

i Capital International Value Fund ARSN 134 578 180



Quarterly Investment Report
For the period 1 July 2016 to 30 September 2016

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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)

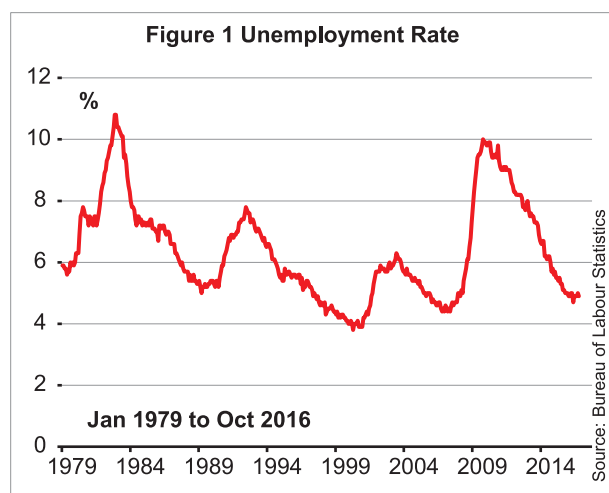
PERFORMANCE REVIEW

By 30 September 2016, the Fund has, from its inception in July 2009, delivered an annual compound return of 4.26%, 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 35.32%. Comparative benchmark figures are shown in figure 1 and table 1.

MARKET REVIEW AND OUTLOOK

The NYSE and NASDAQ have been reported to be making new highs. There seems to be an air of euphoria over a rally that was supposed to have belonged to Hillary Clinton. Now, comparisons are being made with Ronald Reagan, who became US president in Jan 1981 and whose pro-business, low tax and pro-growth policies marked a turning point to the decade of pathetic returns from America's stock market in the Nineteen Seventies. At Capital Dynamics, we are amused, bemused and worried.

The US unemployment rate since 1980 is shown in figure 1. When Reagan went into the White House, the already high rate worsened further and the US unemployment rate only peaked at 10.8%. In contrast to Reagan's experience in 1981, the incoming 45th US president is inheriting a healthy and robust US economy – just ask Warren Buffett. The unemployment rate has been dropping continuously for the last 6 years and is now only at 4.6%. In 1981, there was plenty of room for economic growth to take place and for unemployment to fall without igniting the inflationary fires. Now, the opposite is true – unless one is willing to tolerate a rise in US inflation, there is not much room for faster US economic growth and for US unemployment to fall, especially if the billionaire property developer implements a set of contradictory socio-economic



During the 1 July 2016 to 30 September 2016 quarter, the Fund returned -3.75% after fees. This compares with the MSCI ACWI Index and ASX200 in AUD (benchmark) return of 1.97% and 3.85%, resulting in relative performance of -5.71% and -7.60%. For the year ending 30 September 2016, the Fund returned -13.75% after fees which compares with the benchmark returns of 0.61% and 8.23%.

policies like an aggressive fiscal stimulus in the form of lower taxes and substantial government spending, higher tariffs and reduced supply of lower wage foreign workers.

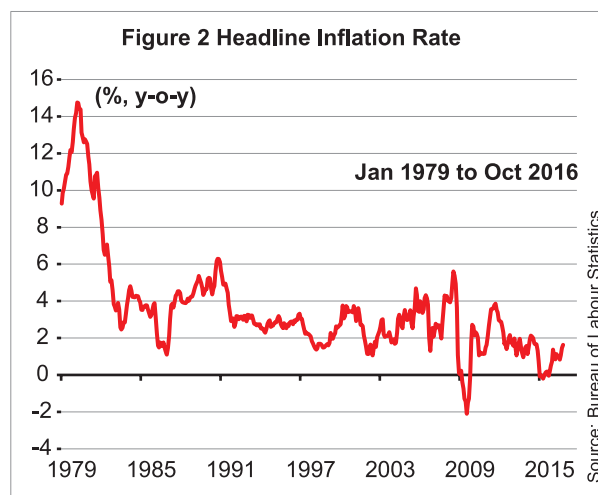
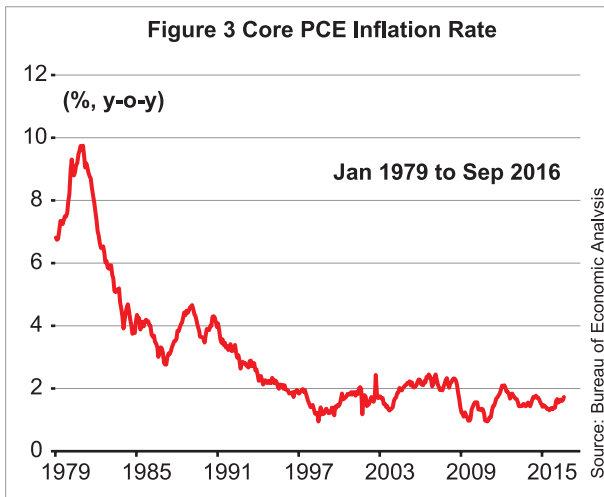


