

*i* Capital International Value Fund ARSN 134 578 180



**Quarterly Investment Report**  
For the period 1 July 2017 to 30 Sep 2017

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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 Sep 2017, the Fund has, from its inception in July 2009, delivered an annual compound return of 4.50%, 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 43.82%. Comparative benchmark figures are shown in [figure 3](#) and [table 1](#).

## MARKET REVIEW AND OUTLOOK

### THE CAPE RATIO AGAIN

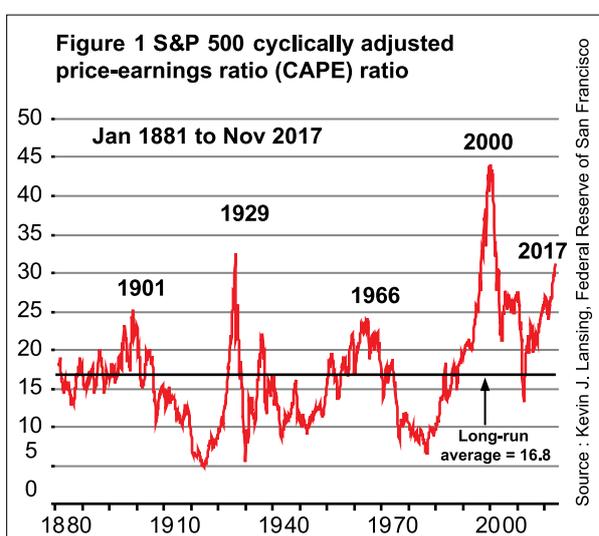
Capital Dynamics (Australia) Ltd has previously expressed its concerns over the prolonged rich valuation of the US stock market based on the well-known CAPE ratio. With the US Federal Reserve raising the federal funds target rate and trimming its bloated balance sheet and Janet Yellen now retiring in February 2018, it is useful for this quarter's Commentary to share the findings of a recent study by the Federal Reserve of San Francisco based on the CAPE ratio.

The CAPE or cyclically adjusted price-earnings ratio for the S&P 500 was developed by Campbell and Shiller to help decide whether the stock market is overvalued. They discovered that higher values of the CAPE ratio predicted lower future real returns over subsequent 10-year periods. As noted by another well-known professor, Jeremy Siegel, the CAPE ratio "has served as one of the best forecasting models for long-term future stock returns." The ratio is computed as the inflation-adjusted value of the S&P 500 divided by the real earnings of companies in the index averaged over the most recent 10 years.

Based on the CAPE ratio, the Federal Reserve of San Francisco paper wrote that from 1881 to 2017, there were five major market rallies, including the current bull market ([figure 1](#)).

Quoting Shiller who argued that the first four rallies coincided with the emergence of a "new era" mindset that glorified the virtues of new technologies, the study said that these resulted in a "this time is different" atmosphere. The new technologies of the 4 past bull markets included high-speed rail travel in early 1900s, automobiles and commercial radio in the Roaring Twenties, television and space travel in the Sixties and the

During the 1 July 2017 to 30 Sep 2017 quarter, the Fund returned -0.27% after fees. This compares with the MSCI ACWI Index and ASX200 in AUD (benchmark) return of 2.34% and -0.69%, resulting in relative performance of -2.61% and 0.42%. For the year ending 30 Sep 2017, the Fund returned 6.28% after fees which compares with the benchmark returns of 13.48% and 4.54%.

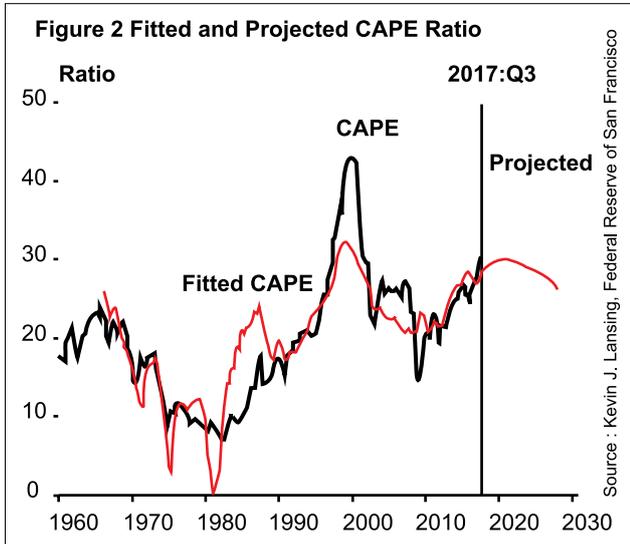


computing/Internet boom in the late Nineties. This "new era" notion then led to many traditional valuation metrics being ignored and caused the US stock market to become overvalued. Stock price gains during each of these episodes pushed the CAPE ratio well above its long-run average. What is crucial to remember is that each bull was followed by a market crash that eventually pushed the CAPE ratio below its long-run average.

