

# *i* Capital Global Fund



Quarterly Investment Report  
For the period 1 Aug 2018 to 31 Oct 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 second quarterly report of the *i* Capital Global Fund for the financial year ended 30 April 2019.

In the three months ended 31 Oct 2018, the net asset value (NAV) of the *i* Capital Global Fund decreased 14.34% or US\$154.983 from US\$1,080.721 to US\$925.738 per share. In the same period, the MSCI All Country World Index (MSCI ACWI) <sup>(2)</sup> decreased 6.78%.

Between 6 July 2007 and 31 Oct 2018, the NAV of the *i* Capital Global Fund decreased 7.43% or US\$74.262 from US\$1,000.000 to US\$925.738 per share. In the same period, the MSCI ACWI increased 18.78%.

**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.

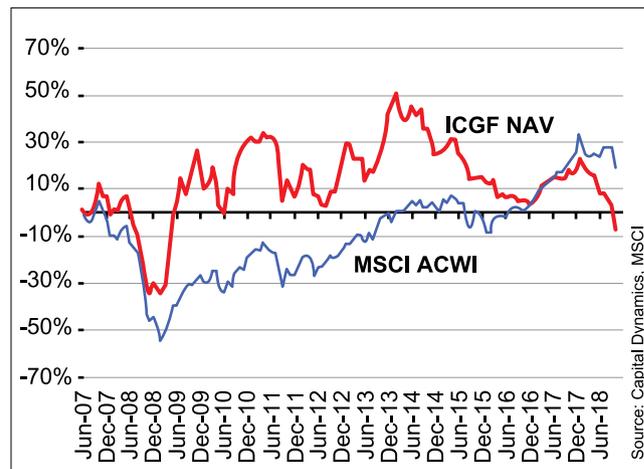
The portfolio of your Fund is spread across 11 companies that are engaged in a wide range of business activities – see the Schedule of Securities on Page 11.

## MARKET REVIEW AND OUTLOOK

### US CORPORATE EARNINGS

It has been slightly more than a year since the major corporate tax cut in the US was passed. The corporate income tax rate, which took effect on 1 January 2018, was lowered from 35% to 21% with the supposed aim of boosting capital expenditure. Last year, as corporate tax rates plunged and profit surged alongside economic growth and jobs, the

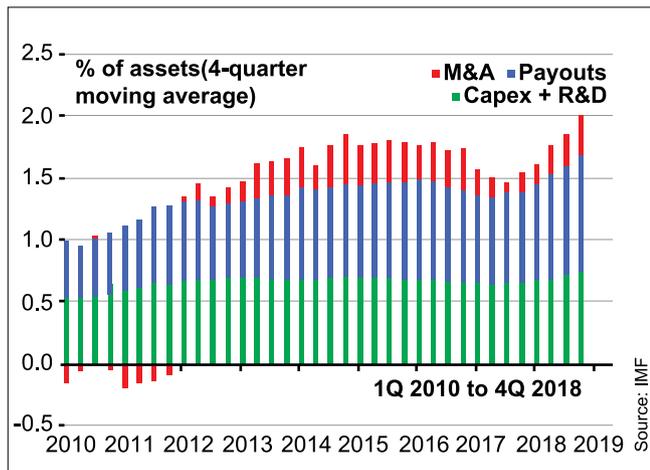
**Figure 1 ICGF NAV vs MSCI ACWI** (6 JUL 2007 - 31 OCT 2018)



The top 5 investments as at 31 Oct 2018 were Pico Far East Holdings Ltd, Alibaba Group Holding Ltd, Zhengzhou Yutong Bus Co Ltd, Guangdong Provincial Expressway Development Co Ltd and Oversea Education Ltd. They made up 42.10% of the total assets. At the end of Oct 2018, your Fund had 49.71% of its NAV in cash.

Trump administration gained some bragging rights domestically. However, the Trump administration has failed to trigger the long-awaited boom in capital expenditure. What has happened instead is that financial risk taking has increased (**figure 1**). Financial risk taking includes the acquisition of financial assets, mergers & acquisitions, share buyback and dividend payments.

