINA NEW TOWN DEV NPV | 0.05 | 0.05 | 4.10% |
| CLOVER CORPORATION LIMITED | 0.35 | 0.73 | 110.30% |
| CONCORD NEW ENERGY | 0.05 | 0.04 | -13.24% |
| GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD | 0.95 | 1.14 | 20.39% |
| NATIONAL AUSTRALIA BANK LIMITED | 31.04 | 29.57 | -4.73% |
| OVERSEAS EDUCATION LTD | 0.37 | 0.35 | -5.98% |
| PAN-UNITED CORPORATION LIMITED | 0.64 | 0.56 | -13.06% |
| PICO FAR EAST HLDG LTD | 0.52 | 0.53 | 1.50% |
| PRIMA INDUSTRIE SPA | 25.65 | 46.71 | 82.09% |
| QBE INSURANCE GROUP LTD | 12.67 | 10.68 | -15.70% |
| REXLOT HOLDINGS LTD | 0.10 | 0.01 | -92.12% |
| ZHEJIANG EXPRESSWAY CO LTD | 1.28 | 1.45 | 13.20% |
| ZHENGZHOU YUTONG BUS CO LTD ORD SHS A | 4.18 | 4.48 | 7.19% |

FUND PERFORMANCE 4

Table 4 shows the percentage gain or loss arising from currency movements as at 31 Dec 2017. This table assumes no change in stock prices or constant stock prices.

Table 4 Percentage gain or loss arising from currency movements

| Security | Average Cost (A\$) | Price Dec 2017 (A\$) | % Change |
|--|--------------------|----------------------|----------|
| AIA GROUP LTD | 9.56 | 9.29 | -2.88% |
| AIR CHINA LIMITED | 1.01 | 0.98 | -2.87% |
| CHINA NEW TOWN DEV NPV | 0.05 | 0.05 | -2.68% |
| CLOVER CORPORATION LIMITED | 0.35 | 0.35 | 0.00% |
| CONCORD NEW ENERGY | 0.05 | 0.07 | 36.11% |
| GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD | 0.95 | 0.92 | -2.51% |
| NATIONAL AUSTRALIA BANK LIMITED | 31.04 | 31.04 | 0.00% |
| OVERSEAS EDUCATION LTD | 0.37 | 0.37 | 0.43% |
| PAN-UNITED CORPORATION LIMITED | 0.64 | 0.64 | -0.45% |

| | | | |
|---------------------------------------|-------|-------|--------|
| PICO FAR EAST HLDG LTD | 0.52 | 0.50 | -3.08% |
| PRIMA INDUSTRIE SPA | 25.65 | 28.50 | 11.08% |
| QBE INSURANCE GROUP LTD | 12.67 | 12.67 | 0.00% |
| REXLOT HOLDINGS LTD | 0.10 | 0.11 | 9.87% |
| ZHEJIANG EXPRESSWAY CO LTD | 1.28 | 1.24 | -3.14% |
| ZHENGZHOU YUTONG BUS CO LTD ORD SHS A | 4.18 | 4.41 | 5.45% |

PORTFOLIO INFORMATION

Table 5 Percentage of assets held as cash

| | Cash (%) | Equities (%) |
|-----------------|----------|--------------|
| End of Mar 2017 | 41.65% | 58.35% |
| End of Jun 2017 | 30.16% | 69.84% |
| End of Sep 2017 | 17.90% | 82.10% |
| End of Dec 2017 | 11.96% | 88.04% |

Table 6 Top 5 holdings as at end Dec 2017

| | |
|--|--------------|
| | 49.8% |
| AIR CHINA LIMITED | 13.3% |
| PICO FAR EAST HLDG LTD | 9.7% |
| ZHEJIANG EXPRESSWAY CO LTD | 9.6% |
| NATIONAL AUSTRALIA BANK LIMITED | 9.3% |
| GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD | 7.9% |

Table 7 Portfolio breakdown for equities by region as at end Dec 2017 (in AUD)

| | |
|-----------|-------------|
| | 100% |
| Europe | 5% |
| Hong Kong | 59% |
| Australia | 22% |
| Singapore | 8% |
| China | 6% |

FUND INFORMATION

About *i* Capital International Value Fund

The *i* Capital International Value Fund invests in listed securities in Australia and internationally.

The strategy is driven by an intelligently eclectic “Bamboo value investing” philosophy with an emphasis on the margin of safety created by stock selections based on divergences between market prices and the underlying intrinsic values of the companies.

The objective of Capital Dynamics (Australia) Limited (CDAL) is to seek long-term capital appreciation whilst reducing the margin of error when investing. This is achieved with a rigorous, innovative and well-defined value investing approach.

Unlike conventional value investing, CDAL adopts a bottom-up approach to portfolio construction, overlaid with a macro view. The objective of CDAL is to obtain a sound investment framework that allows for a clear perspective of how economies, markets and sentiment interact and how this interaction influences its investments.

About the Group

Capital Dynamics is an independent global fund manager and investment adviser, not tied to any bank, insurer, stockbroker or political organisation.

Our managed funds and investment advisory service are all directly accessible by individual, corporate and institutional investors around the world, and we also offer individually managed accounts to wholesale investors. Currently we manage over US\$300m, from our offices in Kuala Lumpur, Singapore, and Sydney. Our investment advisory service is provided via *i* Capital newsletter, a weekly publication, and www.icapital.biz. It is available in English and Chinese.

Philosophies

Independence, intelligence and integrity drive all business and investment decisions at Capital Dynamics. Integrity is central to our corporate culture, and to our loyal clients of many years, our word has proven to be our bond. Capital Dynamics has some of the most stringent compliance policies in the industry.

As a global fund manager, our “Bamboo value investing” philosophy is unique, and has enabled Capital Dynamics to generate sustained superior returns. Based on long-only investment principles, our value investing approach is given flexibility with the addition of macroeconomic factors and further investment intelligence from our team of fund managers and analysts. We go behind the commercial veneer of companies, travelling globally to research first hand.

PE Ratio

The price-earnings ratio (PE ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings.

NOTES

Past performance is not a reliable indicator of future performance. Performance is calculated in Australian dollars, net of ongoing fees and expenses and assumes reinvestment of distributions.

Capital Dynamics (Australia) Limited (CDAL) (ABN 53 129 846 260 | AFSL 326283) is the responsible entity and issuer of *i* Capital International Value Fund (“Fund”). The Product Disclosure Statement dated 30 September 2017 (“PDS”) is the current offer document for the Fund. You can obtain a copy of the PDS from CDAL’s website www.capitaldynamics.com.au, or contact CDAL at 1300 798 655, or email CDAL at info@capitaldynamics.com.au.

Before making any investment decision you will need to consider your particular investment

needs, objectives and financial circumstances. You should also consider the PDS in deciding whether to acquire, or continue to hold, units in the Fund.

Disclaimer: The information in this Quarterly Investment Report is not intended to provide advice. It has not been prepared taking into account any particular investor’s or class of investor’s investment objectives, financial situation or needs, and should not be used as the basis for making investment, financial or other decisions. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. None of CDAL nor any of its related entities guarantees the performance of the Fund or the repayment of capital or any particular rate of return or any distribution.

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