



Quarterly Investment Report  
For the period 1 April 2016 to 30 June 2016



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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 30 June 2016, the Fund has, from its inception in July 2009, delivered an annual compound return of 4.98%, 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 40.59%. Comparative benchmark figures are shown in figure 1 and table 1.

During the 1 April 2016 to 30 June 2016 quarter, the Fund returned -0.85% after fees. This compares with the MSCI ACWI Index and ASX200 in AUD (benchmark) return of 3.58% and 2.96%, resulting in relative performance of -4.42% and -3.81%. For the year ending 30 June 2016, the Fund returned -5.66% after fees which compares with the benchmark returns of -2.68% and -4.13%.

## MARKET REVIEW AND OUTLOOK

When I was writing the commentary dated 5th July 2016, I said that in our coming quarterly commentary, we will present a more detailed write-up on China's economy where we will share our long-term optimism. Here it is.

Let us start with a typical view of China. For a long time, China was isolated from the rest of the world. Its affairs and future were dictated from the top down by the emperor and his court. The imperial government was autocratic and despotic, and her educational system was based on the rote memorisation of required texts and thwarted intellectual creativity. In the Chinese society it subordinated the individual to the group. More worryingly, it was a civilisation that was incapable of transforming itself, and was forced to change in the 19th century by the "Modern" West. Such a view is commonly held not only in the West but in many parts of the world. Layered upon such a typical view is the doomsday prediction for China that is also commonly found in the West.

In repeatedly predicting a doomsday outlook for China, many investors, analysts and the Western media must be wondering why their long forecasted day of hard landing for China as a nation does not seem to be happening anytime soon. Non-Western democracies like China are not supposed to last for 5 decades, let alone 5,000 years. Maybe they should learn from Zhou Enlai, a former prime minister of China. He was asked whether he thought the French Revolution was a success and his wise advice was "It's too early to say" on the superiority of Western style democracy. This brings us to Richard von Glahn's latest book, titled: "The Economic History of China: From Antiquity to the Nineteenth Century" and a review by Tyler Cowen, a Bloomberg View columnist and a professor of economics at George Mason University.

In his interesting review of an enlightening book, Tyler asked, is it possible to better understand China today by looking back on the country's economic history, meaning over China's long history and not just the recent history?

Tyler wrote that "*in thousands of years of Chinese history there isn't much of a trend toward democracy or representative government. In an age when Turkey and Russia have been rejecting open and transparent representation, it hardly seems obvious that China will move toward greater political freedom. When Chinese leaders tell their citizens that Brexit and the Trump candidacy represent failures of democracy in action, a lot of Chinese citizens believe them.*"

Tyler added that another conclusion from von Glahn's book is that "*a lot of autocratic Chinese regimes in history have proven stable even in periods of fairly slow economic growth ..... From today's media, one sometimes receives the impression that a Chinese growth rate below 4 or 6 percent could mean radical instability and a rapid fall of the government, but Chinese history does not show this pattern. That is hardly proof of how things will run in the future, but it should shift our expectations in the direction of greater Chinese political stability.*"

Von Glahn also observed that many contemporary Chinese economic policy ideas have parallels in earlier times, which is not in the least surprising. He explained "the importance of state-owned enterprises, the use of fiscal policy to keep people working, commodity monopolies and population registration across many centuries." The book also explains how China a long time ago adopted modernising, market-oriented reforms during the Tang-Song era of 755 CE -1127 CE, which lasted for 400 years, far longer than the history of the United States of America.

Tyler Cowen took "*those continuities as signs that China*

*today is embodying what the country was for a long time, rather than inhabiting a transitional state before morphing into something different."*

The book by the professor from UCLA and the observations by Tyler Cowen are interesting, very interesting. Listen to this:

*"The extreme instability of the 19th and much of the 20th century in China is the historical outlier, not the norm, and so China today may have fallen back into one of its relatively stable episodes."*

In short, the much predicted collapse of China may not be happening any time soon. 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).

For those who are keen, here is a quick guide to 3 of China's many dynasties.

