

i Capital International Value Fund ARSN 134 578 180



Quarterly Investment Report
For the period 30 September 2018 to 31 December 2018

CONTENTS

2	ICIVF at a glance
4	Performance Review
4	Market Review and Outlook
6	Fund Performance
8	Portfolio Information
9	Fund Information
10	Glossary

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. 1.169% 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	$\$50,000.00 \times 1.169\% = \$ 584.50$
Total Fee Per Year:	\$1,353.25

PERFORMANCE REVIEW

By 31 December 2018, the Fund has, from its inception in July 2009, delivered an annual compound return of 3.36%, 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 36.93%. Comparative benchmark figures are shown in **figure 3** and **table 1**.

During the 30 September 2018 to 31 December 2018 quarter, the Fund returned -4.50% after fees. This compares with the MSCI ACWI Index and ASX200 in AUD (benchmark) return of -10.67% and -9.05%, resulting in relative performance of 6.17% and 4.55%. For the year ending 31 December 2018, the Fund returned -7.20% after fees which compares with the benchmark returns of -1.32% and -6.91%.

MARKET REVIEW AND OUTLOOK

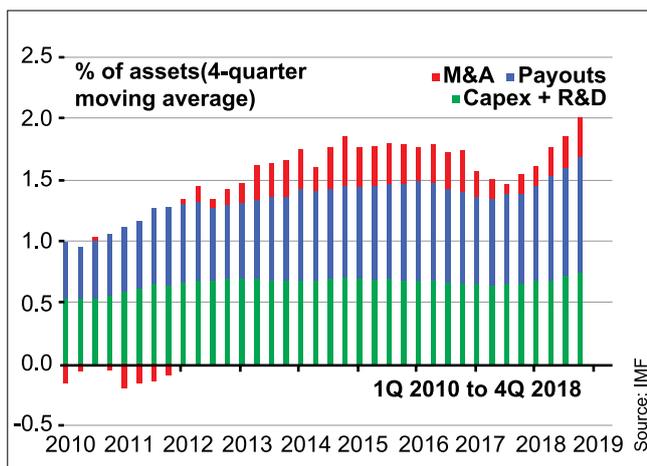
US CORPORATE EARNINGS

It has been slightly more than a year since the major corporate tax cut in the US was passed. The said cut, which took effect on 1 January 2018, was lowered from 35% to 21% with the supposed aim of boosting capital expenditure. Last year, as corporate tax rates plunged and profit surged alongside economic growth and jobs, the Trump administration gained some bragging rights domestically. However, the Trump administration failed to trigger the long-awaited boom in capital expenditure. What has happened instead is that financial risk taking has increased (**figure 1**). Financial risk taking includes the acquisition of financial assets, mergers & acquisitions, share buyback and dividend payments.

around 0.7% of all assets. What this means is that the strong US corporate earnings, backed by tax cuts, were used for financial risk taking but not for more investment.

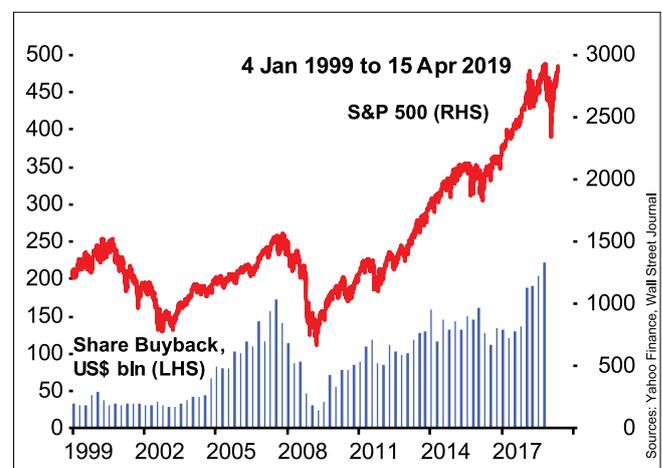
For 2018, share buyback soared 55%, year-on-year, to a record US\$806 billion, beating the prior record of US\$589 billion in 2007 by a hefty 37%. In 4Q 2018, share buyback jumped 63% from the same period a year ago to a record US\$223 billion, making for their 4th quarterly record in a row (**figure 2**).

