

i Capital International Value Fund ARSN 134 578 180



Quarterly Investment Report
For the period 1 April 2017 to 30 June 2017

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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 2017, the Fund has, from its inception in July 2009, delivered an annual compound return of 4.68%, 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 44.21%. Comparative benchmark figures are shown in [figure 2](#) and [table 1](#).

MARKET REVIEW AND OUTLOOK

The 19th National Congress

The 19th National Congress of the Communist Party of China must surely be the most important event not only for China but also for the rest of the world. As it will shape China's growth and development direction for the longer term, the rest of the world will be impacted as well. No less important is president Xi Jinping's opening address. Instead of tweeting, as the president of an important nation, he did the correct thing by delivering a 3.5-hour clear, frank and comprehensive speech. There was no need for anyone to second guess what the objectives were.

President Xi Jinping said that China will develop and modernise according to socialist principles which have Chinese characteristics. Xi Jinping outlined a two-stage development plan. The period between now and 2020 will be decisive in finishing the construction of a moderately prosperous society in all respects. In the first stage from 2020 to 2035, the Communist Party of China will build on the foundation created by China's moderately prosperous society with a further 15 years to see that socialist modernisation is basically realised. In the second stage from 2035 to 2050, the Communist Party of China will develop China into a great modern socialist country that is *"prosperous, strong, democratic, culturally advanced, harmonious, and beautiful."*

A key message running through Xi Jinping's inspiring speech was the need to work hard and to be prepared for more struggles. "The great rejuvenation of the Chinese nation is no walk in the park or mere drumbeating and gong-clanging. The whole party must be prepared to make ever more difficult and harder efforts," said Xi Jinping. This emphasis is far more important than meets the eye.

His emphasis on hard work has to be seen in the context of his sustained and intense anti-corruption

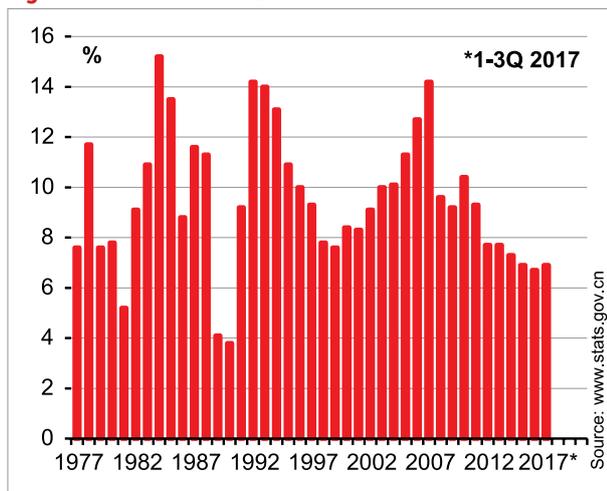
campaign. Engaging in corrupt practises is taking the easy way out; working hard reduces or even eliminates the need or temptation to be engaged in corrupt practises. President Xi correctly said that the survival of the Communist Party would be decided largely by the fight against corruption, which remained "grave and complex." He did not mince his words - "The people resent corruption most ... Only by intensifying efforts to address both the symptoms and causes of corruption ... can we avoid history's cycle of rise and fall and ensure the long-term stability of the party and the country."

The importance of the 19th National Congress is not just about the people who were promoted or retired, or key changes to the Constitution of China's Communist Party. Its importance can be found all over the place. For example, the continued top emphasis given to China's anti-corruption policy. The Communist Party strengthened the powerful Central Commission of Discipline Inspection's (CCDI) authority by reserving two seats for its members on the Politburo. Zhao Leji, a newcomer on the powerful Politburo Standing Committee, was also appointed head of the Party's anti-graft agency, while the second member was Yang Xiaodu. As Zhao's deputy, Yang is the first deputy of the CCDI to occupy a Politburo seat.

At the same time, the formidable Central Military Commission (CMC) saw Lieutenant General Zhang Shengmin being appointed as a new member. Zhang Shengmin is chief of the CMC's Discipline Inspection Commission, and his elevation suggests that Xi Jinping's anti-graft campaign will continue in full swing in the PLA. The anti-corruption campaign has already brought down more than 100 generals. These moves are telling us that president Xi Jinping wants to make the anti-graft campaign an entrenched part of good and effective governance in China.

Hidden in president Xi Jinping's opening speech was the omission of a GDP target. He was silent on

Figure 1 China's Real GDP Growth



China's GDP target for 2021, the 100th anniversary of the foundation of the Chinese Communist Party, and 2035, the year when China achieves "basic modernisation" (China's GDP growth over the last 40 odd years has been spectacular for its speed and sustainability – **figure 1**).

