

i Capital International Value Fund ARSN 134 578 180



Quarterly Investment Report
For the period 1 October 2016 to 31 December 2016

CONTENTS

2	ICIVF at a glance
3	Performance Review
3	Market Review and Outlook
4	Fund Performance
6	Portfolio Information
7	Fund Information
8	Glossary

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 31 December 2016, the Fund has, from its inception in July 2009, delivered an annual compound return of 4.63%, 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 40.43%. Comparative benchmark figures are shown in **figure 1** and **table 1**.

MARKET REVIEW AND OUTLOOK

There were 3 factors that affected the NAV of *i* Capital International Value Fund in the last few years. One, *i* Capital International Value Fund did not have any exposure to the NYSE or NASDAQ during that time. Two, a few of the stocks that were held by *i* Capital International Value Fund were not performing well. Three, *i* Capital International Value Fund held a high level of cash – it reached a high of 85% - this was the biggest drag on the NAV's performance of *i* Capital International Value Fund as cash was its biggest asset.

We have in our past commentaries shared our reasons for holding the high cash level but just to recapitulate the main points. We were concerned with the rich valuation of the NYSE and NASDAQ, especially when set against a backdrop of an unprecedented US monetary policy with prolonged near zero interest rate. As a highly disciplined value investor, we were extremely concerned with the lack of safety margin. By holding the high cash level, we were primarily aiming at protecting the capital of our investors. A side effect of this has been that the NAV performance of *i* Capital International Value Fund has been penalised. In so doing, investors may not realise that Capital Dynamics (Australia) Ltd had to also sacrifice all its past performance for the sake of capital protection. For example, from its inception in July 2009 to September 2014, the *i* Capital International Value Fund NAV performance was 7.79% per annum. By holding a high cash level, this would drag down the annual compound return of *i* Capital International Value Fund. What do we mean?

For Capital Dynamics (Australia) Ltd to earn a performance fee, it has to achieve a return of 6% for that particular calendar year AND an annual compound return of 6%, computed from July 2009. With the prolonged low interest rate regime, holding a high level of cash meant that it would be almost impossible for *i* Capital International Value Fund to achieve a 6% return for a particular calendar year. More importantly, it also meant that the past annual compound return of 7% plus achieved since July 2009

During the 1 October 2016 to 31 December 2016 quarter, the Fund returned 3.77% after fees. This compares with the MSCI ACWI Index and ASX200 in AUD (benchmark) return of 6.54% and 4.23%, resulting in relative performance of -2.77% and -0.46%. For the year ending 31 December 2016, the Fund returned -7.50% after fees which compares with the benchmark returns of 6.13% and 6.97%.

has been surrendered for the sake of protecting our investors' long-term interest. Looking at it another way, in order for us to qualify to earn any future performance fee, we would have to build up the annual compound return of *i* Capital International Value Fund all over again to at least 6%. What this means in simple terms is that the future return of the *i* Capital International Value Fund is free of performance fee as we build again to surpass the 6% annual compound hurdle rate.

When investing, we need to consider both the upside potential and the downside risks. In recent years, we have seen an endless flow of unprecedented events and happenings. Some of these are the prolonged quantitative easing and near zero interest rate, Brexit, the election of Trump, the rise of anti-globalisation, the emergence of many disruptive technologies, etc. And all these set against a background of a richly valued NYSE. It would have been irresponsible to ignore the downside risks. By foregoing opportunities, it meant that we have to be more patient as we wait for better opportunities to come. However, taking unnecessary risks could have generated a serious and permanent loss of capital, a consequence that is very serious given many of our investors are already at an elderly age. There is no doubt that Capital Dynamics (Australia) Ltd had its investors' interest at heart at all times and it was the right thing to do. For the astute investor, the high cash level is an excellent time for investors to invest more in the *i* Capital International Value Fund.

To quote Fred Schwed Jr, "Speculation is an effort, probably unsuccessful, to turn a little money into a lot. Investment is an effort, which should be successful, to prevent a lot of money from becoming a little."

At the time of writing this commentary, your Fund's cash holding has dropped below 38% of its NAV. A major reason why this has happened is because we have been able to purchase some attractively valued China stocks, listed either in China, Hong Kong or Singapore. These stocks make up about 38% of your

Fund's current NAV. While such a move may seem contrarian, it is heartening to note that Charlie Munger concurs. In the recent AGM of Berkshire Hathaway, Charlie Munger said that China's stock market is cheaper than America's and it will outperform America's stock market in the longer-term. Our reasoning is simple. These stocks represent a lower risk, higher return proposition.

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,

陳鼎武

Tan Teng Boo
Capital Dynamics (Australia) Limited
ABN 53 129 846 260 AFSL 326283
13th May 2017

FUND PERFORMANCE 1

Figure 1 ICIVF Total Return (1 Jul 2009 to 31 Dec 2016)