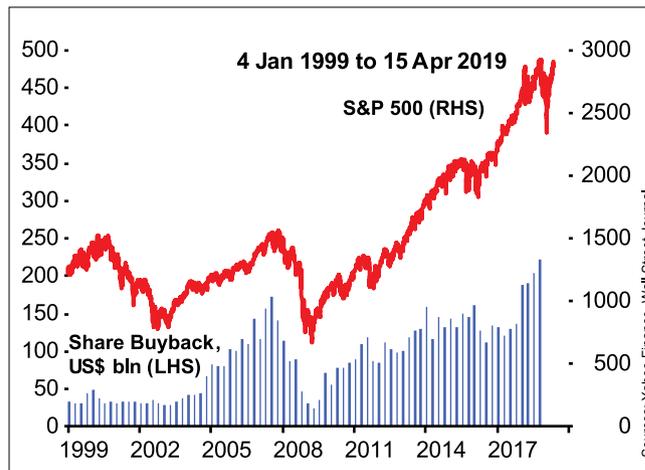
**Figure 1 S&P 500 Firms: Uses of Cash Flow**



According to the IMF, American companies made shareholder payouts and share buyback that were worth 0.9% of assets in 2018, twice the level seen in 2010. Companies have also used this arsenal for a mergers & acquisitions boom, where such deals gobbled up cash flows equivalent to 0.4% of assets in 2018, compared with virtually nothing in 2011. The amount of cash flow spent on capital expenditure has not surprisingly remained flat since 2012, running at around 0.7% of all assets. What this means is that the strong US corporate earnings, backed by tax cuts, were used for financial risk taking but not for more investment.

More specifically, for the whole of 2018, share buyback soared 55%, year-on-year, to a record US\$806 billion, beating the prior record of US\$589 billion in 2007 by a hefty 37%. In 4Q 2018, share buyback jumped 63% from the same period a year ago to a record US\$223 billion, making for their 4th quarterly record in a row even as stock prices declined (figure 2).

**Figure 2 S&P 500 and Share Buyback**



As investors were selling, companies were buying back their own shares. Without them, demand for share would have fallen dramatically.

What is even more noteworthy about this scenario is the stagnant capital expenditure. Is the technology-focused investment today delivering more productivity bang for its buck than traditional investment, thus requiring fewer dollars ? Or are the executives uneasy about the longer-term growth outlook of the US ? Or are they lamentably short-term oriented in their thinking, preferring to spend their cash on quick-fix tricks to boost the share prices ? The capital expenditure pattern is something that investors should take note of, especially when the US corporate profit outlook is uncertain amidst fading fiscal stimulus, relatively higher interest rates, rising input costs and wages, trade tensions, and slowing global demand.

The US corporate earnings season for 1Q 2019 is now under way. This will be a tough quarter for US corporate earnings as it will be the first one in a while that has an apple-to-apple comparison with a corresponding quarter of the preceding year. Last year, all the quarterly earnings under a lower tax rate were compared with those of the same period in 2017 which had the old higher corporate tax rate. As a result, earnings jumped an average of over 19% in the S&P 500. For 1Q 2019, there will have no such tailwinds and the corporate earnings will be compared with those of 1Q 2018 that was under the same lowered tax rate. Investors are on tenterhooks as the US companies reveal their report cards.

Your Fund has about 49% of its NAV in cash towards the end of 2018. Due to some purchases, this now dropped to around 20% 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.

Handwritten signature in Chinese characters: 陳鼎武

Tan Teng Boo  
Director  
Capital Dynamics (S) Private Limited  
24th April 2019

## STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the financial period ended 31 October 2018

For the financial  
period from  
1 August 2018 to  
31 October 2018  
US\$

### Investment Income

Dividend income 5,208

Total investment income 5,208

### Expenses

Management fees 77,881

Administration and custodian fees 19,287

Professional fees 12,063

Other expenses 521

Total expenses 109,752

Net investment loss (104,544)

### Gain/(loss) on investment and foreign currency transactions

Net realised loss on securities transactions (629,367)

Net change in unrealised gain on securities transactions (2,379,013)

Net loss on foreign currency transactions (62,654)

Net gain on investment and foreign currency transactions (3,071,034)

**Net change in net assets attributable to holders of participating shares resulting from operations** (3,175,578)

## STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 31 October 2018

	31 October 2018 US\$
<b>Assets</b>	
Cash and cash equivalents	9,337,634
Investments in securities, at fair value (cost US\$ 16,278,247)	9,512,406
Other receivables	1,380
Total assets	<u>18,851,420</u>
<b>Liabilities</b>	
Management fee payable	23,512
Other payables	42,045
Total liabilities	<u>65,557</u>
<b>Net assets attributable to the shareholders of the Fund</b>	<u><u>18,785,863</u></u>
Net assets attributable to:	
Participating shares	18,785,853
Management shares	10
<b>Net assets attributable to the shareholders of the Fund</b>	<u><u>18,785,863</u></u>
<b>Net asset value ("NAV") per participating share</b>	
Based on 20,910 participating shares outstanding (July 2018: 20,910)	<u><u>925.74</u></u>

