

i Capital Global Fund



Quarterly Investment Report
For the period 1 Nov 2016 to 31 Jan 2017

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

In the three months ended 31 January 2017, the net asset value (NAV) of the *i* Capital Global Fund increased 0.97% or US\$10.184 from US\$1,048.668 to US\$1,058.852 per share. In the same period, the MSCI All Country World Index (MSCI ACWI)⁽²⁾ increased 5.38%.

Between 6 July 2007 and 31 January 2017, the NAV of the *i* Capital Global Fund gained 5.89% or US\$58.852 from US\$1,000.000 to US\$1,058.852 per share. In the same period, the MSCI ACWI increased 6.17%.

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.

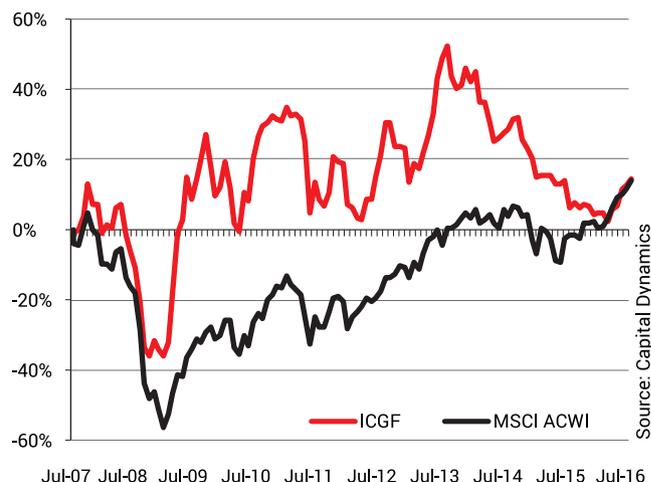
The portfolio of your Fund is spread across 8 companies that are engaged in a wide range of business activities – see the Schedule of Securities on Page 12.

MARKET REVIEW AND OUTLOOK

When it comes to fundamental investing, there are two main approaches: a top-down/market-timing approach and a bottom-up approach.

First, a quick recapitulation. A top-down approach starts its analysis at the macro-economic level, covering both global and national economic conditions and indicators. These would include GDP growth rates, inflation and interest rates, foreign exchange trends, fiscal policy, key

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



The top 5 investments as at 31 January 2017 were Zhejiang Expressway, Air China Ltd, Dah Chong Hong, QBE Insurance and Rexlot Holdings. They made up 33.94% of the total assets. At the end of January 2017, your Fund had 62.96% of its NAV in cash.

commodity prices, etc. The investor then narrows it down to sector/industry analysis before zooming in on specific stocks. For many, this is enough for them to time the stock market, that is, to buy low and sell high. Many would also incorporate charting and technical analysis to improve the accuracy and reliability of their entry and exit points.

In contrast, a value investor is essentially a bottom-

up investor. Such an investor analyses a specific company, business and industry and computes the company's intrinsic value based on these factors without incorporating macro-economic factors or charting and technical analysis. This explains what Warren Buffett is talking about when he says that even if the Federal Reserve chairman were to whisper to him what the interest rate is going to be, it would not affect his investment decisions.

The above distinction between a top-down/market-timing investor and a bottom-up investor is typical and, for most purposes, adequate. However, a deeper and closer look at these two popular investment approaches would show that the distinction is not always so simple and clear-cut.

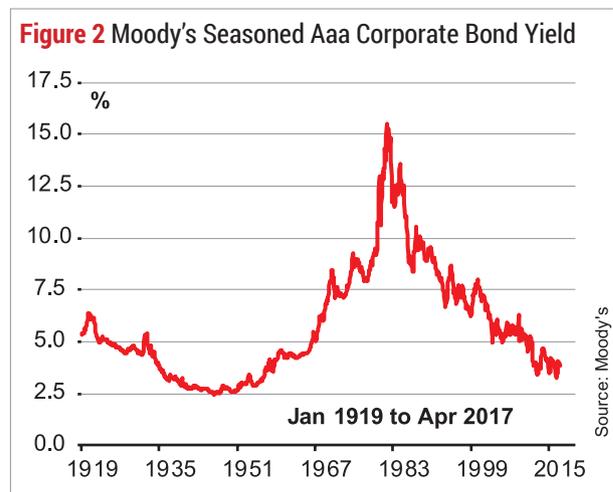
At Berkshire Hathaway's recent AGM, an investor asked Warren Buffett about the usefulness of two popular market valuation indicators; namely, the market capitalisation-to-GDP ratio (which also happens to be his favourite), and the cyclically adjusted price-earnings ratio (CAPE), which was made famous by Yale professor Robert Shiller. Buffett replied: "Both of the things that you mentioned get bandied around a lot. It's not that they're unimportant... They can be very important ... It's just not quite as simple as having one or two formulas and then saying the market is undervalued or overvalued." Buffett added, "The most important thing is future interest rates." He is not talking about the current interest rate but rather what the interest rate is going to be over the next 10, 20 or 30 years on average (Watch this in 2017 AGM proceedings: <https://finance.yahoo.com/video/buffett-valuation-formulas-trip-investors-211849354.html>)

A summation of his approach is that he would not

ask about GDP growth, or who was going to be the next president. He would rather ask what the interest rate is going to be over the next 20 years on average. As Buffett shared in a recent Yahoo Finance interview, "everything in valuation gets back to interest rates."