The aim of the research paper was to find out whether the present high level of the CAPE ratio can be justified by the underlying macro-economic environment. Macro-economic variables such as the "natural" real rate of interest, the growth rate of potential GDP, and the core inflation rate accounted for much of the movement in the CAPE ratio over the last 50 years.

Inserting the 10-year projected paths for the said macro-economic variables into a regression

equation showed a 10-year projected path for the CAPE ratio. As expected, the findings were not encouraging. The projected CAPE ratio ended up at 26.3 times, implying a fall of 13% (figure 2).



What this is saying is that the “extraordinary returns on stocks recorded since the market bottom in March 2009” have been mainly driven by the near doubling of the CAPE ratio and that the future is unlikely to be a repeat of the past. In fact, the projected 13% fall is likely to turn out to be too conservative. Markets have a tendency to over-react, either on the way up and on the way down.

The strong bull market seen since 2009 and the constant adoration by Warren Buffett over index investing have created a euphoria over ETF – it is simple, just buy an ETF and your investment or retirement needs will all be taken care of. Amidst such an increasing herd mentality, the study by the Federal Reserve of San Francisco came with a timely warning: “Investors who expect high stock returns in the coming years based on recent market experience may end up being disappointed.”

After Dec 2015, the Federal Reserve has been tightening its monetary policy – rate hikes and balance sheet trimming. Now, Janet Yellen announced that she will leave the central bank in Feb 2018. The above study of the CAPE ratio does not tell when the next bear market on the New York stock exchange will come growling back. They are just “friendly reminders” of caveat emptor.

The NAV of the *i* Capital International Value Fund can be viewed at either [www.capitaldynamics.com.au](http://www.capitaldynamics.com.au) or [www.funds.icapital.biz](http://www.funds.icapital.biz).

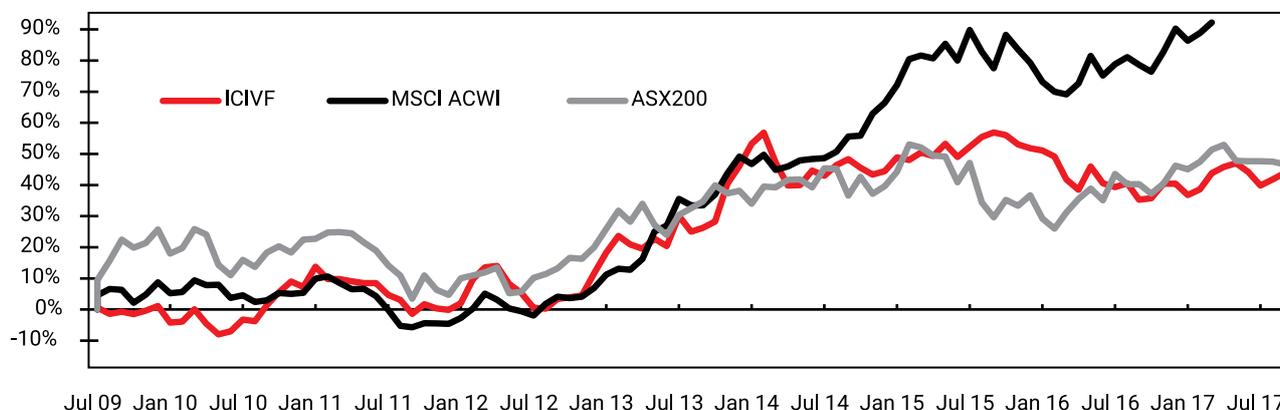
Yours sincerely,

陳鼎武

Tan Teng Boo  
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20th November 2017

## FUND PERFORMANCE 1

**Figure 3** 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)	6.28%	-8.33%	43.82%	4.50%
MSCI ACWI (AUD)	13.48%	14.17%	102.68%	8.93%
ASX200 (AUD)	4.54%	13.14%	46.66%	4.75%

**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 2017 (% of change)
PRIMA INDUSTRIE SPA	63.56%
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD	20.14%

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 2017), and held till the end of the quarter (i.e. 30 Sep 2017). 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 Air China Limited was bought on 21 July 2017 and sold on 30 Sep 2017, its performance is only measured over 21 July 2017 to 30 Sep 2017 and not over the full quarter. Similarly, if it was bought on 1 July 2017 and sold on 11 Sep 2017, its performance is measured over the period 1 July 2017 to 11 Sep 2017.

