

i Capital International Value Fund ARSN 134 578 180



Quarterly Investment Report
For the period 1 April 2023 to 30 June 2023

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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. 1.1272% 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

Inception Date	1 July 2009
Minimum Investment (AUD)	\$20,000
Additional Investment (AUD)	\$2,000
Income Distribution	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.

Example:	Fee charged per year for an investment balance of \$50,000.00.
Management Fee	$\$50,000.00 \times 1.5375\% = \768.75
Administration Cost	$\$50,000.00 \times 0.9843\% = \563.62
Total Fee Per Year:	\$1332.37

PERFORMANCE REVIEW

By 30 June 2023, the Fund has, from its inception in July 2009, delivered an annual compound return of 1.29%, net of expenses. Comparative benchmark figures are shown in **figure 3** and **table 3**.

During the 1 April 2023 to 30 June 2023 quarter, the Fund returned -4.90% after fees. For the 1-year

ending 30 June 2023, the Fund returned 1.48% after fees which compares with the returns of MSCI ACWI Index and ASX200 in AUD (benchmark) of 18.20% and 9.67%. Furthermore, the Fund has risen by 14.76% from its lowest point of A\$0.5905 as at 31 Oct 2022, as compared with the benchmark's returns of 11.87% and 4.95%.

MARKET REVIEW AND OUTLOOK

Is China Bouncing Back?

Investors would know that the *i* Capital International Value Fund has been heavily invested in Chinese stocks for the last 2-3 years and this has pulled the Fund's NAV down. With the Western media screaming all kinds of worries about China's economic growth, does it make sense for us to stay invested in these battered stocks? Let us examine the facts and move from hysteria.

India has often been touted by the Western media as being more attractive than China even though India's so-called democratic credentials are as bad as or worse than an autocratic country. They list the typical professed positives like a growing population, high GDP growth, etc but they missed out the key facts.

In 2019, India's GDP was US\$2.836 trillion and thanks to her "fast" GDP growth, it expanded to US\$3.385 trillion by 2022 or an increase of US\$0.549 trillion.

In 2019, China's GDP was US\$14.28 trillion and thanks to her "slow" GDP growth, it expanded to US\$17.963 trillion by 2022 or a whopping increase of US\$3.683 trillion. In just 4 years, China's GDP growth was larger than India's entire economy in 2022.

Ironically, the gap between "fast-growing" Indian economy and the "slow-growing" Chinese economy is actually widening. In 2019, China's GDP was 5 times larger than India's; in 2022, China's economy was 5.3 times larger than the Indian economy. This does not sound like an economy that is faltering. To repeat what *i* Capital has been saying, *"In terms of the Chinese recent economic performance, i Capital does not see any reason to be worried. Recovery from an economy opening up is bound to be somewhat of a zig-zag."*

China's economy expanded by 6.3% year-on-year in 2Q 2023. The immediate response to this expected and healthy headline number was that China's economic recovery is losing steam and loud and urgent calls for

more stimuli from Beijing were made by the foreign media. Amidst these noises, at 6.3%, it was actually the fastest rate of expansion in the last eight quarters (**figure 1**).

Yet, China's GDP number was twisted to be interpreted negatively with all kinds of dire warnings issued.

Figure 1 China's Real GDP

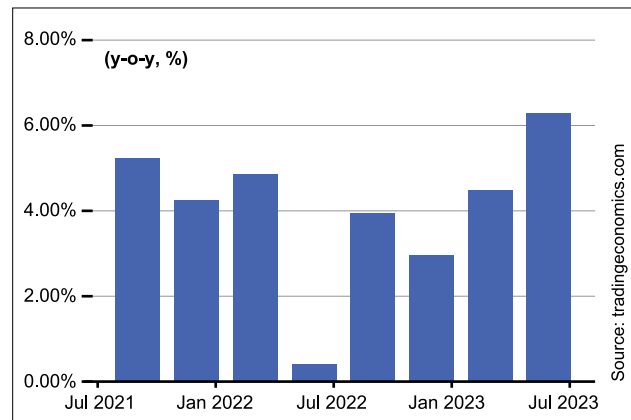
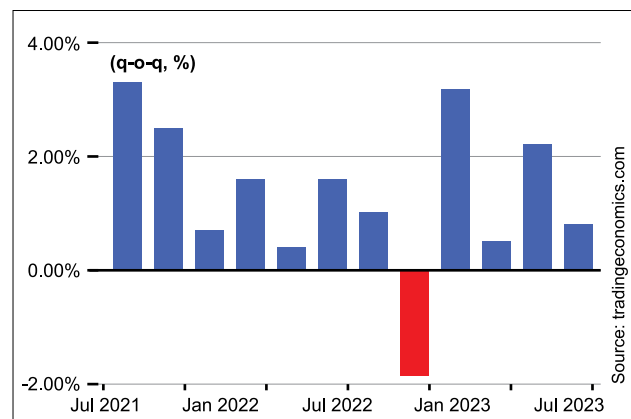


