

*i* Capital International Value Fund ARSN 134 578 180



**Quarterly Investment Report**  
For the period 1 Jan 2020 to 31 March 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 March 2020, the Fund has, from its inception in July 2009, delivered an annual compound return of 3.08%, 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 38.64%. Comparative benchmark figures are shown in **figure 3** and **table 1**.

During the 1 Jan 2020 to 31 March 2020 quarter, the Fund returned -9.44% after fees. This compares with the MSCI ACWI Index and ASX200 in AUD (benchmark) return of -10.12% and -24.05%, resulting in relative performance of 0.68% and 14.61%. For the year ending 31 March 2020, the Fund returned -6.82% after fees which compares with the benchmark returns of 0.95% and -17.86%.

## MARKET REVIEW AND OUTLOOK

### Why did they all wait so long?

The International Monetary Fund in Jan 2020 forecasted a global GDP growth of 3.3% for this year. The IMF now expects global GDP to contract 3% in 2020. The Covid-19 pandemic has been identified as the main reason for the huge difference in the forecast. What lies ahead?

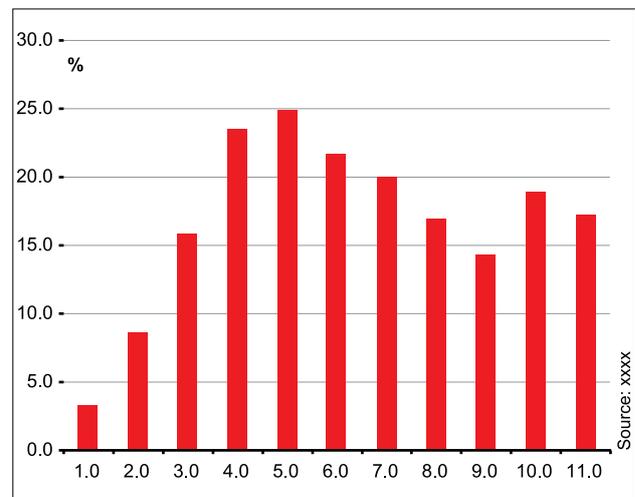
The answer that the global economy needs a vaccine before it can be normal again is very common: *“To return to a semblance of previous normality, the development of SARS-CoV-2 vaccines is an absolute necessity.”* Federal Reserve chairman Jerome Powell has said that the US economy will claw its way back from the current downturn, but may need a coronavirus vaccine before that is complete. If this conclusion is valid, then, no one can answer with certainty and clarity when the recovery will take place and what kind of recovery it will be, as no one has the answer as to when a vaccine will be discovered. At Capital Dynamics, we think the situation is more complex than this.

In the world of coronavirus, a few months are a long time. Since our last quarterly commentary, the Covid-19 pandemic has claimed more people and it has rapidly moved on from China and South Korea initially to Italy, Spain, France and Iran next and then to the United States, United Kingdom, Russia, India and Brazil.

The number of confirmed cases in the United States, the world’s clear leader, has surged to nearly 1.8 mln people and the number of Americans dying has gone past 103,000. In just three months, Donald Trump has happily allowed Sars-CoV-2 to claim the lives of more Americans than the 20-year Vietnam War did (in that unfair war on Vietnam, 58,220 American soldiers died). At the same time, 40 mln Americans are out of

job as the US unemployment rate has surged to levels last seen in the 1929 Great Depression (**figure 1**). In Apr 2020, the US unemployment rate reached 14.7% (in Feb 2020 it was 3.5%) and is still climbing. Donald Trump succeeded in damaging the US economy what took the 1929 Great Depression more than two years to do the same (**figure 1**).

