



**Quarterly Investment Report**  
For the period 1 January 2014 to 31 March 2014



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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)

## PERFORMANCE REVIEW

By 31 March 2014, the Fund has, from its inception in July 2009, delivered an annual compound return of 8.49%, 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 one year time deposit. The cumulative total return of the Fund is 47.29%. Comparative benchmark figures are shown in figure 1 and table 1.

During the 1 January 2014 to 31 March 2014 quarter, the Fund returned 0.76% after fees. This compares with the MSCI World and MSCI ACWI Indices in AUD (benchmark) return of -2.73% and -2.89%, resulting in relative performance of 3.49% and 3.65%. For the year ending 31 March 2014, the Fund returned 21.84% after fees which compares with the benchmark returns of 31.25% and 28.40%.

## MARKET REVIEW AND OUTLOOK

Recently, almost all the economic figures from the United States have been upbeat. The employment report for May 2014 is of particular importance. New jobs stayed above the 200,000 mark and the unemployment rate unexpectedly maintained the 6.3% rate, which has fallen below the earlier monetary goal post of 6.5%. Should the unemployment rate drop further, will investors and more critically, Janet Yellen, be hiding under the falling labour force participation rate skirt to delay any interest rate hikes?

While unemployment in the United States has plunged from more than 10% in 2009 to only 6.3%

now, and has generally declined much faster than what many forecasters expected, there has, at the same time, been a substantial decline in labour force participation. Some say that the decline in labour force participation offsets the decline in the unemployment rate and that the latter does not really reflect an improving labour market.

The other view, which Capital Dynamics (Australia) also subscribes to, argues that the decline in labour force participation is structural and reflects changing demographics in the US economy and that we should naturally expect the aggregate labour force participation rate to

change. The implication of this view is that the US unemployment rate remains as good an indicator of the overall US labour market as ever, and the recent sharp declines in the unemployment rate should be taken as a reliable indicator of an improving US labour market.



The above figure shows the US labour force participation from 1950 (Source: St Louis Federal Reserve). A review of this long-term chart lends credence to the view that the drop in labour force

participation following the 2001 recession is not cyclical. It also implies continued decline in the labour force participation rate in the coming years. In short, those waiting for an upward swing in labour force participation as the US economy continues to expand may be grossly disappointed. At a more worrying level, would investors and Janet Yellen then continue to rely on the falling labour force participation rate as a counter argument to a declining unemployment rate? When will a declining unemployment rate lead to rising wages and thus cost push inflation?

As at the time of writing this commentary, the *i* Capital International Value Fund has over 47% of its NAV in cash.

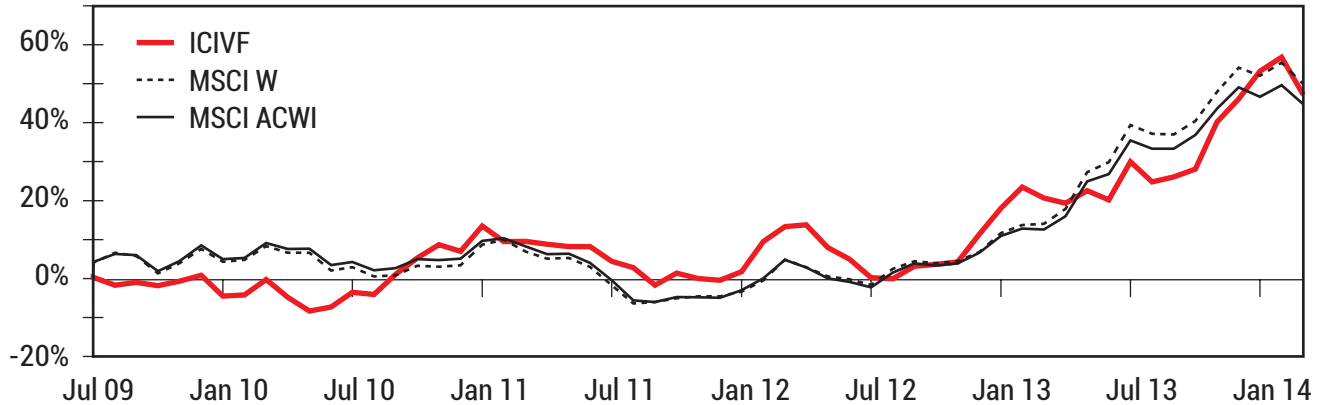
Yours sincerely,

陳鼎武

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8 June 2014

## FUND PERFORMANCE 1

**Figure 1** ICIVF Total Return (1 Jul 2009 to 31 Mar 2014)



**Table 1** Cumulative Performance since inception, 1st Jul 2009

	1-Year-Return	2-Year-Return	Total Return	Compounded Return
ICIVF (AUD)	21.84%	29.72%	47.29%	8.49%
MSCI W (AUD)	31.25%	42.60%	49.97%	8.90%
MSCI ACWI (AUD)	28.40%	37.84%	44.85%	8.11%