Figure 2 China's Real GDP



On a quarter-to-quarter measurement, the seasonally adjusted 0.8% expansion was faster than expectations even though it was slower than in the first quarter of 2023 (figure 2). So, is China's recovery losing momentum as the headlines are saying or is China's economic growth still on a healthy track?

Given the erratic lockdowns in 2021 and 2022, China's economic growth numbers will also be erratic. The period from 2020 to 2022 is a grossly distorted period. Economic numbers for all countries were jumping all over the place. It will be more accurate and productive to gauge China's economic performance from a longer period of comparison as we show below (table 1).

Table 1 GDP numbers, based on current measurement (US\$ trillions)

	2019	2022	Addition
China	14.280	17.963	3.683
United States	21.381	25.463	4.082

Source: <https://databank.worldbank.org/source/world-development-indicators>

Despite all the headlines screaming about how strong the US economic growth is and how weak China's economy is, the increase in the sizes of the American and Chinese economies from 2019 (before Covid-19 pandemic) to 2022 (China was still under lockdown) has been pretty close (table 1). If the US economic growth is strong, so is China's GDP growth; if China's economic growth is weak, so is the GDP growth of the United States. However, one cannot just look at the economies in mere current dollar terms, especially when the US economy is overheating with surging inflation and China has been managing her inflationary pressures very well.

When measured in constant 2015 US\$ terms, the situation for China and the United States looks very different as is shown below (table 2). **Current dollars** is a term describing income in the year in which it is produced. For example, GDP produced in 2022 unadjusted for inflation is in current dollars. Data reported in current or "nominal" prices for each year are in the value of the currency for that particular year. **Constant** or **real dollars** are terms describing GDP adjustment for inflation. Constant series show the data for each year in the value

Table 2 GDP numbers, based on constant 2015 US\$ (US\$ trillions)

	2019	2022	Addition
China	14.300	16.325	2.025
United States	19.930	20.953	1.023

Source: <https://databank.worldbank.org/source/world-development-indicators>

of a particular base year; in our case, 2015. Data in a current series is influenced by the effect of price inflation. Constant series are used to measure the true growth of a series, after adjusting for the effects of price inflation.

When the economic growth of China and the United States is compared stripped off the differing inflationary impact and over a more meaningful stretch of period, it is clear that China's economy is far from faltering or peaking. Based on constant series or in real terms, China's economy has performed much better than that of the United States.

The uneven Chinese economic recovery in 2023 is not surprising at all. First, one should not forget that many economically important parts of China were under on-off lockdowns and mobility restrictions from early 2020 to late 2022. After three long years, it takes time for the Chinese people to get used to the previous normal again. Secondly, China's government has been very prudent in rolling out any support or stimulus measures. The central government has seen what harmful effects the bazooka approach in 2009 produced. The Chinese government has also seen the inflationary madness experienced by countries which went berserk with their excessive fiscal stimulus, like those in the United States, the UK and many more. Thirdly, and perhaps the most important point and linked to the second point, is that many years ago, China has already correctly decided to focus on quality growth instead of just hitting quantitative GDP targets. In Oct 2020, compared with China's previous Five-Year-Plans, the 14th Five Year Plan sent a new development message – no numerical GDP growth target but more focus on healthy and balanced development with the domestic market as the mainstay. The guiding principles of the fifth plenary session said China will work for more sustainable and healthier economic development from 2021 to 2025. The emphasis is essentially on a higher quality of growth. This policy shift from emphasising quantity to quality is very important as it will enable China to successfully overcome the dreaded middle-income trap. Based on Tan Teng Boo's analysis, China is on track to achieve a developed economy status.

Unlike the 2009-2010 period, economic growth and development in China has now continued without creating new massive imbalances. Unlike the United States or UK or EU or Japan, China's economy sailed through the 2020 to 2022 challenging period without having to resort to reckless inflationary fiscal and monetary stimulus. When one views China's economic performance over a longer period, it is clear that China has actually emerged stronger, compared with herself and her peers. President Xi Jinping is taking China on the right path. If only politicians like Biden, Sunak, Trudeau, Scholz, etc can achieve the same.