We now know it is not as simple as CAPE or market cap to GDP, but is it as simple as knowing interest rates ? Not entirely, especially in the context of today's historically low interest rate environment. In a May 2017 interview with CNBC's Becky Quick, Buffett advised that if interest rates were guaranteed to stay low for 10, 15 or 20 years, then the stock market is still dirt cheap. His answer is not really helpful as the next logical question to ask is: will they stay low ?

Over the long-term, interest rate can be very volatile (**figure 2**). We use Moody's Corporate Bond yield to illustrate this as it has a long history. From a low of 2.5% in the early Nineteen Fifties, the US Corporate Bond yield surged to more than



15% by Feb 1982. An investor buying a long-term bond in the early Nineteen Fifties would have made huge losses by the late Sixties and Seventies.

For the investor, what is interesting about figure 1 is that the Moody's AAA Corporate Bond yield started to surge from 1965 onwards. When said corporate bond yield rose from 1950 to 1960, it was from a very low base, US inflation was low and under control, and the US stock market as a whole was still undervalued. Hence, the rise in interest rate did not harm the US stock market.

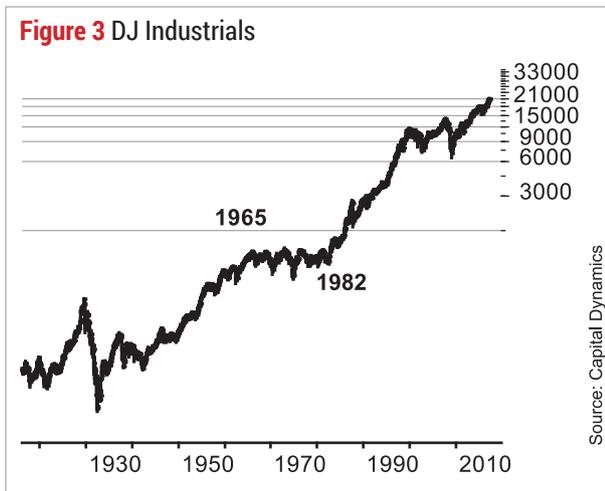
The surge from 1965 was a different story. US inflation was heading higher, and the US stock market as a whole was richly valued. As Buffett said, "the most important thing is future interest rates" and by the mid-Sixties, it was clear from macro-economic analysis that the US economy was entering a secular rising inflation era. It is not a coincidence that the NYSE peaked around 1965 (figure 3). From then until mid-1982, interspersed with a few major bear markets, the NYSE ended

up going sideways (figure 3).

The NYSE was only able to break out from the 1965 to 1982 bear market when US interest rate made a spectacular peak in 1982 (figure 1 again). As Buffett said, "the most important thing is future interest rates" - by 1982, thanks to the very tough monetary policy taken by the then-Federal Reserve Chairman Paul Volcker, it became increasingly clear that the US economy was entering a secular disinflation era. The spectacular interest rate peak in early 1982 set the stage for an equally spectacular bull run on the NYSE.

Knowing what the interest rate is going to be over the next 10, 20 or 30 years on average is also critical in terms of determining the discount rate. This rate, which is used to determine the intrinsic value of a company, is tied to the market interest rates that Buffett has been talking about. The problem with discount rate in long-term valuation is that a small variance in estimating the discount rate can lead to a substantial divergence in valuation. Discounting \$1.00 by 10% leads to a \$10.00 valuation whereas discounting the same dollar by 12% would lead to only \$8.33, a drop of 17% in valuation. Discounting over a 10, 20 or 30-year period would lead to even larger variations.

It is clear that knowing future interest rates can lead to spectacular investment performance. The question then is, how does one know future interest rates? By understanding local and global macro-economic and political conditions. By this, we do not mean being able to accurately forecast GDP or inflation or foreign exchange rates; by this, we mean understanding the underlying dynamics, broad or secular trends and how various factors interact.



This brings us back to our earlier statement regarding the distinction between a top-down/market-timing investor and a bottom-up investor and that the distinction is not always so simple and clear-cut. This is because these two differing investing approaches are joined at the hip by interest rates.

At the time of writing this commentary, your Fund's cash holding is about 37% of its NAV. The NAV of the *i* Capital Global Fund can be viewed at either www.capitaldynamics.com.sg or www.funds.icapital.biz.

Best wishes.

Handwritten signature in blue ink, reading '陳鼎武' (Tan Teng Boo).