#### Han Dynasty (206 BCE - 220 CE)

The Han Dynasty, with its capital at Chang'an retained much of the Qin administrative structure. The Han emperors were smart and forward looking: Confucian ideals of government were adopted and Confucian scholars gained prominent status within the civil service. A civil service examination system was initiated. Intellectual, literary, and artistic endeavours flourished. Technological advances also marked this period. Two of China's many great inventions, paper and porcelain, date from the Han Dynasty.

#### Tang Dynasty (618 CE – 907 CE)

The Tang Dynasty, with its capital at Chang'an, was at least equaled to the Han Dynasty. Stimulated by contacts with India and the Middle East, the empire saw a flowering of creativity in many fields. It was a time of cosmopolitanism and cultural blossoming. Buddhism flourished, becoming thoroughly sinicised and a permanent part of Chinese culture. Block printing was invented, making the written word available to vast audiences – similar to the impact of the Internet and the modern Digital Revolution. A government

system supported by a large class of Confucian literati selected through civil service examinations was perfected under Tang rule.

#### Song Dynasty (960 CE - 1279 CE)

The founders of the Song Dynasty built an effective centralised bureaucracy staffed with civilian scholar-officials. Culturally, the Song Dynasty refined many of the developments of the previous dynasties. Included in these refinements were not only the Tang ideal of the universal man (the combined qualities of scholar, poet, painter, and statesman), but also writing, painting, calligraphy, and hard-glazed porcelain. Song intellectuals sought answers to all philosophical and political questions in the Confucian Classics.

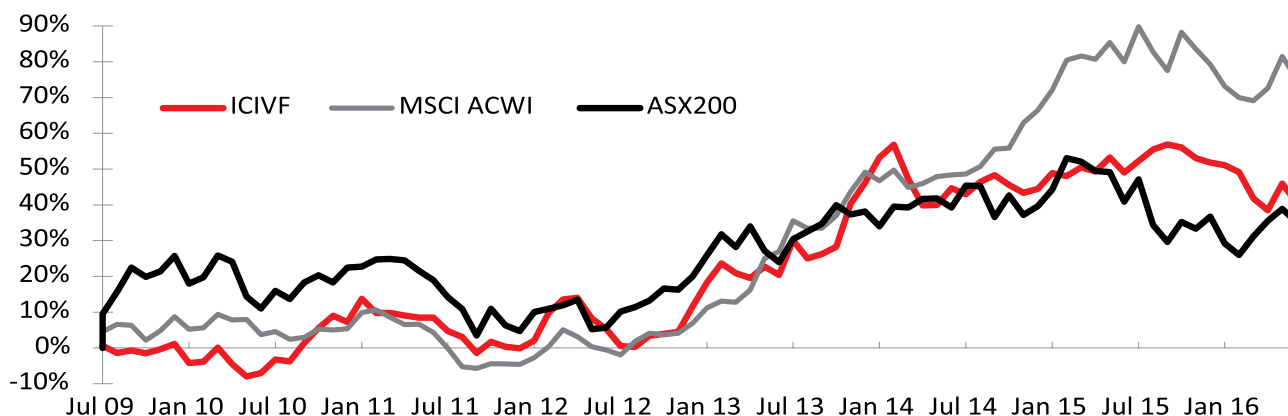
The Song Dynasty is notable for the development of cities not only for administrative purposes but also as centers of trade, industry, and commerce. A new group of wealthy commoners - the mercantile class - arose as printing and education spread, private trade grew, and a market economy began to link the coastal provinces and the interior. Landholding and government employment were no longer the only means of gaining wealth and prestige – a remarkable social transformation that greatly benefitted other periods and other civilisations. It was an era of significant economic and social changes: the monetisation of the economy; growth in commerce and maritime trade; urban expansion and technological innovations.



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## FUND PERFORMANCE 1

**Figure 1** ICIVF Total Return (1 Jul 2009 to 30 Jun 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)	-5.66%	-2.82%	40.59%	4.98%
MSCI ACWI (AUD)	-2.68%	18.05%	75.16%	8.33%
ASX200 (AUD)	-4.13%	-3.01%	35.09%	4.39%

**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 30 Jun 2016 (% of change)
Dah Chong Hong	15.51%
Mermaid Maritime PCL	9.71%
Concord New Energy	2.38%

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 April 2016), and held till the end of the quarter (i.e. 30 June 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 Dah

Chong Hong Holdings was bought on 21 April 2016 and sold on 30 June 2016, its performance is only measured over 21 April 2016 to 30 June 2016 and not over the full quarter. Similarly, if it was bought on 1 April 2016 and sold on 11 June 2016, its performance is measured over the period 1 April 2016 to 11 June 2016.

