

i Capital International Value Fund ARSN 134 578 180



Quarterly Investment Report
For the period 1 July 2018 to 30 September 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. 1.169% 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 * 1.5375\% = \768.75
Administration Cost	$\$50,000.00 * 1.169\% = \$ 584.50$
Total Fee Per Year:	\$1,353.25

By 30 September 2018, the Fund has, from its inception in July 2009, delivered an annual compound return of 3.97%, 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 43.38%. Comparative benchmark figures are shown in [figure 2](#) and [table 3](#).

During the 30 June 2018 to 30 September 2018 quarter, the Fund returned -4.42% after fees. This compares with the MSCI ACWI Index and ASX200 in AUD (benchmark) return of 5.97% and 0.21%, resulting in relative performance of -10.38% and -4.63%. For the year ending 30 September 2018, the Fund returned -0.30% after fees which compares with the benchmark returns of 16.77% and 9.26%.

MARKET REVIEW AND OUTLOOK

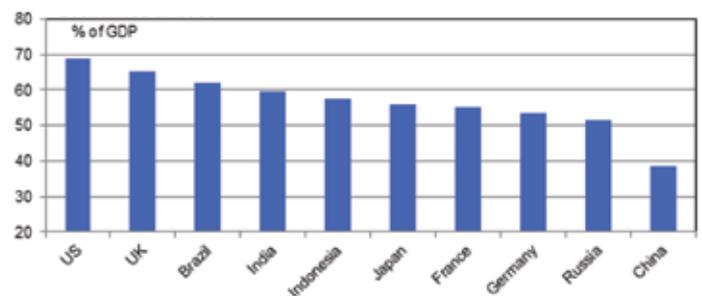
CHINA TO THE RESCUE AGAIN

In 3Q 2018, China’s economic growth rate of 6.5% registered its slowest pace since 4Q 1999. Many attributed the moderation to the US-China trade conflict, which actually does not make sense as the impact of the US tariffs was not yet felt in the said quarter. In fact, China’s economic GDP growth rate has been at a moderate pace of 6.5% to 7.5% for the last 5 years, long before any trade dispute occurred. Capital Dynamics (Australia) Ltd has said many times that China is the strongest major economy in the world, given her solid fundamentals and many policy options that are available to her.

In our last quarterly commentary, we wrote that China’s private consumption has been exploding and from 2007 to 2016, China’s private consumption was growing at nearly 9% annually, a rate that is 17.8 times faster than Japan’s and 5.6 times faster than America’s’. 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 soon. We also added that private consumption in China still has a lot of room to expand ([figure 1](#)). 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. The second source will come from an expansion in the absolute size of China’s economy.

China’s savings rate is 3.37 times greater than that of the United States with her household debt substantially lower than that of the United States. 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. China’s low unemployment

Figure 1 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.

rate has remained steady and wages continuing their steady rise. In 3Q 2018, China’s job-offers-to-applicants ratio was 1.25, meaning there are more job offers than applicants.

To boost private consumption in China, her consumers will receive a big boost from major tax cuts approved. On 31 Aug 2018, the Standing Committee of the National People’s Congress approved the amendments to China’s Individual Income Tax Law (IIT). Taking effect on 1 Jan 2019, the revamp to the IIT is the most significant in nearly 4 decades and is also the 7th revision since the IIT was introduced in 1980. The major changes to the IIT are as follows:

1. Streamlining four types of labour income into one consolidated income;
2. Increasing the minimum threshold for personal income tax exemption from RMB3,500 to RMB5,000 per month or RMB60,000 per annum;
3. Introducing new deductible items; and
4. Revising the tax rates and taxable income

brackets.

For the hundreds of millions of ordinary Chinese, their disposable income will receive a boost from the various tax deductions. The IIT will be implemented in two phases. Phase 1 took effect from 1 Oct 2018 whereby the four types of income (income from wages and salaries, income derived from remuneration for personal services, income derived from remuneration for manuscripts, income derived from royalties) are consolidated into one comprehensive income and subjected to standard progressive tax rates. As shown in **table 1**, although the revised IIT continues to have 7 tax brackets, the lower tax brackets have been expanded to allow more people to enjoy the lower tax rates. The RMB5,000 per month of tax-free thresholds also took effect from 1 Oct 2018.

Table 1 Table 1 China's Individual Income Tax Brackets for Monthly Taxable Income

Rate	Old Brackets (RMB)	New Brackets (RMB)
3%	≤ 1,500	≤ 3,000
10%	≤ 1,500	> 3,000 – 12,000
20%	≤ 1,500	> 12,000 – 25,000
25%	≤ 1,500	> 25,000 – 35,000
30%	≤ 1,500	> 35,000 – 55,000
35%	≤ 1,500	> 55,000 – 80,000
45%	≤ 1,500	> 80,000

Source: PWC

– see **table 2**. According to China's income tax department, this group of people accounted for about 96% of the total number of taxpayers in Oct 2018, based on the prevised IIT.

