

i Capital Global Fund



Quarterly Investment Report
For the period 1 May 2017 to 31 Jul 2017

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ICGF AT A GLANCE

Investment Objective

The Fund's investment objective is to focus on long-term capital appreciation.

Who should invest?

Eligible Investors ^[1] seeking a value investing style and 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

1.5% p.a.

Performance Fee

Only chargeable if the following three criteria are met in the same period:

1. NAV exceeds 6% annual rate of return *and*
2. NAV exceeds 6% annual compound rate of return *and*
3. Both annual and annual compound returns must still be above 6% after the performance fee is charged

Inception Date

6 July 2007

Minimum Investment (USD)

\$200,000 minimum

Additional Investment (USD)

\$10,000 minimum

Directors of the Fund

Che Hui Shan
Kok Tzu Wei

**Investment
Manager**

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**Registered Office of the
Fund**

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P.O. Box 1984
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Cricket Square
George Town
Grand Cayman KY1-1104
Cayman Islands

Administrator

Deutsche Bank AG, Singapore Branch

Custodian of the Fund

Deutsche Bank AG, Singapore Branch

**Legal Advisers to
Cayman Law**

Walkers

**Legal Advisers to
Singapore Law**

Rajah & Tann

Auditors of the Fund

Ernst & Young, Cayman Islands

PERFORMANCE REVIEW

This is the first quarterly report of the *i* Capital Global Fund for the financial year ended 30 April 2018.

In the three months ended 31 July 2017, the net asset value (NAV) of the *i* Capital Global Fund increased 2.64% or US\$29.698 from US\$1,125.345 to US\$1,155.043 per share. In the same period, the MSCI All Country World Index (MSCI ACWI)^[2] increased 4.92%.

Between 6 July 2007 and 31 July 2017, the NAV of the *i* Capital Global Fund gained 15.50% or US\$155.043 from US\$1,000.000 to US\$1,155.043 per share. In the same period, the MSCI ACWI increased 17.07%.

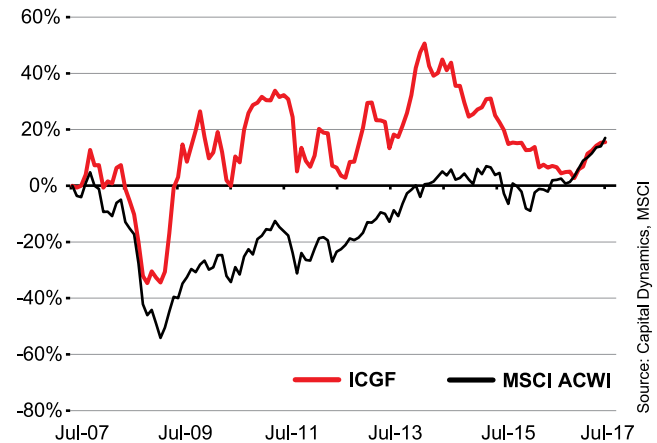
Figure 1 shows the NAV of the *i* Capital Global Fund against the performance of the MSCI ACWI since its launch which was just before the financial markets and economies were seriously affected by the 2008 US-led financial crisis. Since then, your Fund has consistently outperformed the MSCI ACWI.

The portfolio of your Fund is spread across 14 companies that are engaged in a wide range of business activities – see the Schedule of Securities on Page 11.

MARKET REVIEW AND OUTLOOK

Capital Dynamics (S) Pte Ltd has previously expressed its concerns over the prolonged rich valuation of the US stock market. This is based on the well-known CAPE (cyclically adjusted price earnings) 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

Figure 1 ICGF NAV vs MSCI ACWI (6 JUL 2007 - 31 JUL 2017)

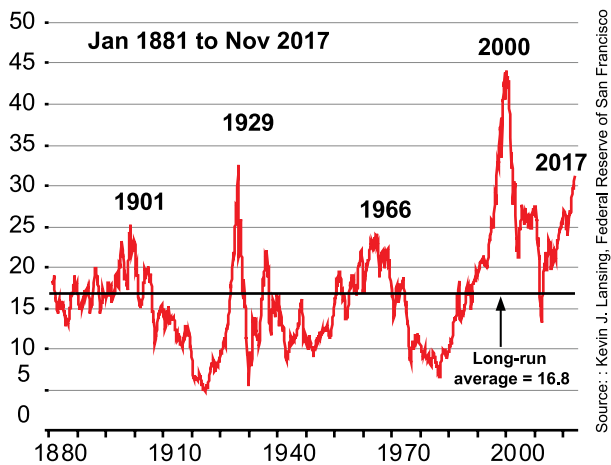


The top 5 investments as at 31 July 2017 were Zhejiang Expressway Co. Ltd, Air China Ltd, National Australia Bank Ltd, Pico Far East Holdings Ltd and Guangdong Provincial Expressway Development Co. Ltd. They made up 51.37% of the total assets. At the end of July 2017, your Fund had 18.77% of its NAV in cash.