Figure 1 S&P 500 Firms: Uses of Cash Flow



According to the IMF, American companies made shareholder payouts and share buyback that were worth 0.9% of assets in 2018, twice the level seen in 2010. Companies have also used this arsenal for a mergers & acquisitions boom, where such deals gobbled up cash flows equivalent to 0.4% of assets in 2018, compared with virtually nothing in 2011. The amount of cash flow spent on capital expenditure has not surprisingly remained flat since 2012, running at

Figure 2 S&P 500 and Share Buyback



What is even more noteworthy about this environment is the stagnant capital expenditure. Is the technology-focused investment today delivering more productivity bang for its buck than traditional investment, thus requiring fewer dollars? Or are the executives uneasy about the longer-term growth outlook of the US? Or are they lamentably short-term oriented in their thinking, preferring to spend their cash on quick-fix tricks to boost the share prices? The capital expenditure pattern is something that investors should take note of, especially when the US corporate profit outlook is uncertain amidst fading fiscal stimulus, relatively higher interest rates, rising input costs and wages, trade tensions, and slowing global demand.

The US corporate earnings season for 1Q 2019 is now under way. This will be a tough quarter for US corporate earnings as it will be the first one in a while that has an apple-to-apple comparison with a corresponding quarter of the preceding year. Last year, all the quarterly earnings under a lower tax rate were compared with those of the same period in 2017 which had the old higher corporate tax rate. As a result, earnings jumped an average of over 19% in the S&P 500. For 1Q 2019, there will have no such tailwinds and the corporate earnings will be compared with those of 1Q 2018 that was under the same lowered tax rate. Investors are on tenterhooks as the US companies reveal their report cards.

Your Fund had about 40% of its NAV in cash towards the end of 2018. Due to some purchases, this now dropped to around 16% at the time of writing this commentary. 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
Director
Capital Dynamics (Australia) Limited
ABN 53 129 846 260 AFSL 326283
28th April 2019

FUND PERFORMANCE 1

Figure 3 Total return (%)

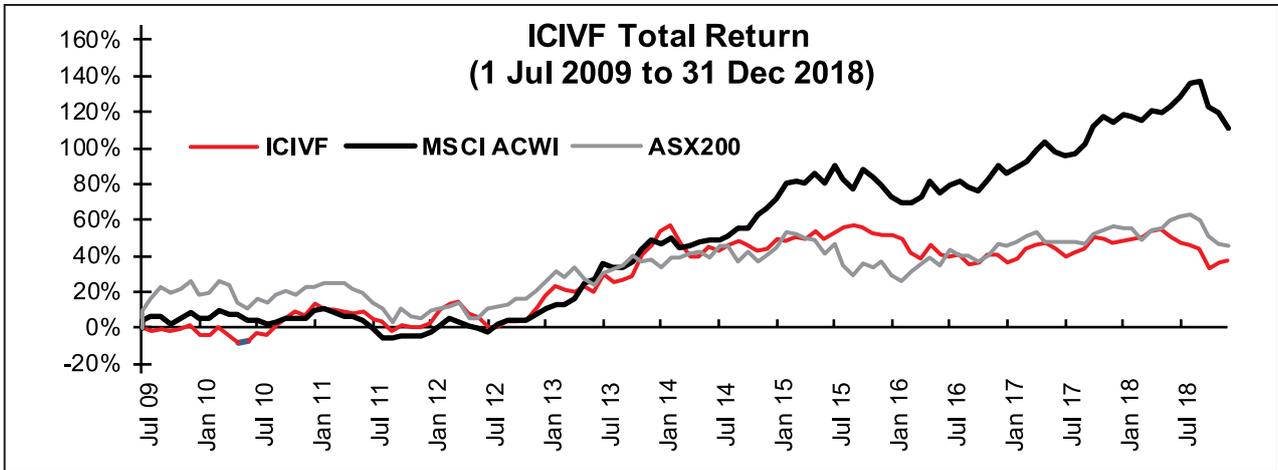


Table 1 Cumulative Total Return and Compound Return

	Cumulative Total Return (%)			Compound Return (%)
	1-Year-Return	2-Year-Return	Since Inception	Since Inception
ICIVF (AUD)	-7.20%	-2.49%	36.93%	3.36%
MSCI ACWI (AUD)	-1.32%	11.10%	111.41%	8.19%
ASX200 (AUD)	-6.91%	-0.34%	45.74%	4.04%

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 performing stocks (in local currency)

	Quarter ending 31 Dec 2018 (% of change)
REXLOT HOLDINGS LTD	29.41%

The table above presents the top performing stock 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 2018), and held till the end of the quarter (i.e. 31 December 2018). 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 Rexlot Holdings Ltd was bought on 21 Oct 2018 and sold on 31 Dec 2018, its performance is only measured over 21 Oct 2018 to 31 Dec 2018 and not over the full quarter. Similarly, if it was bought on 1 Oct 2018 and sold on 11 Dec 2018, its performance is measured over the period 1 Oct 2018 to 11 Dec 2018.

