

i Capital Global Fund



Quarterly Investment Report
For the period 1 Aug 2017 to 31 Oct 2017

CONTENTS

2	ICGF at a glance
4	Performance Review
4	Market Review and Outlook
7	Statement of Comprehensive Income (Unaudited)
8	Statement of Financial Position (Unaudited)
9	Statement of Changes in Net Assets Attributable to Holders of Participating Shares (Unaudited)
10	Statement of Cash Flows (Unaudited)
11	Schedule of Securities (Unaudited)
13	Other Information
15	Glossary
16	Notes

ICGF AT A GLANCE

Investment Objective

The Fund's investment objective is to focus on long-term capital appreciation.

Who should invest?

Eligible Investors ^[1] seeking a value investing style and 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

1.5% p.a.

Performance Fee

Only chargeable if the following three criteria are met in the same period:

1. NAV exceeds 6% annual rate of return *and*
2. NAV exceeds 6% annual compound rate of return *and*
3. Both annual and annual compound returns must still be above 6% after the performance fee is charged

Inception Date

6 July 2007

Minimum Investment (USD)

\$200,000 minimum

Additional Investment (USD)

\$10,000 minimum

Directors of the Fund

Che Hui Shan
Kok Tzu Wei

**Investment
Manager**

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**Registered Office of the
Fund**

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Cayman Islands

Administrator

Deutsche Bank AG, Singapore Branch

Custodian of the Fund

Deutsche Bank AG, Singapore Branch

**Legal Advisers to
Cayman Law**

Walkers

**Legal Advisers to
Singapore Law**

Rajah & Tann

Auditors of the Fund

Ernst & Young, Cayman Islands

PERFORMANCE REVIEW

This is the second quarterly report of the *i* Capital Global Fund for the financial year ended 30 April 2018.

In the three months ended 31 Oct 2017, the net asset value (NAV) of the *i* Capital Global Fund increased 1.61% or US\$18.556 from US\$1,155.043 to US\$1,173.599 per share. In the same period, the MSCI All Country World Index (MSCI ACWI)^[2] increased 3.99%.

Between 6 July 2007 and 31 Oct 2017, the NAV of the *i* Capital Global Fund gained 17.36% or US\$173.599 from US\$1,000.000 to US\$1,173.599 per share. In the same period, the MSCI ACWI increased 21.73%.

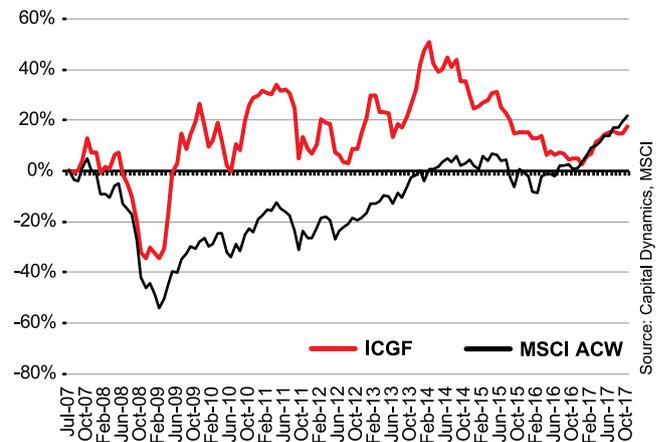
Figure 1 shows the NAV of the *i* Capital Global Fund against the performance of the MSCI ACWI since its launch which was just before the financial markets and economies were seriously affected by the 2008 US-led financial crisis. Since then, your Fund has consistently outperformed the MSCI ACWI.

The portfolio of your Fund is spread across 14 companies that are engaged in a wide range of business activities – see the Schedule of Securities on Page 11.

MARKET REVIEW AND OUTLOOK

As your fund manager, I regularly scout for attractive stocks in many countries across many continents. Five years ago, when the US-led global financial crisis was gripping America and Europe, I regularly visited the United States and Europe to look for bargains. On a trip in Apr 2012, I was literally and figuratively trudging across the US. I started my research visits in Minneapolis, and then hurried onto Houston before bustling over to two small cities in Florida.

Figure 1 ICGF NAV vs MSCI ACWI (6 JUL 2007 - 31 OCT 2017)



The top 5 investments as at 31 Oct 2017 were Zhejiang Expressway Co. Ltd, Air China Ltd, National Australia Bank Ltd, Pico Far East Holdings Ltd and Guangdong Provincial Expressway Development Co. Ltd. They made up 53.97% of the total assets. At the end of Oct 2017, your Fund had 15.04% of its NAV in cash.

