



**Quarterly Investment Report**  
For the period 1 January 2016 to 31 March 2016



## CONTENTS

<b>2</b>	<b>ICIIVF at a glance</b>
<b>3</b>	<b>Performance Review</b>
<b>3</b>	<b>Market Review and Outlook</b>
<b>5</b>	<b>Fund Performance</b>
<b>7</b>	<b>Portfolio Information</b>
<b>8</b>	<b>Fund Information</b>
<b>9</b>	<b>Glossary</b>

**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 March 2016, the Fund has, from its inception in July 2009, delivered an annual compound return of 5.31%, 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 41.79%. Comparative benchmark figures are shown in figure 1 and table 1.

During the 1 January 2016 to 31 March 2016 quarter, the Fund returned -6.60% after fees. This compares with the MSCI ACWI Index and ASX200 in AUD (benchmark) return of -5.68% and -4.02%, resulting in relative performance of -0.92% and -2.58%. For the year ending 31 March 2016, the Fund returned -5.76% after fees which compares with the benchmark returns of -6.89% and -13.73%.

## MARKET REVIEW AND OUTLOOK

Is Brexit to be feared? It is not so much Brexit happening that is to be feared, as the timing of it. Why?

Globally, economies based on Western style democracies are or have been in crisis, whether minor or serious. In some cases, the problems are confined to economics but more often than not, the crisis is a complex knot of economic and political issues. Previously stable countries like Libya, Tunisia, Syria, Iraq, and Egypt are all in turmoil, with no sustainable solution in sight. Turkey, Brazil and South Africa have gone from being a political economy model to a has-been as economic problems bring out the many weaknesses of Western-style democracies. Thailand, formerly a Southeast Asian role model, has been suffering from devastating democratic deadlocks. Malaysia has within a relatively short period of time, become a failed state with a political vacuum that no political party can effectively fill. These economies do not matter; they are too small, even on a collective basis. It is the decline of the massive European, the Japanese and the American economies that carry a far greater significance to Western-style democracies. Their decline has made many countries search for alternate political economy models.

Like Italy, another has-been that just cannot get out of the inherently corrupted structure, Japan has been stagnating for so long and has seen so many changes in prime ministers that her voters have given up. Since 2008, Europe has struggled to create economic growth. Quantitative easing and negative interest rate have been the only "innovative" response. Greece, Italy, Portugal, Spain and even France continue to stumble on political economic paths that lead to nowhere. Given the deep seated frustrations, the rise of extreme nationalist political parties or the decline of Western-style democracy, in almost every European country is not a coincidence; it is the logical outcome of an inherently weak political system that has disappointed

the British and European voters again and again. Despite a powerful 7-year old stock market rally, and a 4.7% unemployment rate, the American approach should have been cheering the American people. Alas, the "innovative" quantitative easing and endless political bitching have led millions of frustrated angry Americans looking up to non-establishment politicians like Donald Trump and Bernie Sanders to make America great again.

It is not an exaggeration to say that Western-style democracy is in a serious crisis. What good is such a political approach if it continually fails to deliver what the people want? The persistent inability of Europe, Japan and even America to revive their economies has meant that Western-style democracies may have to be fundamentally modified or even replaced by other approaches. The other political economy approach that immediately comes to mind is originating from China.

Professor Daniel Bell has written a brilliant book about the China's approach. "The China Model" takes a comparative look at China's political philosophy and one which is based on Western-style democracy. He brilliantly dissects the uniqueness of China's successful political approach and tears apart the wrongly perceived notion that a "one person one vote" system is better. "The China Model" is a must read.

In just about 40 odd years, China has successfully moved from being a poor economy to a middle-income one and over the next few decades, to a developed economy. There is no formal name for this China approach. One can call it socialism with Chinese characteristics or capitalism with Chinese characteristics; the important point is it works. China's economic growth and development have brought about solid progress across all segments to her 1.4 bln people and no less important, the Chinese people have

hopes, they have optimism, and they look forward to even better days in the decades to come.

If one thinks that China's political economy success is confined to only the last 40 odd years, one would have grossly misunderstood or underestimated China's rich, deep and vast political economy achievements. Stretching more than 2,500 years, these achievements have enriched many other nations and civilisations, one of which was pre-Enlightened Europe.

