

*i* Capital International Value Fund ARSN 134 578 180



**Quarterly Investment Report**  
For the period 1 Apr 2020 to 30 June 2020



## CONTENTS

<b>2</b>	<b>ICIVF at a glance</b>
<b>4</b>	<b>Performance Review</b>
<b>4</b>	<b>Market Review and Outlook</b>
<b>6</b>	<b>Fund Performance</b>
<b>8</b>	<b>Portfolio Information</b>
<b>9</b>	<b>Fund Information</b>
<b>10</b>	<b>Glossary</b>

**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. 1.1285% 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

<b>Inception Date</b>	1 July 2009
<b>Minimum Investment (AUD)</b>	\$20,000
<b>Additional Investment (AUD)</b>	\$2,000
<b>Income Distribution</b>	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.

<b>Example:</b>	<b>Fee charged per year for an investment balance of \$50,000.00.</b>
<b>Management Fee</b>	$\$50,000.00 \times 1.5375\% = \$768.75$
<b>Administration Cost</b>	$\$50,000.00 \times 1.1285\% = \$564.25$
<b>Total Fee Per Year:</b>	\$ 1,333.00

## PERFORMANCE REVIEW

By 30 June 2020, the Fund has, from its inception in July 2009, delivered an annual compound return of 3.08%, 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 39.64%. Comparative benchmark figures are shown in **figure 2** and **table 1**.

From Jan 2020 to Jun 2020, the Fund's NAV fell 8.28%, outperforming the MSCI ACWI which fell 8.63% and the ASX 200 which crashed 15.96%. During the 1 Apr 2020 to 30 June 2020 quarter, the Fund returned 0.72% after fees. This compares with the MSCI ACWI Index and ASX200 in AUD (benchmark) return of 5.49% and 16.17%, resulting in relative performance of -4.77% and -15.46%. For the year ending 30 June 2020, the Fund returned -2.79% after fees which compares with the benchmark returns of 2.21% and -10.89%.

## MARKET REVIEW AND OUTLOOK

### A new positive trend

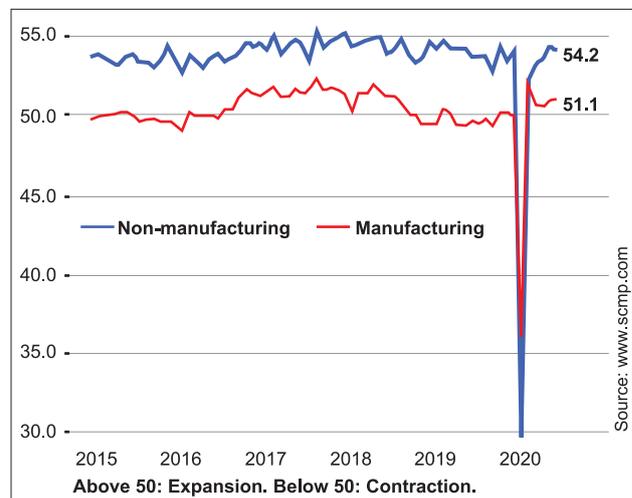
As we previously observed, there are years where nothing happens, and there are weeks or months where decades happen, which is what is happening now. What do we mean?

From Jan 2020 to Jun 2020, the NAV of *i* Capital International Value Fund fell 8.28%, outperforming the MSCI ACWI which fell 8.63% and the AX 200 which crashed 15.96%. This outperformance signifies a new positive trend for *i* Capital International Value Fund.

As at the time of writing this Commentary, your Fund has about 5% of its NAV in cash. Hence, we remain confident that the NAV of *i* Capital International Value Fund will climb steadily from its low in April 2020. Our discipline and long-term focus have allowed us to hold on to all the stocks even when the markets were crashing in February and March 2020, which has in turn allowed the portfolio of *i* Capital International Value Fund to ride on the subsequent rally. We strongly recommend investors to take advantage of the global panic to invest more and benefit from dollar cost averaging.