based on the CAPE ratio.

The CAPE for the S&P 500 was developed by Campbell and Shiller to help decide whether the stock market is overvalued (it does not help in timing the stock market). They discovered that higher values of the CAPE ratio predict lower future real returns over subsequent 10-year periods. The ratio is computed as the inflation-adjusted value of the

Figure 2 S&P 500 cyclically adjusted price-earnings(CAPE) ratio

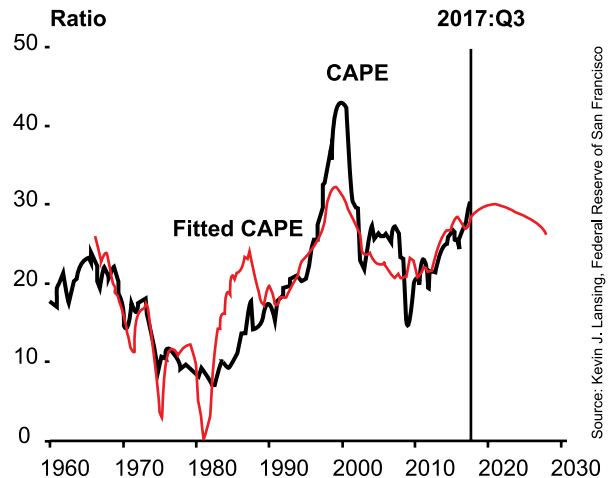


S&P 500 divided by the real earnings of companies in the index averaged over the most recent 10 years. As noted by another well-known professor, Jeremy Siegel, the CAPE ratio “has served as one of the best forecasting models for long-term future stock returns.”

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 2**).

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

Figure 3 Fitted and projected CAPE ratio



Sixties and the computing/Internet boom in the late Nineties. This “new era” notion consequently led to many traditional valuation metrics being ignored and caused the US stock market to be overvalued. Stock price gains during each of these episodes pushed the CAPE ratio well above its long-run average. What is even more crucial to remember is that each bull phase 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 3**).

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, we think that 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 of 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. The above study of the CAPE ratio does not tell investors 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 Global Fund can be viewed at either www.capitaldynamics.com.sg or www.funds.icapital.biz.

Best wishes.



Tan Teng Boo
Director
Capital Dynamics (S) Private Limited
4 December 2017

STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the financial period ended 31 July 2017

| | US\$ |
|---|-----------------------|
| Investment Income | |
| Dividend income | 440,251 |
| Interest income | 1 |
| Total investment income | <u>440,252</u> |
| Expenses | |
| Management fees | 112,147 |
| Administration and custodian fees | 20,528 |
| Professional fees | 6,715 |
| Other expenses | 1,123 |
| Total expenses | <u>140,513</u> |
| Net investment gain | <u><u>299,739</u></u> |
| Gain/(loss) on investment and foreign currency transactions | |
| Net change in unrealised loss on securities transactions | (256,852) |
| Net gain on foreign currency transactions | 740,313 |
| Net gain on investment and foreign currency transactions | <u><u>483,461</u></u> |
| Net change in net assets attributable to holders of participating shares resulting from operations | <u><u>783,200</u></u> |

STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 31 July 2017

| | US\$ |
|---|--------------------------|
| Assets | |
| Cash and cash equivalents | 5,694,984 |
| Investments in securities, at fair value (cost US\$23,653,694) | 23,430,774 |
| Other receivables | 1,313 |
| Total assets | <u>29,127,071</u> |
| Liabilities | |
| Management fee payable | 36,086 |
| Due to Broker | 223,690 |
| Other payables | 34,938 |
| Total liabilities | <u>294,714</u> |
| Net assets attributable to the shareholders of the Fund | <u><u>28,832,357</u></u> |
| Net assets attributable to: | |
| Participating shares | 28,832,347 |
| Management shares | 10 |
| Net assets attributable to the shareholders of the Fund | <u><u>28,832,357</u></u> |
| Net asset value ("NAV") per participating share | |
| Based on 24,962 participating shares outstanding (April 2017: 26,475) | <u><u>1,155.04</u></u> |