FUND PERFORMANCE 3

Table 3 shows the percentage gain or loss of each company held by your Fund as at 31 Dec 2018. 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 2018 (A\$)	% Change
ALIBABA GROUP HOLDING LTD	269.16	179.14	-33.44%
CHINA NEW TOWN DEV NPV	0.05	0.03	-32.84%
CONCORD NEW ENERGY	0.05	0.04	-22.04%
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD	0.95	1.00	5.86%
K2 ASSET MANAGEMENT HOLDINGS	0.28	0.08	-70.96%
OVERSEAS EDUCATION LTD	0.37	0.30	-19.82%
PAN-UNITED CORPORATION LIMITED	0.42	0.23	-44.92%
PICO FAR EAST HLDG LTD	0.52	0.48	-7.93%
REXLOT HOLDINGS LTD	0.10	0.00	-96.73%
XINGHUA PORT HOLDINGS LTD	0.22	0.16	-26.81%
ZHENGZHOU YUTONG BUS CO LTD ORD SHS A	4.54	2.30	-49.36%

FUND PERFORMANCE 4

Table 4 shows the percentage gain or loss arising from currency movements as at 31 Dec 2018. 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 2018 (A\$)	% Change
ALIBABA GROUP HOLDING LTD	269.16	292.54	8.69%
CHINA NEW TOWN DEV NPV	0.05	0.05	7.96%
CONCORD NEW ENERGY	0.05	0.07	50.98%
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD	0.95	1.02	8.15%
K2 ASSET MANAGEMENT HOLDINGS	0.28	0.28	0.00%
OVERSEAS EDUCATION LTD	0.37	0.40	9.46%
PAN-UNITED CORPORATION LIMITED	0.42	0.45	8.31%
PICO FAR EAST HLDG LTD	0.52	0.56	7.51%
REXLOT HOLDINGS LTD	0.10	0.12	21.87%
XINGHUA PORT HOLDINGS LTD	0.22	0.25	11.47%
ZHENGZHOU YUTONG BUS CO LTD ORD SHS A	4.54	4.84	6.67%

PORTFOLIO INFORMATION

Table 5 Percentage of assets held as cash

	Cash (%)	Equities (%)
End of Sep 2018	39.29%	60.71%
End of Oct 2018	45.99%	54.01%
End of Nov 2018	50.06%	49.94%
End of Dec 2018	49.50%	50.50%

Table 6 Top 5 holdings as at end Dec 2018

	42.11%
PICO FAR EAST HLDG LTD	11.72%
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD	9.33%
ALIBABA GROUP HOLDING LTD	8.05%
ZHENGZHOU YUTONG BUS CO LTD ORD SHS A	6.76%
OVERSEAS EDUCATION LTD	6.25%

Table 7 Portfolio breakdown for equities by region as at end Dec 2018 (in AUD)

	100.00%
Hong Kong	55.85%
Australia	0.05%
Singapore	14.77%
China	13.38%
United States	15.94%

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.

IMF

The International Monetary Fund (IMF) is an international organization that aims to promote global economic growth and financial stability, encourage international trade, and reduce poverty.

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 2018 (“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.

© Capital Dynamics (Australia) Limited 2019. All Rights Reserved.

® “Capital Dynamics” and “*i* Capital” are registered trademarks.

NOTES



icapital[®]
BY Capital Dynamics

INDEPENDENCE * INTELLIGENCE * INTEGRITY

Responsible Entity, Issuer and
Investment Manager
Capital Dynamics (Australia) Limited
ABN 53 129 846 260
AFSL 326283

Level 1, 61 York Street, Sydney
NSW 2000, Australia
(61 2) 92622621
www.capitaldynamics.com.au
info@capitaldynamics.com.au