

# *i* Capital Global Fund



**Quarterly Investment Report**  
For the period 1 May 2018 to 31 July 2018



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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 <sup>[1]</sup> 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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Cayman Islands

**Administrator**

Apex Fund Services (Singapore) Pte. Ltd.

**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 2019.

In the three months ended 31 Jul 2018, the net asset value (NAV) of the *i* Capital Global Fund decreased 7.14% or US\$83.097 from US\$1,163.818 to US\$1,080.721 per share. In the same period, the MSCI All Country World Index (MSCI ACWI)<sup>[2]</sup> increased 1.99%.

Between 6 July 2007 and 31 July 2018, the NAV of the *i* Capital Global Fund gained 8.07% or US\$80.721 from US\$1,000.000 to US\$1,080.721 per share. In the same period, the MSCI ACWI increased 27.42%.

**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.

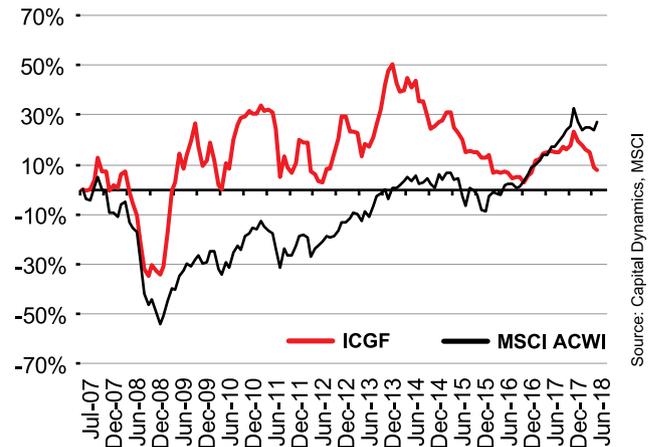
The portfolio of your Fund is spread across 13 companies that are engaged in a wide range of business activities – see the Schedule of Securities on Page 12.

## MARKET REVIEW AND OUTLOOK

### CHINA TO THE RESCUE AGAIN

When China's economic growth rate expanded at 6.5% in the 3rd quarter of 2018, many quickly attributed this moderation to the US-China trade conflict. This actually does not make sense as the impact of the US tariffs was not yet felt in the said quarter. In fact, China's economy has been

**Figure 1 ICGF NAV vs MSCI ACWI** (6 JUL 2007 - 31 JUL 2018)



The top 5 investments as at 31 July 2018 were Pico Far East Holdings, Zhengzhou Yutong Bus Co Ltd, Alibaba Group Holding Ltd, SATS Ltd and Guangdong Provincial Expressway Development Co Ltd. They made up 47.64% of the total assets. At the end of Jul 2018, your Fund had 31.59% of its NAV in cash.

expanding at this government desired moderate pace of 6.5% to 7.5% for the last 5 years, long before any trade dispute occurred. Capital Dynamics (S) Pte Ltd has said many times that China is the strongest major economy in the world, given her solid fundamentals and the many policy options that are available to her.

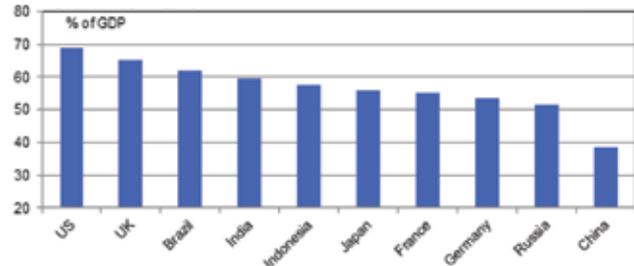
In our last quarterly commentary, we wrote that

China's private consumption has been exploding and from 2007 to 2016, China's private consumption was growing at nearly 9% annually, a rate that is 17.8 times faster than Japan's and 5.6 times faster than America's. In 2002, private consumption in China was around US\$665 bln. In 2017, China's private consumption had expanded to almost US\$4.7 trillion, the 2nd largest in the world, and will overtake America soon. We also added that private consumption in China still has a lot of room to expand (**figure 2**). While America has both over-consumed and under-saved (thereby causing America's persistent trade deficit), China's private consumption boom is in its early stages. Its growth will come from two sources. As a percentage of GDP, it will rise to levels that are closer to the other countries. The second source will come from an expansion in the absolute size of China's economy.

