i Capital International Value Fund ARSN 134 578 180

Q2

Quarterly Investment Report

For the period 1 October 2020 to 31 December 2020

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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. 1.1272% 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*1.5375%=$768.75
Administration Cost	$50,000.00*1.1272%=$563.62
Total Fee Per Year:	$1332.37

PERFORMANCE REVIEW

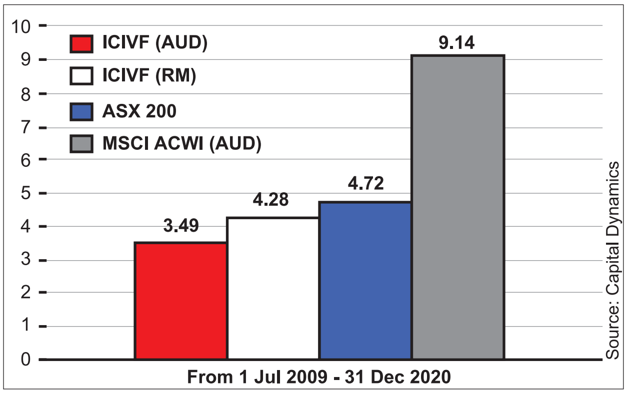
During the 1 October 2020 to 31 December 2020 quarter, the Fund returned -0.18% after fees. This compares with the MSCI ACWI and ASX200 in AUD return of 6.22% and 13.26%.

For this commentary, we will review the performance of ICIVF in detail to provide some additional perspectives.

Section A: Performance of ICIVF

First, we will review the performance of ICIVF from its inception. From July 2009 to December 2020, chart 1 shows the performance of ICVF in AUD and Ringgit terms, and the ASX 200 and MSCI ACWI in AUD. As many of our investors are Ringgit-based, we show ICIVF's performance in Ringgit terms too.

Chart 1 Annualised Return (%)



To understand the situation better, we will break ICIVF's performance into 3 sub-periods.

<u>Sub-period 1</u>

Chart 2 shows that the return of ICIVF was more than 10% per annum, exceeding both the ASX 200 and MSCI ACWI from July 2009 to February 2014, or a period of nearly 5 years. This is the same ICIVF, the same Fund Manager, and based on the same value investing philosophy.

<u>Sub-period 2</u>

Chart 3 shows the performance of ICIVF deteriorating, in comparison with its past performance and with the ASX 200 and MSCI ACWI, from March 2014 to January 2020, or a period of nearly 6 years. This is the same ICIVF, the same Fund Manager, and based on the same value investing philosophy.

There were two main factors that led to this negative change in ICIVF's performance.

Chart 2 Annualised Return (%)

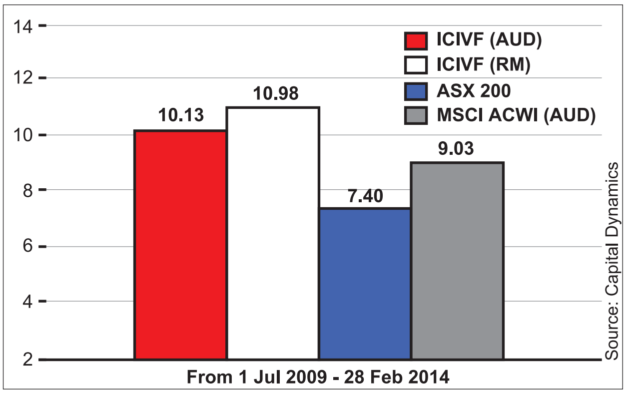
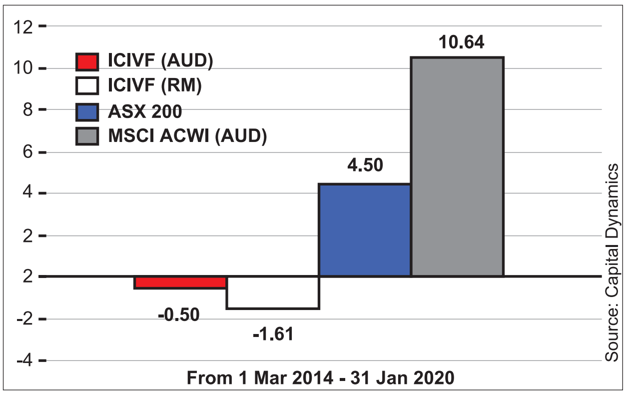