The GDP omission sends a loud and clear message about China's priorities in the coming years. The omission was deliberate and the message is that the quality of China's growth instead of its quantity matters most for the world's second largest economy. In the parlance of Tan Teng Boo, the emphasis is on development instead of merely growth. China needs to shift from high-speed growth to high-quality growth. This way, China will successfully move away from the middle-income trap and become more than moderately prosperous. Greater emphasis on development will mean a better environment, less corruption, sustainable economic growth, poverty reduction, as well as better income and wealth distribution. In short, to develop China into a great modern socialist country that is "prosperous, strong, democratic, culturally advanced, harmonious, and beautiful", Xi Jinping knows that China's economic approach needs to be changed. Deng Xiaoping's emphasis was on economic growth and, to a lesser extent, development. Now, Xi Jinping is right in emphasising political, economic, cultural and environmental development.

By the middle of the 21st century, when China's GDP is larger than that of the US but still with a lower GDP per capita, China will have reached new heights in every dimension of material, political, cultural, ethical, social, and ecological advancement. Common prosperity for everyone will have basically been achieved; the Chinese people will enjoy happier, safer, and healthier lives. The Chinese will have a nation that they will be truly proud of and the global community will have a key member that is responsibly committed to promoting global

development and prosperity. China now contributes more troops to United Nations peacekeeping missions than any other permanent member of the UN Security Council.

Xi Jinping came in as president only 5 years ago. Yet, he has effectively tackled corruption, making sure that the Communist Party serves the public and restoring party discipline and cohesion. Xi is offering a China solution to a world plagued by political, economic, environmental and financial uncertainties.

Deng Xiaoping's emphasis was on economic growth. As China has advanced in the last 4 decades, Xi Jinping is right in emphasising political, economic, cultural and environmental development. Unlike Deng, who said some people could "get rich first", Xi has focused on the need for better wealth and income redistribution via "precise poverty alleviation" and lifting everybody in the country above the poverty line by 2020.

After 1949, China went through the highly successful Mao era. After 1978, it was Deng's era. Now it is Xi Jinping's era. Although Xi's contribution is expected to be different, one must see that all of them as are part of the "great Chinese revival."

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,

Tan Teng Boo
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28th October 2017

FUND PERFORMANCE 1

Figure 2 Total return (%)

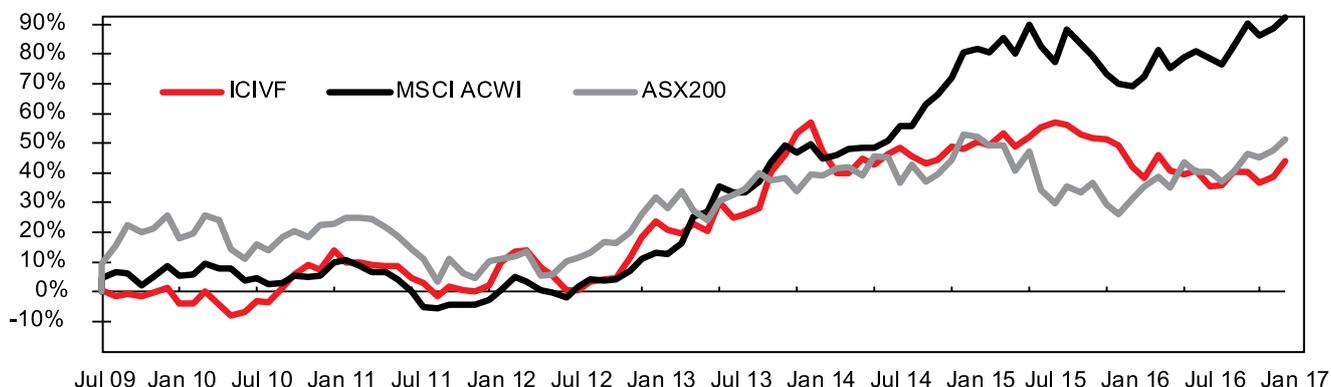


Table 1 Cumulative Total Return and Compound Return

	Cumulative Total Return (%)			Compound Return (%)
	1-Year-Return	2-Year-Return	Since Inception	Since Inception
ICIVF (AUD)	2.58%	-3.23%	44.21%	4.68%
MSCI ACWI (AUD)	13.07%	10.04%	98.05%	8.91%
ASX200 (AUD)	9.32%	4.80%	47.68%	4.99%

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)

AIR CHINA LIMITED	27.98%
PICO FAR EAST HLDG LTD	4.47%

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 April 2017), and held till the end of the quarter (i.e. 30 June 2017). 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 Air China Limited was bought on 21 April 2017 and sold on 30 June 2017, its performance is only measured over 21 April 2017 to 30 June 2017 and not over the full quarter. Similarly, if it was bought on 1 April 2017 and sold on 11 June 2017, its performance is measured over the period 1 April 2017 to 11 June 2017.