Meanwhile, China's economic recovery continued impressively in July. The official manufacturing purchasing managers' index (PMI) for July stood at 51.1 (**figure 1**), with a reading above 50.0 suggesting expansion in factory output. This was better than analysts' expectations and was also better than June's reading of 50.9. The PMI offers an early review of the state of China's economy in the coming months. The non-manufacturing PMI also confirmed that China's economic recovery is continuing impressively, with a continued elevated reading of 54.2 for July (**figure 1**), down a tad from 54.4 in June but still solidly in expansionary mode.

**Figure 1** China's Official PMI



The composite PMI, also released by China's National Bureau of Statistics, came in at 54.1 in July, up nicely from 53.4 in June, signalling a broad and steady recovery across the Chinese economy.

Both the manufacturing and non-manufacturing PMIs have now been in positive territory for five successive months, following the historic collapse in January and February 2020 that saw the manufacturing survey reach a low of 35.7 and non-manufacturing at 29.6.

In addition, despite all the pessimism, China's exports rose a reassuring 0.5% in June from a year ago, while imports rose by 2.7%. In the same month, profits of Chinese industrial firms also saw a year-on-year increase of 11.5%, up from an increase of 6.0% in May, which was the first month of growth in 2020.

China's economy has convincingly recovered from the 6.8% contraction in the first quarter

contraction, with a solid growth of 3.2% in the second quarter. China's performance stands in stark contrast to economic data from the other leading economies. The US economy, in particular, shrank by a record 32.9% in the second quarter of 2020. The European economy was hit by its sharpest recorded contraction in the second quarter, with GDP down 12.1% in the Eurozone and 11.9% across the EU.

The contrasting performance between China's economy and those from the US, Japan, Europe and the UK has one simple but important message about the Covid-19 pandemic. We have all been told that to effectively manage the Covid-19 pandemic, the economy must suffer and that a vaccine or vaccines are necessary. In my May commentary, I have explained that this equation is not necessarily correct. I wrote:

*"Managing the Covid-19 pandemic is not just about virus, managing this public health crisis is about: [1] good public governance, [2] accountability of political leaders, [3]. being socially responsible, [4]. the community having social discipline, [5]. the political leaders not being arrogant and [6] not being complacent.*

*If the US and other Western countries had followed China's way of managing the Covid-19 pandemic early on, the world economy will already be recovering now from a sharp but short economic contraction and the virus outbreak will have more or less dissipated from the global community. The US and other Western countries should not blame others for being humble and disciplined; they need to blame themselves for being too arrogant and complacent."*

Without doubt, the Covid-19 pandemic is unparalleled. However, as we can see now, the Chinese government has shown that even without a vaccine or vaccines, the trade-off between the economy and public health can be minimised. China's economy has had a relatively short disruption, it is now in a steady recovery mode and in the meantime, the number of Covid-19 confirmed cases and fatalities have increased only very slightly since March 2020. Amidst the prevailing pessimism, Capital Dynamics (Australia) Ltd is of the view that the global economy, led by China, has passed its lowest point.

While the global economic recovery may initially be tentative, as investors, we need to remember that there are other key variables at play in driving stock prices, not just the pandemic. The global stock market collapse in February and March 2020, which occurred at an unprecedented

speed, has already priced in the negative impact of the pandemic. The subsequent market recovery is factoring in the other positive variables, which are offsetting the pandemic's impact on the economy. For one, interest rates globally will remain low and liquidity highly abundant for a long time to come, putting an elevated floor to stock valuations. Pandemic or no pandemic, when it comes to investing, interest rate is the most important variable to pay attention to. Secondly, fiscal policies in most countries will remain very expansionary for a very extended period, putting a safety floor to economic contractions. Finally, there will be a peak to the Covid-19 pandemic. Its outbreak was not foreseen; the same will apply to its peak. As the global community eventually gets on top of the pandemic, business, consumer and investor confidence will come bouncing back.

