



**Quarterly Investment Report**  
For the period 1 April 2014 to 30 June 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 30 June 2014, the Fund has, from its inception in July 2009, delivered an annual compound return of 7.66%, 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 44.66%. Comparative benchmark figures are shown in figure 1 and table 1.

During the 1 April 2014 to 30 June 2014 quarter, the Fund returned -1.78% after fees. This compares with the MSCI ACWI Index and ASX200 in AUD (benchmark) return of 2.43% and 0.02%, resulting in relative performance of -4.22% and -1.80%. For the year ending 30 June 2014, the Fund returned 20.13% after fees which compares with the benchmark returns of 16.86% and 12.35%.

## MARKET REVIEW AND OUTLOOK

When investing, we always assume that there will be global peace. Given the fact that the last global military conflict was seven decades ago, indeed many of us take global peace for granted. While there are good reasons for assuming so, investors need to be mindful of what can go wrong and how this can happen. In this context, understanding America's foreign policy and her real soft power is useful, especially when America is once again taking a leadership role in Asia-Pacific and emboldening many of her allies.

For this quarter's commentary, Capital Dynamics (Australia) Ltd will share extracts taken from an article written by Henry Farrell and Martha Finnemore in the November/December 2013 issue of "Foreign Affairs", a highly respected publication. Henry Farrell and Martha Finnemore are Associate professor and professor of Political Science at George Washington University respectively.

### **"The End of Hypocrisy"**

#### **American Foreign Policy in the Age of Leaks**

*"The U.S. government seems outraged that people are leaking classified materials about its less attractive behavior. It certainly acts that way: three years ago, after Chelsea Manning, an army private then known as Bradley Manning, turned over hundreds of thousands of classified cables to the anti-secrecy group WikiLeaks, U.S. authorities imprisoned the soldier under conditions that the UN special rapporteur on torture deemed cruel and inhumane ..... More recently, following the disclosures about U.S. spying programs by Edward Snowden, a former National Security Agency analyst, U.S. officials spent a great deal of diplomatic capital trying to convince other countries to deny Snowden refuge. And U.S. President Barack Obama canceled a long-anticipated summit with Russian President Vladimir Putin when he refused to comply."*

*“Despite such efforts, however, the U.S. establishment has often struggled to explain exactly why these leakers pose such an enormous threat. Indeed, nothing in the Manning and Snowden leaks should have shocked those who were paying attention ..... Snowden has most certainly compromised sources and methods, but he has revealed nothing that was really unexpected.”*

According to the 2 professors, *“The deeper threat that leakers such as Manning and Snowden pose is more subtle than a direct assault on U.S. national security: they undermine Washington’s ability to act hypocritically and get away with it. Their danger lies not in the new information that they reveal but in the documented confirmation they provide of what the United States is actually doing and why ..... Few U.S. officials think of their ability to act hypocritically as a key strategic resource. Indeed, one of the reasons American hypocrisy is so effective is that it stems from sincerity: most U.S. politicians do not recognize just how two-faced their country is. Yet as the United States finds itself less able to deny the gaps between its actions and its words, it will face increasingly difficult choices – and may ultimately be compelled to start practicing what it preaches”.*

*“Hypocrisy is central to Washington’s soft power - its ability to get other countries to accept the legitimacy of its actions - yet few Americans appreciate its role ..... Of course, the United States is far from the only hypocrite in international politics. But the United States’ hypocrisy matters more than that of other countries. That’s because most of the world today lives within an order that the United States built ..... the international order remains an American one.”*

*“This system needs the lubricating oil of hypocrisy to keep its gears turning ..... the recent leaks have shown (that) Washington is also unable to consistently abide by the values that it trumpets ..... Of course, the United States has gotten away with hypocrisy for some time now.”* Henry Farrell and Martha shared many examples of this.

*“The reason the United States has until now suffered few*

*consequences for such hypocrisy is that other states have a strong interest in turning a blind eye..... Moreover, the United States can punish those who point out the inconsistency in its actions by downgrading trade relations or through other forms of direct retaliation ..... Since few countries ever point out the nakedness of U.S. hypocrisy, and since those that do can usually be ignored, American politicians have become desensitized to their country’s double standards. But thanks to Manning and Snowden, such double standards are getting harder and harder to ignore.”*

Henry Farrell and Martha Finnemore concluded that *“Secrecy can be defended as a policy in a democracy. Blatant hypocrisy is a tougher sell. Voters accept that they cannot know everything that their government does, but they do not like being lied to. If the United States is to reduce its dangerous dependence on doublespeak, it will have to submit to real oversight and an open democratic debate about its policies. The era of easy hypocrisy is over”.*

What has this timely observation about United States’ foreign policy got to do with investing? As Scotland gets ready for referendum, as the Ukrainian and Iraqi crises drag on, as countries get closer to actual military conflicts, the thought provoking article by professors Henry Farrell and Martha Finnemore should be read again and again. Global peace is very fragile, it cannot be taken for granted and can be easily broken.

