



Quarterly Investment Report
For the period 1 July 2013 to 30 September 2013

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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)

MARKET REVIEW AND OUTLOOK

The recent US economic indicators, - the 3rd quarter GDP, the ISM manufacturing, the non-ISM manufacturing and employment report for October – were all better than expected, despite the silly political squabbles that led to the US government being shut down for the 18th time. While this is reassuring, it brings the 64 million dollar question to the fore. When will monetary policy in the US reverse?

The monetary tightening by the US Fed (or euphemistically called tapering) is not a question of when or if. **Figure 1** shows the unprecedented explosion in US monetary base. It cannot continue at such a frenzied pace without generating adverse effects on the US economy sometime in the future.

Although the monetary tightening has to start sooner or later, the key question is what will be the impact of such a development on global financial markets? The three rounds of quantitative easing started by Ben Bernanke in 2009 were unprecedented. Mounting a tiger creates the complicated problem of dismounting from the tiger. The Federal Reserve is in such a dilemma as it attempts to embark on unprecedented monetary tightening or tapering.

As a value investor, it is the frothy state of the NYSE that concerns Capital Dynamics (Australia) Ltd (ABN 53 129 846 260 | AFSL 326283) more. “Warren Buffett cannot find bargains. Pimco’s co-chief investment officer Bill Gross agrees

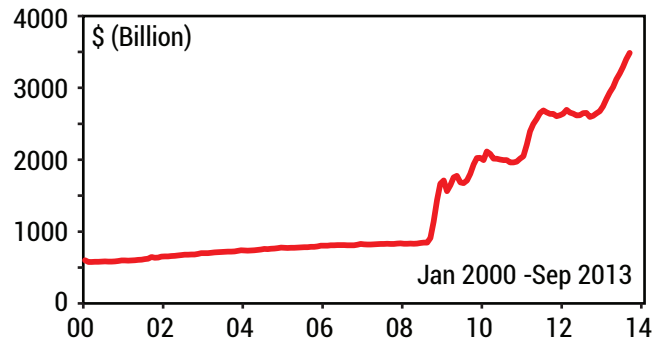


Figure 1 US Monetary Base

with BlackRock’s boss Larry Fink that markets are getting bubbly. Margin debt is at historic levels”, *i* Capital (an investment publication by Capital Dynamics group) advised in its 1st Oct 2013 issue. An overvalued market can remain overvalued for a lengthy period but the higher the valuation, the higher the risk.

As at the time of writing this commentary, the *i* Capital International Value Fund has 20% of its NAV in cash. Capital Dynamics (Australia) Ltd has sold all of its Tiffany shares. Your fund manager is also in the midst of switching some of its current holdings.

Best wishes,

陳鼎武

Tan Teng Boo
Managing Director
11 November 2013

Figure 2 ICIVF Total Return (1 Jul 2009 to 30 Sep 2013)

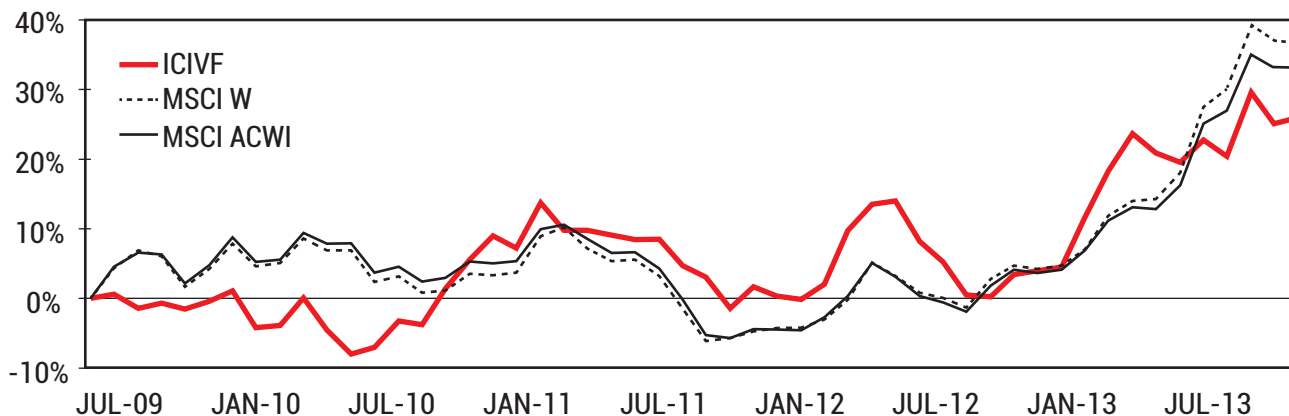


Table 1 Cumulative Performance since inception, 1st Jul 2009

	1-Year-Return	2-Year-Return	Total Return	Compounded Return
ICIVF (AUD)	22.09%	28.09%	26.27%	5.64%
MSCI W (AUD)	30.90%	45.33%	37.09%	7.70%
MSCI ACWI (AUD)	28.15%	41.51%	33.47%	7.02%

By 30 September 2013, the Fund has, from its inception in July 2009, delivered an annual compound return of 5.64%, 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 26.27%. Comparative benchmark figures are shown in **figure 2** and **table 1**.