Chart 3 Annualised Return (%)



First factor

The first factor was that as your Fund manager, we were far too conservative and therefore, did not take a higher level of risk as we did not fully recognise that the macro foundation underlying the global investing environment has fundamentally changed. It was not just the prevalence of zero or negative interest rate but also the persistent global deflationary pressures. Value investing in the styles of Benjamin Graham and Warren Buffett cannot deal with such an investing environment. This is why from 2009 to 2020, even Warren Buffett has severely underperformed the S&P 500 in 5 years, performed about even in 2 years and outperformed in only 5 years, and this entire 12-year period was his worst performance ever.

The main reason that made us so conservative during this period was US monetary policy; specifically, US interest rate and its quantitative easing. After the US-led global financial crisis broke out in 2008, the US Federal Reserve, and other central banks, undertook a very aggressive monetary policy to save the US economy by slashing its Federal Funds Rate to zero (**chart 4**) and aggressively expanding its monetary base (**chart 5**). This has never happened before in the entire world financial history.

Chart 4 Federal Funds Rate

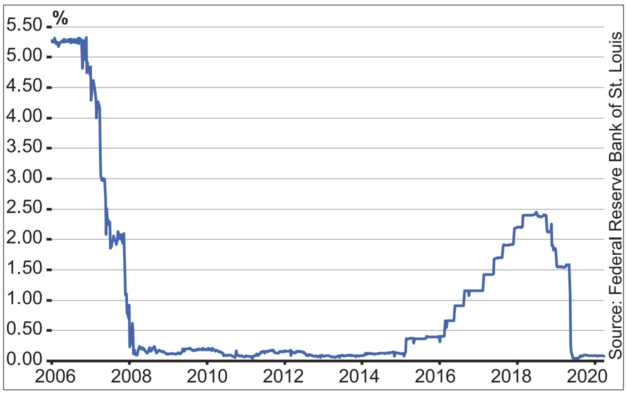
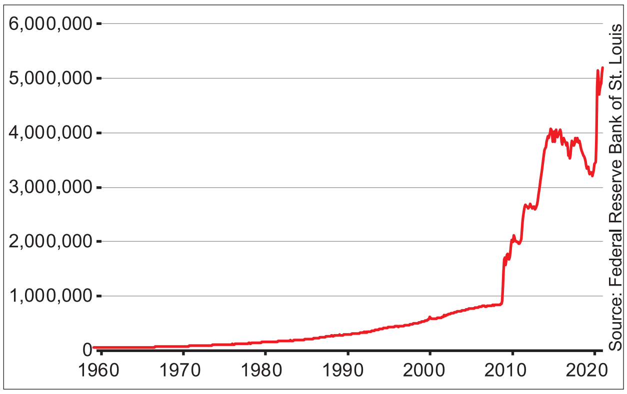


Chart 5 US Monetary Base



What has also never happened before was the response of investors in a richly valued stock market to an increase in US interest rate and a reduction in US monetary base. How will the stock market behave when the US Federal Reserve undertakes such unprecedented monetary tightening?

We got a taste of this in the 4th quarter of 2018. After first raising US interest rate for the first time at the end of 2015, the Federal Reserve raised it another four times in 2018 (chart 4). October 2018 kicked off on a rocky note for stocks when Federal Reserve Chairman Jerome Powell said on 3rd October 2018 that the US central bank was "a long way" from neutral interest rates. The range for the US central bank's benchmark rate was 2% to 2.25% then. Powell declared that "we don't need" the "really extremely accommodative low interest rates" the US central bank had put in place a decade ago. In that tightening cycle, the Federal Reserve was projected to take the federal funds rate to 3.4% pausing. Investors feared the US Federal Reserve might be making a monetary policy mistake.

From start of October to 24th December 2018, or around 2.5 months, the S&P 500 plunged 20% (**chart 6**). In contrast, the ICIVF fell only 4.5% from October to December 2018.

Chart 6 S&P500

The first consequence of our conservatism was the high cash level held by ICIVF from the second quarter of 2014 to the first quarter of 2017. During this period, ICIVF held at least 45% of its NAV in cash with some periods seeing higher cash holdings. This penalised ICIVF's performance. The relatively high cash level was not because we were pessimistic but because we were finding it difficult to find stocks that offered attractive margins of safety. Investing has to bear in mind both returns and risks.

