i Capital International Value Fund ARSN 134 578 180

Q4

Quarterly Investment Report
For the period 1 April 2022 to 30 June 2022

CONTENTS

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*1.5375%=$768.75
Administration Cost	$50,000.00*0.9843%=$563.62
Total Fee Per Year:	$1332.37

PERFORMANCE REVIEW

By 30 June 2022, the Fund has, from its inception in July 2009, delivered an annual compound return of 1.27%, 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 17.90%. Comparative benchmark figures are shown in **figure 5** and **table 1**.

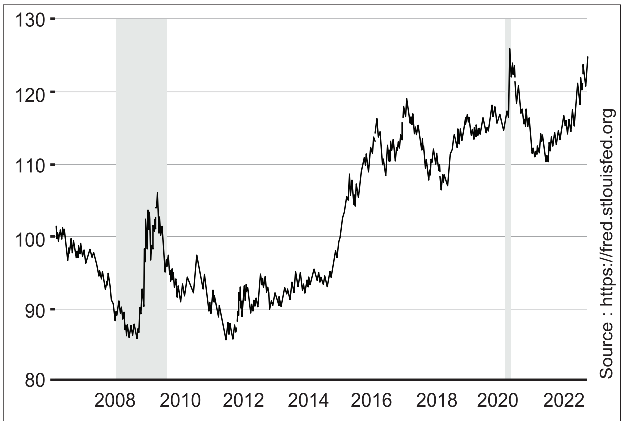
During the 1 April 2022 to 30 June 2022 quarter, the Fund returned 4.12% after fees. This compares with the MSCI ACWI Index and ASX200 in AUD (benchmark) return of -8.41% and -12.42%, resulting in relative performance of 12.53 percentage points and 16.54 percentage points. For the 1-year ending 30 June 2022, the Fund returned -23.68% after fees which compares with the benchmark returns of -9.51% and -10.19%.

MARKET REVIEW AND OUTLOOK

A Bumpy Road Ahead

Over the last two to three years, the list of events that have major implications have grown longer and longer. The Covid-19 pandemic, the hostile foreign policy of the United States against China, the Ukrainian Crisis, unprecedented extreme weather climate, a strong US Dollar **(figure 1)**, slumping US equity markets, an inflation crisis, especially in the United States, and a belated but aggressive monetary tightening, again especially in the United States.

Figure 1 Nominal Broad US Dollar Index



Of all these events, the US inflation crisis and concomitant monetary tightening deserves special attention. I previously warned that *"A major "side-effect" of these very aggressive antibiotic-type of fiscal and monetary policies is soaring prices."* These two events have a substantial impact on the NYSE and NASDAQ, the two largest stock markets in the world.

As I wrote in my May 2022 Commentary, the US Federal Reserve had clearly underestimated the inflationary effects of its pre-pandemic ultra-low interest rates combined with the unprecedented fiscal stimulus and monetary easing in response to the 2020 pandemic. The monetary floodgate should have been turned off by the US Federal Reserve much earlier. As a result, the Federal Reserve now has to race ahead in order to catch up. In a belated recognition of how behind they are, in his annual Jackson Hole policy speech, Jerome Powell gave an unusually short, clear and an unambiguous message : the US Federal Reserve will *"use our tools forcefully"* to attack inflation that is still running near its highest level in more than 40 years. Powell added that higher interest rates likely will persist *"for some time. The historical record cautions strongly against prematurely loosening policy."*

Let us quote some key extracts from Powell's speech.

> *At past Jackson Hole conferences, I have discussed broad topics such as the ever-changing structure of the economy and the challenges of conducting monetary policy under high uncertainty. Today, <u>my remarks will be shorter, my focus narrower, and my message more direct</u> (emphasis is ours).*
>
> *The Federal Open Market Committee's (FOMC) overarching focus right now is to bring inflation back down to our 2 percent goal. Price stability is the responsibility of the Federal Reserve and serves as the bedrock of our economy. Without price stability, the economy does not work for anyone. In particular, without price stability, we will not achieve a sustained period of strong labor market conditions that benefit all. The burdens of high inflation fall heaviest on those who are least able to bear them.*
>
> *Restoring price stability will take some time and requires <u>using our tools forcefully to bring demand and supply into better balance.</u> Reducing inflation is likely to <u>require a sustained period of below-trend growth.</u> Moreover, there will very likely be some softening of labor market conditions. While higher interest rates, slower growth, and softer labor market conditions will bring down inflation, they will <u>also bring some pain to households and businesses. These</u>*

<u>are the unfortunate costs of reducing inflation.</u> But a failure to restore price stability would mean far greater pain.