## FUND PERFORMANCE 3

**Table 3** shows the percentage gain or loss of each company held by your Fund as at 30 Sep 2017. 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 2017 (A\$)	% Change
AIA GROUP LTD	9.56	9.70	1.44%
AIR CHINA LIMITED	1.01	1.09	8.51%
CHINA NEW TOWN DEV NPV	0.05	0.07	32.64%
CLOVER CORPORATION LIMITED	0.35	0.45	28.20%
CONCORD NEW ENERGY	0.05	0.04	-9.47%
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD	0.95	1.19	25.89%
NATIONAL AUSTRALIA BANK LIMITED	31.04	31.50	1.49%
OVERSEAS EDUCATION LTD	0.37	0.35	-5.98%
PAN-UNITED CORPORATION LIMITED	0.64	0.55	-14.56%
PICO FAR EAST HLDG LTD	0.52	0.55	6.38%
PRIMA INDUSTRIE SPA	25.65	55.84	117.65%
QBE INSURANCE GROUP LTD	16.19	10.01	-38.19%
REXLOT HOLDINGS LTD	0.10	0.01	-91.67%
ZHEJIANG EXPRESSWAY CO LTD	1.28	1.64	27.96%
ZHENGZHOU YUTONG BUS CO LTD	4.18	4.58	9.55%

## FUND PERFORMANCE 4

**Table 4** shows the percentage gain or loss arising from currency movements as at 30 Sep 2017. 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 2017 (A\$)	% Change
AIA GROUP LTD	9.56	9.27	-3.11%
AIR CHINA LIMITED	1.01	0.98	-3.10%
CHINA NEW TOWN DEV NPV	0.05	0.05	-2.91%
CLOVER CORPORATION LIMITED	0.35	0.35	0.00%
CONCORD NEW ENERGY	0.05	0.06	35.79%
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD	0.95	0.92	-2.74%
NATIONAL AUSTRALIA BANK LIMITED	31.04	31.04	0.00%
OVERSEAS EDUCATION LTD	0.37	0.36	-1.48%
PAN-UNITED CORPORATION LIMITED	0.64	0.63	-2.34%

PICO FAR EAST HLDG LTD	0.52	0.50	-3.31%
PRIMA INDUSTRIE SPA	25.65	27.97	9.02%
QBE INSURANCE GROUP LTD	16.19	16.19	0.00%
REXLOT HOLDINGS LTD	0.10	0.11	9.61%
ZHEJIANG EXPRESSWAY CO LTD	1.28	1.24	-3.37%
ZHENGZHOU YUTONG BUS CO LTD	4.18	4.31	3.04%

## PORTFOLIO INFORMATION

**Table 5** Percentage of assets held as cash

	Cash (%)	Equities (%)
End of Dec 2016	68.68%	31.32%
End of Mar 2017	41.65%	58.35%
End of Jun 2017	30.16%	69.84%
End of Sep 2017	17.90%	82.10%

**Table 6** Top 5 holdings as at end Sep 2017

	<b>48.8%</b>
ZHEJIANG EXPRESSWAY CO LTD	11.0%
PICO FAR EAST HLDG LTD	10.2%
NATIONAL AUSTRALIA BANK LIMITED	10.0%
AIR CHINA LIMITED	9.2%
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD	8.4%

**Table 7** Portfolio breakdown for equities by region as at end Sep 2017 (in AUD)

	<b>100%</b>
Europe	6%
Hong Kong	61.4%
Australia	17.5%
Singapore	8.1%
China	7%

### 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](http://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

### 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. It is defined as price divided by the average of ten years of earnings (moving average), adjusted for inflation.

### ETF

An ETF, or exchange-traded fund, is a marketable security that tracks an index, a commodity, bonds, or a basket of assets like an index fund.

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 2017 (“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](http://www.capitaldynamics.com.au), or contact CDAL at 1300 798 655, or email CDAL at [info@capitaldynamics.com.au](mailto: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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