"The Path" by Professor Michael Puett is another must read. His book takes a different approach; he focuses on what we in the modern life and age can learn from the philosophies of Confucius, Laozi, Mencius, Zhuangzi, Xunzi and more. Do not be put off by this approach and think it would be difficult to understand. Professor Michael Puett teaches in Harvard University and his class on Chinese philosophy is the 3rd most popular class, after introductory economics and computer science. He wrote:

*"As early as the sixteenth century, Jesuits started travelling to China. They were stunned by what they saw. And they began writing accounts to describe it: bureaucracies run by an educated elite, not aristocrats; laws applying to all, whether peasant or aristocrat; people who became educated in order to take a civil service exam; social mobility through a meritocracy. All this was simply unheard of in Europe .....Two centuries later, these accounts helped to spawn an entire movement in Europe called the Enlightenment."*

It is very clear that China had long ago already discovered, developed and practiced a highly successful political economy approach even when Europe was in her primitive state and when the United States of America was essentially made up of many independent pre-conquered Native American states. Then, there was a very disruptive break in China's long and highly successful journey. Dominated by many foreign powers for a prolonged period, China, under the Communist Party and Mao Tzetung, was able to rebuild the nation. The successful rebuilding

cannot be seen only from the perspective of the last 40 odd years; this would overestimate the impact of Deng Xiaoping and underestimate the endless contributions from the Communist Party of China, Mao Tzetung and the 2,500 years of successful growth and development. When viewed in its entirety, one can understand why China's successful approach can provide an alternative approach. The full impact of Brexit can only be truly understood when viewed in this larger context.

Dusan Prorokovic, an executive director of the Center for Strategic Alternative in Belgrade, brings us up to date on the impact of the Chinese approach. As part of president Xi Jinping's recent visit to East Europe, Dusan wrote:

*"The Western model for future post-Yugoslav space has proven unsuccessful. After the deepening of global financial crisis, the West is no longer offering a successful development model. Instead, it is putting political pressures that generate tensions .....Moreover, Serbians have not forgotten China's political and economic help during the difficult years of war and sanctions. China's help may have been only symbolic, but it was hugely important. It made us feel that we are not alone. That is why President Xi will be welcomed in Serbia in a way that is rarely seen in Europe."*

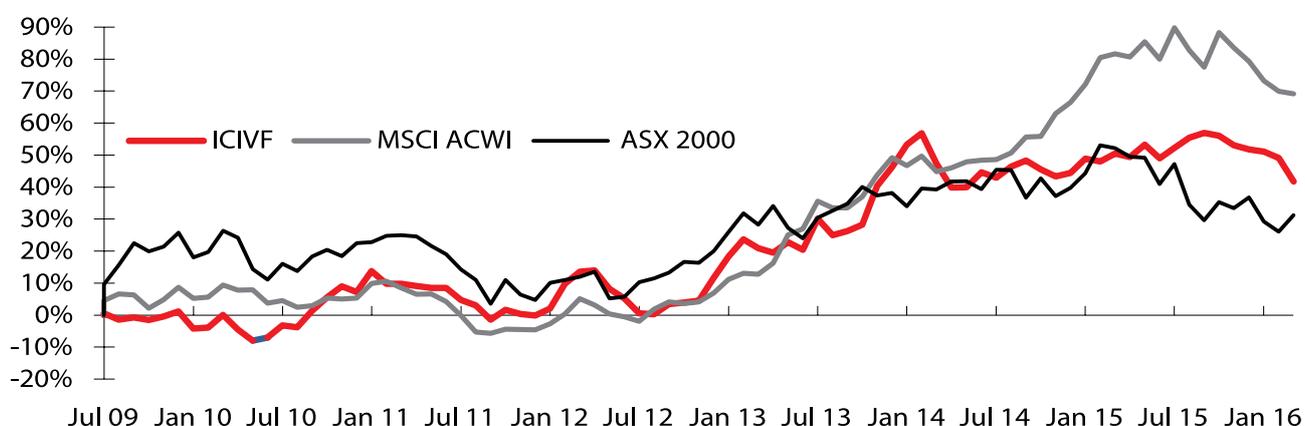
Brexit is to be feared.

At the time of writing this commentary, the *i* Capital International Value Fund still has a high cash level even though it continues to make some purchases. 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).