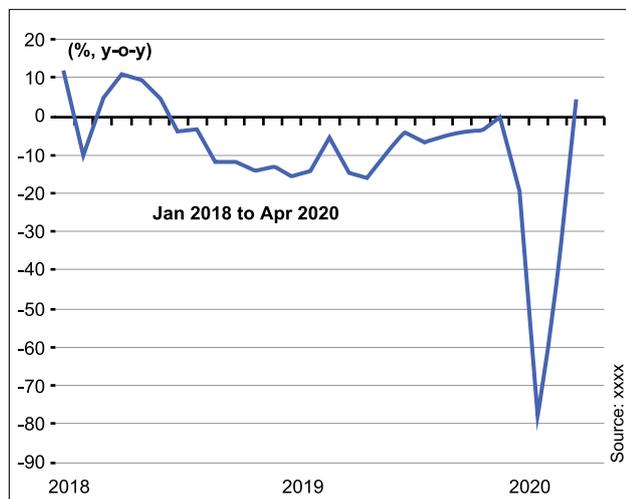
**Figure 1** US Unemployment Rate: 1929 to 1939



In the meantime, China has gone through the same Covid-19 pandemic with far less destruction. The absolute number of people confirmed cases in China is 97% fewer than those in the US. The absolute number of deaths in China is also 97% fewer than those in The United States. Trump’s America has more than 5, 400 confirmed cases and more than 311 deaths per 1,000,000 persons. On the same basis, China’s numbers are only around 58 persons and 3 persons respectively. China’s economy is also in a much better shape than the United States, even though she was the first country to be affected with coronavirus outbreak and had to deal with many unknowns then.

For example, total auto sales in China have in a V-shaped recovery already recorded a positive year on year growth in Apr 2020 (figure 2).

**Figure 2** Total Vehicle Sales



On one extreme, we have the United States, a country where handling of the pandemic is described by Obama as an “*absolute chaotic disaster*” and that Trump “*aren’t even pretending to be in charge.*” On the other hand, China is progressing steadily back to normalcy. In Asia, the success in managing the pandemic goes beyond China as many places have demonstrated. How can one explain the great disparity in impact even though both countries were facing the same pandemic?

Who and what created the Covid-19 pandemic? Sars-CoV-2? China? The virus Sars-CoV-2 is a necessary condition for the Covid-19 pandemic but Sars-CoV-2 is not a sufficient condition for the pandemic to materialise. To understand the difference between necessary and sufficient, consider this. Water is necessary for the survival of humans but water is not sufficient for the survival of humans. Hence, what else is needed for the Covid-19 pandemic to occur?

While scientists and epidemiologists play a vital role, the roles of political leaders, public governance, public health administrators and ordinary citizens can make a huge difference in managing the Covid-19 pandemic. Avoiding or delaying NPIs (non-pharmaceutical interventions) will not shield an economy from the COVID-19 shock. Although COVID-19 is a global shock, places where the outbreak is more sizeable experience significantly more severe economic losses. This underlines the importance of preventions, early responses, and other health

measures to contain the outbreak at the local and national level.

The West did not have to go through the same cycles as Asia, where governments and public health systems had little warning of the virus and scrambled to understand it while reacting to outbreaks. There was a general sense of complacency and arrogance among Western governments that the outbreak was a China or an Asian problem. Trump and the West blame China for failing to act early in the pandemic, but Chinese officials did not know what they were dealing with. By comparison, the governments in the US, UK and Europe knew exactly what they were facing once the outbreak reached their borders. They were staggeringly slow to react, wasting time as the virus spread through Asia and ignoring lessons learned by other countries. They were simply incompetent.

Blame China? Blame WHO? This cannot be due to a lack of information on the part of the US and UK. Taiwan is not a member of the WHO and has complained of a lack of data sharing as a result of this. Yet, it was able to institute an effective response based on the information publicly available. Look at Cambodia and Vietnam, two countries with zero death and extremely low number of confirmed cases. The WHO announced China had reported the emergence of a new and dangerous coronavirus on 9 Jan 2020. Only two days later, Chinese scientists published the full genetic sequence of COVID-19 so that researchers everywhere could start working on potential treatments and vaccines. The US and many Western countries did nothing serious about the pandemic for an astonishing two months after that WHO report. Why did they all wait so long? The problem was not a one or two weeks delay in China; it was a couple of months’ delay in the United States.

