



Quarterly Investment Report
For the period 1 October 2013 to 31 December 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

Recently, the Australian dollar has been under pressure as growth in China's economy slows to a new plateau and as a defensive move, the Reserve Bank of Australia was talking down the Australian dollar. Will China's economy slow further? Will the Australian dollar fall further?

In understanding and dealing with China's economy and hence with the trend of the Australian dollar, it is important to remember one's time horizon. As your fund manager, Capital Dynamics (Australia) Ltd gets amused by the obsession of many investors and analysts with the short-term on these issues. There are major secular trends unfolding which we think are more pertinent, especially to a long-term value investor like the *i* Capital International Value Fund.

The mass media typically headlines the trade surplus of China. In 2013, China overtook United States as the world's largest trading nation in goods. While China will still export a lot, what is typically not reported or highlighted is that China imported a massive US\$1.95 trillion worth of goods in 2013, a rise of 7.3% from 2012. As China rebalances her economy and moves to a more balanced growth model, China will be importing more and more goods. A 10% growth in China's imports translates to an additional US\$200 billion worth of global demand for goods.

There is also world trade in services. What was also not reported or highlighted, for example, was that in 2013, China had the highest number of outbound tourists and amount of overseas

spending in the world. 97 million Chinese travelled abroad in 2013, more than any other nation. In 2012, Chinese tourists outspent the American and German tourists and became the world's biggest spending travellers, spending a massive US\$102 billion. In 2011, the average spending by a tourist in the US was US\$2,440. The average spending by a Chinese tourist in the US in the same year was US\$7,107.

In the years and decades to come, China may not need more iron or coal for example. As China moves to a more balanced growth model, there will certainly be more hotel rooms needed; there will be more demand from China for all types of education services and so on. Like iron ore or coal, Australia, assuming her prime minister pursues the right policies, is well positioned to satisfy this secular growing demand from China. Seen from a long-term perspective, the current worries over China's economy and the weakness of the Australian dollar may present attractive investing opportunities.

As at the time of writing this commentary, the *i* Capital International Value Fund has slightly over 30% of its NAV in cash. Your fund manager is still in the midst of switching some of its current holdings.

Best wishes,



Tan Teng Boo
Managing Director
19 January 2014

Figure 1 ICIVF Total Return (1 Jul 2009 to 31 Dec 2013)

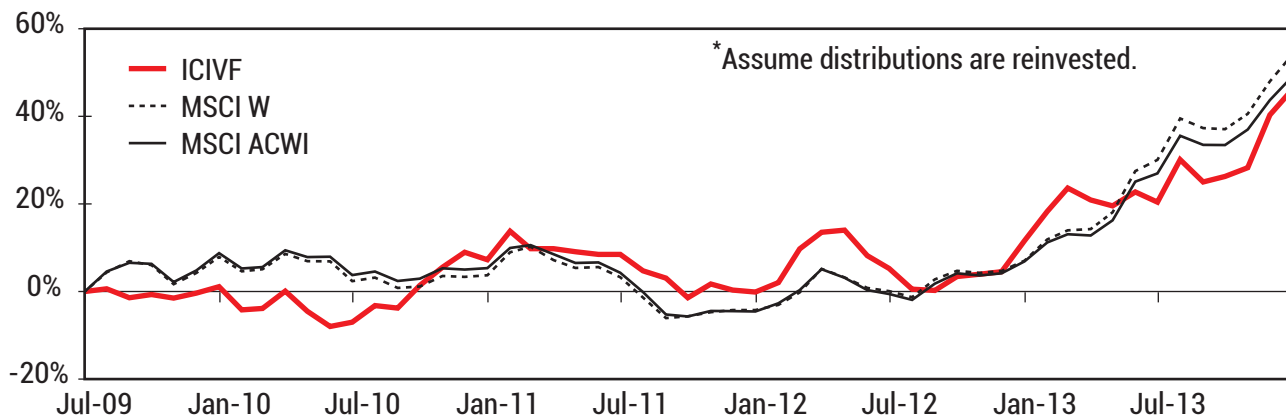


Table 1 Cumulative Performance since inception, 1st Jul 2009

	1-Year-Return	2-Year-Return	Total Return	Compounded Return
ICIVF (AUD)	30.95%	46.35%	46.18%	8.79%
MSCI W (AUD)	44.01%	60.96%	54.18%	10.09%
MSCI ACWI (AUD)	39.54%	56.31%	49.16%	9.28%

By 31 December 2013, the Fund has, from its inception in July 2009, delivered an annual compound return of 8.79%, 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 46.18%. Comparative benchmark figures are shown in Figure 1 and Table 1.