To understand what is happening to present-day China's economy is admittedly not easy; it needs one to understand what the Chinese government is aiming at and where the Chinese economy is, in terms of her development journey. Few analysts and fund managers do this. To repeat what *i* Capital has been saying all this while :

"In terms of the Chinese recent economic performance, i Capital does not see any reason to be worried. Recovery from an economy opening up is bound to be somewhat of a zig-zag." This sounds very similar to the message from the Politburo's Jul meeting.

Investors are way too bullish over American stocks and too bearish over Chinese stocks. There is clearly substantial upside yet to be realised from your Fund's deeply undervalued Chinese stocks. In fact, 10,000 for the Shanghai index forecast is not crazy. Investors should take advantage of this very rare low risk, high return opportunity by investing more and benefit from dollar cost averaging. The NAV of *i* Capital International Value Fund can be viewed at either www.funds.icapital.biz or www.capitaldynamics.com.au

Best wishes.

A handwritten signature in Chinese characters, which reads "陳鼎武" (Tan Teng Boo).

Tan Teng Boo
Managing Director
Capital Dynamics (Australia) Limited
AFSL 326283
3rd August 2023

FUND PERFORMANCE 1

Figure 3 Total return (%)

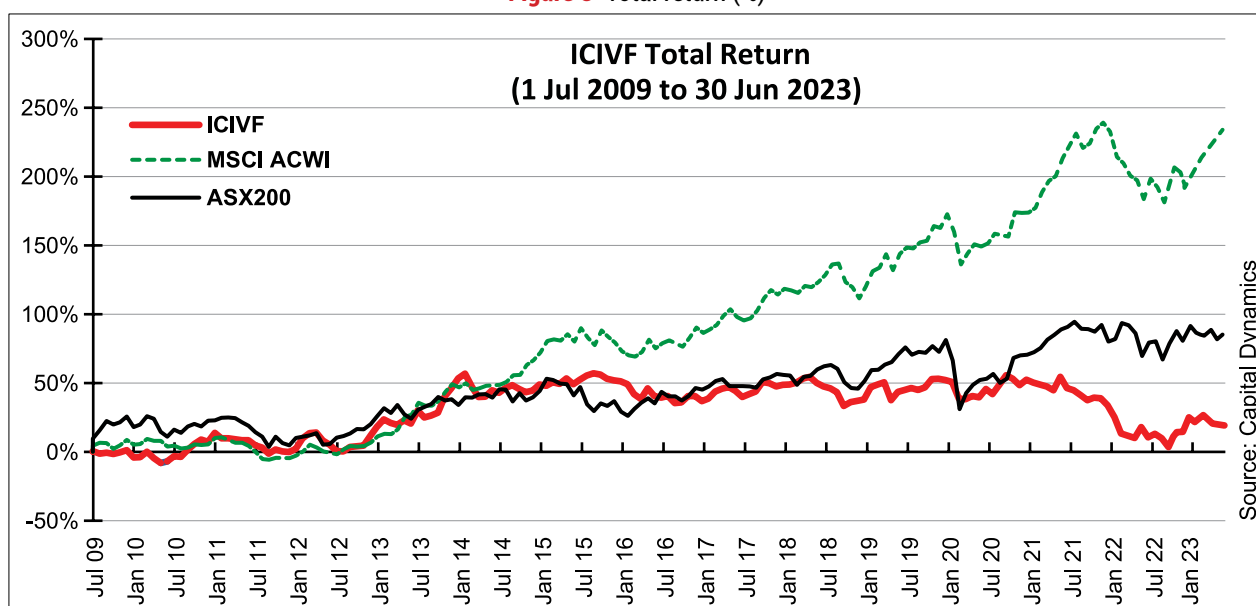


Table 3 Cumulative Total Return and Compound Return

	Cumulative Total Return (%)			Compound Return (%)
	1-Year-Return	2-Year-Return	Since Inception	Since Inception
ICIVF (AUD)	1.48%	-22.55%	19.65%	1.29%
MSCI ACWI (AUD)	18.20%	6.97%	235.07%	9.02%
ASX200 (AUD)	9.67%	-1.50%	85.94%	4.53%

FUND PERFORMANCE 2

Table 4 Top 3 performing stocks (current holdings only) (in local currency)

	Quarter ending 30 Jun 2023 (% of change)
K2 Asset Management Holdings	43.14%
Pacific Bioscience Of California Inc	14.85%
Guangdong Provincial Expressway Development Co Ltd	2.55%

The table above presents the top 3 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 2023), and held till the end of the quarter (i.e. 30 June 2023). 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 a stock was bought on 3 April 2023 and sold on 12 May 2023, its performance is only measured over 3 April 2023 to 12 May 2023 and not over the full quarter. Similarly, if it was bought on 10 April 2023 and sold on 29 June 2023, its performance is measured over the period 10 April 2023 to 29 June 2023.