For the first time in China's IIT history, China has introduced special deduction items in addition to existing allowable deductions, such as basic pension insurance, basic medical insurance, unemployment insurance, and housing provident funds. These 'additional itemised deductions for specific expenditures' are:

Taxpayers can claim annual housing rental deduction, ranging from RMB9,600 in small cities to RMB12,000 and RMB14,400 respectively in medium-sized and big cities. In addition, the Chinese consumers will benefit from :

1. Taxpayers can claim RMB12,000 per year for each child's education expenses;
2. Taxpayers can claim RMB3,600 to RMB4,800 per year for continuing self-education expenditure;
3. Taxpayers can claim as much as RMB60,000 per year should their medical costs for critical illness exceed RMB15,000 after public health insurance coverage;
4. Taxpayers can claim RMB12,000 per year on their first home mortgage interests; and
5. Taxpayers can claim RMB24,000 per annum for supporting parents over the age of 60 and other statutory grandparents.

Table 2 Tax Savings*

Monthly Income (RMB)	Annual Income (RMB)	Annual tax payable based on old IIT (RMB)	Annual tax payable based on new IIT (RMB)	Tax savings (%)
5,000	60,000	140	0	100
10,000	120,000	3,876	1,001	74
15,000	180,000	12,948	5,484	58
20,000	240,000	24,120	10,152	58
50,000	600,000	114,036	88,780	22
80,000	960,000	231,552	205,396	11

* Assuming a worker in Beijing whose basic pension insurance, basic medical insurance, unemployment insurance, and housing providence funds are deducted based on 22.2% of monthly income, with an upper limit of RMB25,401.

Source: China Economic Weekly

The tax cuts will significantly benefit those whose monthly salaries are RMB20,000 or below, as they would enjoy tax savings of more than 50%

The above additional deductions will come into force in Phase Two, which takes effect from 1 Jan 2019. With these deductions, more people will be

exempted from personal income tax. It is likely that those who earn RMB10,000 per month or below will no longer need to pay any income tax. To put things in perspective, the average monthly salary of an urban worker in private enterprises was RMB3,813 in 2017, while that of non-private enterprises were RMB6,193.

The tax cuts as amended in the IIT are expected to provide a major boost to China's private consumption and economy in 2019 and beyond. China's reliance on exports will be further reduced. We are generally comfortable with the China-related stocks in your Fund's portfolio. In addition, your Fund has about 50% of its NAV in cash at the time of writing this commentary.

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

Best wishes,

A handwritten signature in Chinese characters, reading '陳鼎武' (Tan Teng Boo).

Tan Teng Boo
Capital Dynamics (Australia) Limited
ABN 53 129 846 260 AFSL 326283
27th December 2018

FUND PERFORMANCE 1

Figure 2 Total return (%)

