

i Capital Global Fund



Quarterly Investment Report
For the period 1 May 2016 to 31 Jul 2016

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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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Web site: www.capitaldynamics.com.sg

**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 first quarterly report of the *i* Capital Global Fund for the financial year ended 30 April 2017.

In the three months ended 29 July 2016, the net asset value (NAV) of the *i* Capital Global Fund increased 0.51% or US\$5.384 from US\$1,065.163 to US\$1,070.547 per share. In the same period, the MSCI All Country World Index (MSCI ACWI)⁽²⁾ increased 3.16%.

Between 6 July 2007 and 29 July 2016, the NAV of the *i* Capital Global Fund gained 7.05% or US\$70.547 from US\$1,000.000 to US\$1,070.547 per share. In the same period, the MSCI ACWI increased 1.99%.

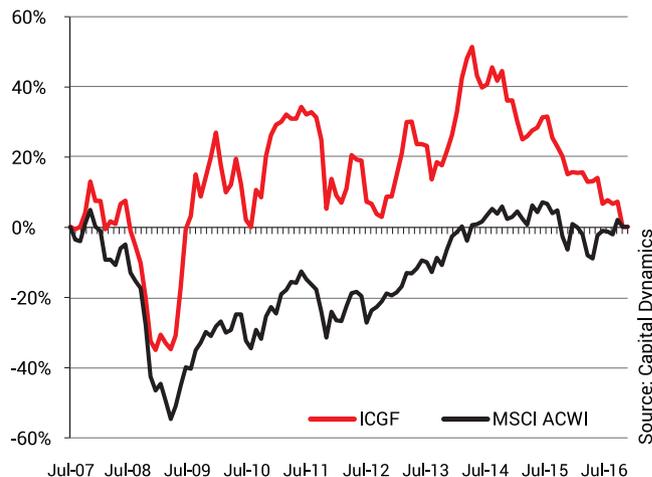
Figure 1 shows the NAV of the *i* Capital Global Fund against the performance of the MSCI ACWI since its launch which was just before the financial markets and economies were seriously affected by the 2008 US-led financial crisis. Since then, your Fund has consistently outperformed the MSCI ACWI.

The portfolio of your Fund is spread across 8 companies that are engaged in a wide range of business activities – see the Schedule of Securities on Page 12.

MARKET REVIEW AND OUTLOOK

The NYSE and NASDAQ have been reported to be making new highs. There seems to be an air of euphoria over a rally that was supposed to have belonged to Hillary Clinton. Now, comparisons are being made with Ronald Reagan, who became US president in Jan 1981 and whose pro-business, low tax and pro-growth policies marked a turning point to the decade of pathetic returns from America's stock market in the Nineteen Seventies. At Capital Dynamics, we are amused, bemused and worried. Why?

Figure 1 ICGF NAV vs MSCI ACWI (6 JUL 2007 - 29 JUL 2016)



The top 5 investments as at 29 July 2016 were Zhejiang Expressway, Air China Ltd, Dah Chong Hong, QBE Insurance and Rexlot Holdings. They made up 30.19% of the total assets. At the end of July 2016, your Fund had 67.53% of its NAV in cash.

The US unemployment rate since 1980 is shown in **figure 2**. When Reagan went into the White House, the already high rate worsened further and the US unemployment rate only peaked at 10.8%. In contrast to Reagan's experience in 1981, the incoming 45th US president is inheriting a healthy and robust US economy. The unemployment rate has been dropping continuously for the last 6 years and is now only at 4.6%. In 1981, there was plenty of room for economic growth to take place and for unemployment to fall