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF PARTICIPATING SHARES (UNAUDITED)

For the financial period ended 31 July 2017

US\$

| | |
|--|--------------------------|
| Net change in net assets attributable to holders of participating shares resulting from operations | <u>783,200</u> |
| Capital transactions | |
| Redemption of participating shares during the financial period | <u>(1,743,880)</u> |
| Net change in net assets attributable to holders of participating shares resulting from capital transactions | <u>(1,743,880)</u> |
| Net change in net assets attributable to holders of participating shares for the period | (960,680) |
| Net assets attributable to holders of participating shares at beginning of period | <u>29,793,027</u> |
| Net assets attributable to holders of participating shares at end of period | <u><u>28,832,347</u></u> |

STATEMENT OF CASH FLOWS (UNAUDITED)

For the financial period ended 31 July 2017

US\$

Cash flows from operating activities

Net change in net assets attributable to holders of participating shares resulting from operations 783,200

Adjustment to reconcile net change in net assets attributable to holders of participating shares resulting from operations to net cash used in operating activities :

Changes in operating assets and liabilities

| | |
|--|-------------|
| Investments in securities, at fair value | (5,326,730) |
| Dividends receivable | 311 |
| Other receivables | 787 |
| Due to broker | 73,740 |
| Management fee payable | (1,202) |
| Other payables | 3,674 |

Net cash flows used in operating activities (4,466,220)

Cash flows from financing activities

Redemption of participating shares (1,743,880)

Net cash flows used in financing activities (1,743,880)

Net change in cash and cash equivalents for the period (6,210,100)

Cash and cash equivalents at the beginning of the period 11,905,084

Cash and cash equivalents at the end of the period 5,694,984

Supplemental disclosure of cash flow information

Dividends received 440,562

Interest received 1

SCHEDULE OF SECURITIES (UNAUDITED)

As at 31 July 2017

| | Holdings as at 31-Jul-17 No. of Shares | Fair Value as at 31-Jul-17 US\$ | Percentage of total net assets attributable to shareholders at 31-Jul-17 % |
|---|---|--|---|
| AIRLINES | | | |
| AIR CHINA LTD-H | 3,834,000 | 3,465,707 | 12.02 |
| BANKS | | | |
| NATIONAL AUSTRALIA BANK LTD | 130,000 | 3,106,624 | 10.77 |
| CHEMICALS | | | |
| CLOVER CORP LTD | 166,529 | 61,122 | 0.21 |
| DIVERSIFIED CONSUMER SERVICES | | | |
| OVERSEAS EDUCATION LTD | 4,385,100 | 1,227,776 | 4.26 |
| HOTELS, RESTAURANTS & LEISURE | | | |
| REXLOT HOLDINGS LTD | 53,875,000 | 682,901 | 2.37 |
| INSURANCE | | | |
| AIA GROUP LTD | 200,000 | 1,576,133 | 5.46 |
| QBE INSURANCE GROUP LTD | 150,000 | 1,418,267 | 4.92 |
| MACHINERY | | | |
| PRIMA INDUSTRIE SPA | 16,032 | 497,514 | 1.73 |
| ZHENGZHOU YUTONG BUS CO -A | 470,000 | 1,544,878 | 5.36 |
| MEDIA | | | |
| PICO FAR EAST HOLDINGS LTD | 6,231,000 | 2,568,909 | 8.91 |
| REAL ESTATE MANAGEMENT & DEVELOPMENT | | | |
| CHINA NEW TOWN DEVELOPMENT | 15,222,650 | 662,681 | 2.30 |
| TRADING COMPANIES & DISTRIBUTORS | | | |
| PAN-UNITED CORP LTD | 2,299,500 | 948,806 | 3.29 |

SCHEDULE OF SECURITIES (UNAUDITED)