For the financial year ending 30<sup>th</sup> June 2020, there will be no distribution, the first time since the Fund was set up in July 2009. We have decided not to realise the unrealised capital gains made on some of the Fund's stock holdings as we wanted to hold them for the long term.

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)

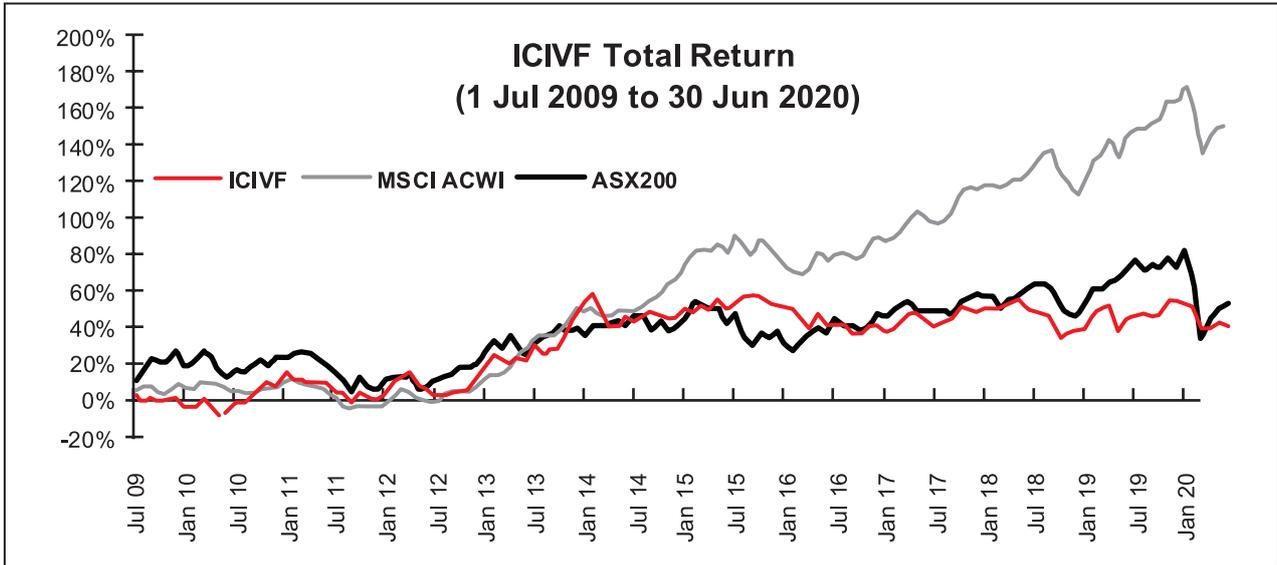
Best wishes.



Tan Teng Boo  
Director  
Capital Dynamics (Australia) Limited  
ABN 53 129 846 260 AFSL 326283  
31st July 2020

## 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)	-2.79%	-6.92%	39.64%	3.08%
MSCI ACWI (AUD)	2.21%	11.50%	149.02%	8.64%
ASX200 (AUD)	-10.89%	-4.79%	52.24%	3.89%

**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 performing stocks (in local currency)

	Quarter ending 30 Jun 2020 (% of change)
K2 ASSET MANAGEMENT HOLDINGS	96.15%
IPG PHOTONICS CORP	45.44%
HOURL GLASS LTD	27.78%
PFEIFFER VACUUM TECHNOLOGY AG	25.69%
QUALYS INC	19.58%

The table above presents the top 5 performing stock your fund held at sometime within the referenced quarter. The stocks do not necessarily need to be bought at the start of the quarter (i.e. 1 Apr 2020), and held till the end of the quarter (i.e. 30 June 2020). 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 K2 Asset Management Holdings was bought on 21 Apr 2020 and sold on 30 Jun 2020, its performance is only measured over 21 Apr 2020 to 30 Jun 2020 and not over the full quarter. Similarly, if it was bought on 1 Apr 2020 and sold on 11 Jun 2020, its performance is measured over the period 1 Apr 2020 to 11 Jun 2020.

