

*i* Capital International Value Fund ARSN 134 578 180



**Quarterly Investment Report**  
For the period 1 Oct 2019 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. 1.1285% 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

<b>Inception Date</b>	1 July 2009
<b>Minimum Investment (AUD)</b>	\$20,000
<b>Additional Investment (AUD)</b>	\$2,000
<b>Income Distribution</b>	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.

<b>Example:</b>	<b>Fee charged per year for an investment balance of \$50,000.00.</b>
<b>Management Fee</b>	$\$50,000.00 \times 1.5375\% = \$768.75$
<b>Administration Cost</b>	$\$50,000.00 \times 1.1285\% = \$564.25$
<b>Total Fee Per Year:</b>	\$ 1,333.00

## PERFORMANCE REVIEW

By 31 December 2019, the Fund has, from its inception in July 2009, delivered an annual compound return of 4.14%, 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 53.10%. Comparative benchmark figures are shown in **figure 3** and **table 1**.

During the 1 October 2019 to 31 December 2019 quarter, the Fund returned 5.56% after fees. This compares with the MSCI ACWI Index and ASX200 in AUD (benchmark) return of 4.16% and -0.06%, resulting in relative performance of 1.40% and 5.63%. For the year ending 31 December 2019, the Fund returned 11.81% after fees which compares with the benchmark returns of 24.24% and 18.39%.

## MARKET REVIEW AND OUTLOOK

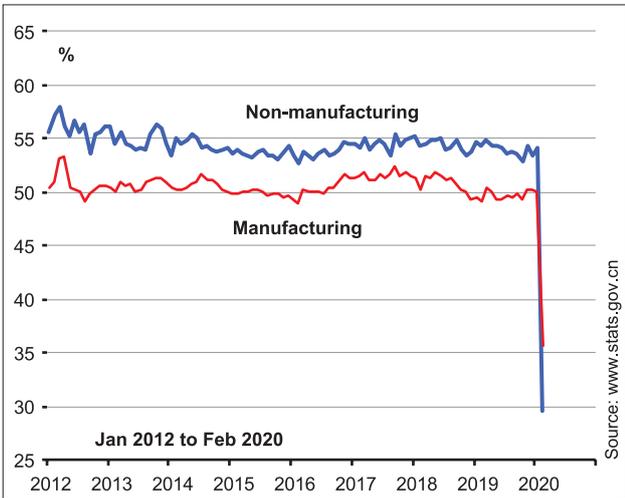
### The Fed Fights The Virus

As of 3 Mar 2020 update from the World Health Organisation (WHO), Covid-19 has spread to 74 countries with 91,783 confirmed cases and 3,123 deaths (it would have further increased by the time you read this Commentary). The countries currently posing great concern are Iran, South Korea, Japan and Italy due to their fast rising numbers. The WHO has raised the coronavirus threat assessment to the highest level. On the other hand, the situation in China is improving fast. The number of new cases reported outside of China has exceeded the number of new cases reported from China. Wuhan, the epicentre of the outbreak, has closed its first makeshift hospital after a sharp decline in new cases in Hubei province. However, the economic impact has been substantial. The Purchasing Managers' Index for both the manufacturing and non-manufacturing sectors fell off the cliff in Feb 2020 (**figure 1**). China's economy is expected to start recovering in the 2<sup>nd</sup> quarter of 2020.

The US reported its first death on 29 Feb and the number of deaths has increased along with the number of confirmed cases which has already passed 100. Initially, there were Hong Kong and Singapore which saw panic buying over Covid-19. Since then, the panic buying scene has spread to several other countries. Last weekend, US shoppers thronged supermarkets and big-box stores to stock up on face masks, hand sanitisers, non-perishable foods and toilet paper.

Disruptions to normal working life around the world due to Covid-19 can be seen. 14-day quarantine orders are being issued to those who may have been exposed to the infection. Italy has lockdown a quarter of her population. In the US, the first federal facility to be closed for 14 days is the Department of Homeland Security in Seattle after an employee began to exhibit symptoms of Covid-19 after visiting the Kirkland Life Care Facility which has become the source of an outbreak in Washington State. The states of California and New York have declared state of emergency. Many US manufacturers are concerned about the supply chain disruption from Covid-19.

