

*i* Capital International Value Fund ARSN 134 578 180



**Quarterly Investment Report**  
For the period 1 April 2018 to 30 June 2018

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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. 0.9843% 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>	$\$50,000.00 \times 0.9843\% = \$492.15$
<b>Total Fee Per Year:</b>	\$1260.90

## PERFORMANCE REVIEW

By 30 June 2018, the Fund has, from its inception in July 2009, delivered an annual compound return of 4.61%, 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 50.01%. Comparative benchmark figures are shown in **figure 8** and **table 1**

During the 1 April 2018 to 30 June 2018 quarter, the Fund returned -0.17% after fees. This compares with the MSCI ACWI Index and ASX200 in AUD (benchmark) return of 3.69% and 7.56%, resulting in relative performance of -3.86% and -7.73%. For the year ending 30 June 2018, the Fund returned 4.02% after fees which compares with the benchmark returns of 12.77% and 8.28%.

## MARKET REVIEW AND OUTLOOK

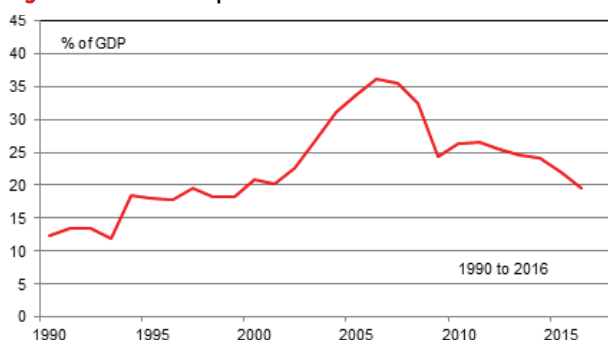
### TRUMP'S FOLLY

The recent NAV of *i* Capital International Value Fund has been affected by the fall in the market prices of the China related stocks, whether they are listed on the mainland, Hong Kong or New York. Out of the 12 stocks in the Fund's portfolio, 9 are directly or indirectly related to China's economy. Out of the 9, AIA Group and Pico Far East are not as reliant on China as the other 7 stocks. Given the Fund's meaningful exposure to China (as at the time of writing this commentary, the Fund still has around 40% of its NAV held in cash, primarily AUD), what is our assessment of China's economy given that the United States has initiated an unnecessary trade war with China and others?

First, the global trade war created by America's Trump is no longer a TV reality show. It is now being fought in the real world. As Trump aims to weaken China's, how weak or strong is China's economy?

Although China is the world's largest trading nation and largest exporter, China nowadays is a lot less reliant on exports to drive her economic growth. China's exports of goods and services as a percentage of GDP have quietly dropped to a level that was prevailing just before China's entry to the World Trade Organisation in 2001 (**figure 1**). Her WTO entry was a critical point of departure for China's economy. The said percentage has dropped because China's domestic demand has grown by leaps and bounds since 2001 and this has made the global economy a lot healthier by relying a lot less on the US economy.

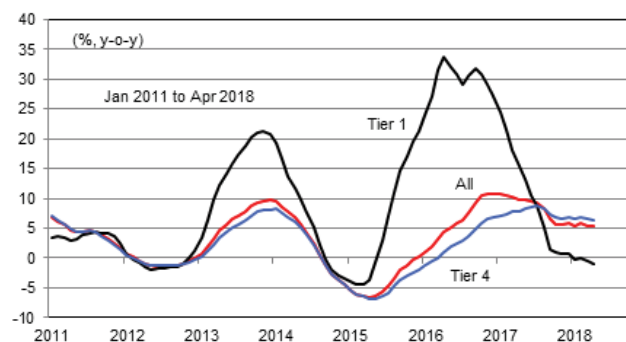
**Figure 1** Chinese Exports of Goods and Services



Source : OECD ECONOMIC OUTLOOK, VOLUME 2018 ISSUE 1

An important domestic demand driver is the massive China's housing sector. Thanks to comprehensive and farsighted policies adopted by China's government, her housing sector has continued to grow and develop without disrupting the overall economy. One key variable that is closely monitored by the government is house price inflation (**figure 2**). Thanks to pre-emptive measures, house price inflation in Tier 1 cities have again been brought under control while house prices in the 70 cities are increasing at a healthy single digit pace.