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

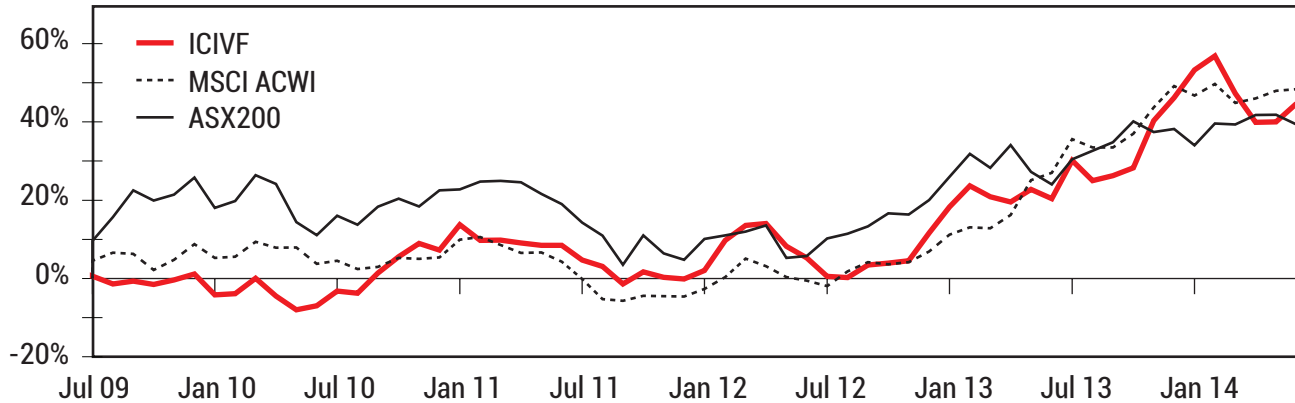
Yours sincerely,



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14 September 2014

## FUND PERFORMANCE 1

**Figure 1** ICIVF Total Return (1 Jul 2009 to 30 June 2014)



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

	1-Year-Return	2-Year-Return	Total Return	Compounded Return
ICIVF (AUD)	20.13%	37.42%	44.66%	7.66%
MSCI ACWI (AUD)	16.86%	49.19%	48.37%	8.21%
ASX200 (AUD)	12.35%	31.78%	39.34%	6.86%

**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 2 performing stocks (in local currency)

<b>Top 2 out-performing stocks (in local currency)</b>	<b>Quarter ending 30 Jun 2014 (% of change)</b>
Petra Diamonds	26.21%
Rexlot Holdings	1.11%

The table above presents the top 2 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 April 2014), and held till the end of the quarter (i.e. 30 June 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 April 2014 and sold on 30 June 2014, its performance is only measured over 21 April 2014 to 30 June 2014 and not over the full quarter. Similarly, if it was bought on 1 April 2014 and sold on 28 June 2014, its performance is measured over the period 1 April 2014 to 28 June 2014.



## FUND PERFORMANCE 3

**Table 3** shows the percentage gain or loss of each company held by your Fund as at 30 June 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 Jun 2014 (A\$)	% Change
China Windpower	0.05	0.07	55.92%
Clover Corporation Limited	0.30	0.41	36.46%
Dah Chong Hong	1.02	0.57	-43.66%
IP Group PLC	0.70	3.09	339.07%
Mermaid Marine Australia Limited	2.81	2.06	-26.64%
Mermaid Maritime PCL	0.58	0.37	-36.82%
Petra Diamonds Ltd	2.51	2.81	11.95%
QBE Insurance	16.19	10.87	-32.88%
Rexlot Holdings Ltd	0.10	0.14	35.32%

**Table 4** shows the percentage gain or loss arising from currency movements as at 30 June 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 Jun 2014 (A\$)</b>	<b>% Change</b>
China Windpower	0.05	0.05	13.76%
Clover Corporation Limited	0.30	0.30	0.00%
Dah Chong Hong	1.02	1.12	10.29%
IP Group PLC	0.70	0.82	17.12%
Mermaid Marine Australia Limited	2.81	2.81	0.00%
Mermaid Maritime PCL	0.58	0.60	3.17%
Petra Diamonds Ltd	2.51	3.05	21.44%
QBE Insurance	16.19	16.19	0.00%
Rexlot Holdings Ltd	0.10	0.09	-8.17%

## PORTFOLIO INFORMATION

**Table 5** Percentage of assets held as cash

	Cash (%)	Equities (%)
End of Jun 2013	0.11%	99.9%
End of Sep 2013	11.90%	88.10%
End of Dec 2013	25.53%	74.47%
End of Mar 2014	41.18%	58.82%
End of Jun 2014	45.54%	54.46%

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

	<b>45.8%</b>
IP Group PLC	18.6%
Petra Diamonds Ltd	9.4%
Rexlot Holdings Ltd	7.6%
China Windpower	6.0%
Mermaid Maritime PCL	4.2%

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

	<b>100%</b>
United Kingdom	51%
Hong Kong	27%
Australia	14%
Singapore	8%

### 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

### Scotland's Referendum

The Scottish Government intends to hold a referendum of the Scottish electorate, on the issue of independence from the United Kingdom on Thursday 18 September 2014. To be successful, the independence proposal requires a simple majority.

### 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 16 May 2014 (“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



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Responsible Entity, Issuer and  
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