**Figure 1** China's Purchasing Managers' Index

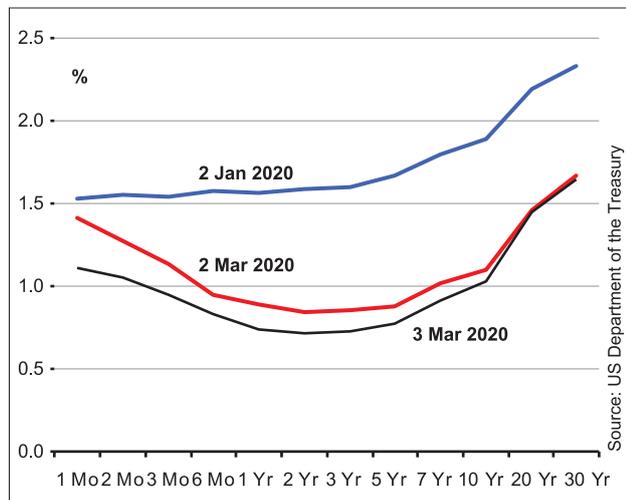


Just earlier in Feb, the Federal Reserve was taking a wait-and-see approach to the risks from the Covid-19 outbreak. Federal Reserve chairman Jerome Powell mentioned that they needed to consider the effects of the coronavirus on the US economy, whether the effects will be persistent or material. Then on 3 Mar 2020, the Federal Reserve sprang a surprise move and lowered the federal funds target range by a massive 50 basis points to a range of 1.00% to 1.25%. However, Trump was not satisfied with the 50 basis points cut and called for further cuts. Just before the rate cut, Trump had also chided the Federal Reserve for being slow to act. He tweeted "Australia's Central Bank cut interests rates and stated it will most

likely further ease in order to make up for China's Coronavirus situation and slowdown. They reduced to 0.5%, a record low. Other countries are doing the same thing, if not more so. Our Federal Reserve has us..." Since the 2008 US-led global financial crisis, the Federal Reserve has not made rate changes outside of scheduled FOMC meetings. The rate cut reflects the uncertainty that the Covid-19 outbreak is raising the risk of a US recession due to the global economy slowing down. Stock markets fell sharply in response to the rate cut.

Investors have also turned from equities to less-risky bonds, causing Treasury yield rates to fall. Treasury yield rates of all maturities have fallen across the board since the beginning of the year and are in a slightly inverted shape instead of a normal upward curve. However, after the rate cut, the 3-month treasury yield at 0.95% went below the 10-year treasury yield at 1.02%. On 2 Mar, the 3-month treasury yield at 1.13% was slightly above the 10-year treasury yield at 1.10% - see **figure 2**. Regardless, the yield curve is again producing warning signs of a recession. However, we need to interpret the yield curve with great caution as its inversion is due to psychological factors.

**Figure 2** Treasury Yield Curve Rates



One thing the Federal Reserve does not need to worry about is inflation, as inflation remains below 2%. Sustaining long durations of low interest rates is unlikely to result in high inflation. The bigger issue for the Federal Reserve is that it has only 1% leeway left before the federal funds target range hit 0% to 0.25% which are the lowest rates last seen during the 2008 financial crisis.

As of now, the Federal Reserve's move will also need to depend on how effectively the public

health authorities handle the Covid-19 outbreak. Fear and panic among people are scarier than Covid-19 itself. Consumer confidence and consumer spending could be depressed. The next recession could end up being a self-fulfilling prophecy. The Covid-19 outbreak first started in Wuhan in early Jan 2020. It is now early Mar and the United States is still not fully prepared for the Covid-19 outbreak to escalate in the world's largest economy. The Trump administration is not known for efficiency and excellent planning. Even though the number of Covid-19 cases has been rising in many countries, the US government is more concerned with quarantining the NYSE and NASDAQ than protecting the health and safety of her people. Trump is more concerned with boosting the US stock markets with rate cuts than making sure that his people have enough relevant medical supplies, medical professionals and hospital beds to deal with an escalation in infected people.

Notwithstanding the seriousness of the Covid-19 outbreak, it is important not to panic. The outbreak at its epi-centre has already peaked. As a long-term fund, we need to stay the course. The outbreak came without a warning. The recovery is likely to be the same. Your Fund has about 5% of its NAV in cash 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](http://www.capitaldynamics.com.au) or [www.funds.icapital.biz](http://www.funds.icapital.biz).

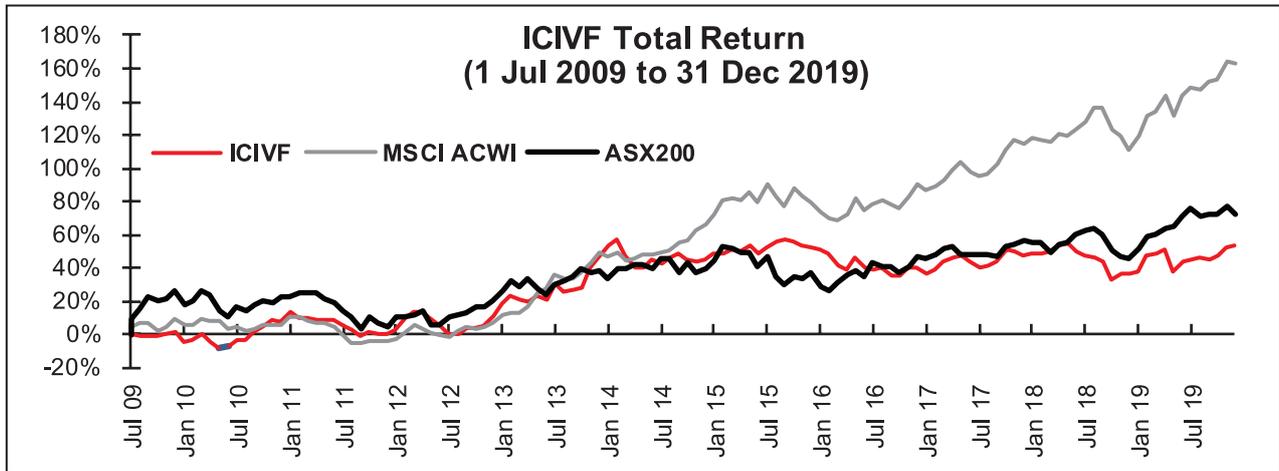
Best wishes.