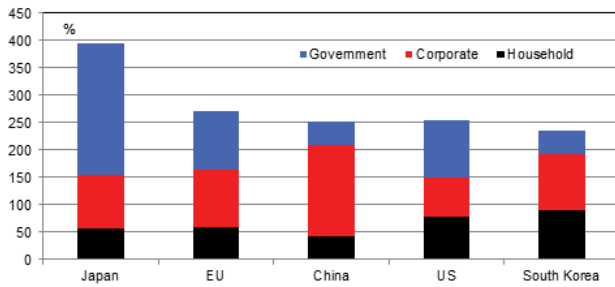
**Figure 2** China's House Price Inflation in Large Cities



Source : OECD ECONOMIC OUTLOOK, VOLUME 2018 ISSUE 1

Like many other things, China's debt issue has been blown out of proportions by the Western media. One, China's core debt level is the same as the United States but lower than the EU and way below that of Japan's (**figure 3**). We do not hear the Western media talking about the debt-laden Japan, EU or America facing a financial crash. Somehow, China's debt is magically more toxic and alarming than the others. Two, the rise in China's debt has been mainly driven by her corporate sector, which came substantially from her State-owned enterprises (SOEs). China's household and government debts are very low. Even though debts of the SOEs are similar to State-owned debts, China has been reforming her SOEs.

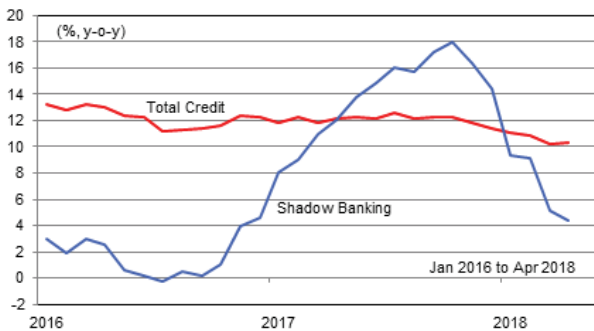
**Figure 3** Core Debt of Nonfinancial Sectors in 2016 as a % of GDP for Selected Economies



Source : "China's Economic Rise: History, Trends, Challenges, and Implications for the United States" by Wayne M. Morrison, February 5, 2018. Congressional Research Service Report prepared for members and committees of Congress.

Shadow banking in China, which used to hog media headlines, has disappeared from the media pages as it is being brought under control in a gradual and steady manner (figure 4). No one has had to go without a job during this process, unlike the American-style of boom and bust where many people become unemployed.

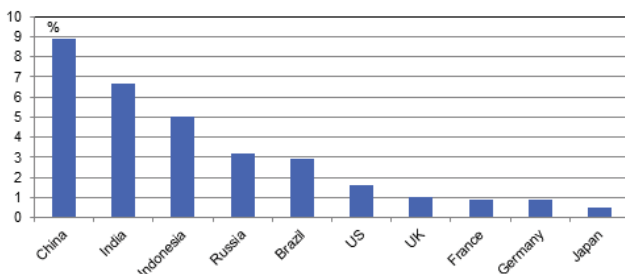
**Figure 4** China's Total Credit and Shadow Banking



Source : OECD ECONOMIC OUTLOOK, VOLUME 2018 ISSUE 1

Most importantly, China's private consumption has been exploding (figure 5). From 2007 to 2016, China's private consumption has been growing at nearly 9% annually, a rate that is 17.8 times faster than Japan's and 5.6 times faster than the United States'. In 2002, private consumption in China was around US\$665 bln. In 2017, China's private consumption has expanded to almost US\$4.7 trillion, the 2nd largest in the world, and will overtake America's in the next 25 years or so.

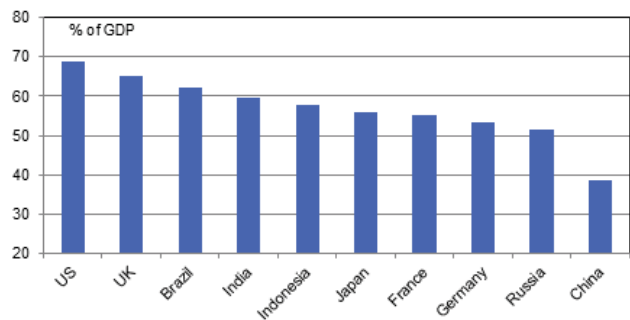
**Figure 5** Average Annual Growth in Private Consumption: 2007-2016



Source : "China's Economic Rise: History, Trends, Challenges, and Implications for the United States" by Wayne M. Morrison, February 5, 2018. Congressional Research Service Report prepared for members and committees of Congress.