The second consequence of our conservatism was that we sought investments with high margins of safety. We decided then that in terms of safety, the Singapore dollar offered the best protection and many Singapore stocks were highly undervalued, offering an attractive combination. From 2017 to 2019, ICIVF made substantial investments in Singapore listed stocks like The Hour Glass, Overseas Education and Pan-United. By December 2019, they made up around 17% of ICIVF's NAV.

In 2017, ICIVF also invested in Guangdong Provincial Expressway B-shares for the same reasoning of lower risk, higher return. Being in a recession proof business of toll expressway in one of China's richest provinces, and offering good business growth and high dividend yield, investing in Guangdong Provincial Expressway B-shares was at that time a no-brainer. Putting our money where our mouth is, we have also invested substantially in these stocks.

Second factor

For the lack of a better word, the second factor for the poor performance from March 2014 to January 2020 was the persistent lack of luck even though we worked very hard to achieve an appropriate return for ICIVF.

The 3 Singapore listed stocks, which all have strong fundamentals, have been hit very hard by the Covid-19 pandemic. The same can be said for Guangdong Provincial Expressway. Not only did road traffic plunge, the Chinese government decided to make the expressways toll free because of the pandemic. The business of Pico Far East, listed on the Hong Kong exchange, has also been badly hit by the pandemic but this company has very experienced management and boasts of a cash-rich balance sheet. By December 2019, these 4 stocks made up around 26% of ICIVF's NAV. If we had known the Covid-19 pandemic was going to break out, we would not have bought these stocks.

By 27 October 2020, Alibaba's share price on the NYSE has been rallying since March 2020 and reached a high of US$319.28. The next day, we gave an overnight order to our global broker to sell all our Alibaba shares on the NYSE at US$320. At that time, Alibaba formed 25.1% of ICIVF's NAV. We did not manage to sell Alibaba and its share price was subsequently affected by the deferment of the ANT Group's IPO and the anti-monopoly measures implemented by the Chinese government. Had this sale gone through, the December 2020 NAV of ICIVF would have much higher than AUD0.8978.

Not too long after we sold the shares of Qualys, Inc (NASDAQ) on 23 October 2020, headline-making hacking of network infrastructure expert SolarWinds send the shares of several network security companies like Qualys soaring. On 18 December 2020, Qualys jumped 18.4% in a single day. Qualys formed 4.8% of ICIVF's NAV before its sale.

An important reason that made Pan-United highly undervalued and why we bought the stock was its port business in China held under Xinghua Port Group, which was demerged from Pan-United and got listed on the Hong Kong Stock Exchange. Through our holdings in Pan-United, ICIVF got Xinghua Port Group shares for free. After we sold Xinghua Port Group shares at around HK$1.00, not long after that, it was privatised at HK$2.597. ICIVF held 1.407 million Xinghua shares.

A very recent "unlucky" experience concerns Traditional Chinese Medicine, listed on the Hong Kong stock exchange. Before we could finish buying this stock, its major shareholder announced that it will take the company private and the share price jumped up.

We have been researching Tesla since 2012. We wrote to them on 28 September 2012 requesting for a research visit and meeting at its California headquarters. At that time Tesla was trading at less than US$6.00. They did not reply. We wrote to them again on 24 February and 7 April 2017. On 28 June 2017, we even asked our global broker to help arrange the meetings, all without success. Tesla's price traded between US$55 to US$70 at that time. Recognising the massive potential of Tesla, we did not give up and we finally succeeded in meeting Tesla at its Fremont headquarters on 18 November 2019. Before that, we had already researched and tested NIO, one of its key China competitors. After our November visit, Tesla's share price more than doubled in about 5 weeks as the company made 3 positive announcements in that short period. After years of researching electric cars and Tesla, we were not able to buy any Tesla shares as we could not even finish our valuation of Tesla before its share price surged again.

This brings us to ICIVF's performance in the 3rd sub-period.