China's savings rate is 3.37 times greater than that of the United States with her household debt substantially lower than that of the United States. The lowly indebted Chinese consumers are the only consumers in the world who have the capacity and scale to lift the entire global economy for a very long time to come. China's low unemployment rate has remained steady and wages continuing their steady rise. In 3Q 2018, China's job-offers-to-applicants ratio was 1.25, meaning there are more job offers than applicants.

To boost private consumption in China, her consumers will receive a big boost from major tax cuts recently approved. On 31 Aug 2018, the Standing Committee of China's National People's Congress approved the amendments to China's Individual Income Tax Law (IIT). Taking effect

**Figure 2 Comparison of Private Consumption of Major Global Economies in 2016**



Source : "China's Economic Rise: History, Trends, Challenges, and Implications for the United States" by Wayne M. Morrison, February 5, 2018. Congressional Research Service Report prepared for members and committees of Congress.

on 1 Jan 2019, the revamp to the IIT is the most significant in nearly 4 decades and is also the 7th revision since the IIT was introduced in 1980. The major changes to the IIT are as follows:

1. Streamlining four types of labour income into one consolidated income;
2. Increasing the minimum threshold for personal income tax exemption from RMB3,500 to RMB5,000 per month or RMB60,000 per annum;
3. Introducing new deductible items; and
4. Revising the tax rates and taxable income brackets.

For the hundreds of millions of ordinary Chinese, their disposable income will receive a boost from the various tax deductions. The IIT will be implemented in two phases. Phase 1 takes effect from 1 Oct 2018 whereby the four types of income

(income from wages and salaries, income derived from remuneration for personal services, income derived from remuneration for manuscripts, income derived from royalties) are consolidated into one comprehensive income and subjected to standard progressive tax rates. As shown in **table 1**, although the revised IIT continues to have 7 tax brackets, the lower tax brackets have been expanded to allow more people to enjoy the lower tax rates. The RMB5,000 per month of tax-free thresholds also takes effect from 1 Oct 2018.

The tax cuts will significantly benefit those whose monthly salaries are RMB20,000 or below, as they would enjoy tax savings of more than 50% – see **table 2**. According to China’s income tax department, this group of people accounted for about 96% of the total number of taxpayers in Oct 2018, based on the prevised IIT.

For the first time in China’s IIT history, China has introduced special deduction items in addition

**Table 1** China’s Individual Income Tax Brackets for Monthly Taxable Income

Rate	Old Brackets (RMB)	New Brackets (RMB)
3%	≤ 1,500	≤ 3,000
10%	≤ 1,500	> 3,000 – 12,000
20%	≤ 1,500	> 12,000 – 25,000
25%	≤ 1,500	> 25,000 – 35,000
30%	≤ 1,500	> 35,000 – 55,000
35%	≤ 1,500	> 55,000 – 80,000
45%	≤ 1,500	> 80,000
Source: PWC		

**Table 2** Tax Savings\*

Monthly Income (RMB)	Annual Income (RMB)	Annual tax payable based on old IIT (RMB)	Annual tax payable based on new IIT (RMB)	Tax savings (%)
5,000	60,000	140	0	100
10,000	120,000	3,876	1,001	74
15,000	180,000	12,948	5,484	58
20,000	240,000	24,120	10,152	58
50,000	600,000	114,036	88,780	22
80,000	960,000	231,552	205,396	11
* Assuming a worker in Beijing whose basic pension insurance, basic medical insurance, unemployment insurance, and housing providence funds are deducted based on 22.2% of monthly income, with an upper limit of RMB25,401.				
Source: China Economic Weekly				

to existing allowable deductions, such as basic pension insurance, basic medical insurance, unemployment insurance, and housing provident funds. These 'additional itemised deductions for specific expenditures' are:

Taxpayers can claim annual housing rental deduction, ranging from RMB9,600 in small cities to RMB12,000 and RMB14,400 respectively in medium-sized and big cities. In addition, the Chinese consumers will benefit from :

1. Taxpayers can claim RMB12,000 per year for each child's education expenses;
2. Taxpayers can claim RMB3,600 to RMB4,800 per year for continuing self-education expenditure;
3. Taxpayers can claim as much as RMB60,000 per year should their medical costs for critical illness exceed RMB15,000 after public health insurance coverage;
4. Taxpayers can claim RMB12,000 per year on their first home mortgage interests; and
5. Taxpayers can claim RMB24,000 per annum for supporting parents over the age of 60 and other statutory grandparents.

The above additional deductions will come into force in Phase Two, which takes effect from 1 Jan 2019. With these deductions, more people will be exempted from personal income tax. It is likely that those who earn RMB10,000 per month or below will no longer need to pay any income tax. To put things in perspective, the average monthly salary of an

urban worker in private enterprises was RMB3,813 in 2017, while that of non-private enterprises were RMB6,193.

The tax cuts as amended in the IIT are expected to provide a major boost to China's private consumption and economy in 2019 and beyond. China's reliance on exports will be further reduced.

We are generally comfortable with the China-related stocks in your Fund's portfolio. In addition, your Fund has about 49% of its NAV in cash at the time of writing this commentary.

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

Best wishes,



Tan Teng Boo  
Director  
Capital Dynamics (S) Private Limited  
27<sup>th</sup> December 2018

## STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the financial period from 1 May 2018 to 31 July 2018

	US\$
<b>Investment Income</b>	
Dividend income (net of withholding tax of US\$ 25,865)	464,722
Interest income	206
Total investment income	464,928
<b>Expenses</b>	
Management fees	92,996
Administration and custodian fees	18,185
Professional fees	7,576
Other expenses	417
Total expenses	119,174
Net investment gain	345,754
<b>Gain/(loss) on investment and foreign currency transactions</b>	
Net realised gain on securities transactions	171,553
Net change in unrealised loss on securities transactions	(2,065,871)
Net loss on foreign currency transactions	(356,565)
Net loss on investment and foreign currency transactions	(2,250,883)
<b>Net change in net assets attributable to holders of participating shares resulting from operations</b>	(1,905,129)

## STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 31 July 2018

	US\$
<b>Assets</b>	
Cash and cash equivalents	7,137,699
Investments in securities, at fair value (cost US\$19,848,722)	15,461,893
Dividends receivable	59,916
Other receivables	1,313
Total assets	<u>22,660,821</u>
<b>Liabilities</b>	
Management fee payable	28,282
Other payables	35,030
Total liabilities	<u>63,312</u>
<b>Net assets attributable to the shareholders of the Fund</b>	<u><u>22,597,509</u></u>
Net assets attributable to:	
Participating shares	22,597,499
Management shares	10
<b>Net assets attributable to the shareholders of the Fund</b>	<u><u>22,597,509</u></u>
<b>Net asset value ("NAV") per participating share</b>	
Based on 20,910 participating shares outstanding (April 2018: 23,126 )	<u><u>1,080.72</u></u>

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

For the financial period from 1 May 2018 to 31 July 2018

US\$

<b>Net change in net assets attributable to holders of participating shares resulting from operations</b>	<u>(1,905,129)</u>
<b>Capital transactions</b>	
Redemption of participating shares during the financial period	<u>(2,411,340)</u>
Net change in net assets attributable to holders of participating shares resulting from capital transactions	<u>(2,411,340)</u>
Net change in net assets attributable to holders of participating shares for the period	<u>(4,316,469)</u>
Net assets attributable to holders of participating shares at beginning of period	<u>26,913,968</u>
<b>Net assets attributable to holders of participating shares at end of period</b>	<u><u>22,597,499</u></u>