What is even more important not just for China but the entire global economy is that private consumption in China still has a lot of room to expand. While America has both over-consumed and under-saved (thereby causing America's persistent trade deficit), China's private consumption boom is in its early stages. Its growth will come from two sources. As a percentage of GDP, it will rise to levels that are closer to the other countries (figure 6). The second source will come from an expansion in the absolute size of China's economy.

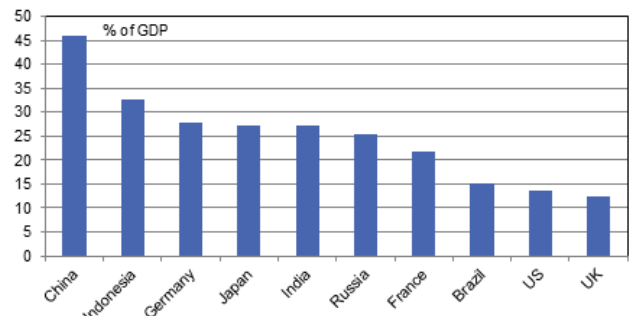
**Figure 6** Comparison of Private Consumption of Major Global Economies in 2016



Source : "China's Economic Rise: History, Trends, Challenges, and Implications for the United States" by Wayne M. Morrison, February 5, 2018. Congressional Research Service Report prepared for members and committees of Congress.

In addition, the hundreds of millions of consumers in China have the financial ability and capacity to consume a lot more. China's savings rate is 3.37 times greater than that of the United States (figure 7) with her household debt substantially lower than that of the United States. In fact, the lowly indebted Chinese consumers are the only consumers in the world who have the capacity and scale to lift the entire global economy for a very long time to come.

**Figure 7** Comparison of Gross Savings Rates for Major Global Economies in 2016



Source : "China's Economic Rise: History, Trends, Challenges, and Implications for the United States" by Wayne M. Morrison, February 5, 2018. Congressional Research Service Report prepared for members and committees of Congress.

A crash in the Shanghai stock market has no major adverse impact on China's growth, unlike a crash on the New York Stock Exchange. Trump may not agree but America's economy is fragile. A crash on the NYSE or NASDAQ would send the American economy spiralling downwards. Overall, it is clear that China's economy is much stronger than that of the United States even though on the surface, China exports more to the US than the other way round. Trump should know this.

We are generally comfortable with the China-related stocks in the Fund's portfolio.

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).

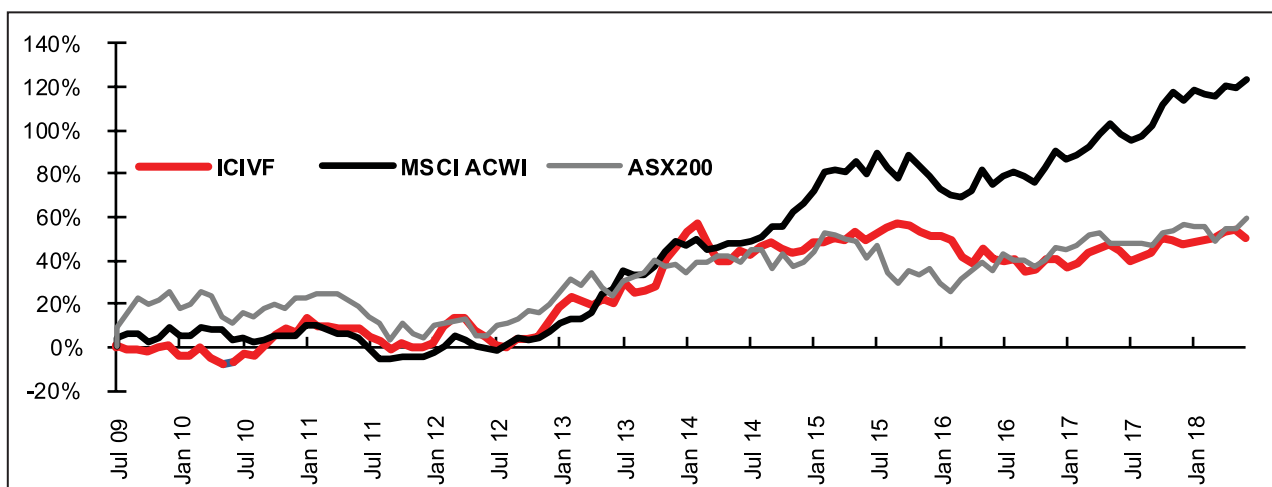
Best wishes,

Handwritten signature in Chinese characters: 陳鼎武

Tan Teng Boo  
Capital Dynamics (Australia) Limited  
ABN 53 129 846 260 AFSL 326283  
18<sup>th</sup> August 2018