Figure 2 Unemployment Rate

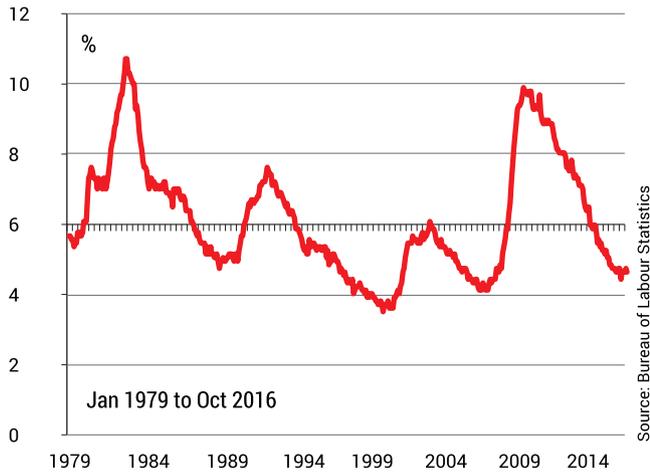
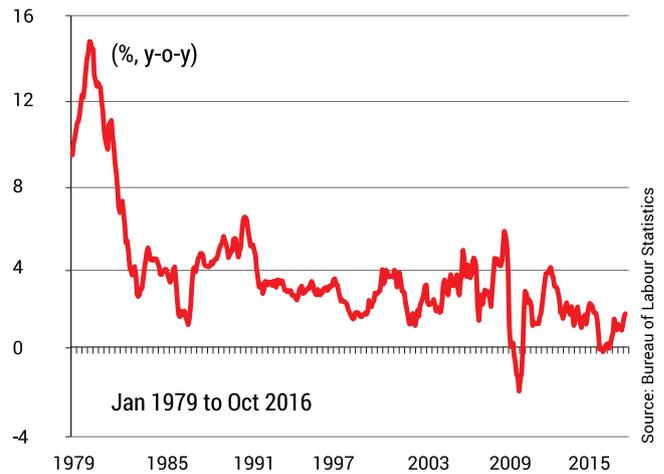


Figure 3 Headline Inflation



without igniting the inflationary fires. Now, the opposite is true – unless one is willing to tolerate a rise in US inflation, there is not much room for faster US economic growth and for US unemployment to fall, especially if the billionaire property developer implements a set of contradictory socio-economic policies like an aggressive fiscal stimulus in the form of lower taxes and substantial government spending, higher tariffs and reduced supply of lower wage foreign workers.

Figure 3 captures the headline US inflation rate. Again, the pricing environment now and then is as different as black and white. When Reagan first ruled the US in 1981, the consumer price index was at an unbelievable 11.8%, compared with 1.6% now. In 1981, thanks to inflation fighter Paul Volcker, the Argentina-like US inflation rate was humbled and went on tumbling for years on end. Now, after years of suffering, American wages are rising at a faster pace and their demagogue is promising to bring all

the high wage jobs back to America, whilst cutting the supply of workers. He has also promised to make the price of goods higher by imposing tariffs on imports from America's major trading partners. In 1981, there was plenty of room for inflation to fall; now, even a simple reversion to the mean would see US inflation rate climbing higher even without the firmer oil price arising from the latest OPEC + Russia oil output cut.

Figure 4 captures the core PCE inflation rate. In Jan 1981, as Reagan began to settle in the corridors of power, core PCE prices were rising at a horrifying rate of 9.7%. As Volcker fought tooth and nail with the secular inflation problem, the US economy was about to experience the Great Moderation. Now, as the 70-year old novice president takes the helm, core US PCE inflation rate has been trending around 1.6 to 1.8% and rising. Is the US economy on the cusp of a major turning point in core inflation? Reagan got to enjoy years of falling inflation. Are we now about to see years of rising inflation instead? The Federal