Managing the Covid-19 pandemic is not just about virus, managing this public health crisis is about: [1] good public governance, [2] accountability of political leaders, [3]. being socially responsible, [4]. the community having social discipline, [5]. the political leaders not being arrogant and [6] not being complacent.

If the US and other Western countries had followed China’s way of managing the Covid-19 pandemic early on, the world economy will already be recovering now from a sharp but short economic contraction and the virus outbreak will have more or less dissipated from the global community. The US and other Western countries should not blame others for being humble and disciplined; they

need to blame themselves for being too arrogant and complacent.

Notwithstanding the seriousness of the Covid-19 pandemic, the way I see it, life will get back to normal and it will be a new and better normal. The uncertainty is the speed at which it does. It is important not to panic. Based on our experience, whenever everyone gets optimistic, it is time be fearful. Similarly, whenever everyone gets too pessimistic, as the situation seems to be now, it is time to be ready for the opposite. If I have to take a guess on when life will get back to normal, I would be more optimistic than the currently general pessimistic view. As at the time of writing this Commentary, your Fund still has about 5% of its NAV in cash. We 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 [ww.capitaldynamics.com.au](http://ww.capitaldynamics.com.au) or [www.funds.icapital.biz](http://www.funds.icapital.biz).

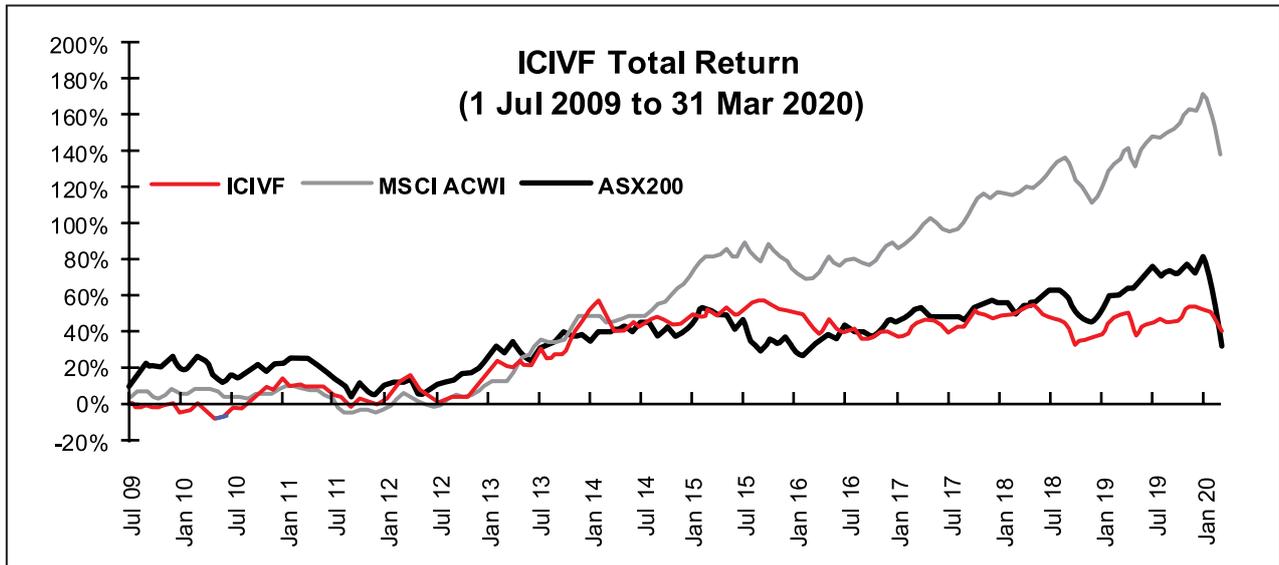
Best wishes.