After that, I went up to New York and Boston. For those who are familiar with the airline industry in America, where the airlines operate on a hub-and-spoke model, flying from one city to another can be a tedious and tiring process.

One of the companies I visited on this research trip was HEICO Corporation, a company listed on the New York stock exchange. Before HEICO, I went

to see Roper Inc which is based in Sarasota, Florida. From there, there were no convenient flights, so I had to take a 4-hour car journey across Florida to visit HEICO, which is based in Hollywood. HEICO is not a well-known global company, unlike say Boeing or Airbus. Through my research digging, I came across the company and was convinced enough that it was worth all the effort to see them in Hollywood. HEICO is an aerospace and electronics group focused on niche markets and cost-saving solutions for its customers. Its customers include airlines, overhaul shops, satellite manufacturers, commercial and defense equipment producers, medical equipment manufacturers, etc. HEICO is the world's largest independent provider of commercial, FAA-approved aircraft replacement parts.

I visited HEICO on 25th Apr 2012 and the stock price was trading around US\$20 at that time (adjusted for subsequent stock splits). For financial year 2012, net earnings attributable to HEICO were US\$85.1 mln. The earnings per share based on the latest 108.47 mln shares were US\$0.7845 and, at around US\$20, the PE ratio then was about 25.5 times.

After 2012, the share price of HEICO has done very well. It recently went above US\$80 (adjusted for the most recent 5 for 4 stock split). By financial year 2017, sales have risen to US\$1.52 bln and net earnings attributable have jumped to US\$186 mln, giving earnings per share of US\$1.71 based on 108.47 mln shares outstanding.

At the recent stock price of above US\$80, the PE-ratio for HEICO was around 46 times. Had the PE-ratio remained at around 25 times, the price of HEICO would have been US\$43.

The purpose of using HEICO as an example is to

show why the NYSE and NASDAQ have rallied since 2009 and to have a sense of the market valuation.

The first reason is the recovery in US corporate earnings. Based on the earnings growth of HEICO and assuming its PE ratio in 2018 had remained the same as in 2012, its stock price would be trading around US\$43 – this is about 46% lower than what it was trading at recently. The second reason why the NYSE and NASDAQ, and a major reason at that, have rallied is the surge in valuation. Using HEICO again, a dollar of its earnings in 2012 was worth around US\$20. By early 2018, the same one dollar of earnings is valued at around US\$46.00.

Which valuation is correct or normal ? 25.5 or 46 times ? What makes sense ? In 2012, it was during the depths of the 2008 US-led global financial crisis and monetary policy in the major developed economies was extremely expansionary. The Federal Reserve was just beginning its quantitative easing and the federal funds rate was near zero. 25 times seems appropriate - one could even argue that it was too rich, given the many uncertainties prevailing at that time. At a valuation of 46 times, the environment in America is very different now. The economic recovery is maturing; the stock market rally is growing old. More importantly, the Federal Reserve has tightened and will be tightening further. It is highly unlikely that a valuation based on a PE ratio of 46 times can rise any further, especially as US monetary policy tightens further. What this implies is that even as HEICO grows its corporate earnings, its stock price may not rise as its earnings growth is adversely offset by a lower valuation. If the US monetary policy tightens more or its inflation rate rises more than what investors expect, or if earnings grow slower than what investors expect, HEICO may see its stock price falling.

Based on this simple example of HEICO, one can apply the same reasoning to the NYSE and NASDAQ. Both equity markets are richly valued and the risk that their valuations may not sustain is growing. Warren Buffett, CEO of Berkshire Hathaway, is itching to do a massive acquisition but is having a difficult time due to elevated valuations. *"A sensible purchase price"* is one of his buying criteria and according to him, that requirement has proven *"to be a barrier to virtually all deals we reviewed in 2017, as prices for decent, but far from spectacular, businesses hit an all-time high."* At the end of 2017, Berkshire Hathaway had US\$116 bln in cash and cash equivalents and Warren Buffett has always reminded his optimism about America.

Capital Dynamics (S) Pte Ltd has previously expressed its concerns over the prolonged rich valuation of the US stock market based on the well-known CAPE (cyclically adjusted price earnings) ratio. Using HEICO as example perhaps make it easier to understand the problem people like Buffett is experiencing.

The NAV of the *i* Capital Global Fund can be viewed at either www.capitaldynamics.com.sg or www.funds.icapital.biz.

Best wishes.