Figure 2 captures the headline US inflation rate. Again, the pricing environment now and then is as different as black and white. When Reagan first ruled the US in 1981, the consumer price index was at an unbelievable 11.8%, compared with 1.6% now. In 1981, thanks to inflation fighter Paul Volcker, the Argentina-like US inflation rate was humbled and went on tumbling for years on end. Now, after years of suffering, American wages are rising at a faster pace and their demagogue is promising to bring all the high wage jobs back to America (whilst cutting the supply of workers). He has also promised to make the price of goods higher by imposing tariffs on most of America's major trading partners. In 1981, there was plenty of room for inflation to fall; now, even a simple reversion to the mean would see US inflation rate climbing higher even without the firmer oil price arising from the latest OPEC and Russia oil output cut.

Figure 3 captures the core PCE inflation rate. In Jan 1981, as Reagan began to settle in the corridors of power, core PCE prices were rising at a horrifying



rate of 9.7%. As Volcker fought tooth and nail with the secular inflation problem, the US economy was about to experience the Great Moderation. Now, as the 70-year old novice president takes the helm, core US PCE inflation rate has been trending around 1.6 to 1.8% and rising. Is the US economy on the cusp of a major turning point in core inflation? Reagan got to enjoy years of falling inflation. Are we now about to see years of rising inflation instead? The Federal Reserve after 2008 has been obsessed with deflation. Capital Dynamics (Australia) Ltd has previously argued that these worries were excessive and not justified by facts. Now, in its 8th year of recovery, US domestic demand is about to get even stronger as US public spending joins robust private spending in boosting US aggregate domestic demand at a wrong time. Wages have been rising but productivity has not. In 1981, there was plenty of room for core inflation to fall; now, even a simple reversion to the mean would see core US inflation rate climbing higher.

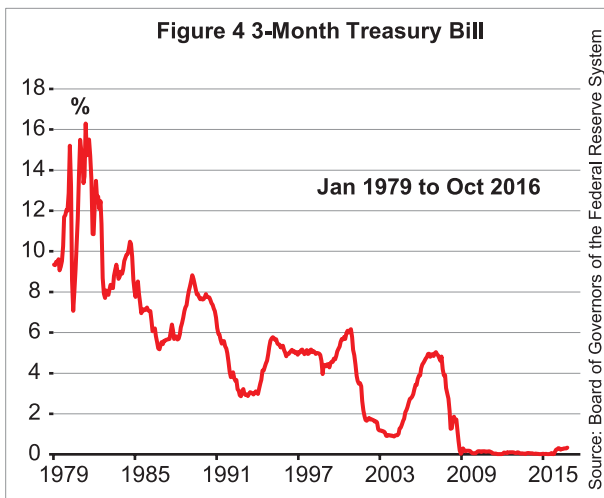


Figure 4 shows the rate of the 3-month US Treasury Bills. In Jan 1981, Ronald Reagan had the tailwind of the 3-month US Treasury Bills dropping from 15%.