Handwritten signature in Chinese characters: 陳鼎武

Tan Teng Boo  
Director  
Capital Dynamics (Australia) Limited  
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30th May 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)	-6.82%	-7.74%	38.64%	3.08%
MSCI ACWI (AUD)	0.95%	9.60%	136.07%	8.31%
ASX200 (AUD)	-17.86%	-11.85%	31.05%	2.55%

**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 Mar 2020 (% of change)
ZHENGZHOU YUTONG BUS CO LTD ORD SHS A	-3.93%

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 Jan 2020), and held till the end of the quarter (i.e. 31 March 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 Zhengzhou Yutong Bus Co Ltd Ord Shs A was bought on 21 Jan 2020 and sold on 31 Mar 2020, its performance is only measured over 21 Jan 2020 to 31 Mar 2020 and not over the full quarter. Similarly, if it was bought on 2 Jan 2020 and sold on 11 Mar 2020, its performance is measured over the period 2 Jan 2020 to 11 Mar 2020.

## FUND PERFORMANCE 3

**Table 3** shows the percentage gain or loss of each company held by your Fund as at 31 Mar 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 Mar 2020 (A\$)	% Change
ALIBABA GROUP HOLDING LTD	264.18	259.38	-1.81%
CHINA NEW TOWN DEV NPV	0.05	0.02	-56.68%
CONCORD NEW ENERGY	0.05	0.04	-25.81%
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD	0.95	0.80	-15.07%
HOUR GLASS LTD	0.83	0.57	-31.22%
IPG PHOTONICS CORP	210.07	161.44	-23.15%
K2 ASSET MANAGEMENT HOLDINGS	0.28	0.03	-90.56%
OVERSEAS EDUCATION LTD	0.37	0.26	-30.17%
PAN-UNITED CORPORATION LIMITED	0.36	0.28	-22.53%
PFEIFFER VACUUM TECHNOLOGY AG	237.73	205.96	-13.36%
PICO FAR EAST HLDG LTD	0.52	0.23	-56.08%
QUALYS INC	140.30	130.25	-7.16%
REXLOT HOLDINGS LTD	0.10	0.00	-96.88%
ZHENGZHOU YUTONG BUS CO LTD ORD SHS A	4.54	2.66	-41.50%

**Table 4** shows the percentage gain or loss arising from currency movements as at 31 Mar 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 Mar 2020 (A\$)	% Change
ALIBABA GROUP HOLDING LTD	264.18	323.62	22.50%
CHINA NEW TOWN DEV NPV	0.05	0.06	25.43%
CONCORD NEW ENERGY	0.05	0.08	75.42%
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD	0.95	1.19	25.65%
HOUR GLASS LTD	0.83	0.90	9.14%
IPG PHOTONICS CORP	210.07	234.45	11.61%
K2 ASSET MANAGEMENT HOLDINGS	0.28	0.28	0.00%
OVERSEAS EDUCATION LTD	0.37	0.44	20.52%
PAN-UNITED CORPORATION LIMITED	0.36	0.41	14.19%
PFEIFFER VACUUM TECHNOLOGY AG	237.73	270.65	13.85%
PICO FAR EAST HLDG LTD	0.52	0.65	24.92%
QUALYS INC	140.30	153.09	9.12%
REXLOT HOLDINGS LTD	0.10	0.14	41.60%
ZHENGZHOU YUTONG BUS CO LTD ORD SHS A	4.54	5.39	18.77%

## PORTFOLIO INFORMATION

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

	Cash (%)	Equities (%)
End of Dec 19	10.59%	89.41%
End of Jan 20	9.73%	90.27%
End of Feb 20	4.46%	95.54%
End of Mar 20	5.19%	94.81%

**Table 6** Top 5 holdings as at end Mar 2020

	<b>60.39%</b>
ALIBABA GROUP HOLDING LTD	20.75%
IPG PHOTONICS CORP	11.11%
PFEIFFER VACUUM TECHNOLOGY AG	10.21%
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD	9.16%
ZHENGZHOU YUTONG BUS CO LTD ORD SHS A	9.15%

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

	<b>100.00%</b>
Hong Kong	24.13%
Australia	0.01%
Singapore	15.84%
China	9.65%
Europe	10.77%
United States	39.60%

## 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**





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BY Capital Dynamics

INDEPENDENCE \* INTELLIGENCE \* INTEGRITY

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