<u>The labor market is particularly strong, but it is clearly out of balance, with demand for workers substantially exceeding the supply of available workers.</u> Inflation is running well above 2 percent, and high inflation has continued to spread through the economy.
It is also true, in my view, that the current high inflation in the United States is the product of strong demand and constrained supply, and that <u>the Fed's tools work principally on aggregate demand.</u>
As former Chairman Paul Volcker put it at the height of the Great Inflation in 1979, "Inflation feeds in part on itself, so part of the job of returning to a more stable and more productive economy must be to break the grip of inflationary expectations."
The longer the current bout of high inflation continues, the greater the chance that expectations of higher inflation will become entrenched.
The successful Volcker disinflation in the early 1980s followed multiple failed attempts to lower inflation over the previous 15 years. A lengthy period of very restrictive monetary policy was ultimately needed to stem the high inflation and start the process of getting inflation down to the low and stable levels that were the norm until the spring of last year. Our aim is to avoid that outcome by acting with resolve now.

<u>Source : https://www.federalreserve.gov/newsevents/speech/powell20220826a.htm</u>

Powell's Jackson Hole address provided a vital policy backdrop for the US economy and financial markets. Then came the shocking US inflation report for August. When the said shocking report was released, the NYSE and NASDAQ plunged and the fallout from this worse-than-expected inflation report is expected to continue. Let me quickly review the US August inflation report and from there try to figure out what will happen to the US economy and equity markets in the medium term.

The key thing about the said inflation report is that the surging US inflation is no longer just about fuel costs or supply disruption anymore. Not too long ago, the inflation narrative among the Federal Reserve and the incompetent Biden administration was that it was essentially food and fuel driven and hence a transitory problem. Once supply chain disruptions eased and gas prices stopped rising, price pressures across the US economy would ease, which was why US monetary tightening was undertaken only in a belated and expensive manner. Even though the signs were everywhere that the US inflation problem is an everywhere problem, it took the said shocking inflation report to knock some harsh realities into the brains of complacent investors.

The August inflation number is essentially saying that the soaring US inflation problem is a result of a situation where price increases have broadened across the entire US economy and is now at risk of establishing a vicious wage-price spiral. What was even more worrying is that the consumer price index (CPI) excluding food and energy prices, the core inflation, jumped 0.6% in August, much higher than market expectations, bringing the year-on-year cost-of-living increases up by 6.3%. The headline CPI rose 0.1% monthly, as opposed to a decline expectation, and a still robust 8.3% jump on a 12-month basis. No less important, the source of the increase was not gasoline price, which actually tumbled 10.6% for the month. The breadth of strong price increases, from new vehicles to medical care services to rent growth was the most disconcerting aspect of this US inflation report.

The prices for new vehicles and medical care services both increased 0.8% for the month. Shelter costs, which include rents and various other housing-related expenses, make up nearly a third of the CPI weighting and climbed 0.7% for the month. The food at home index, a good proxy for grocery prices, has increased 13.5% over the past year, the largest such rise since Mar 1979. For medical care services, the monthly increase of 0.8% is the fastest monthly gain since Oct 2019.

At the same time, the US labour market remains very tight **(figure 2)**. Both the unemployment rate and employment rate for people ages 25-54 have been little changed; although the quits rate has fallen from its high in Nov 2021, it still remains much higher than the pre-pandemic level. Openings-based measures remain extremely tight. Overall, in Jul, there were 2.0 job openings for every unemployed person.