## STATEMENT OF CASH FLOWS (UNAUDITED)

For the financial period from 1 May 2018 to 31 July 2018

US\$

### Cash flows from operating activities

Net change in net assets attributable to holders of participating shares resulting from operations (1,905,129)

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	(1,523,077)
Dividends receivable	(58,347)
Interest receivable	2
Other receivables	788
Withholding tax payable	(471)
Management fee payable	(5,403)
Other payables	1,232

**Net cash provided by operating activities** (3,490,405)

### Cash flows from financing activities

Redemption of participating shares (2,411,340)

**Net cash used in financing activities** (2,411,340)

**Net change in cash and cash equivalents for the period** (5,901,745)

Cash and cash equivalents at the beginning of the period 13,039,444

**Cash and cash equivalents at the end of the period** 7,137,699

## SCHEDULE OF SECURITIES (UNAUDITED)

As at 31 July 2018

	Holdings as at 31-Jul-18 No. of Shares	Fair Value as at 31-Jul-18 US\$	Percentage of total net assets attributable to shareholders at 31-Jul-18 %
<b>BUILDING PRODUCTS</b>			
PANARIAGROUP INDUSTRIE CERAM	146,503	498,069	2.20
<b>CAPITAL MARKETS</b>			
K2 ASSET MANAGEMENT HOLDINGS	249,834	27,861	0.12
<b>DIVERSIFIED CONSUMER SERVICES</b>			
OVERSEAS EDUCATION LTD	5,791,800	1,532,053	6.78
<b>HOTELS, RESTAURANTS &amp; LEISURE</b>			
REXLOT HOLDINGS LTD	53,875,000	144,146	0.64
<b>INSURANCE</b>			
AIA GROUP LTD	140,000	1,221,843	5.41
<b>INTERNET &amp; DIRECT MARKETING RETAIL</b>			
ALIBABA GROUP HOLDING	12,000	2,246,760	9.94
<b>MACHINERY</b>			
ZHENGZHOU YUTONG BUS CO -A	940,000	2,316,647	10.25
<b>MEDIA</b>			
PICO FAR EAST HOLDINGS LTD	6,231,000	2,580,108	11.42
<b>REAL ESTATE MANAGEMENT &amp; DEVELOPMENT</b>			
CHINA NEW TOWN DEVELOPMENT	15,222,650	484,872	2.15
<b>TRADING COMPANIES &amp; DISTRIBUTORS</b>			
PAN-UNITED CORP LTD	2,299,500	506,888	2.24

## SCHEDULE OF SECURITIES (UNAUDITED)

As at 31 July 2018

	Holdings as at 31-Jul-18 No. of Shares	Fair Value as at 31-Jul-18 US\$	Percentage of total net assets attributable to shareholders at 31-Jul-18 %
<b>TRANSPORTATION INFRASTRUCTURE</b>			
GUANGDONG PROVINCIAL EXPR-B	1,999,980	1,600,229	7.08
SATS LTD	530,000	2,021,162	8.94
XINGHUA PORT HOLDINGS LTD	2,299,500	281,255	1.25
		<b>15,461,893</b>	<b>68.42</b>

## OTHER INFORMATION

### About *i* Capital Global Fund

From its inception in July 2007 to July 2018, the *i* Capital Global Fund performance is 0.70% per annum, as opposed to 2.21% per annum for the MSCI ACWI. From 1 May 2007 to 31 July 2018, funds under CDPL's management achieved a return of 2.29% per annum, underperforming the MSCI ACWI which in that period recorded 3.76% per annum.

The Fund's performance for the *i* Capital Global Fund as at 31 July 2018 is shown below:

Performance as at 31 July 2018 (%)

(US\$)	ICGF	MSCI ACWI
Cumulative *	8.07	27.42
Annualised Return	0.70	2.21

\* Cumulative Returns are measured since inception.

(Note: Information is current as at 31 July 2018.)

### 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](http://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://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 2018, CDAM achieved a net compound return of 13.63% 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 5.35% 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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**iCapital**<sup>®</sup>  
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INDEPENDENCE \* INTELLIGENCE \* INTEGRITY

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