And thanks to Paul Volcker, as US inflation dropped year after year, the yield of the 3-month US Treasury Bills kept on declining year after year. Now, thanks to Ben Bernanke, Janet Yellen and her dovish gang, the inexperienced 45th US president will have to face the headwind of US interest rate normalising from near zero. That is a lot of normalising to do, especially for an economy that is about to get overheated. Janet Yellen has said she will stay on until her term ends in Feb 2018.

When China's economy was expanding at a rate of 9, 10 or 11%, many were fond of saying that stock market returns do not correlate with GDP growth. In short, do not expect China's stock market to show the same high rate of return as China's GDP. Although the NYSE and NASDAQ are trading at all-time highs now, is the United States about to discover this apparent truism?

In Jan 1981, the Shiller CAPE ratio was trading at an indecently attractive ratio of around 9 times. Now, on 27 Nov 2016, the same CAPE ratio is trading at an obscenely ugly level – 27.3 times. And investors are now expecting it to get even more obscene by chasing US stock prices higher at a time of rising inflation and interest rates. Will investors in 2017 have to discover that what they said about China's economy and stock market also applies to the USA?

The rule of Reagan starting from 1981 was associated with a secular bull market as he had the tailwind of a very cheap NYSE. In contrast, Jan 2017 is likely to mark the start of a very difficult period for the NYSE and NASDAQ with their rich valuations about to be brought down to earth by rising inflation and interest rates. Reagan ended his presidency in glory. Four years from now, the Apprentice will be fired.

In 2017, investors should brace for something nasty as the Federal Reserve is forced to re-focus on a pace of monetary policy normalisation faster than anyone is expecting.

At the time of writing this commentary, 68% of your Fund's NAV is held in cash.

Yours sincerely,

陳鼎武

Tan Teng Boo
Capital Dynamics (Australia) Limited
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4th December 2016

FUND PERFORMANCE 1

Figure 1 ICIVF Total Return (1 Jul 2009 to 30 Sep 2016)

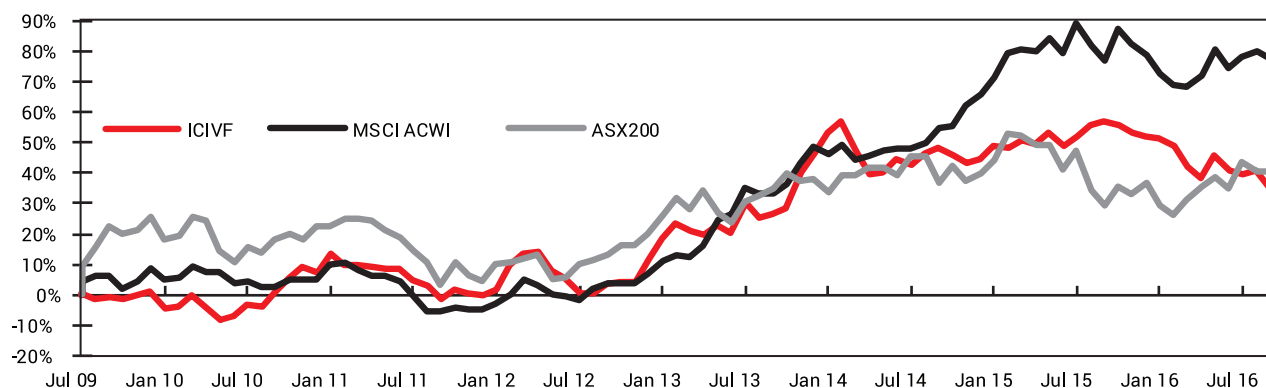


Table 1 Cumulative Total return and Compound return

	Cumulative Total Return (%)			Compound Return (%)
	1-Year-Return	2-Year-Return	Since Inception	Since Inception
ICIVF (AUD)	-13.75%	-8.76%	35.32%	4.26%
MSCI ACWI (AUD)	0.61%	14.78%	78.60%	8.32%
ASX200 (AUD)	8.23%	2.69%	40.29%	4.78%

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 2 Top 2 performing stocks (in local currency)

	Quarter ending 30 Sep 2016 (% of change)
CLOVER CORPORATION LIMITED	64.38%
CHINA NEW TOWN DEVELOPMENT CO LTD	28.00%

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 Jul 2016), and held till the end of the quarter (i.e. 30 September 2016).