Nominal average hourly earnings adjusted for industry-level composition changes grew at an annualised rate of 3.2% in Aug. However, the annualised 4.7% change over the last three months

Figure 2 Labour Market Indicators

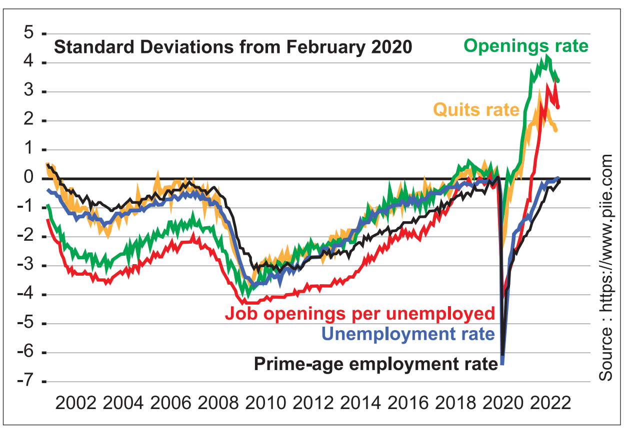
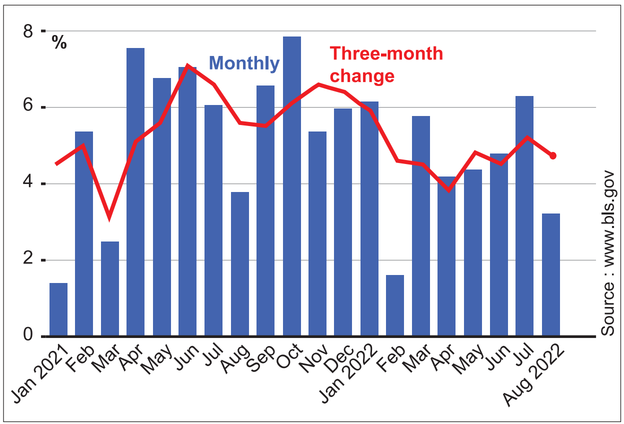


Figure 3 Percent Change in Average Hourly Earnings in All Private Industries, Annual Rate



is much higher and similar to the pace earlier in the year **(figure 3)**. While this level of nominal wage growth is much lower than the 6.0% annual rate in the second half of 2021, it is still faster than normal. In the two years before the pandemic, this wage measure grew at a 3.1% annual rate.

An excellent piece of evidence of the tight US labour market is the threat of a railway strike, which will result in a debilitating shutdown of the US railroads. The National Railway Labor Conference, which is negotiating on behalf of railroad management, confirmed that nine of the 12 unions involved in the contract talks have now come to a tentative agreement based on the Presidential Emergency Board's recommendations. However, the two unions that together make up roughly half of the rank-and-file workers covered under the contract, that is, the International Association of Sheet Metal, Air, Rail and Transportation Workers/ Transportation Division, and the Brotherhood of Locomotive Engineers and Trainmen, have yet to settle with management. Whether there is eventually an agreement or not is not the key message to take away from the strike; more importantly, the strike reflects not only a very tight US labour market but a significant shift in bargaining strength from employers towards labour. It reflects the beginning of a wage-price spiral taking hold in the US economy.

Other than higher wages from a tight US labour market, higher oil price from a complicated global demand and supply situation cannot be ruled out. Given the multi-facet complexities surrounding the global economy, energy prices staying low is certainly not a given. From complicated geopolitics issues like the Ukrainian crisis to a newly strengthened OPEC+ organisation to unprecedented climate change to a global economy that is not synchronised, energy prices have plenty of room to rise from here. Fundamentally, there are powerful factors pushing crude oil price higher as there are factors pushing it down as well. Its next direction is dependent not only on the strength of the bullish versus bearish factors but also on the timing of these factors unfolding – in other words, the sequence on how these factors unfolds. For example, will the US and EU enter a recession first before China's economy regain its growth momentum ? Or will the sequence be the reverse ? With so much inflation pressure already in the pipeline, higher energy prices will spell disaster for the US economy and financial markets.

To the Federal Reserve, 2% inflation represents price stability. The million-dollar question is, how do they get there without breaking the US economy and the NYSE and NASDAQ ? The path to 2% is going to be very difficult and painful. This will send the NYSE, NASDAQ, Frankfurt, and other markets crashing, pulling their economies into a serious recession.

In the coming September FOMC meeting, a rate hike of 75-100 basis points looks increasingly likely, and any rate reduction in the 1st half of 2023 is extremely slim. What is more worrying is that monetary tightening alone may not be able to bring the soaring US inflation down and could even worsen the inflation problem. Why?

In the research paper, "Inflation as a Fiscal Limit" written by Francesco Bianchi and Leonardo Melosi (published by Chicago's Federal Reserve), they argued that the answer to these important questions hinges predominantly on the fiscal authority's credibility in stabilising a large fiscal imbalance. The central bank's anti-inflation reputation, albeit important, is not decisive.

