

Quarterly Investment Report
For the period 1 July 2015 to 30 September 2015

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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

Buy / Sell Spread

Nil

Management Fee

1.5375% p.a.

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

Inception Date

1 Jul 2009

Minimum Investment (AUD)

\$20,000

Additional Investment (AUD)

\$2,000

Income Distribution

Annually (if any)

PERFORMANCE REVIEW

By 30 September 2015, the Fund has, from its inception in July 2009, delivered an annual compound return of 7.47%, 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 56.90%. Comparative benchmark figures are shown in **Figure 2** and **Table 1**.

During the 1 July 2015 to 30 September 2015 quarter, the Fund returned 5.28% after fees. This compares with the MSCI ACWI Index and ASX200 in AUD (benchmark) return of -1.37% and -8.01%, resulting in relative performance of 6.65% and 13.30 %. For the year ending 30 September 2015, the Fund returned 5.79% after fees which compares with the benchmark returns of 14.08% and -5.12%.

MARKET REVIEW AND OUTLOOK

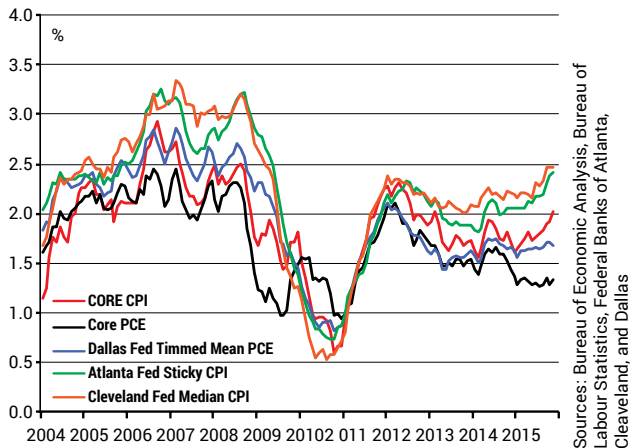
As we write this commentary, crude oil price, West Texas Intermediate basis, has broken the US\$33 per barrel mark. At the same time, the US labour market is on a tear. The December 2015 jobs report showed 292, 000 new jobs created with the figures for November and October revised upwards by 50,000 jobs. From an inflation standpoint, these two numbers are on the opposing sides but being able to figure where US inflation is heading is vital as it would enable one to better anticipate US monetary policy. Whether the NYSE, NASDAQ and other stock markets rise or fall in the coming months is to a large extent influenced by the direction of US interest rate. So, what should investors make out of these conflicting developments?

Capital Dynamics (Australia) Ltd has been saying for quite some time now that the US economy has already normalised and that it was high time for US monetary policy to normalise too. In raising the federal funds target rate by a measly 25 basis points in

December 2015, the Federal Open Market Committee (FOMC) finally garnered enough courage to admit that the US economy has already normalised. Thank you. In fact, it has normalised to such an extent that it is already ageing. Does this then make it right for the FOMC to hike interest rate ?

First, by delaying the measly rate hike for so long, the FOMC had no choice. The only possible reason left for the FOMC not to raise interest rate was the apparently subdued inflation rate. The headline consumer price index (CPI) in November was unchanged from the previous month. Excluding the food and energy components, the core CPI edged up by 0.2% for the third consecutive month. Year-on-year, the headline CPI rose by 0.5%, the largest increase since December 2014, while the core CPI gained 2.0%, the strongest since May 2014. As a counter argument, the doves would point to the falling rate of the core personal consumption expenditure (PCE), a favourite inflation indicator of

Figure 1 Core Inflation Gauges Range from Steady to Accelerating (Jan 2004 – Nov 2015)



the Federal Reserve. Is this prudent and right? Is the core PCE measuring core inflation correctly? What if the core PCE has missed out measuring the real inflationary pressures? Look at **Figure 1**.

Besides the usual core PCE and CPI, the interesting **Figure 1** shows 3 alternate measures of inflation. All the 3 alternate measures of inflation are expanding at a faster pace than the core PCE and core CPI and they

are all pointing upwards. If these 3 alternate measures are more reliable, then, they confirm the long-held view of Capital Dynamics (Australia) Ltd that the FOMC is way behind the monetary tightening curve and that rate hike in 2016 would have to be forcibly quicker than anticipated or desired. This view is reinforced by the strong December job report, which surpassed all expectations. For the NYSE, this is not only worrying, it is scary. From its current high level of valuation, a fall can be devastating.

At the time of writing this commentary, the *i* Capital International Value Fund still has about 80% of its NAV in cash, held mainly in US\$ and HK\$. The NAV of the *i* Capital International Value Fund can be viewed at either www.capitaldynamics.com.au or www.funds.icapital.biz.