Tan Teng Boo  
Capital Dynamics (Australia) Limited  
ABN 53 129 846 260 AFSL 326283  
28 June 2016.

## FUND PERFORMANCE 1

**Figure 1** ICIVF Total Return (1 Jul 2009 to 31 Mar 2016)



**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)	-5.76%	-3.73%	41.79%	5.31%
MSCI ACWI (AUD)	-6.89%	16.75%	69.10%	8.09%
ASX200 (AUD)	-13.73%	-5.78%	31.20%	4.10%

**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 Mar 2016 (% of change)
Clover Corporation Limited	12.99%
Rexlot Holdings Ltd	0.00%

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 January 2016), and held till the end of the quarter (i.e. 31 March 2016). 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 January 2016 and sold on 31 March 2016, its performance is only measured over 21 January 2016 to 31 March 2016 and not over the full quarter. Similarly, if it was bought on 1 January 2016 and sold on 11 March 2016, its performance is measured over the period 1 January 2016 to 11 March 2016.

## FUND PERFORMANCE 3

**Table 3** shows the percentage gain or loss of each company held by your Fund as at 31 March 2016. 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 Mar 2016 (A\$)	% Change
China New Town Development Co Ltd	0.05	0.05	-1.59%
Clover Corporation Limited	0.32	0.44	36.81%
Concord New Energy	0.05	0.05	5.62%
Dah Chong Hong	1.02	0.39	-61.55%
Mermaid Maritime PCL	0.58	0.08	-85.38%
QBE Insurance	16.19	10.91	-32.63%
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 March 2016. 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 Mar 2016 (A\$)	% Change
China New Town Development Co Ltd	0.05	0.05	-0.21%
Clover Corporation Limited	0.32	0.32	0.00%
Concord New Energy	0.05	0.07	39.47%
Dah Chong Hong	1.02	1.38	35.21%
Mermaid Maritime PCL	0.58	0.68	17.19%
QBE Insurance	16.19	16.19	0.00%
Rexlot Holdings Ltd	0.10	0.11	12.58%

## PORTFOLIO INFORMATION

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

	Cash (%)	Equities (%)
End of Jun 2015	80.72%	19.28%
End of Sep 2015	83.37%	16.63%
End of Dec 2015	83.38%	16.62%
End of Mar 2016	83.99%	16.01%

**Table 6** Top 5 holdings as at end March 2016

	<b>15.0%</b>
Concord New Energy	5.1%
Rexlot Holdings Ltd	4.6%
QBE Insurance	3.1%
Mermaid Maritime PCL	1.1%
Clover Corporation Limited	1.1%

**Table 7** Portfolio breakdown for equities by region as at end March 2016 (in AUD)

	<b>100%</b>
Hong Kong	65%
Australia	26%
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](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.

## GLOSSARY

### **Brexit**

Brexit is an abbreviation of “British exit”, which refers to the June 23, 2016 referendum by British voters to exit the European Union.

### **Socialism**

A political and economic theory of social organisation which advocates that the means of production, distribution, and exchange should be owned or regulated by the community as a whole.

### **Capitalism**

An economic and political system in which a country’s trade and industry are controlled by private owners for profit, rather than by the state.

### **Jesuits**

A member of the Society of Jesus, a Roman Catholic order of priests founded by St Ignatius Loyola, St Francis Xavier, and others in 1534, to do missionary work. The order was zealous in opposing the Reformation. Despite periodic persecution it has retained an important influence in Catholic thought and education.

### **Bureaucracies**

Systems of government in which most of the important decisions are taken by state officials rather than by elected representatives.

## GLOSSARY

### **Meritocracy**

Government or the holding of power by people selected according to merit.

### **Enlightenment**

A European intellectual movement of the late 17th and 18th centuries emphasising reason and individualism rather than tradition. It was heavily influenced by 17th-century philosophers such as Descartes, Locke, and Newton, and its prominent figures included Kant, Goethe, Voltaire, Rousseau, and Adam Smith.

### **Communist party**

A political party based on the principles of Marxism-Leninism, and believing that most economic activity (such as factories, banks, and farming) should be owned or controlled by the government.

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 January 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](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.







***i*capital<sup>®</sup>**  
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](http://www.capitaldynamics.com.au)  
[info@capitaldynamics.com.au](mailto:info@capitaldynamics.com.au)