

i Capital International Value Fund ARSN 134 578 180



Quarterly Investment Report
For the period 1 October 2015 to 31 December 2015

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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

Buy / Sell Spread

Nil

Management Fee

1.5375% p.a.

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

Inception Date

1 Jul 2009

Minimum Investment (AUD)

\$20,000

Additional Investment (AUD)

\$2,000

Income Distribution

Annually (if any)

PERFORMANCE REVIEW

By 31 December 2015, the Fund has, from its inception in July 2009, delivered an annual compound return of 6.63%, 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 51.81%. Comparative benchmark figures are shown in Figure 1 and Table 1.

MARKET REVIEW AND OUTLOOK

After Lehman Brothers collapsed in September 2008, due to the greatest but avoidable mistake made by Ben Bernanke, the Federal Reserve's ex-chairman, the world economy has not been the same. Fundamentally, it has changed in many ways; some for the better, some for the worse.

The emergence of China and hence, the reliance of the global economy on China's development is one of the most important positive changes the global economy has seen. To many, this may sound like heresy but the most vital reason why the global economy in 2008 did not end up like the 1930 Great Depression is due to the immense positive contribution from China.

While China's development since 2008 has contributed greatly to a better and more balanced world economy, the irresponsible politicians and the no less irresponsible policies of the developed economies, in particular, the United States of America, Europe and Japan have since 2008, imparted great volatility and uncertainty on the rest of the world and they would with hindsight be seen as one of the biggest contributors to the sluggish global economic growth experienced nowadays. The failure of the politicians in the United States of America, Europe and Japan to come out with proper and effective fiscal policies may be seen as a major failure of Western democracy but the failure of the monetary policies to boost growth has to be seen as a major failure on the part of the central banks in the United States of America, Europe and Japan.

As world economic growth projections are now regularly revised downward, some European and Japanese central bankers have resorted to negative interest rates. The policy of implementing negative interest rate started in Europe first. There are fundamentally serious uncertainties and costs created by negative interest rate. Although the Federal Reserve has so far not resorted to this desperate measure of last resort, well, no one really knows when and how desperate the Federal Reserve

During the 1 October 2015 to 31 December 2015 quarter, the Fund returned -3.24% after fees. This compares with the MSCI ACWI Index and ASX200 in AUD (benchmark) return of 1.00% and 5.46%, resulting in relative performance of -4.25% and -8.71%. For the year ending 31 December 2015, the Fund returned 5.09% after fees which compares with the benchmark returns of 7.69% and -2.13%.

would get when the going gets tougher.

It is clear that negative interest rates have not worked and it is time the governments and politicians in democratic Japan, Europe and the United States get their acts together and implement policies to effectively boost global aggregate demand rather than merely asset prices. The combined GDP of Japan, Europe and the United States is more than 3.5 times the size of China's GDP. Boosting their annual GDP growth rate by a mere 1% would be similar to China increasing her GDP growth rate by 3.5%. Warren Buffett expresses optimism over America. Donald Trump is right in saying that something is fundamentally wrong with America and he is the one running for the US presidential election.

At the same time, many observers keep criticising China again and again for not reforming. This is strangely ironical when China has been precisely doing that. Perhaps these people have a different definition or notion of what reforms are; to Capital Dynamics (Australia) Ltd, many of the promised reforms are already underway even though they have not received the glamorous media reports that another country, which is not China, would have. Well, the fact that these reforms have not gotten the necessary coverage does not detract from the fact that the reforms are actually underway; in many cases, pretty earnestly.

As part of the government's SOE reforms, China is aiming to transform executive compensation at its biggest state firms by cutting salaries, curbing misuse of non-salary benefits and holding top managers responsible for the performance of their firms. Under the plan, top bosses at 72 central government-owned firms, which also include well-known conglomerates such as China Mobile Ltd, face pay cuts of as much as 50%. The biggest executive pay cut was at equipment manufacturer Guodian Nanjing Automation which saw the firm's new general manager, Ying Guangwei, paid RMB164,000, compared with RMB518,000 for his predecessor in 2014.