Yours sincerely,

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10 January 2016

FUND PERFORMANCE 1

Figure 2 ICIVF Total Return (1 Jul 2009 to 30 Sep 2015)

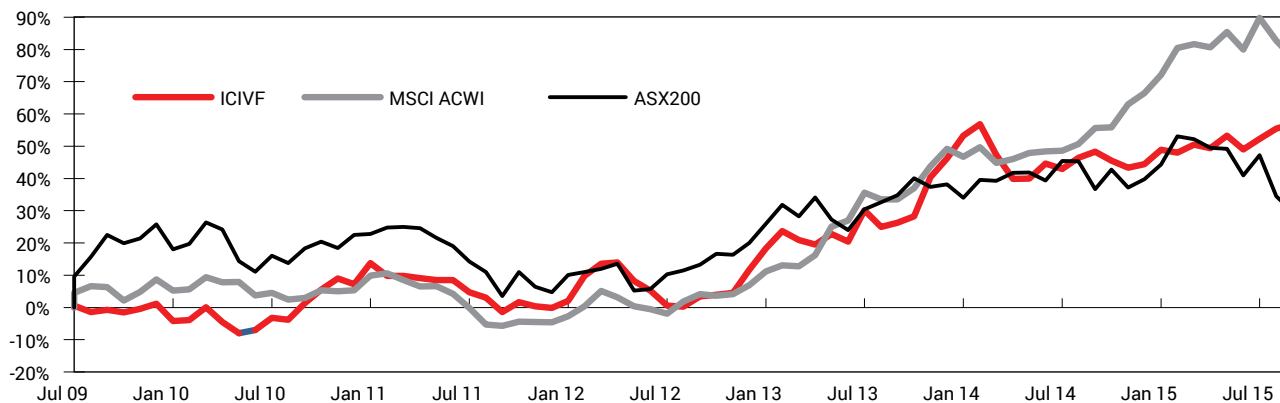


Table 1 Cumulative Total return and Compound return

	Cumulative Total Return (%)			Compound Return (%)
	1-Year-Return	2-Year-Return	Since Inception	Since Inception
ICIVF (AUD)	5.79%	24.25%	56.90%	7.47%
MSCI ACWI (AUD)	14.08%	33.00%	77.51%	9.61%
ASX200 (AUD)	-5.12%	-3.78%	29.62%	4.24%

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.

Table 2 Top 3 performing stocks (in local currency)

	Quarter ending 30 Sep 2015 (% of change)
Clover Corporation Limited	31.25%
Rexlot Holdings Ltd	0.0%
QBE Insurance	-5.71%

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 July 2015), and held till the end of the quarter (i.e. 30 September 2015). 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 Clover Corporation Limited was bought on 21 July 2015 and sold on 30 September 2015, its performance is only measured over 21 July 2015 to 30 September 2015 and not over the full quarter. Similarly, if it was bought on 1 July 2015 and sold on 11 September 2015, its performance is measured over the period 1 July 2015 to 11 September 2015.

FUND PERFORMANCE 3

Table 3 shows the percentage gain or loss of each company held by your Fund as at 30 September 2015. 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 Sep 2015 (A\$)	% Change
Clover Corporation Limited	0.30	0.21	-30.10%
Concord New Energy	0.05	0.06	30.77%
Dah Chong Hong	1.02	0.39	-62.16%
Mermaid Maritime PCL	0.58	0.12	-78.56%
QBE Insurance	16.19	12.89	-20.40%
Rexlot Holdings Ltd	0.10	0.07	-34.57%

Table 4 shows the percentage gain or loss arising from currency movements as at 30 September 2015. 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 Sep 2015 (A\$)	% Change
Clover Corporation Limited	0.30	0.30	0.00%
Concord New Energy	0.05	0.07	52.91%
Dah Chong Hong	1.02	1.51	48.24%
Mermaid Maritime PCL	0.58	0.71	21.57%
QBE Insurance	16.19	16.19	0.00%
Rexlot Holdings Ltd	0.10	0.12	23.43%

PORTFOLIO INFORMATION

Table 5 Percentage of assets held as cash

	Cash (%)	Equities (%)
End of Dec 2014	77.38%	22.62%
End of Mar 2015	80.90%	19.10%
End of Jun 2015	80.72%	19.28%
End of Sep 2015	83.37%	16.63%

Table 6 Top 5 holdings as at end September 2015

	16.3%
Concord New Energy	6.2%
Rexlot Holdings Ltd	4.5%
QBE Insurance	3.3%
Mermaid Maritime PCL	1.6%
Dah Chong Hong	0.7%

Table 7 Portfolio breakdown for equities by region as at end September 2015 (in AUD)

	100%
Hong Kong	69%
Australia	22%
Singapore	9%

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

West Texas Intermediate (WTI)

A popular benchmark oil price. WTI is the underlying asset in the New York Mercantile Exchange's oil futures contract. This type of oil has a low sulphur content (sweet).

Federal Open Market Committee (FOMC)

The branch of the Federal Reserve Board that determines the direction of monetary policy. The FOMC is composed of 12 members- The seven members of the Board of Governors, and five of the 12 Reserve Bank presidents. The president of the Federal Reserve Bank of New York serves continuously, while the presidents of the other reserve banks rotate their service of one-year terms.

Consumer Price Index (CPI)

CPI measures changes in the price level of a market basket of consumer goods and services purchased by households.

Personal Consumption Expenditures (PCE)

The Core PCE price index measures the prices paid by consumers for goods and services without the volatility caused by movements in food and energy prices to reveal underlying inflation trends.

MSCI Indices

Varying indices that are designed to measure and track equity market performance across developed, emerging and frontier Markets. MSCI Indices are used as a reference to determine how the fund performs in relation to the total market opportunity it invests in.

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 16 May 2014 (“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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BY Capital Dynamics

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