Sub-period 3

In this period from Jan 2020 to Dec 2020, the single most important factor is of course the Covid-19 pandemic. Despite such a frightening period, based on its new strategy, ICIVF performed well until the share price of Alibaba fell in November and December 2020 and the AUD strengthened against the USD and HKD. First, as we explained in our monthly commentaries, ICIVF did not sell a single stock during this global panic. Secondly, had Alibaba's share price and AUD/USD exchange rate as at 31 Dec 2020 remain the same as at 31 Oct 2020, ICIVF's NAV on 31 Dec 2020 would have been AUD0.9720, or 8.26% higher than the actual NAV of AUD0.8978 (**chart 7**). We view the drop in Alibaba's share price and the impact of the strength in AUD exchange rate as transient events.

For comparison, **Chart 8** shows the actual performance of ICIVF.

Section B: Investment strategy

The investment strategy of ICIVF has always been value investing. As a value investor, we do not have an optimistic or pessimistic outlook of the stock market. Such an investing approach will

Chart 7 ICIVF vs Benchmark

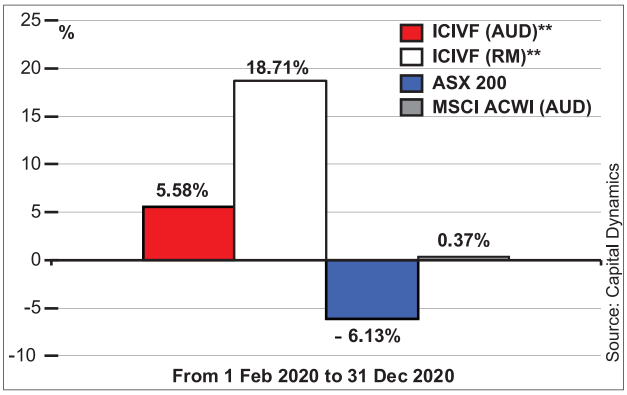
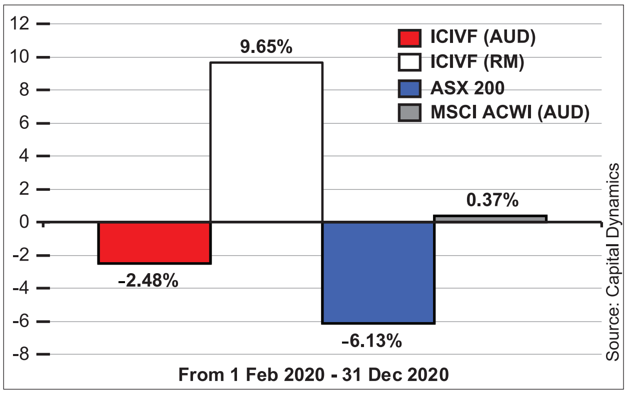


Chart 8 ICIVF vs Benchmarks



be akin to timing the stock market, which is very different from value investing. Value investors are by nature optimistic. Nevertheless, we do not hope for miracles to happen. We have worked very hard to manage ICIVF and we will continue to do the same.

Value investing focuses not only generating returns but also managing downside risks. Our philosophy has always put priority on protecting our client's principal sum. It all boils down to very simple arithmetic and probability. To recover a from 50% loss, one has to make a 100% return. Or a 100% gain can be wiped out by a 50% loss.

Different investment strategies work in different periods. There is no one strategy that works all the time in all types of market conditions. Value investing has a long history. In the initial phase, The Benjamin Graham style of value investing works well. Then, somewhere in the Sixties, Charlie Munger, Philip Fisher and Warren Buffett modified it to suit a different set of circumstances. However, as we saw after 2008, value investing has been evolving again. Many value investors, including many of the famous ones like Jeremy Grantham or even Warren Buffett, have still not recognised this change, which is why many of them all over the world have been underperforming in recent years.

On our end, we have been researching and studying this important matter very intensively. Hence, in a talk on 13 April 2019 coinciding with our Investor Day, I presented my views on the new value investing in public for the first time. I presented my views on the new value investing again in our special virtual conference held on 30th May 2020. These views were published in www.icapital.biz in June 2020. As a result of our new value investing, we were able to justify holding a low level of cash even when the Covid-19 pandemic hit in 2020. In fact, the Covid-19 pandemic confirmed some of the assumptions behind my new value investing. The monthly commentaries of ICIVF in 2020 were based on this value investment strategy.

To be sure, the main principles of my new value investing are still the same as the older versions of value investing: invest with a margin of safety and when there is a divergence between market price and intrinsic valuation. To generate a sustainable return, we need to be mindful of and manage the downside risk.