They argued :

> *"Trend inflation is fully controlled by the monetary authority only when public debt can be successfully stabilized by credible future fiscal plans. <u>When the fiscal authority is not perceived as fully responsible for covering the existing fiscal imbalances, the private sector expects that inflation will rise to ensure sustainability of national debt. As a result, a large fiscal imbalance combined with a weakening fiscal credibility may lead trend inflation to drift away from the long-run target chosen by the monetary authority</u> (my emphasis). This reasoning configures a natural and interesting limit on fiscal policy. This limit takes the form of incompatibility between lax fiscal policy and a monetary framework aimed at achieving a low and stable inflation environment. When fiscal imbalances are large and fiscal credibility wanes, it may become increasingly harder for the monetary authority to stabilize inflation around its desired target. If the monetary authority increases rates*

in response to high inflation, the economy enters a recession, which increases the debt-to-GDP ratio. If the monetary tightening is not supported by the expectation of appropriate fiscal adjustments, the deterioration of fiscal imbalances leads to even higher inflationary pressure. As a result, a vicious circle of rising nominal interest rates, rising inflation, economic stagnation, and increasing debt would arise."

(Source : https://www.chicagofed.org/publications/working-papers/2022/2022-37).

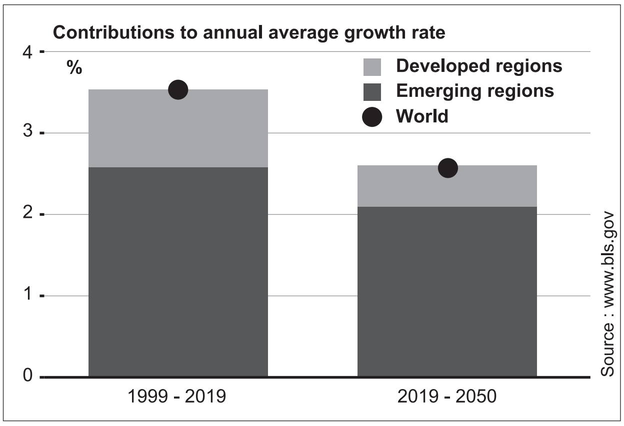
The authors asserted that approximately half of the recent increase in US inflation has fiscal roots, a point that Capital Dynamics (Australia) Ltd has also been making for quite a while and a responsibility that the incompetent Joe Biden administration continues to shirk. As we have previously written, the panicky Biden and Trump administrations went on a fiscal spending spree to support the pandemic-stricken US economy, and this led to the US economy overheating like an over-roasted turkey.

At the same time, according to a research study by Laurence Ball (Johns Hopkins economics professor), Daniel Leigh (IMF economist), and Prachi Mishra (IMF economist), the US unemployment rate need to reach as high as 7.5%, double its current level of 3.7%, to end the US high inflation problem. That would entail job losses of 6 million Americans and only under "quite optimistic assumptions" about the behaviour of the US job market and inflation would the Federal Reserve be able to tame the high inflation with a smaller decline in US employment. *"If either the labor market doesn't behave, or expectations don't behave, the small increase in unemployment the Fed projects won't be enough"*, wrote the 3 economic researchers.

On the other hand, by 2023, I expect China's well and wisely managed economy will once again be pulling the global economy out of a messy contraction caused by the US, the UK and EU economies. The current soft spot in China is due to the sporadic Covid lockdowns, which are expected to end any time soon. Over her very long history, China has experienced 880 epidemic years from 220 BCE to 1949 CE. Each time, China has emerged successful. This time, China will repeat the same success. In fact, I am of the view that China is already exiting her dynamic zero Covid-19 policy, not in an overhyped politics-driven manner but in a step-by-step practical manner. Let me reiterate a very key point - the major headwind facing the Chinese economy, the Covid-19 pandemic, is closer to its end than to a start. For me, the best confirmation that China is already exiting her dynamic zero Covid strategy is the overseas trip by president Xi Jinping last week to Kazakhstan and Uzbekistan. This is his first overseas trip since February 2020 with his trip to Myanmar in January 2020 his previous overseas trip. His trip is to signal that China is ready to move on from her dynamic zero Covid strategy, although the Western media chose to misleadingly portray it in a different manner. China's still very robust economy is set to bounce back in 2023. Despite the sporadic lockdowns, China's economy is actually in a much better shape than the US.