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 2016 and sold on 30 September 2016, its performance is only

measured over 21 July 2016 to 30 September 2016 and not over the full quarter. Similarly, if it was bought on 1 July 2016 and sold on 11 September 2016, its performance is measured over the period 1 July 2016 to 11 September 2016.

FUND PERFORMANCE 3

Table 3 shows the percentage gain or loss of each company held by your Fund as at 30 September 2016. 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 Dec 2015 (A\$)	% Change
AIR CHINA LIMITED	1.01	0.88	-12.89%
CHINA NEW TOWN DEVELOPMENT CO LTD	0.05	0.06	17.36%
CLOVER CORPORATION LIMITED	0.35	0.60	72.85%
CONCORD NEW ENERGY	0.05	0.05	1.85%
DAH CHONG HONG HLD HKD0.15	1.02	0.39	-61.91%
MERMAID MARITIME PCL	0.58	0.08	-85.66%
OVERSEAS EDUCATION LTD	0.43	0.43	0.44%
QBE INSURANCE GROUP LTD	16.19	9.29	-42.63%
REXLOT HOLDINGS LTD	0.10	0.02	-82.90%
ZHEJIANG EXPRESSWAY CO LTD	1.28	1.38	7.80%

FUND PERFORMANCE 4

Table 4 shows the percentage gain or loss arising from currency movements as at 30 September 2016. 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 Dec 2015 (A\$)	% Change
AIR CHINA LIMITED	1.01	1.01	0.06%
CHINA NEW TOWN DEVELOPMENT CO LTD	0.05	0.05	-1.08%
CLOVER CORPORATION LIMITED	0.35	0.35	0.00%
CONCORD NEW ENERGY	0.05	0.07	40.21%
DAH CHONG HONG HLD HKD0.15	1.02	1.38	35.93%
MERMAID MARITIME PCL	0.58	0.68	16.34%
OVERSEAS EDUCATION LTD	0.43	0.42	-2.51%
QBE INSURANCE	16.19	16.19	0.00%
REXLOT HOLDINGS LTD	0.10	0.11	13.18%
ZHEJIANG EXPRESSWAY CO LTD	1.28	1.28	-0.22%

PORTFOLIO INFORMATION

Table 5 Percentage of assets held as cash

	Cash (%)	Equities (%)
End of Dec 2015	83.38%	16.62%
End of Mar 2016	83.99%	16.01%
End of Jun 2016	85.21%	14.79%
End of Sep 2016	68.30%	31.70%

Table 6 Top 5 holdings as at end September 2016

	27.2%
ZHEJIANG EXPRESSWAY CO LTD	9.7%
AIR CHINA LIMITED	7.7%
CONCORD NEW ENERGY	5.1%
QBE INSURANCE GROUP LTD	2.7%
CLOVER CORPORATION LIMITED	1.9%

Table 7 Portfolio breakdown for equities by region as at end September 2016 (in AUD)

	100%
Hong Kong	78%
Australia	15%
Singapore	8%

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

Demagogue

A political leader who seeks support by appealing to popular desires and prejudices rather than by using rational argument.

Great Moderation

Name given to the period of decreased macroeconomic volatility experienced in the United States since the 1980s. During this period, the standard deviation of quarterly real GDP and inflation declined by half and two-thirds accordingly.

OPEC

The Organization of the Petroleum Exporting Countries (OPEC) is a permanent intergovernmental organization of 13 oil-exporting developing nations that coordinates and unifies the petroleum policies of its Member Countries.

PCE

Personal consumption expenditures (PCE), or the PCE Index, measure price changes of consumer goods and services.

Shiller CAPE ratio

The cyclically adjusted price-to-earnings ratio, commonly known as CAPE, Shiller P/E, or P/E 10 ratio, is a valuation measure usually applied to the US S&P 500 equity market.

Treasury Bill

Short-term debt obligation backed by the U.S. government with a maturity of less than one year, sold in denominations of \$1,000 up to a maximum purchase of \$5 million.

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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INDEPENDENCE * INTELLIGENCE * INTEGRITY

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