During the 1 October to 31 December 2013 quarter, the Fund returned 15.77% after fees. This compares with the MSCI World and MSCI ACWI Indices in AUD (benchmark) return of 12.46% and 11.76%, resulting in relative outperformance of 3.30% and 4.01%. For the year ending 31 December 2013, the Fund returned 30.95% after fees which compares with the benchmark returns of 44.01% and 39.54%.

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 5 performing stocks (in local currency)

Top 5 out-performing stocks (in local currency)	Quarter ending 31 December 2013 (% of change)
China Windpower	125.45%
Mermaid Maritime PCL	73.68%
Rexlot Holdings Ltd	72.13%
IP Group PLC	19.58%
Porsche Automobil Holdings SE	17.12%

The table above presents the top 5 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 October 2013), and held till the end of the quarter (i.e. 31 December 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 October 2013 and sold on 31 December 2013, its performance is only measured over 21 October 2013 to 31 December 2013 and not over the full quarter. Similarly, if it was bought on 1 October 2013 and sold on 30 November 2013, its performance is measured over the period 1 October 2013 to 30 November 2013.

Table 3 shows the percentage gain or loss of each company held by your Fund as at 31 December 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 Dec 2013 (A\$)	% Change
China Windpower	0.05	0.07	55.92%
Clover Corporation Limited	0.30	0.52	71.41%
Dah Chong Hong	1.02	0.72	-29.42%
IP Group PLC	0.70	2.63	273.14%
Mermaid Marine Australia Limited	2.97	3.40	14.60%
Mermaid Maritime PCL	0.58	0.41	-29.72%
New World Dept Store China	1.00	0.69	-31.15%
Petra Diamonds Ltd	2.51	1.76	-29.73%
Porsche Automobil Holdings SE	90.47	127.51	40.94%
QBE Insurance	16.19	11.51	-28.92%
Rexlot Holdings Ltd	0.10	0.16	56.14%

FUND PERFORMANCE 4

Table 4 shows the percentage gain or loss arising from currency movements as at 31 December 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 Dec 2013 (A\$)	% Change
China Windpower	0.05	0.06	19.97%
Clover Corporation Limited	0.30	0.30	0.00%
Dah Chong Hong	1.02	1.18	16.30%
IP Group PLC	0.70	0.84	19.68%
Mermaid Marine Australia Limited	2.97	2.97	0.00%
Mermaid Maritime PCL	0.58	0.62	7.46%
New World Dept Store China	1.00	0.91	-9.17%
Petra Diamonds Ltd	2.51	3.11	24.11%
Porsche Automobil Holdings SE	90.47	82.68	-8.61%
QBE Insurance	16.19	16.19	0.00%
Rexlot Holdings Ltd	0.10	0.10	-3.16%

PORTFOLIO INFORMATION

Table 5 Percentage of assets held as cash

	Cash (%)	Equities (%)
End of Mar 2013	8.1	91.9
End of Jun 2013	0.1	99.9
End of Sep 2013	11.9	88.1
End of Dec 2013	25.5	74.5

Table 6 Top 5 holdings as at end December 2013

	57.3%
IP Group PLC	19.4%
China Windpower	12.1%
Mermaid Marine Australia Limited	9.2%
Rexlot Holdings Ltd	9.0%
Porsche Automobil Holdings SE	7.6%

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

	100%
United Kingdom	36%
Hong Kong	30%
Australia	18%
Europe	10%
Singapore	6%

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. 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.

Buy-sell Spread

The buy-sell spread is the difference between a fund's entry price and exit price and is a cost incurred by investors each time they invest or withdraw funds. It contributes towards the transaction costs involved when the investment manager trades the underlying assets. However, buy-sell spread is not charged to *i* Capital International Value Fund investors as a simple cost structure is implemented with investors' best interest in mind.

MSCI Indices

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

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 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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