As at 31 July 2017

| | Holdings as at 31-Jul-17 No. of Shares | Fair Value as at 31-Jul-17 US\$ | Percentage of total net assets attributable to shareholders at 31-Jul-17 % |
|--------------------------------------|---|--|---|
| TRANSPORTATION INFRASTRUCTURE | | | |
| GUANGDONG PROVINCIAL EXPR-B | 1,999,980 | 1,674,706 | 5.81 |
| ZHEJIANG EXPRESSWAY CO-H | 3,200,000 | 3,994,750 | 13.86 |
| | | 23,430,774 | 81.27 |

OTHER INFORMATION

About *i* Capital Global Fund

From its inception in July 2007 to July 2017, the *i* Capital Global Fund performance is 1.44% per annum, as opposed to 1.58% per annum for the MSCI ACWI. From 1 May 2007 to 31 July 2017, funds under CDPL's management achieved a return of 1.58% per annum, underperforming the MSCI ACWI which in that period recorded 3.30% per annum.

The Fund's performance for the *i* Capital Global Fund as at 31 July 2017 is shown below:

Performance as at 31 July 2017 (%)

| (US\$) | ICGF | MSCI ACWI |
|-------------------|-------|-----------|
| Cumulative * | 15.50 | 17.07 |
| Annualised Return | 1.44 | 1.58 |

* Cumulative Returns are measured since inception.

(Note: Information is current as at 31 July 2017.)

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 services 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\$200m, 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.

Capital Dynamics (S) Private Limited (CDPL), a global fund manager based in Singapore, is the investment manager for the *i* Capital Global Fund.

CDPL commenced operations in June 2006 and is part of the established Capital Dynamics group, which provides fund management and investment advisory services to institutional and retail clients. As a global fund manager, CDPL manages the *i* Capital Global Fund, an open-end fund and discretionary accounts.

Capital Dynamics (Australia) Limited (CDAL) obtained its Australian Financial Services License (ASFL 326283) from the Australian Securities and Investments Commission in December 2008. This allows CDAL to provide funds management and financial advisory services to retail and wholesale investors.

Based in Sydney, CDAL was set up with the aim of providing investors with the proven investment success of the Capital Dynamics group through the launch of the *i* Capital International Value Fund (ARSN 134578180) and individually managed accounts.

Launched in July 2009, the *i* Capital International Value Fund invests in global equities and is managed with a focus on long term capital appreciation while providing distributions.

Capital Dynamics Asset Management Sdn Bhd (CDAM), based in Kuala Lumpur, manages [icapital.biz](http://www.icapital.biz) Berhad, a closed-end fund listed on Bursa Malaysia and discretionary accounts.

CDAM has been consistently reporting positive returns since its inception. Between April 1998

OTHER INFORMATION

and July 2017, CDAM achieved a net compound return of 13.043% per annum and has substantially outperformed the Kuala Lumpur Composite Index every year except in year 2009, 2010, 2012, 2013, 2014 and 2015 which gained 5.56% per annum in the same period.

Our 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-term 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

[1] Eligible Investors

A person to whom the issue or transfer of, or where the holding of participating Shares:

- (i) would not constitute a breach of the laws of any jurisdiction; or
- (ii) would not be contrary to the regulations of any government authority; or
- (iii) would not give rise to circumstances (whether taken alone or conjunctively with other persons or any other circumstances appearing to the Directors to be relevant) which, in the opinion of the Directors, might result in the Fund and/or its Shareholders as a whole incurring any liability for taxation or suffering any other regulatory, pecuniary, legal or material administrative disadvantage that the Fund and/or its Shareholders might not otherwise have suffered or incurred; or
- (iv) would not give rise to circumstances which may cause the Fund to breach the terms of any license, registration or approval procured by it in relation to its investments; and
- (v) would satisfy the requirements set out in this section titled “Eligible Investors”.

Eligible Investors must also satisfy the requirements for an “accredited investor” or an “institutional investor” under the definition of the Securities and Futures Act.

[2] MSCI ACWI

A free float-adjusted market capitalisation weighted index which consists of 46 country indices, comprising 23 developed markets and 23 emerging market countries. This includes the stock markets of China, which ICGF cannot invest in at this time.

NOTES

Past performance is not a reliable indicator of future performance. Performance is calculated in US dollars, net of ongoing fees and expenses and assumes reinvestment of distributions.

Disclaimer: The information in this Quarterly Investment Report is not intended to provide advice and is being provided strictly for informational purposes only and does not constitute an advertisement. 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 CDPL 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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