## FUND PERFORMANCE 1

**Figure 8** ICIVF Total Return (1 Jul 2009 to 30 Jun 2018)



**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)	4.02%	6.70%	50.01%	4.61%
MSCI ACWI (AUD)	12.77%	27.51%	123.34%	9.34%
ASX200 (AUD)	8.28%	18.37%	59.90%	5.35%

**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 30 Jun 2018 (% of change)
CLOVER CORPORATION LIMITED	71.05%
PICO FAR EAST HLDG LTD	6.67%

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 2018), and held till the end of the quarter (i.e. 30 June 2018). 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 Ltd was bought on 21 Apr 2018 and sold on 30 Jun 2018, its performance is only measured over 21 Apr 2018 to 30 Jun 2018 and not over the full quarter. Similarly, if it was bought on 1 Apr 2018 and sold on 11 Jun 2018, its performance is measured over the period 1 Apr 2018 to 11 Jun 2018.



## FUND PERFORMANCE 3

**Table 3** shows the percentage gain or loss of each company held by your Fund as at 30 Jun 2018. 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 2018 (A\$)	% Change
ALIBABA GROUP HOLDING LTD	269.16	242.48	-9.91%
CHINA NEW TOWN DEV NPV	0.05	0.04	-12.69%
CLOVER CORPORATION LIMITED	0.35	1.63	368.13%
CONCORD NEW ENERGY	0.05	0.04	-13.24%
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD	0.95	1.04	9.93%
K2 ASSET MANAGEMENT HOLDINGS	0.28	0.15	-47.37%
KALBE FARMA IDR 10	0.16	0.11	-29.41%
OVERSEAS EDUCATION LTD	0.37	0.33	-9.48%
PAN-UNITED CORPORATION LIMITED	0.42	0.30	-28.85%
PICO FAR EAST HLDG LTD	0.52	0.54	4.10%
REXLOT HOLDINGS LTD	0.10	0.00	-96.58%
XINGHUA PORT HOLDINGS LTD	0.22	0.16	-29.74%
ZHENGZHOU YUTONG BUS CO LTD ORD SHS A	4.54	3.72	-18.00%

## FUND PERFORMANCE 4

**Table 4** shows the percentage gain or loss arising from currency movements as at 30 Jun 2018. 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 2018 (A\$)	% Change
ALIBABA GROUP HOLDING LTD	269.16	278.74	3.56%
CHINA NEW TOWN DEV NPV	0.05	0.05	2.65%
CLOVER CORPORATION LIMITED	0.35	0.35	0.00%
CONCORD NEW ENERGY	0.05	0.07	43.57%
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD	0.95	0.97	2.83%
K2 ASSET MANAGEMENT HOLDINGS	0.28	0.28	0.00%
KALBE FARMA IDR 10	0.16	0.16	1.32%
OVERSEAS EDUCATION LTD	0.37	0.38	4.26%
PAN-UNITED CORPORATION LIMITED	0.42	0.43	3.16%

PICO FAR EAST HLDG LTD	0.52	0.53	2.23%
REXLOT HOLDINGS LTD	0.10	0.12	15.89%
XINGHUA PORT HOLDINGS LTD	0.22	0.24	6.00%
ZHENGZHOU YUTONG BUS CO LTD ORD SHS A	4.54	4.78	5.33%

## PORTFOLIO INFORMATION

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

	Cash (%)	Equities (%)
End of Sep 2017	17.90%	82.10%
End of Dec 2017	11.96%	88.04%
End of Mar 2018	42.07%	57.93%
End of Jun 2018	39.24%	60.76%

**Table 6** | Top 5 holdings as at end Jun 2018

	<b>43.6%</b>
PICO FAR EAST HLDG LTD	11.06%
ZHENGZHOU YUTONG BUS CO LTD ORD SHS A	9.48%
ALIBABA GROUP HOLDING LTD	9.11%
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD	8.09%
OVERSEAS EDUCATION LTD	5.89%

**Table 7** Portfolio breakdown for equities by region as at end Jun 2018 (in AUD)

	<b>100%</b>
Hong Kong	42%
Australia	9%
Singapore	12%
China	16%
Indonesia	6%
United States	15%

## 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, Hong Kong 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.

**GDP**

Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

**State-owned enterprise**

A state-owned enterprise (SOE) is a business enterprise where the state has significant control through full, majority, or significant minority ownership.

## 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 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](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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