FUND PERFORMANCE 3

Table 5 shows the percentage gain or loss of each company held by your Fund as at 30 June 2023. This table assumes no impact from currency movements or constant exchange rates.

Table 5 Percentage gain or loss arising from stock price changes.

Security	Average Cost (A\$)	Price Jun 2023 (A\$)	% Change
Alibaba Group Holding Ltd	16.10	14.90	-7.46%
Concord New Energy	0.05	0.08	62.59%
Guangdong Provincial Expressway Development Co Ltd	0.95	1.01	6.92%
Hans Laser Technology Industry Group Co Ltd	9.63	5.61	-41.75%
K2 Asset Management Holdings	0.28	0.07	-73.50%
Pacific Bioscience Of California Inc	36.80	17.17	-53.35%
Pico Far East Hldg Ltd	0.44	0.23	-46.14%
Ping An Insurance Group Of China Limited	15.84	8.26	-47.88%
Rexlot Holdings Ltd	0.10	0.00	-96.88%
United Plantations Bhd	5.07	4.99	-1.62%
Wilmar International Ltd	4.72	3.79	-19.73%

Table 6 shows the percentage gain or loss arising from currency movements as at 30 June 2023. This table assumes no change in stock prices or constant stock prices.

Table 6 Percentage gain or loss arising from currency movements.

Security	Average Cost (A\$)	Price Jun 2023 (A\$)	% Change
Alibaba Group Holding Ltd	16.10	16.82	4.49%
Concord New Energy	0.05	0.08	51.21%
Guangdong Provincial Expressway Development Co Ltd	0.95	1.08	14.27%
Hans Laser Technology Industry Group Co Ltd	9.63	9.30	-3.35%
K2 Asset Management Holdings	0.28	0.28	0.00%
Pacific Bioscience Of California Inc	36.80	42.83	16.40%
Pico Far East Hldg Ltd	0.44	0.49	11.80%
Ping An Insurance Group Of China Limited	15.84	18.34	15.76%
Rexlot Holdings Ltd	0.10	0.13	28.78%
United Plantations Bhd	5.07	5.06	-0.08%
Wilmar International Ltd	4.72	5.25	11.34%

PORTFOLIO INFORMATION

Table 7 Percentage of assets held as cash

	Cash (%)	Equities (%)
End of Mar 23	1.43%	98.57%
End of Apr 23	0.80%	99.20%
End of May 23	1.21%	98.79%
End of Jun 23	2.42%	97.58%

Table 8 Top 5 holdings as at 30 June 2023

	66.28%
Concord New Energy	17.92%
Guangdong Provincial Expressway Development Co Ltd	14.62%
Pico Far East Hldg Ltd	12.40%
Alibaba Group Holding Ltd	11.26%
United Plantations Bhd	10.08%

Table 9 Portfolio breakdown for equities by region as at 30 June 2023 (in AUD)

	100.00%
Hong Kong	66.48%
Malaysia	10.33%
Singapore	8.03%
China	7.87%
United States	7.25%
Australia	0.04%

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, 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.

1. Battered Stock

Battered stock describes a stock that has experienced a significant and sustained decline in its market value.

2. GDP

Gross domestic product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific period. As a broad measure of overall domestic production, it functions as a comprehensive scorecard of a given country's economic health.

3. Stimulus Measures

Fiscal stimulus measures include deficit spending and lowering taxes. Monetary stimulus measures are produced by central banks and may include lowering interest rates.

4. Politburo

The Politburo of the Chinese Communist Party, formally known as the Political Bureau of the Central Committee of the Communist Party of China, is the decision-making body of the Central Committee of the Chinese Communist Party.

5. Inflation

Inflation is a decrease in the purchasing power of money, reflected in a general increase in the prices of goods and services in an economy.

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 2020 ("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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NOTES



Responsible Entity, Issuer and
Investment Manager
Capital Dynamics (Australia) Limited
ABN 53 129 846 260
AFSL 326283

Suite 101, Level 1, 49-51 York Street, Sydney
NSW 2000, Australia
(61 2) 92622621
www.capitaldynamics.com.au
info@capitaldynamics.com.au