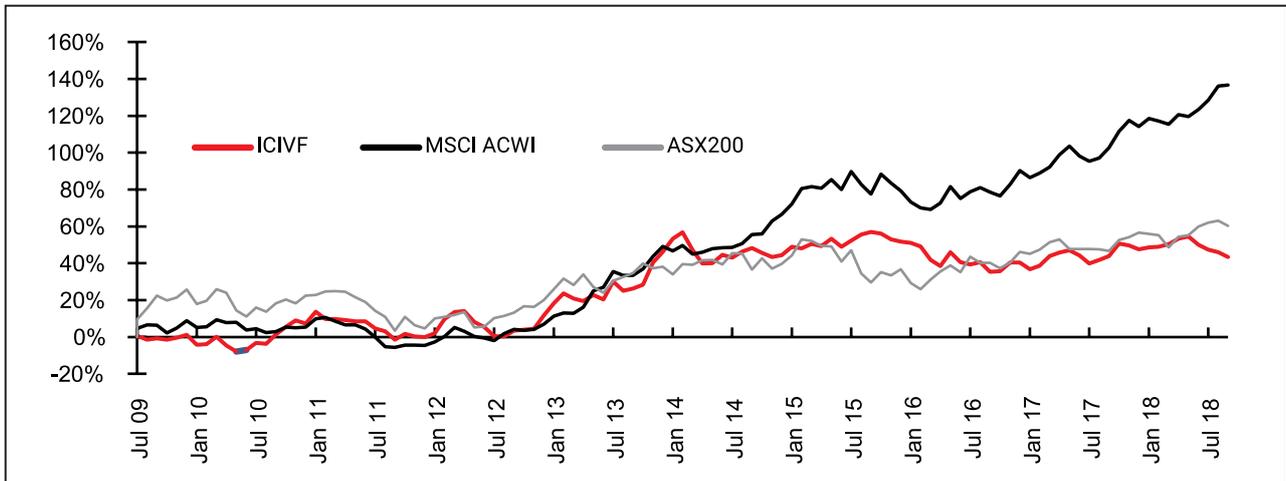


Table 3 Cumulative Total Return and Compound Return

	Cumulative Total Return (%)			Compound Return (%)
	1-Year-Return	2-Year-Return	Since Inception	Since Inception
ICIVF (AUD)	-0.30%	5.96%	43.38%	3.97%
MSCI ACWI (AUD)	16.77%	32.51%	136.66%	9.76%
ASX200 (AUD)	9.26%	14.22%	60.24%	5.23%

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 4 Top 2 performing stocks (in local currency)

	Quarter ending 30 Sep 2018 (% of change)
XINGHUA PORT HLDGS NPV TEMP	19.79%
KALBE FARMA IDR 10	13.11%

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 July 2018), and held till the end of the quarter (i.e. 30 September 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 Xinghua Port Holdings Ltd was bought on 21 Jul 2018 and sold on 30 Sep 2018, its performance is only measured over 21 Jul 2018 to 30 Sep 2018 and not over the full quarter. Similarly, if it was bought on 1 Jul 2018 and sold on 11 Sep 2018, its performance is measured over the period 1 Jul 2018 to 11 Sep 2018.

FUND PERFORMANCE 3

Table 5 shows the percentage gain or loss of each company held by your Fund as at 30 Sep 2018. 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 Sep 2018 (A\$)	% Change
AIA GROUP LTD	11.81	12.02	1.76%
ALIBABA GROUP HOLDING LTD	269.16	215.33	-20.00%
CHINA NEW TOWN DEV NPV	0.05	0.04	-26.12%
CONCORD NEW ENERGY	0.05	0.04	-20.78%
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD	0.95	1.03	8.87%
K2 ASSET MANAGEMENT HOLDINGS	0.28	0.11	-60.07%
KALBE FARMA IDR 10	0.16	0.13	-20.15%
OVERSEAS EDUCATION LTD	0.37	0.30	-17.24%
PAN-UNITED CORPORATION LIMITED	0.42	0.29	-31.15%
PICO FAR EAST HLDG LTD	0.52	0.52	0.20%
REXLOT HOLDINGS LTD	0.10	0.003	-97.47%
XINGHUA PORT HOLDINGS LTD	0.22	0.19	-15.83%
ZHENGZHOU YUTONG BUS CO LTD ORD SHS A	4.54	2.85	-37.31%

FUND PERFORMANCE 4

Table 6 shows the percentage gain or loss arising from currency movements as at 30 Sep 2018. 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 Sep 2018 (A\$)	% Change
AIA GROUP LTD	11.81	12.13	2.73%
ALIBABA GROUP HOLDING LTD	269.16	284.63	5.75%
CHINA NEW TOWN DEV NPV	0.05	0.05	5.10%
CONCORD NEW ENERGY	0.05	0.07	46.99%
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD	0.95	1.00	5.28%
K2 ASSET MANAGEMENT HOLDINGS	0.28	0.28	0.00%
KALBE FARMA IDR 10	0.16	0.16	-0.50%
OVERSEAS EDUCATION LTD	0.37	0.39	6.24%
PAN-UNITED CORPORATION LIMITED	0.42	0.44	5.13%
PICO FAR EAST HLDG LTD	0.52	0.54	4.67%
REXLOT HOLDINGS LTD	0.10	0.12	18.65%
XINGHUA PORT HOLDINGS LTD	0.22	0.24	8.52%
ZHENGZHOU YUTONG BUS CO LTD ORD SHS A	4.54	4.70	3.57%

PORTFOLIO INFORMATION

Table 7 Percentage of assets held as cash

	Cash (%)	Equities (%)
End of Jun 2018	39.24%	60.76%
End of Jul 2018	38.46%	61.54%
End of Aug 2018	38.75%	61.25%
End of Sep 2018	39.29%	60.71%

Table 8 Top 5 holdings as at end Sep 2018

	42.6%
PICO FAR EAST HLDG LTD	11.6%
ALIBABA GROUP HOLDING LTD	8.8%
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD	8.7%
ZHENGZHOU YUTONG BUS CO LTD ORD SHS A	7.6%
OVERSEAS EDUCATION LTD	5.9%

Table 9 Portfolio breakdown for equities by region as at end Sep 2018 (in AUD)

	100%
Hong Kong	53.84%
Australia	0.06%
Singapore	11.92%
China	12.52%
Indonesia	7.21%
United States	14.52%

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.

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.

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 2018 (“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





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INDEPENDENCE * INTELLIGENCE * INTEGRITY

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