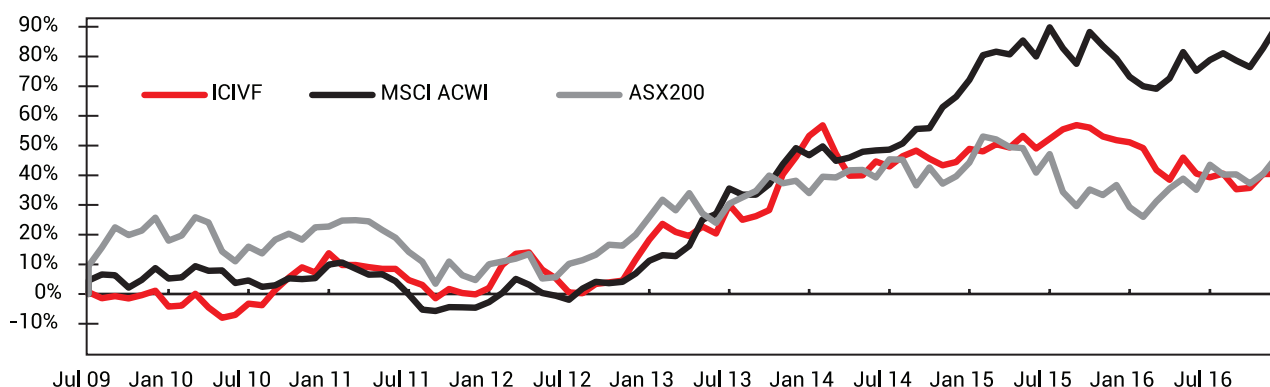


Table 1 Cumulative Total Return and Compound Return

	Cumulative Total Return (%)			Compound Return (%)
	1-Year-Return	2-Year-Return	Since Inception	Since Inception
ICIVF (AUD)	-7.50%	-2.79%	40.43%	4.63%
MSCI ACWI (AUD)	6.13%	14.29%	90.29%	8.95%
ASX200 (AUD)	6.97%	4.69%	46.23%	5.19%

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 31 Dec 2016 (% of change)
QBE INSURANCE GROUP LIMITED	33.69%
CHINA NEW TOWN DEVELOPMENT CO LTD	9.38%

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 October 2016), and held till the end of the quarter (i.e. 31 December 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 QBE Insurance Group Limited was bought on 21 October 2016 and sold on 31 December 2016, its performance is only measured over 21 October 2016 to 31 December 2016 and not over the full quarter. Similarly, if it was bought on 1 October 2016 and sold on 11 December 2016, its performance is measured over the period 1 October 2016 to 11 December 2016.

FUND PERFORMANCE 3

Table 3 shows the percentage gain or loss of each company held by your Fund as at 31 December 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 2016 (A\$)	% Change
AIR CHINA LIMITED	1.01	0.83	-17.24%
CHINA NEW TOWN DEVELOPMENT CO LTD	0.05	0.07	28.37%
CLOVER CORPORATION LIMITED	0.35	0.52	49.80%
CONCORD NEW ENERGY	0.05	0.05	1.85%
DAH CHONG HONG HLD NPV	1.02	0.37	-63.98%
OVERSEAS EDUCATION LTD	0.43	0.36	-15.54%
QBE INSURANCE GROUP LTD	16.19	12.42	-23.30%
REXLOT HOLDINGS LTD	0.10	0.02	-82.90%
ZHEJIANG EXPRESSWAY CO LTD	1.28	1.25	-2.48%

FUND PERFORMANCE 4

Table 4 shows the percentage gain or loss arising from currency movements as at 31 December 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 2016 (A\$)	% Change
AIR CHINA LIMITED	1.01	1.07	5.78%
CHINA NEW TOWN DEVELOPMENT CO LTD	0.05	0.05	-1.33%
CLOVER CORPORATION LIMITED	0.35	0.35	0.00%
CONCORD NEW ENERGY	0.05	0.07	48.23%
DAH CHONG HONG HLD NPV	1.02	1.46	43.71%
OVERSEAS EDUCATION LTD	0.43	0.42	-2.77%
QBE INSURANCE GROUP LTD	16.19	16.19	0.00%
REXLOT HOLDINGS LTD	0.10	0.12	19.66%
ZHEJIANG EXPRESSWAY CO LTD	1.28	1.35	5.49%

PORTFOLIO INFORMATION

Table 5 Percentage of assets held as cash

	Cash (%)	Equities (%)
End of Mar 2016	83.99%	16.01%
End of Jun 2016	85.21%	14.79%
End of Sep 2016	68.30%	31.70%
End of Dec 2016	68.68%	31.32%

Table 6 Top 5 holdings as at end December 2016

	27.2%
ZHEJIANG EXPRESSWAY CO LTD	9.1%
AIR CHINA LIMITED	7.6%
CONCORD NEW ENERGY	5.3%
QBE INSURANCE GROUP LTD	3.6%
CLOVER CORPORATION LIMITED	1.6%

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

	100%
Hong Kong	77%
Australia	17%
Singapore	7%

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

Brexit

Brexit is a commonly used term for the withdrawal from the European Union of the United Kingdom.

Fred Schwed Jr

The author of *Where Are the Customers' Yachts?: Or a Good Hard Look at Wall Street*.

Charlie Munger

An American investor, businessman, and philanthropist. He is vice chairman of Berkshire Hathaway, the conglomerate controlled by Warren Buffett.

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 29 January 2016 (“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.

© Capital Dynamics (Australia) Limited 2017. All Rights Reserved.

® “Capital Dynamics” and “*i* Capital” are registered trademarks.

NOTES



***i*capital[®]**
BY **Capital Dynamics**

INDEPENDENCE * INTELLIGENCE * INTEGRITY

Responsible Entity, Issuer and
Investment Manager
Capital Dynamics (Australia) Limited
ABN 53 129 846 260
AFSL 326283

Level 1, 61 York Street, Sydney,
NSW 2000, Australia
(61 2) 92622621
www.capitaldynamics.com.au
info@capitaldynamics.com.au