At 18 Chinese state firms, their bosses had major pay cuts last year after the central government overhauled salary schemes for top state-owned enterprises (SOE) executives out of the 48 SOEs that have released their 2015 annual reports. Li Chunguang, Sinopec's board director and president, had a 46% pay cut last year, with his salary dropping from RMB970,000 in 2014 to RMB525,000. Wang Dongjin, president and director of PetroChina, saw his pay shrink from RMB1.1 mln in 2014 to RMB734,000 during the same time period. Although one could cite the impact of plunging oil price on the firms' earnings as the main reason for the hefty pay cuts, one must note that salaries were also slashed for top executives at China's five biggest banks. Jiang Jianqing, chairman of the Industrial and Commercial Bank of China, the world's biggest lender by assets, made less than RMB550,000 in total compensation last year, down 52% from 2014. China Construction Bank, the country's second-biggest lender, cut chairman Wang Hongzhang's annual compensation to less than RMB600,000 in 2015. The chairmen at another three major Chinese state lenders - Agricultural Bank of China, Bank of China and Bank of Communications - also received only half of what they earned in 2014. In addition, the banks' presidents saw their compensation halve in 2015. In comparison, JPMorgan Chase & Co chief executive Jamie Dimon received US\$27 mln in total compensation in 2015. UBS chief executive Sergio Ermotti received 14.3 mln Swiss francs in total compensation for the same year.

Contrary to others, Capital Dynamics (Australia) Ltd sees China reforming every day and everywhere. Actually, to see all of these, one just needs to be not anti-China or closed-minded or be a parrot. The reforms of China's economy are necessarily very complex, long-lasting and will be experienced in many corners of this huge and fast-developing nation. Reforming the state-owned firms is only one tiny part of the whole reform process, which will be implemented at many levels. It is worth noting that cutting the benefits of senior managers is a vital part of reforming these large entities. It is not just about retrenching people, closing down said firms or downsizing them.

At the time of writing this commentary, the *i* Capital International Value Fund still has a high cash level even though it has been making some purchases. The NAV of the *i* Capital International Value Fund can be viewed at either www.capitaldynamics.com.au or www.funds.icapital.biz.

Yours sincerely,



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18 April 2016

FUND PERFORMANCE 1

Figure 1 ICIVF Total Return (1 Jul 2009 to 31 Dec 2015)

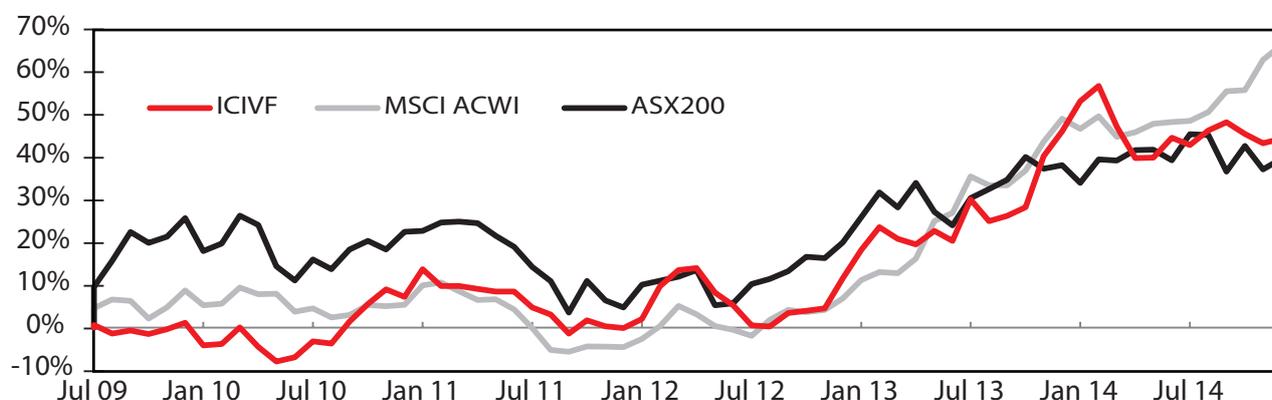


Table 1 Cumulative Total return and Compound return

	Cumulative Total Return (%)			Compound Return (%)
	1-Year-Return	2-Year-Return	Since Inception	Since Inception
ICIVF (AUD)	5.09%	3.85%	51.81%	6.63%
MSCI ACWI (AUD)	7.69%	20.20%	79.29%	9.39%
ASX200 (AUD)	-2.13%	-1.05%	36.70%	4.92%