Section C : Conclusion

We do not have any forecast for ICIVF's performance in 2021. However, we are constantly reviewing the stocks held in its portfolio and as explained earlier, we have revised our value investing philosophy to suit the changing circumstances. Obviously we hope that ICIVF will generate better returns, not only in 2021 but in the longer-term too. With some luck, ICIVF is capable of generating better returns, as the July 2009 to Feb 2014 period and the 2020 period show.

We align our interest with our investors through the unique performance fee structure of ICIVF, which is the most demanding in the entire industry. For avoidance of confusion, we are not able to earn any performance fee unless the annual return and annual compound return of ICIVF exceed 6%. Without earning any performance fees, Capital Dynamics (Australia) Limited will not be able to earn a profit.

One may ask what has been our "major mistake"? First, we do not review or assess our performance with hindsight bias. We judge the whole situation with objective and professional integrity. We have worked very hard, and we have a fund that puts investors' interests always above ours. We are deeply frustrated that our superior performance from July 2009 to early 2014 was diluted by the subsequent period. If there ever was a "major mistake", it was because we were too cautious, too conservative and too disciplined in sticking to conventional value investing. Despite this, it is fact that ICIVF generated a 3.5% annual return with hardly any risk as evidenced in the crashes of Oct – Dec 2018 and early 2020. **From July 2009 until now, there was never a moment when investors would lose their money.**

As at the time of writing this Commentary, your Fund has nearly 15% of its NAV in cash. The *i* Capital International Value Fund starting from 2020 is different from what it was in the last few years. We remain confident that the NAV of *i* Capital International Value Fund will climb steadily from its low in Apr 2020. We again strongly recommend investors to take advantage of the global panic to invest more and benefit from dollar cost averaging.

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.

陳鼎武

Tan Teng Boo
Director
Capital Dynamics (Australia) Limited
ABN 53 129 846 260 AFSL 326283
24th February 2021

FUND PERFORMANCE 1

Chart 9 Total return (%)

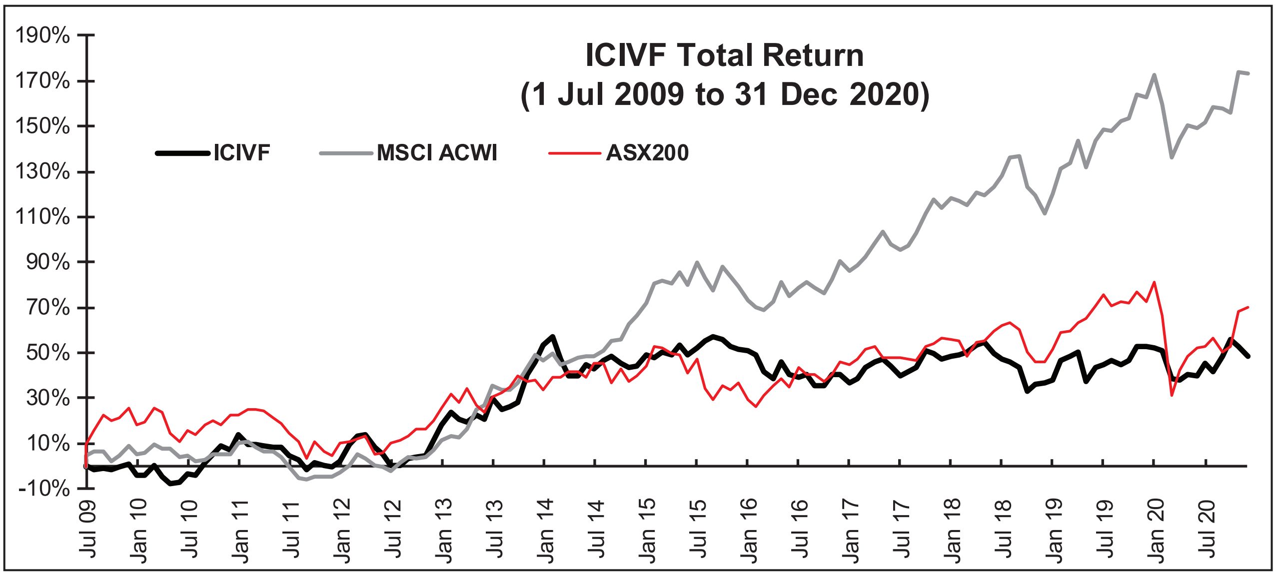


Table 1 Cumulative Total Return and Compound Return

	Cumulative Total Return (%)			Compound Return (%)
	1-Year-Return	2-Year-Return	Since Inception	Since Inception
ICIVF (AUD)	-3.02%	8.42%	48.47%	3.49%
MSCI ACWI (AUD)	4.15%	29.40%	173.56%	9.14%
ASX200 (AUD)	-1.45%	16.67%	70.03%	4.72%