From 1999 to 2019, led by China, the developing countries contributed the most to global GDP growth. From 2019 to 2050, a recent projection by BP shows a repeat of this paradigm-shifting trend, once again to be led by China's robust economy **(figure 4)**.

Figure 4 Global GDP Growth



As investors face a tumultuous NYSE and NASDAQ in the months ahead, the *i* Capital International Value Fund with a substantial exposure to quality Chinese stocks is well-positioned to weather such global turbulence and emerge stronger.

Once again, we strongly encourage investors to take advantage of this rare opportunity to invest more and benefit from dollar cost averaging while valuations remain irrationally depressed. At the time of writing this commentary, cash forms less than 9% of your Fund's NAV. The NAV of *i* Capital International Value Fund can be viewed at either www.funds.icapital.biz or www.capitaldynamics.com.au.

Best wishes.

陳鼎武

Tan Teng Boo
Managing Director
Capital Dynamics (Australia) Limited
AFSL 326283
19th September 2022

FUND PERFORMANCE 1

Figure 5 Total return (%)

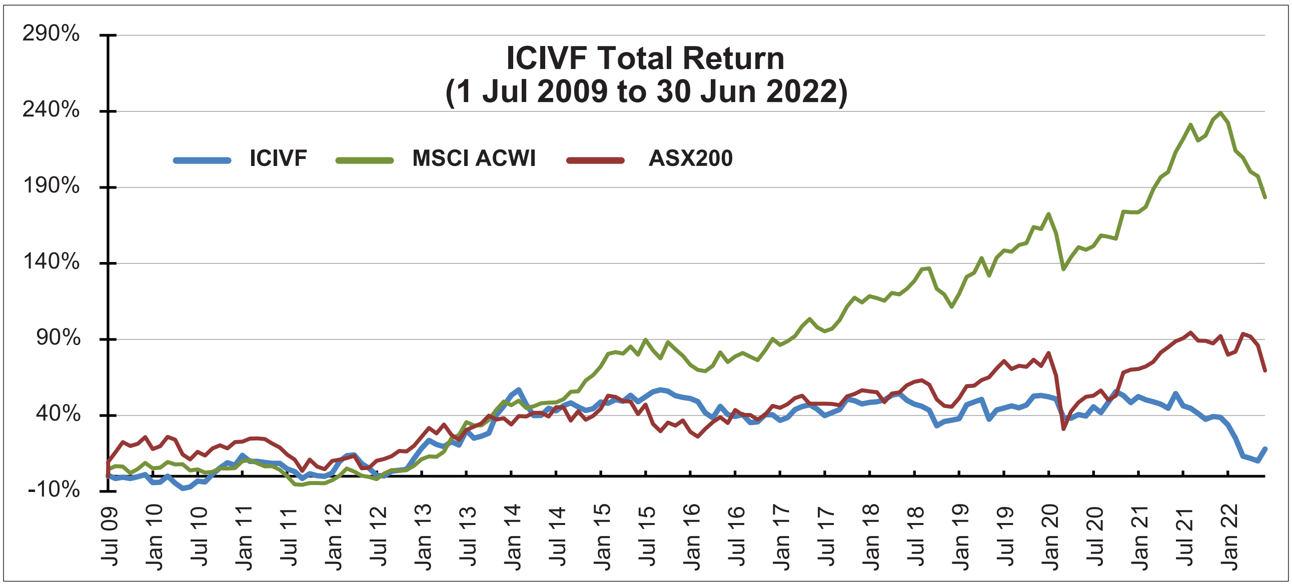


Table 1 Cumulative Total Return and Compound Return

	Cumulative Total Return (%)			Compound Return (%)
	1-Year-Return	2-Year-Return	Since Inception	Since Inception
ICIVF (AUD)	-23.68%	-15.56%	17.90%	1.27%
MSCI ACWI (AUD)	-9.51%	13.83%	183.47%	8.34%
ASX200 (AUD)	-10.19%	11.36%	69.54%	4.14%

FUND PERFORMANCE 2

Table 2 Top 3 performing stocks (current holdings only) (in local currency)

	Quarter ending 30 June 2022 (% of change)
Concord New Energy	6.85%
Alibaba Group Holding Ltd	4.49%
Guangdong Provincial Expressway Development Co Ltd	3.04%

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 2022), and held till the end of the quarter (i.e. 30 June 2022). 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 21 April 2022 and sold on 30 June 2022, its performance is only measured over 21 April 2022 to 30 June 2022and not over the full quarter. Similarly, if it was bought on 1 April 2022 and sold on 10 June 2022, its performance is measured over the period 1 April 2022 to 10 June 2022.