During the 1 July to 30 September 2013 quarter, the Fund returned 4.86% after fees. This compares with the MSCI World and MSCI ACWI Indices in AUD (benchmark) return of 5.41% and 5.12%, resulting in relative performance of -0.55% and -0.26%. For the year ending 30 September 2013, the Fund returned 22.09% after fees which compares with the benchmark returns of 30.90% and 28.15%.

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 3 performing stocks (in local currency)

Top 3 out-performing stocks (in local currency)	Quarter ending 30 Sep 2013 (% of change)
Skilled Group Ltd	35.80%
Rexlot Holdings Ltd	19.61%
Porsche Automobil Holdings SE	8.61%

The table above presents the top 3 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 July 2013), and held till the end of the quarter (i.e. 30 September 2013). 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 was bought on 21 July 2013 and sold on 30 September 2013, its performance is only measured over 21 July 2013 to 30 September 2013 and not over the full quarter. Similarly, if it was bought on 1 July 2013 and sold on 30 July 2013, its performance is measured over the period 1 July 2013 to 30 Jul 2013.

Table 3 shows the percentage gain or loss of each company held by your Fund as at 30 September 2013. 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 Sep 2013 (A\$)	% Change
Beijing Capital Land Limited – H Shares	0.56	0.44	-21.95
China Windpower	0.05	0.03	-30.84
Clover Corporation Limited	0.30	0.52	73.07
Dah Chong Hong	1.02	0.78	-23.22
IP Group PLC	0.70	2.20	212.05
Mermaid Marine Australia Limited	2.97	3.70	24.71
Mermaid Maritime PCL	0.58	0.23	-59.53
New World Dept Store China	1.00	0.65	-35.73
Petra Diamonds Ltd	2.51	1.78	-29.25
Porsche Automobil Holdings SE	90.47	108.87	20.34
QBE Insurance	16.19	14.67	-9.41
Rexlot Holdings Ltd	0.10	0.09	-9.29
Skilled Group Ltd	2.70	3.49	29.03
Tiffany & Co	69.90	72.48	3.68

FUND PERFORMANCE 4

Table 4 shows the percentage gain or loss arising from currency movements as at 30 September 2013. 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 Sep 2013 (A\$)	% Change
Beijing Capital Land Limited – H Shares	0.56	0.49	-12.69
China Windpower	0.05	0.05	14.76
Clover Corporation Limited	0.30	0.30	0.00
Dah Chong Hong	1.02	1.13	11.26
IP Group PLC	0.70	0.79	11.96
Mermaid Marine Australia Limited	2.97	2.97	0.00
Mermaid Maritime PCL	0.58	0.60	3.46
New World Dept Store China	1.00	0.87	-13.11
Petra Diamonds Ltd	2.51	2.91	16.10
Porsche Automobil Holdings SE	90.47	77.71	-14.10
QBE Insurance	16.19	16.19	0.00
Rexlot Holdings Ltd	0.10	0.09	-7.36
Skilled Group Ltd	2.70	2.70	0.00
Tiffany & Co	69.90	79.03	13.06

PORTFOLIO INFORMATION

Table 5 Percentage of assets held as cash

	Cash (%)	Equities (%)
End of Dec 2012	10.7	89.3
End of Mar 2013	8.1	91.9
End of Jun 2013	0.1	99.9
End of Sep 2013	11.9	88.1

Table 6 Top 5 holdings as at end September 2013

	54.1%
IP Group PLC	17.4%
Mermaid Marine Australia Limited	11.4%
Skilled Group Ltd	10.8%
Petra Diamonds Ltd	7.6%
Porsche Automobil Holdings SE	6.9%

Table 7 Portfolio breakdown for equities by region as at end September 2013 (in AUD)

	100%
Australia	32%
United Kingdom	28%
Hong Kong	25%
Europe	8%
United States of America	4%
Singapore	3%

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.

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.

Gross Domestic Product (GDP)

The market value of all final goods and services produced within a country in a given period of time.

Institute for Supply Management (ISM) Manufacturing Survey

A monthly survey of purchasing and supply executives in the manufacturing sector in the US.. A purchasing managers index above 50% indicates that the manufacturing economy is generally expanding; below 50% indicates that it is generally declining.

ISM Non-Manufacturing Survey

A monthly survey of purchasing and supply executives in the non-manufacturing sector in the US. An index reading above 50% indicates that the non-manufacturing economy is generally expanding; below 50% indicates that it is generally declining.

Monetary policy

Measures undertaken by a government agency, typically the central bank to moderate the supply of money and the cost of money to help achieve stable economic growth and price stability.

MSCI Indices

Varying indices that are designed to measure and track equity market performance across developed, emerging and frontier Markets. MSCI Indices are used as a reference to determine how the fund performs in relation to the total market opportunity it invests in.

Quantitative easing

An unconventional monetary policy used to increase the money supply in the economy to promote economic growth.

Capital Dynamics (Australia) Limited (CDAL) is the responsible entity and issuer of *i* Capital International Value Fund (“Fund”). The Product Disclosure Statement dated 9 April 2009 (“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.

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