Tan Teng Boo
Director
Capital Dynamics (S) Private Limited
25th February 2017

STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the financial period ended 31 October 2017

For the financial
period from
1 August 2017 to
31 October 2017
US\$

Investment Income

Dividend income	42,067
Interest income	36
Total investment income	42,103

Expenses

Management fees	107,341
Administration and custodian fees	23,428
Professional fees	8,870
Other expenses	1,156
Total expenses	140,795
Net investment loss	(98,692)

Gain/(loss) on investment and foreign currency transactions

Net change in unrealised gain on securities transactions	604,194
Net loss on foreign currency transactions	(61,086)
Net gain on investment and foreign currency transactions	543,108

Net change in net assets attributable to holders of participating shares resulting from operations 444,416

STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 31 October 2017

	US\$
Assets	
Cash and cash equivalents	4,287,474
Investments in securities, at fair value (cost US\$ 23,786,672)	24,167,947
Dividends receivable	1,366
Interest receivable	36
Due from broker	-
Other receivables	525
Total assets	<u>28,457,348</u>
Liabilities	
Management fee payable	35,546
Withholding tax payable	410
Other payables	19,804
Total liabilities	<u>55,760</u>
Net assets attributable to the shareholders of the Fund	<u><u>28,401,588</u></u>
Net assets attributable to:	
Participating shares	28,401,578
Management shares	10
Net assets attributable to the shareholders of the Fund	<u><u>28,401,588</u></u>
Net asset value ("NAV") per participating share	
Based on 24,200 participating shares outstanding (July 2017: 24,962)	<u><u>1,173.60</u></u>

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF PARTICIPATING SHARES (UNAUDITED)

For the financial period ended 31 October 2017

For the financial
period from
1 August 2017 to
31 October 2017
US\$

Net change in net assets attributable to holders of participating shares resulting from operations	444,416
<hr/>	
Capital transactions	
Redemption of participating shares during the financial period	(875,185)
Net change in net assets attributable to holders of participating shares resulting from capital transactions	(875,185)
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Net change in net assets attributable to holders of participating shares for the period	(430,769)
Net assets attributable to holders of participating shares at beginning of period	28,832,347
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Net assets attributable to holders of participating shares at end of period	28,401,578
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STATEMENT OF CASH FLOWS (UNAUDITED)

For the financial period ended 31 October 2017

For the financial period
from 1 August 2017 to
31 October 2017
US\$

Cash flows from operating activities

Net change in net assets attributable to holders of participating shares resulting from operations	444,416
Adjustment to reconcile net change in net assets attributable to holders of participating shares resulting from operations to net cash used in operating activities :	
Changes in operating assets and liabilities	
Investments in securities, at fair value	(737,173)
Dividends receivable	(1,366)
Interest receivable	(36)
Other receivables	788
Due to broker	(223,690)
Withholding tax payable	410
Management fee payable	(540)
Other payables	(15,134)
Net cash flows used in operating activities	(532,325)

Cash flows from financing activities

Redemption of participating shares	(875,185)
Net cash flows used in financing activities	(875,185)

Net change in cash and cash equivalents for the period	(1,407,510)
Cash and cash equivalents at the beginning of the period	5,694,984
Cash and cash equivalents at the end of the period	4,287,474

SCHEDULE OF SECURITIES (UNAUDITED)

As at 31 October 2017

	Holdings as at 31-Oct-17 No. of Shares	Fair Value as at 31-Oct-17 US\$	Percentage of total net assets attributable to shareholders at 31-Oct-17 %
AIRLINES			
AIR CHINA LTD-H	3,834,000	3,651,194	12.86
BANKS			
NATIONAL AUSTRALIA BANK LTD	130,000	3,250,797	11.45
CHEMICALS			
CLOVER CORP LTD	166,529	66,939	0.24
DIVERSIFIED CONSUMER SERVICES			
OVERSEAS EDUCATION LTD	4,885,100	1,343,833	4.72
HOTELS, RESTAURANTS & LEISURE			
REXLOT HOLDINGS LTD	53,875,000	428,127	1.51
INSURANCE			
AIA GROUP LTD	200,000	1,504,742	5.30
QBE INSURANCE GROUP LTD	150,000	1,226,571	4.32
MACHINERY			
PRIMA INDUSTRIE SPA	16,032	786,572	2.77
ZHENGZHOU YUTONG BUS CO -A	470,000	1,802,080	6.34
MEDIA			
PICO FAR EAST HOLDINGS LTD	6,231,000	2,635,517	9.28
REAL ESTATE MANAGEMENT & DEVELOPMENT			
CHINA NEW TOWN DEVELOPMENT	15,222,650	702,404	2.47
TRADING COMPANIES & DISTRIBUTORS			
PAN-UNITED CORP LTD	2,299,500	978,367	3.44