Tan Teng Boo
Director
Capital Dynamics (S) Private Limited
15 Jun 2017

STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the financial period ended 31 January 2017

	US\$
Income	
Dividend income	29,265
Interest income	6,389
Total investment income	35,654
Expenses	
Management fees	108,495
Professional fees	13,685
Administrative & Custodian fees	18,013
Other expenses	1,267
Total expenses	141,460
Net investment loss	(105,806)
Gain/(loss) on investment and foreign currency transactions	
Net change in unrealised gain on securities transactions	367,812
Net loss on foreign currency transactions	(5,878)
Net gain on investment and foreign currency transactions	361,934
Net change in net assets attributable to holders of participating shares resulting from operations	256,128

STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 31 January 2017

	US\$
Assets	
Cash and cash equivalents	18,079,486
Investments in securities, at fair value (cost US\$14,489,551)	10,628,829
Interest receivable	1,684
Other receivables	3,154
Total Assets	<u>28,713,153</u>
Liabilities	
Management fee payable	35,860
Other payables	25,283
Total Liabilities	<u>61,143</u>
Net assets attributable to the shareholders of the Fund	<u><u>28,652,010</u></u>
Net assets attributable to:	
Participating shares	28,652,000
Management shares	10
Net assets attributable to the shareholders of the Fund	<u><u>28,652,010</u></u>
Net asset value ("NAV") per participating share	
Based on 27,060 participating shares outstanding (October 2016: 27,945)	<u><u>1,058.85</u></u>

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

For the financial period ended 31 January 2017

	US\$
Net change in net assets attributable to holders of participating shares resulting from operations	<u>256,128</u>
Capital transactions	
Redemption of participating shares during the financial period	<u>(908,790)</u>
Net change in net assets attributable to holders of participating shares resulting from capital transactions	<u>(908,790)</u>
Net change in net assets attributable to holders of participating shares for the period	<u>(652,662)</u>
Net assets attributable to holders of participating shares at beginning of period	<u>29,304,662</u>
Net assets attributable to holders of participating shares at end of period	<u><u>28,652,000</u></u>

STATEMENT OF CASH FLOWS (UNAUDITED)

For the financial period ended 31 January 2017

US\$

Cash flows from operating activities

Net change in net assets attributable to holders of participating shares resulting from operations 256,128

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 (367,812)

Dividends receivable 905

Interest receivable 794

Other receivables (2,421)

Management fee payable (817)

Other payables (352,035)

Net cash flows used in operating activities (465,258)

Cash flows from financing activities

Redemption of participating shares (908,790)

Net cash flows used in financing activities (908,790)

Net change in cash and cash equivalents for the period (1,374,048)

Cash and cash equivalents at the beginning of the period 19,453,534

Cash and cash equivalents at the end of the period 18,079,486

Supplemental disclosure of cash flow information

Dividends received 29,899

Interest received 7,183

SCHEDULE OF SECURITIES (UNAUDITED)

As at 31 January 2017

	Holdings as at 31-Jan-17 No. of Shares	Fair Value as at 31-Jan-17 US\$	Percentage of total net assets attributable to shareholders at 31-Jan-17 %
AIRLINES			
AIR CHINA LTD-H	3,834,000	2,767,196	9.66
DISTRIBUTORS			
DAH CHONG HONG	3,300,000	1,348,258	4.71
DIVERSIFIED CONSUMER SERVICES			
OVERSEAS EDUCATION LTD	333,900	84,058	0.29
HEALTH CARE EQUIPMENT & SUPPLIES			
CLOVER CORP LTD	166,529	64,398	0.22
HOTELS, RESTAURANTS & LEISURE			
REXLOT HOLDINGS LTD	53,875,000	958,222	3.34
INSURANCE			
QBE INSURANCE GROUP LTD	150,000	1,421,719	4.96
REAL ESTATE MANAGEMENT & DEVELOPMENT			
CHINA NEW TOWN DEVELOPMENT	15,222,650	755,654	2.64
TRANSPORTATION INFRASTRUCTURE			
ZHEJIANG EXPRESSWAY CO-H	3,200,000	3,229,324	11.27
		10,628,829	37.10

OTHER INFORMATION

About *i* Capital Global Fund

From its inception in July 2007 to January 2017, the *i* Capital Global Fund performance is 0.60% per annum, as opposed to 0.63% per annum for the MSCI ACWI. From 1 January 2007 to 31 January 2017, funds under CDPL's management achieved a return of 0.66% per annum, underperforming the MSCI ACWI which in that period recorded 2.50% per annum.

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

Performance as at 31 January 2017 (%)

(US\$)	ICGF	MSCI ACWI
Cumulative *	5.89	6.17
Annualised Return	0.60	0.63

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

OTHER INFORMATION

CDAM has been consistently reporting positive returns since its inception. Between April 1998 and January 2017, CDAM achieved a net compound return of 13.20% 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 5.45% 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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INDEPENDENCE * INTELLIGENCE * INTEGRITY

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