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

**For the financial period ended 31 October 2018**

**For the financial period from 1 August 2018 to 31 October 2018 US\$**

<b>Net change in net assets attributable to holders of participating shares resulting from operations</b>	(3,175,578)
<hr/>	
<b>Capital transactions</b>	
Redemption of participating shares during the financial period	(636,068)
Net change in net assets attributable to holders of participating shares resulting from capital transactions	(636,068)
<hr/>	
Net change in net assets attributable to holders of participating shares for the period	(3,811,646)
Net assets attributable to holders of participating shares at beginning of period	22,597,499
<hr/>	
<b>Net assets attributable to holders of participating shares at end of period</b>	<b>18,785,853</b>
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## STATEMENT OF CASH FLOWS (UNAUDITED)

For the financial period ended 31 October 2018

For the financial  
period from 1 August  
2018 to 31 October  
2018 US\$

### Cash flows from operating activities

Net change in net assets attributable to holders of participating shares resulting from operations (3,175,578)

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

5,949,487

Investments in securities, at fair value

59,916

Dividends receivable

(67)

Management fee payable

(4,770)

Other payables

7,015

**Net cash flows used in operating activities**

**(2,836,003)**

### Cash flows from financing activities

Redemption of participating shares (636,068)

**Net cash flows used in financing activities**

**(636,068)**

**Net change in cash and cash equivalents for the period**

**2,199,935**

Cash and cash equivalents at the beginning of the period

7,137,699

**Cash and cash equivalents at the end of the period**

**9,337,634**

## SCHEDULE OF SECURITIES (UNAUDITED)

As at 31 October 2018

	Holdings as at 31-Oct-18 No. of Shares	Fair Value as at 31-Oct-18 US\$	Percentage of total net assets attributable to shareholders at 31-Oct-18 %
<b>BUILDING PRODUCTS</b>			
PANARIAGROUP INDUSTRIE CERAM	146,503	381,267	2.03
<b>CAPITAL MARKETS</b>			
K2 ASSET MANAGEMENT HOLDINGS	249,834	15,922	0.08
<b>DIVERSIFIED CONSUMER SERVICES</b>			
OVERSEAS EDUCATION LTD	5,791,800	1,253,546	6.67
<b>HOTELS, RESTAURANTS &amp; LEISURE</b>			
REXLOT HOLDINGS LTD	53,875,000	89,309	0.48
<b>INTERNET &amp; DIRECT MARKETING RETAIL</b>			
ALIBABA GROUP HOLDING	12,000	1,707,360	9.09
<b>MACHINERY</b>			
ZHENGZHOU YUTONG BUS CO -A	940,000	1,436,472	7.65
<b>MEDIA</b>			
PICO FAR EAST HOLDINGS LTD	6,231,000	2,105,564	11.21
<b>REAL ESTATE MANAGEMENT &amp; DEVELOPMENT</b>			
CHINA NEW TOWN DEVELOPMENT	15,222,650	368,815	1.96
<b>TRADING COMPANIES &amp; DISTRIBUTORS</b>			
PAN-UNITED CORP LTD	2,299,500	464,512	2.47
<b>TRANSPORTATION INFRASTRUCTURE</b>			
GUANGDONG PROVINCIAL EXPR-B	1,999,980	1,405,213	7.48
XINGHUA PORT HOLDINGS LTD	2,299,500	284,426	1.51
		<b>9,512,406</b>	<b>50.64</b>

## OTHER INFORMATION

### About *i* Capital Global Fund

From its inception in July 2007 to Oct 2018, the *i* Capital Global Fund performance is -0.68% per annum, as opposed to 1.53% per annum for the MSCI ACWI. From 1 May 2007 to 31 Oct 2018, funds under CDPL's management achieved a return of -0.37% per annum, underperforming the MSCI ACWI which in that period recorded 3.08% per annum.

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

Performance as at 31 October 2018 (%)

(US\$)	ICGF	MSCI ACWI
Cumulative *	-7.43	18.78
Annualised Return	-0.68	1.53

\* Cumulative Returns are measured since inception.  
(Note: Information is current as at 31 Oct 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* Berhad, a closed-end fund listed on Bursa Malaysia and discretionary accounts.

CDAM has been consistently reporting positive

## OTHER INFORMATION

returns since its inception. Between April 1998 and Oct 2018, CDAM achieved a net compound return of 13.21% per annum and has substantially outperformed the Kuala Lumpur Composite Index every year except in year 2005, 2009, 2012, 2013 and 2018 which gained 5.06% 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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INDEPENDENCE \* INTELLIGENCE \* INTEGRITY

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