FUND PERFORMANCE 3

Table 3 shows the percentage gain or loss of each company held by your Fund as at 30 June 2022. This table assumes no impact from currency movements or constant exchange rates.

Table 3 Percentage gain or loss arising from stock price changes.

Security	Average Cost (A$)	Price June 2022 (A$)	% Change
Alibaba Group Holding Ltd	264.18	151.62	-42.61%
Concord New Energy	0.05	0.10	95.11%
Guangdong Provincial Expressway Development Co Ltd	0.95	1.02	8.16%
Hans Laser Technology Industry Group Co Ltd	9.63	7.09	-26.35%
K2 Asset Management Holdings	0.28	0.05	-81.85%
Pacific Bioscience of California Inc	36.80	5.70	-84.50%
Pico Far East Hldg Ltd	0.52	0.19	-63.56%
Ping An Insurance Group of China Limited	15.84	8.84	-44.22%
Rexlot Holdings Ltd	0.10	0.00	-96.88%
United Plantations Bhd	5.07	4.51	-11.03%
Wilmar International Ltd	4.72	4.03	-14.66%

Table 4 shows the percentage gain or loss arising from currency movements as at 30 June 2022. This table assumes no change in stock prices or constant stock prices.

Table 4 Percentage gain or loss arising from currency movements

Security	Average Cost (A$)	Price June 2022 (A$)	% Change
Alibaba Group Holding Ltd	264.18	288.05	9.04%
Concord New Energy	0.05	0.07	46.18%
Guangdong Provincial Expressway Development Co Ltd	0.95	1.05	10.47%
Hans Laser Technology Industry Group Co Ltd	9.63	9.77	1.52%
K2 Asset Management Holdings	0.28	0.28	0.00%
Pacific Bioscience of California Inc	36.80	41.46	12.67%
Pico Far East Hldg Ltd	0.52	0.57	9.82%
Ping An Insurance Group of China Limited	15.84	17.73	11.91%
Rexlot Holdings Ltd	0.10	0.12	24.49%
United Plantations Bhd	5.07	5.19	2.43%
Wilmar International Ltd	4.72	4.95	4.81%

PORTFOLIO INFORMATION

Table 5 Percentage of assets held as cash

	Cash (%)	Equities (%)
End of Mar 22	7.60%	92.40%
End of Apr 22	5.98%	94.02%
End of May 22	5.75%	94.25%
End of Jun 22	5.46%	94.54%

Table 6 Top 5 holdings as at 30 June 2022

	68.82%
Concord New Energy	20.53%
Alibaba Group Holding Ltd	14.87%
Guangdong Provincial Expressway Development Co Ltd	14.12%
Hans Laser Technology Industry Group Co Ltd	10.07%
United Plantations Bhd	9.23%

Table 7 Portfolio breakdown for equities by region as at 30 June 2022 (in AUD)

	100.00%
Hong Kong	53.25%
China	10.65%
United States	18.11%
Malaysia	9.77%
Singapore	8.20%
Australia	0.03%

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.

GLOSSARY

(1) Monetary Policy

Monetary policy is a set of actions that can be undertaken by a nation's central bank to control the overall money supply, rate of inflation and achieve sustainable economic growth.

(2) Federal Open Market Committee (FOMC)

The term Federal Open Market Committee (FOMC) refers to the branch of the Federal Reserve System (FRS) that determines the direction of monetary policy in the United States by directing open market operations (OMOs).

(3) Consumer Price Index (CPI)

The Consumer Price Index (CPI) measures the monthly change in prices paid by consumers. The CPI is one of the most popular measures of inflation and deflation.

(4) OPEC+ organization

Organization of the Petroleum Exporting Countries (OPEC) refers to a group of 13 of the world's major oil-exporting nations.

(5) Debt-to-GDP ratio

The debt-to-GDP ratio is the metric comparing a country's public debt to its gross domestic product (GDP).

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.

NOTES

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INDEPENDENCE * INTELLIGENCE * INTEGRITY

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