Figure 4 Core PCE Inflation Rate

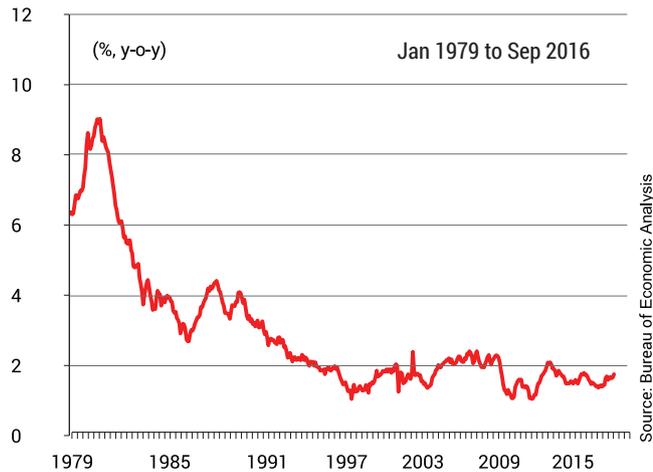
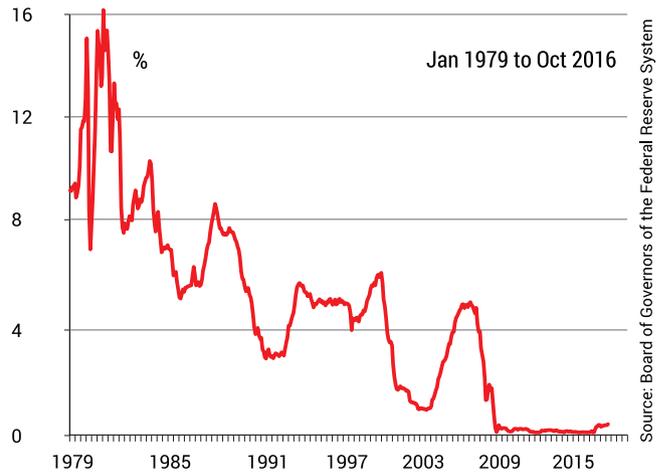


Figure 5 3-month Treasury Bill



Reserve after 2008 has been obsessed with deflation. Capital Dynamics (Australia) has previously argued that these worries were excessive and not justified by facts. Now, in its 8th year of recovery, US domestic demand is about to get even stronger as US public spending joins robust private spending in boosting US aggregate domestic demand at a wrong time. Wages have been rising but productivity has not. In 1981, there was plenty of room for core inflation to fall; now, even a simple reversion to the mean would see core US inflation rate climbing higher.

Figure 5 shows the rate of the 3-month US Treasury Bills. In Jan 1981, Ronald Reagan had the tailwind of the 3-month US Treasury Bills dropping from 15%. And thanks to Paul Volcker, as US inflation dropped year after year, the yield of the 3-month US Treasury Bills kept on declining year after year. Now, thanks to Ben Bernanke, Janet Yellen and her dovish gang, the inexperienced 45th US president will have to face

the headwind of US interest rate normalising from near zero. That is a lot of normalising to do, especially for an economy that is about to get overheated. Janet Yellen has said she will stay on until her term ends in Feb 2018.

When China's economy was expanding at a rate of 9, 10 or 11%, many were fond of saying that stock market returns do not correlate with GDP growth. In short, do not expect China's stock market to show the same high rate of return as China's GDP. Although the NYSE and NASDAQ are trading at all-time highs now, is the United States to discover this apparent truism ?

In Jan 1981, the Shiller CAPE ratio was trading at an indecently attractive ratio of around 9 times. Now, on 27 Nov 2016, the same CAPE ratio is trading at an obscenely ugly level – 27.3 times. And investors are now expecting it to get even more obscene by

chasing US stock prices higher at a time of rising inflation and interest rates. Will investors in 2017 have to discover that what they said about China's economy and stock market also applies to the USA ? The rule of Reagan starting from 1981 was associated with a secular bull market as he had the tailwind of a very cheap NYSE. In contrast, Jan 2017 is likely to mark the start of a very difficult period for the NYSE and NASDAQ with their rich valuations about to be brought down to earth by rising inflation and interest rates. Reagan ended his presidency in glory. Four years from now, the Apprentice will be fired.

In 2017, investors should brace for something nasty as the Federal Reserve is forced to re-focus on a pace of monetary policy normalisation faster than anyone is expecting.

At the time of writing this commentary, 64% of your Fund's NAV is held in cash. 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
4 December 2016

STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the financial period ended 31 July 2016

	US\$
Income	
Dividend income (net of withholding tax of US\$ 136)	27,222
Interest income	7,926
Total investment income	35,148
Expenses	
Management fees	115,792
Professional fees	6,412
Administrative & Custodian fees	18,254
Other expenses	913
Total expenses	141,371
Net investment loss	(106,223)
Gain/(loss) on investment and foreign currency transactions	
Net change in unrealised gain on securities transactions	315,827
Net loss on foreign currency transactions	(54,932)
Net gain on investment and foreign currency transactions	260,895
Net change in net assets attributable to holders of participating shares resulting from operations	154,672

STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 31 July 2016

	US\$
Assets	
Cash and cash equivalents	20,830,769
Investments in securities, at fair value (cost US\$13,725,787)	10,003,477
Interest receivable	2,642
Other receivables	1,313
Total Assets	<u>30,838,201</u>
Liabilities	
Management fee payable	38,506
Other payables	33,378
Total Liabilities	<u>71,884</u>
Net assets attributable to the shareholders of the Fund	<u><u>30,766,317</u></u>
Net assets attributable to:	
Participating shares	30,766,307
Management shares	10
Net assets attributable to the shareholders of the Fund	<u><u>30,766,317</u></u>
Net asset value ("NAV") per participating share	
Based on 28,739 participating shares outstanding (April 2016: 28,856)	<u><u>1,070.55</u></u>

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

For the financial period ended 31 July 2016

US\$

Net change in net assets attributable to holders of participating shares resulting from operations	<u>154,672</u>
Capital transactions	
Redemption of participating shares during the financial period	<u>(124,671)</u>
Net change in net assets attributable to holders of participating shares resulting from capital transactions	<u>(124,671)</u>
Net change in net assets attributable to holders of participating shares for the period	30,001
Net assets attributable to holders of participating shares at beginning of period	<u>30,736,306</u>
Net assets attributable to holders of participating shares at end of period	<u><u>30,766,307</u></u>

STATEMENT OF CASH FLOWS (UNAUDITED)

For the financial period ended 31 July 2016

US\$

Cash flows from operating activities

Net change in net assets attributable to holders of participating shares resulting from operations 154,672

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 (5,979,751)

Dividends receivable 453

Interest receivable 100

Other receivables 787

Management fee payable 38

Other payables 1,276

Net cash flows used in operating activities (5,822,425)

Cash flows from financing activities

Redemption of participating shares (124,671)

Net cash flows used in financing activities (124,671)

Net change in cash and cash equivalents for the period (5,947,096)

Cash and cash equivalents at the beginning of the period 26,777,865

Cash and cash equivalents at the end of the period 20,830,769

Supplemental disclosure of cash flow information

Dividends received 27,539

Interest received 8,026

SCHEDULE OF SECURITIES (UNAUDITED)

As at 31 July 2016

	Holdings as at 31-Jul-16 No. of Shares	Fair Value as at 31-Jul-16 US\$	Percentage of total net assets attributable to shareholders at 31-Jul-16 %
AIRLINES			
AIR CHINA LTD-H	2,834,000	2,165,980	7.04
DISTRIBUTORS			
DAH CHONG HONG	3,300,000	1,624,715	5.28
DIVERSIFIED CONSUMER SERVICES			
OVERSEAS EDUCATION LTD	333,900	108,119	0.35
HEALTH CARE EQUIPMENT & SUPPLIES			
CLOVER CORP LTD	166,529	51,853	0.17
HOTELS, RESTAURANTS & LEISURE			
REXLOT HOLDINGS LTD	53,875,000	944,335	3.07
INSURANCE			
QBE INSURANCE GROUP LTD	150,000	1,249,675	4.06
REAL ESTATE MANAGEMENT & DEVELOPMENT			
CHINA NEW TOWN DEVELOPMENT	15,222,650	555,239	1.80
TRANSPORTATION INFRASTRUCTURE			
ZHEJIANG EXPRESSWAY CO-H	3,200,000	3,303,561	10.74
		10,003,477	32.51

OTHER INFORMATION

About *i* Capital Global Fund

From its inception in July 2007 to July 2016, the *i* Capital Global Fund performance is 0.75% per annum, as opposed to 0.22% per annum for the MSCI ACWI. From 1 January 2007 to 29 July 2016, funds under CDPL's management achieved a return of 0.82% per annum, underperforming the MSCI ACWI which in that period recorded 2.21% per annum.

The Fund's performance for the *i* Capital Global Fund as at 29 July 2016 is shown below:

Performance as at 29 July 2016 (%)

(US\$)	ICGF	MSCI ACWI
Cumulative *	7.05	1.99
Annualised Return	0.75	0.22

* Cumulative Returns are measured since inception.

(Note: Information is current as at 29 July 2016.)

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](http://www.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 July 2016, CDAM achieved a net compound return of 13.59% 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 5.51% 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.

[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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BY Capital Dynamics

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