FUND PERFORMANCE 3

Table 3 shows the percentage gain or loss of each company held by your Fund as at 30 June 2017. 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 2017 (A\$)	% Change
AIA GROUP LTD	9.56	9.61	0.47%
AIR CHINA LIMITED	1.01	1.36	34.60%
CHINA NEW TOWN DEV NPV	0.05	0.06	20.89%
CLOVER CORPORATION LIMITED	0.35	0.44	26.76%
CONCORD NEW ENERGY	0.05	0.04	-18.27%
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD	0.95	0.99	4.79%
NATIONAL AUSTRALIA BANK LIMITED	31.04	29.59	-4.67%
OVERSEAS EDUCATION LTD	0.38	0.37	-1.09%
PAN UNITED CORP NPV S RTS	-	-	0.00%
PAN-UNITED CORPORATION LIMITED	0.70	0.53	-24.29%
PICO FAR EAST HLDG LTD	0.50	0.56	12.00%
PRIMA INDUSTRIE SPA	25.65	34.14	33.07%
QBE INSURANCE GROUP LTD	16.19	11.81	-27.07%
REXLOT HOLDINGS LTD	0.10	0.01	-85.43%
ZHEJIANG EXPRESSWAY CO LTD	1.28	1.72	34.42%

FUND PERFORMANCE 4

Table 4 shows the percentage gain or loss arising from currency movements as at 30 June 2017. 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 2017 (A\$)	% Change
AIA GROUP LTD	9.56	9.48	-0.83%
AIR CHINA LIMITED	1.01	1.00	-0.82%
CHINA NEW TOWN DEV NPV	0.05	0.05	-0.63%
CLOVER CORPORATION LIMITED	0.35	0.35	0.00%
CONCORD NEW ENERGY	0.05	0.07	38.98%
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD	0.95	0.94	-0.45%
NATIONAL AUSTRALIA BANK LIMITED	31.04	31.04	0.00%
OVERSEAS EDUCATION LTD	0.38	0.37	-1.52%
PAN UNITED CORP NPV S RTS	0.00	0.00	0.00%
PAN-UNITED CORPORATION LIMITED	0.70	0.69	-1.66%
PICO FAR EAST HLDG LTD	0.50	0.49	-1.91%
PRIMA INDUSTRIE SPA	25.65	27.60	7.59%
QBE INSURANCE GROUP LTD	16.19	16.19	0.00%
REXLOT HOLDINGS LTD	0.10	0.11	12.18%
ZHEJIANG EXPRESSWAY CO LTD	1.28	1.27	-1.10%

PORTFOLIO INFORMATION

Table 5 Percentage of assets held as cash

End of Sep 2016	68.30%	31.70%
End of Dec 2016	68.68%	31.32%
End of Mar 2017	41.65%	58.35%
End of Jun 2017	30.16%	69.84%

Table 6 Top 5 holdings as at end June 2017

	45.5%
ZHEJIANG EXPRESSWAY CO LTD	11.5%
AIR CHINA LIMITED	11.4%
NATIONAL AUSTRALIA BANK LIMITED	9.2%
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD	7.0%
PICO FAR EAST HLDG LTD	6.4%

Table 7 Portfolio breakdown for equities by region as at end June 2017 (in AUD)

	100%
Europe	4%
Hong Kong	68.3%
Australia	19.9%
Singapore	7.4%

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.

**Central Commission
for Discipline
Inspection (CCDI)**

The Central Commission for Discipline Inspection (CCDI) is the highest internal-control institution of the Communist Party of China (CPC), tasked with enforcing internal rules and regulations and combating corruption and malfeasance in the Party. Since the vast majority of officials at all levels of government are also Communist Party members, the commission is in practice the top anti-corruption body in China.

**Central Military
Commission (CMC)**

The Central Military Commission (CMC) refers to the parallel national defense organisations of the Communist Party of China and the People's Republic of China: the Central Military Commission of the Communist Party of China, a Party organ under the CPC Central Committee, and the Central Military Commission of the People's Republic of China, a central state organ under the National People's Congress, being the military branch of the national government.

UN Security Council

The Security Council is the United Nations' most powerful body, with "primary responsibility for the maintenance of international peace and security." Five powerful countries sit as "permanent members" along with ten elected members with two-year terms.

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 2017 (“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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