## FUND PERFORMANCE 3

**Table 3** shows the percentage gain or loss of each company held by your Fund as at 30 Jun 2020. 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 Jun 2020 (A\$)	% Change
ALIBABA GROUP HOLDING LTD	264.18	287.68	8.90%
CHINA NEW TOWN DEV NPV	0.05	0.02	-58.02%
CONCORD NEW ENERGY	0.05	0.04	-18.27%
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD	0.95	0.76	-19.86%
HOUR GLASS LTD	0.83	0.73	-12.11%
IPG PHOTONICS CORP	210.07	234.80	11.77%
K2 ASSET MANAGEMENT HOLDINGS	0.28	0.05	-81.49%
OVERSEAS EDUCATION LTD	0.37	0.27	-26.29%
PAN-UNITED CORPORATION LIMITED	0.36	0.31	-15.62%
PFEIFFER VACUUM TECHNOLOGY AG	237.73	258.87	8.89%
PICO FAR EAST HLDG LTD	0.52	0.20	-61.61%
QUALYS INC	140.30	155.75	11.02%
REXLOT HOLDINGS LTD	0.10	0.00	-96.88%
ZHENGZHOU YUTONG BUS CO LTD ORD SHS A	4.54	2.37	-47.87%

**Table 4** shows the percentage gain or loss arising from currency movements as at 30 Jun 2020. 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 Jun 2020 (A\$)	% Change
ALIBABA GROUP HOLDING LTD	264.18	287.69	8.90%
CHINA NEW TOWN DEV NPV	0.05	0.06	11.51%
CONCORD NEW ENERGY	0.05	0.07	55.95%
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD	0.95	1.06	11.71%
HOUR GLASS LTD	0.83	0.82	-0.97%
IPG PHOTONICS CORP	210.07	208.42	-0.79%
K2 ASSET MANAGEMENT HOLDINGS	0.28	0.28	0.00%
OVERSEAS EDUCATION LTD	0.37	0.40	9.35%
PAN-UNITED CORPORATION LIMITED	0.36	0.38	3.60%
PFEIFFER VACUUM TECHNOLOGY AG	237.73	246.28	3.60%
PICO FAR EAST HLDG LTD	0.52	0.58	11.05%
QUALYS INC	140.30	136.09	-3.00%
REXLOT HOLDINGS LTD	0.10	0.13	25.89%
ZHENGZHOU YUTONG BUS CO LTD ORD SHS A	4.54	4.80	5.86%

## PORTFOLIO INFORMATION

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

	Cash (%)	Equities (%)
End of Mar 20	5.19%	94.81%
End of Apr 20	4.51%	95.49%
End of May 20	4.75%	95.25%
End of Jun 20	5.40%	94.60%

**Table 6** Top 5 holdings as at end Jun 2020

	<b>61.25%</b>
ALIBABA GROUP HOLDING LTD	20.39%
IPG PHOTONICS CORP	14.32%
PFEIFFER VACUUM TECHNOLOGY AG	11.64%
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD	7.66%
ZHENGZHOU YUTONG BUS CO LTD ORD SHS A	7.25%

**Table 7** Portfolio breakdown for equities by region as at end Jun 2020 (in AUD)

	<b>100.00%</b>
Hong Kong	20.66%
Australia	0.02%
Singapore	16.33%
China	7.66%
Europe	12.30%
United States	43.04%

## 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](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.

**PE Ratio**

The price-earnings ratio (PE ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings.

## 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 2019 (“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.

© Capital Dynamics (Australia) Limited 2020. All Rights Reserved.

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

## NOTES





**icapital**<sup>®</sup>  
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](http://www.capitaldynamics.com.au)  
[info@capitaldynamics.com.au](mailto:info@capitaldynamics.com.au)