SCHEDULE OF SECURITIES (UNAUDITED)

As at 31 October 2017

	Holdings as at 31-Oct-17 No. of Shares	Fair Value as at 31-Oct-17 US\$	Percentage of total net assets attributable to shareholders at 31-Oct-17 %
TRANSPORTATION INFRASTRUCTURE			
GUANGDONG PROVINCIAL EXPR-B	1,999,980	1,832,845	6.45
ZHEJIANG EXPRESSWAY CO-H	3,200,000	3,957,959	13.94
		24,167,947	85.09

OTHER INFORMATION

About *i* Capital Global Fund

From its inception in July 2007 to Oct 2017, the *i* Capital Global Fund performance is 1.56% per annum, as opposed to 1.92% per annum for the MSCI ACWI. From 1 May 2007 to 31 Oct 2017, funds under CDPL's management achieved a return of 1.69% per annum, underperforming the MSCI ACWI which in that period recorded 3.59% per annum.

The Fund's performance for the *i* Capital Global Fund as at 31 Oct 2017 is shown below:

Performance as at 31 October 2017 (%)

(US\$)	ICGF	MSCI ACWI
Cumulative *	17.36	21.73
Annualised Return	1.56	1.92

* Cumulative Returns are measured since inception.
(Note: Information is current as at 31 Oct 2017.)

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 services 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\$200m, 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.

Capital Dynamics (S) Private Limited (CDPL), a global fund manager based in Singapore, is the investment manager for the *i* Capital Global Fund.

CDPL commenced operations in June 2006 and is part of the established Capital Dynamics group, which provides fund management and investment advisory services to institutional and retail clients. As a global fund manager, CDPL manages the *i* Capital Global Fund, an open-end fund and discretionary accounts.

Capital Dynamics (Australia) Limited (CDAL) obtained its Australian Financial Services License (ASFL 326283) from the Australian Securities and Investments Commission in December 2008. This allows CDAL to provide funds management and financial advisory services to retail and wholesale investors.

Based in Sydney, CDAL was set up with the aim of providing investors with the proven investment success of the Capital Dynamics group through the launch of the *i* Capital International Value Fund (ARSN 134578180) and individually managed accounts.

Launched in July 2009, the *i* Capital International Value Fund invests in global equities and is managed with a focus on long term capital appreciation while providing distributions.

Capital Dynamics Asset Management Sdn Bhd (CDAM), based in Kuala Lumpur, manages *icapital.biz* Berhad, a closed-end fund listed on Bursa Malaysia and discretionary accounts.

CDAM has been consistently reporting positive

OTHER INFORMATION

returns since its inception. Between April 1998 and Oct 2017, CDAM achieved a net compound return of 14.00% per annum and has substantially outperformed the Kuala Lumpur Composite Index every year except in year 2009, 2010, 2012, 2013, 2014 and 2015 which gained 5.44% per annum in the same period.

Our 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-term 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

[1] Eligible Investors

A person to whom the issue or transfer of, or where the holding of participating Shares:

- (i) would not constitute a breach of the laws of any jurisdiction; or
- (ii) would not be contrary to the regulations of any government authority; or
- (iii) would not give rise to circumstances (whether taken alone or conjunctively with other persons or any other circumstances appearing to the Directors to be relevant) which, in the opinion of the Directors, might result in the Fund and/or its Shareholders as a whole incurring any liability for taxation or suffering any other regulatory, pecuniary, legal or material administrative disadvantage that the Fund and/or its Shareholders might not otherwise have suffered or incurred; or
- (iv) would not give rise to circumstances which may cause the Fund to breach the terms of any license, registration or approval procured by it in relation to its investments; and
- (v) would satisfy the requirements set out in this section titled “Eligible Investors”.

Eligible Investors must also satisfy the requirements for an “accredited investor” or an “institutional investor” under the definition of the Securities and Futures Act.

[2] MSCI ACWI

A free float-adjusted market capitalisation weighted index which consists of 46 country indices, comprising 23 developed markets and 23 emerging market countries. This includes the stock markets of China, which ICGF cannot invest in at this time.

NOTES

Past performance is not a reliable indicator of future performance. Performance is calculated in US dollars, net of ongoing fees and expenses and assumes reinvestment of distributions.

Disclaimer: The information in this Quarterly Investment Report is not intended to provide advice and is being provided strictly for informational purposes only and does not constitute an advertisement. 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 CDPL 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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