陳鼎武

Tan Teng Boo  
 Director  
 Capital Dynamics (Australia) Limited  
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 6th March 2020

## 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)	11.81%	3.76%	53.10%	4.14%
MSCI ACWI (AUD)	24.24%	22.59%	162.65%	9.63%
ASX200 (AUD)	18.39%	10.21%	72.54%	5.33%

**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 5 performing stocks (in local currency)

	Quarter ending 31 Dec 2019 (% of change)
PFEIFFER VACUUM TECHNOLOGY AG	27.61%
OVERSEAS EDUCATION LTD	27.59%
ALIBABA GROUP HOLDING LTD	26.83%
PAN-UNITED CORPORATION LIMITED	16.13%
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD	5.72%

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 Oct 2019), and held till the end of the quarter (i.e. 31 December 2019). 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 Overseas Education Ltd was bought on 21 Oct 2019 and sold on 31 Dec 2019, its performance is only measured over 21 Oct 2019 to 31 Dec 2019 and not over the full quarter. Similarly, if it was bought on 1 Oct 2019 and sold on 11 Dec 2019, its performance is measured over the period 1 Oct 2019 to 11 Dec 2019.

## FUND PERFORMANCE 3

**Table 3** shows the percentage gain or loss of each company held by your Fund as at 31 Dec 2019. 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 2019 (A\$)	% Change
ALIBABA GROUP HOLDING LTD	264.18	282.88	7.08%
CHINA NEW TOWN DEV NPV	0.05	0.02	-50.97%
CONCORD NEW ENERGY	0.05	0.05	-4.44%
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD	0.95	1.05	11.35%
HOUR GLASS LTD	0.83	0.85	3.18%
IPG PHOTONICS CORP	210.07	212.15	0.99%
K2 ASSET MANAGEMENT HOLDINGS	0.28	0.04	-85.48%
OVERSEAS EDUCATION LTD	0.37	0.35	-4.30%
PAN-UNITED CORPORATION LIMITED	0.36	0.36	-0.40%
PFEIFFER VACUUM TECHNOLOGY AG	237.73	250.37	5.32%
PICO FAR EAST HLDG LTD	0.52	0.40	-21.92%
REXLOT HOLDINGS LTD	0.10	0.00	-96.88%
ZHENGZHOU YUTONG BUS CO LTD ORD SHS A	4.54	2.76	-39.11%

**Table 4** shows the percentage gain or loss arising from currency movements as at 31 Dec 2019. 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 2019 (A\$)	% Change
ALIBABA GROUP HOLDING LTD	264.18	281.78	6.66%
CHINA NEW TOWN DEV NPV	0.05	0.05	8.64%
CONCORD NEW ENERGY	0.05	0.07	51.94%
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD	0.95	1.03	8.83%
HOUR GLASS LTD	0.83	0.83	0.63%
IPG PHOTONICS CORP	210.07	204.14	-2.82%
K2 ASSET MANAGEMENT HOLDINGS	0.28	0.28	0.00%
OVERSEAS EDUCATION LTD	0.37	0.41	11.12%
PAN-UNITED CORPORATION LIMITED	0.36	0.38	5.28%
PFEIFFER VACUUM TECHNOLOGY AG	237.73	241.08	1.41%
PICO FAR EAST HLDG LTD	0.52	0.56	8.19%
REXLOT HOLDINGS LTD	0.10	0.12	22.64%
ZHENGZHOU YUTONG BUS CO LTD ORD SHS A	4.54	4.78	5.30%

## PORTFOLIO INFORMATION

**Table 5** Percentage of assets held as cash

	Cash (%)	Equities (%)
End of Sep 19	13.66%	86.34%
End of Oct 19	23.33%	76.67%
End of Nov 19	20.10%	79.90%
End of Dec 19	10.59%	89.41%

**Table 6** Top 5 holdings as at end Dec 2019

	<b>57.80%</b>
ALIBABA GROUP HOLDING LTD	17.69%
IPG PHOTONICS CORP	11.41%
PFEIFFER VACUUM TECHNOLOGY AG	9.92%
PICO FAR EAST HLDG LTD	9.45%
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD	9.33%

**Table 7** Portfolio breakdown for equities by region as at end Dec 2019 (in AUD)

	<b>100.00%</b>
Hong Kong	28.52%
Australia	0.01%
Singapore	19.35%
China	8.48%
Europe	11.10%
United States	32.54%

## 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](http://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 2019 (“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](http://www.capitaldynamics.com.au), or contact CDAL at 1300 798 655, or email CDAL at [info@capitaldynamics.com.au](mailto: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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## NOTES





**iCapital**<sup>®</sup>  
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INDEPENDENCE \* INTELLIGENCE \* INTEGRITY

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