## FUND PERFORMANCE 3

**Table 3** shows the percentage gain or loss of each company held by your Fund as at 30 June 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 Jun 2016 (A\$)	% Change
China New Town Development Co Ltd	0.05	0.05	-8.31%
Clover Corporation Limited	0.35	0.37	5.15%
Concord New Energy	0.05	0.05	8.14%
Dah Chong Hong	1.02	0.45	-55.59%
Mermaid Maritime PCL	0.58	0.09	-83.96%
Overseas Education Ltd	0.45	0.44	-0.48%
QBE Insurance	16.19	10.43	-35.59%
Rexlot Holdings Ltd	0.10	0.02	-77.25%

## FUND PERFORMANCE 4

**Table 4** shows the percentage gain or loss arising from currency movements as at 30 June 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 Jun 2016 (A\$)	% Change
China New Town Development Co Ltd	0.05	0.05	2.99%
Clover Corporation Limited	0.35	0.35	0.00%
Concord New Energy	0.05	0.07	44.06%
Dah Chong Hong	1.02	1.42	39.66%
Mermaid Maritime PCL	0.58	0.70	21.13%
Overseas Education Ltd	0.45	0.45	0.21%
QBE Insurance	16.19	16.19	0.00%
Rexlot Holdings Ltd	0.10	0.12	16.29%



## PORTFOLIO INFORMATION

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

	Cash (%)	Equities (%)
End of Sep 2015	83.37%	16.63%
End of Dec 2015	83.38%	16.62%
End of Mar 2016	83.99%	16.01%
End of Jun 2016	85.21%	14.79%

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

	<b>12.4%</b>
Concord New Energy	5.4%
QBE Insurance	3.0%
Rexlot Holdings Ltd	1.6%
Mermaid Maritime PCL	1.3%
Clover Corporation Limited	1.1%

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

	<b>100%</b>
Hong Kong	54%
Australia	28%
Singapore	19%

### 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

### French Revolution

An uprising in France against the monarchy from 1789 to 1799 which resulted in the establishment of France as a republic. An example of the French Revolution is the storming of the Bastille by the French citizens.

### Brexit

It is a word that has become used as a shorthand way of saying the UK leaving the EU - merging the words Britain and exit to get Brexit.

### State-owned enterprises

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.

### Fiscal policy

The means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy.

### Qin

The Chinese dynasty (from 246 BC to 206 BC) that established the first centralised imperial government and built much of the Great Wall.

### Confucian

A way of life taught by Confucius in the 6th–5th century BCE. Sometimes viewed as a philosophy, sometimes as a religion, Confucianism is perhaps best understood as an all-encompassing humanism that neither denies nor slights heaven.

### Cosmopolitanism

The ideology that all human beings belong to a single community, based on a shared morality.

## GLOSSARY

### **Block printing**

A technique for printing text, images or patterns used widely throughout East Asia and originating in China in antiquity as a method of printing on textiles and later paper.

### **Digital Revolution**

The change from mechanical and analogue electronic technology to digital electronics which began anywhere from the late 1950s to the late 1970s with the adoption and proliferation of digital computers and digital record keeping that continues to the present day.

### **Literati**

Intellectuals or those who read and comment on literature.

### **Centralised bureaucracy**

Reliance on one individual to make decisions and provide direction for the company.

### **Statesman**

A politician, diplomat or other notable public figure who has had a long and respected career at the national or international level.

### **Confucian Classics**

The Five Classics and Four Books that were the basis of the civil examination in imperial China and that can be considered the Confucian canon. The Five Classics consists of the Book of Odes, Book of Documents, Book of Changes, Book of Rites, and the Spring and Autumn Annals.

### **Mercantile class**

A business person who trades in commodities produced by other people in order to earn a profit

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.







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BY Capital Dynamics

INDEPENDENCE \* INTELLIGENCE \* INTEGRITY

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