**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.

**Table 2** Top 4 performing stocks (in local currency)

<b>Top 4 out-performing stocks (in local currency)</b>	<b>Quarter ending 31 March 2014 (% of change)</b>
Petra Diamonds	26.23%
IP Group PLC	22.38%
QBE Insurance	11.38%
China Windpower	1.61%

The table above presents the top 4 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 January 2014), and held till the end of the quarter (i.e. 31 March 2014). 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 January 2014 and sold on 31 March 2014, its performance is only measured over 21 January 2014 to 31 March 2014 and not over the full quarter. Similarly, if it was bought on 1 January 2014 and sold on 28 February 2014, its performance is measured over the period 1 January 2014 to 28 February 2014.



## FUND PERFORMANCE 3

**Table 3** shows the percentage gain or loss of each company held by your Fund as at 31 March 2014. 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 Mar 2014 (A\$)	% Change
China Windpower	0.05	0.08	58.43%
Clover Corporation Limited	0.30	0.44	46.45%
Dah Chong Hong	1.02	0.63	-38.55%
IP Group PLC	0.70	3.21	356.65%
Mermaid Marine Australia Limited	2.81	2.36	-15.96%
Mermaid Maritime PCL	0.58	0.37	-36.11%
Petra Diamonds Ltd	2.51	2.23	-11.30%
QBE Insurance	16.19	12.82	-20.83%
Rexlot Holdings Ltd	0.10	0.13	33.84%

**Table 4** shows the percentage gain or loss arising from currency movements as at 31 March 2014. This table assumes no change in stock prices or constant stock prices.

**Table 4** Percentage gain or loss arising from currency movements

<b>Security</b>	<b>Average Cost (A\$)</b>	<b>Price Mar 2014 (A\$)</b>	<b>% Change</b>
China Windpower	0.05	0.06	15.75%
Clover Corporation Limited	0.30	0.30	0.00%
Dah Chong Hong	1.02	1.14	12.21%
IP Group PLC	0.70	0.82	16.29%
Mermaid Marine Australia Limited	2.81	2.81	0.00%
Mermaid Maritime PCL	0.58	0.60	4.15%
Petra Diamonds Ltd	2.51	3.03	20.58%
QBE Insurance	16.19	16.19	0.00%
Rexlot Holdings Ltd	0.10	0.09	-6.57%

## 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	0.11%	99.9%
End of Sep 2013	11.9%	88.1%
End of Dec 2013	25.53%	74.47%
End of Mar 2014	41.18%	58.82%

**Table 6** Top 5 holdings as at end March 2014

	<b>49.4%</b>
IP Group PLC	23.0%
Petra Diamonds Ltd	8.6%
Rexlot Holdings Ltd	7.4%
China Windpower	6.0%
Mermaid Marine Australia Limited	4.4%

**Table 7** Portfolio breakdown for equities by region as at end March 2014 (in AUD)

	<b>100%</b>
United Kingdom	54%
Hong Kong	24%
Australia	15%
Singapore	7%

### 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](http://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.

## GLOSSARY

### Cost-push inflation

A phenomenon in which the general price levels rise due to increases in the cost of wages and raw materials amidst an environment where aggregate demand is strong.

### Unemployment rate

The unemployment rate is a measure of the prevalence of unemployment and is calculated as a percentage by dividing the number of unemployed individuals by all individuals currently in the labor force. During periods of recession, an economy usually experiences a relatively high unemployment rate.

### Labour force participation rate

The labor force participation rate is the percentage of working-age persons in an economy who are either employed or are unemployed but looking for work. Typically “working-age persons” is defined as people between the ages of 16-64. People in those age groups who are not counted as participating in the labor force are typically students, homemakers, and persons under the age of 64 who are retired.

### 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.

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.

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](http://www.capitaldynamics.com.au), or contact CDAL at 1300 798 655, or email CDAL at [info@capitaldynamics.com.au](mailto: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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## NOTES



***i*capital<sup>®</sup>**  
BY Capital Dynamics

INDEPENDENCE \* INTELLIGENCE \* INTEGRITY

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