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 3 performing stocks (in local currency)

	Quarter ending 31 Dec 2015 (% of change)
Clover Corporation Limited	83.33%
Dah Chong Hong	25.72%
Rexlot Holdings Ltd	0.00%

The table above presents the top 3 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 2015), and held till the end of the quarter (i.e. 31 December 2015). 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 Clover Corporation Limited was bought on 21 October 2015 and

sold on 31 December 2015, its performance is only measured over 21 October 2015 to 31 December 2015 and not over the full quarter. Similarly, if it was bought on 1 October 2015 and sold on 11 December 2015, its performance is measured over the period 1 October 2015 to 11 December 2015.

FUND PERFORMANCE 3

Table 3 shows the percentage gain or loss of each company held by your Fund as at 31 December 2015. 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 2015 (A\$)	% Change
Clover Corporation Limited	0.30	0.39	28.14%
Concord New Energy	0.05	0.06	16.94%
Dah Chong Hong	1.02	0.48	-52.42%
Mermaid Maritime PCL	0.58	0.12	-78.70%
QBE Insurance	16.19	12.59	-22.25%
Rexlot Holdings Ltd	0.10	0.07	-34.57%

FUND PERFORMANCE 4

Table 4 shows the percentage gain or loss arising from currency movements as at 31 December 2015. 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 2015 (A\$)	% Change
Clover Corporation Limited	0.30	0.30	0.00%
Concord New Energy	0.05	0.07	47.59%
Dah Chong Hong	1.02	1.46	43.08%
Mermaid Maritime PCL	0.58	0.68	17.61%
QBE Insurance	16.19	16.19	0.00%
Rexlot Holdings Ltd	0.10	0.12	19.13%

PORTFOLIO INFORMATION

Table 5 Percentage of assets held as cash

	Cash (%)	Equities (%)
End of Mar 2015	80.90%	19.10%
End of Jun 2015	80.72%	19.28%
End of Sep 2015	83.37%	16.63%
End of Dec 2015	83.38%	16.62%

Table 6 Top 5 holdings as at end December 2015

	15.9%
Concord New Energy	5.6%
Rexlot Holdings Ltd	4.5%
QBE Insurance	3.3%
Mermaid Maritime PCL	1.6%
Dah Chong Hong	0.9%

Table 7 Portfolio breakdown for equities by region as at end December 2015 (in AUD)

	100%
Hong Kong	66%
Australia	24%
Singapore	9%

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.

GLOSSARY

Gross Domestic Product (GDP)

The Gross Domestic Product is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

State Owned Enterprises (SOE)

A **state-owned enterprise (SOE)** is a legal entity that is created by the government in order to partake in commercial activities on the government's behalf. A state-owned enterprise (SOE) can be either wholly or partially owned by a government and is typically earmarked to participate in commercial activities.

UBS

UBS is a Swiss global financial services company, providing wealth management, asset management, and investment banking services for private, corporate, and institutional clients worldwide.

Fiscal Policy

Fiscal policy is the means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy. It is the sister strategy to monetary policy through which a central bank influences a nation's money supply.

Monetary Policy

Monetary policy is the process by which the monetary authority of a country controls the supply of money, often targeting an inflation rate or interest rate to ensure price stability and general trust in the currency.

Negative Interest Rate

A negative interest rate is an unusual monetary policy tool whereby nominal target interest rates are set with a negative value, below the theoretical lower bound of zero percent. Instead of receiving interest on the reserves held at the central bank, the banks must pay to keep their reserves with the central bank. This is intended to incentivize banks to lend money more freely and businesses and individuals to invest and spend.

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 29 Jan 2016 (“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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