FUND PERFORMANCE 2

Table 2 Top 5 performing stocks (current holdings only) (in local currency)

	Quarter ending 31 Dec 2020 (% of change)
K2 Asset Management Holdings	60.00%
Pico Far East Holding Ltd	51.09%
Concord New Energy	34.29%
China New Town Dev Npv	33.33%
IPG Photonics Corp	31.66%

The table above presents the top 5 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 2020), and held till the end of the quarter (i.e. 31 December 2020). 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 Pico Far East Holdings Ltd was bought on 21 October 2020 and sold on 31 December 2020, its performance is only measured over 21 October 2020 to 31 December 2020 and not over the full quarter. Similarly, if it was bought on 1 October 2020 and sold on 11 December 2020, its performance is measured over the period 1 October 2020 to 11 December 2020.

FUND PERFORMANCE 3

Table 3 shows the percentage gain or loss of each company held by your Fund as at 31 December 2020. 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$)	Price Dec 2020 (A$)	% Change
Alibaba Group Holding Ltd	264.18	310.40	17.50%
Arwana Citramulia	0.05	0.07	33.85%
China New Town Dev Npv	0.05	0.03	-39.56%
Concord New Energy	0.05	0.06	17.57%
Guangdong Provincial Expressway Development Co Ltd	0.95	0.73	-23.22%
IPG Photonics Corp	210.07	327.61	55.95%
K2 Asset Management Holdings	0.28	0.08	-70.96%
Krones AG	96.92	107.08	10.49%
Overseas Education Ltd	0.37	0.30	-19.82%
Pico Far East Hldg Ltd	0.52	0.23	-54.78%
Rexlot Holdings Ltd	0.10	0.00	-96.88%
Zhengzhou Yutong Bus Co Ltd Ord Shs A	4.54	3.28	-27.70%

Table 4 shows the percentage gain or loss arising from currency movements as at 31 December 2020. 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$)	Price Dec 2020 (A$)	% Change
Alibaba Group Holding Ltd	264.18	256.69	-2.83%
Arwana Citramulia	0.05	0.05	-4.23%
China New Town Dev Npv	0.05	0.05	-0.55%
Concord New Energy	0.05	0.07	31.83%
Guangdong Provincial Expressway Development Co Ltd	0.95	0.94	-0.37%
IPG Photonics Corp	210.07	185.96	-11.48%
K2 Asset Management Holdings	0.28	0.28	0.00%
Krones AG	96.92	94.79	-2.20%
Overseas Education Ltd	0.37	0.38	2.99%
Pico Far East Hldg Ltd	0.52	0.51	-0.96%
Rexlot Holdings Ltd	0.10	0.11	12.27%
Zhengzhou Yutong Bus Co Ltd Ord Shs A	4.54	4.64	2.17%

PORTFOLIO INFORMATION

Table 5 Percentage of assets held as cash

	Cash (%)	Equities (%)
End of Sep 20	7.56%	92.44%
End of Oct 20	9.55%	90.45%
End of Nov 20	12.83%	87.17%
End of Dec 20	14.50%	85.50%

Table 6 Top 5 holdings as at end December 2020

	65.19%
Alibaba Group Holding Ltd	18.84%
IPG Photonics Corp	17.11%
Krones Ag	12.18%
Zhengzhou Yutong Bus Co Ltd Ord Shs A	9.31%
Concord New Energy	7.75%

Table 7 Portfolio breakdown for equities by region as at end December 2020 (in AUD)

	100.00%
Hong Kong	23.94%
Australia	0.03%
Singapore	6.92%
China	10.89%
Europe	14.24%
United States	42.05%
Indonesia	1.92%

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 2020 ("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.

NOTES

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BY Capital Dynamics

INDEPENDENCE * INTELLIGENCE * INTEGRITY

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