



Quarterly Investment Report
For the period 1 July 2014 to 30 September 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

PERFORMANCE REVIEW

By 30 September 2014, the Fund has, from its inception in July 2009, delivered an annual compound return of 7.79%, 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 48.31%. Comparative benchmark figures are shown in figure 3 and table 1.

MARKET REVIEW AND OUTLOOK

As the New York stock market continues to race to new highs, the global backdrop remains worrying. It is not just the plunging crude oil price and the negative impact arising from this. It is also the volatile and highly uncertain environment that the global economy has to face. Investors have to be prepared with its volatile character and ensure that one is not caught with nasty surprises.

Figure 1 shows the headline inflation rate for the Eurozone. Before the 2008 US-led global financial crisis, the headline inflation rate was pretty predictable. Post 2008, volatility is the new buzz word as figure 1 clearly shows. Many thought that the plunge in the Euro would halt the decline in the Eurozone's inflation rate. Now this is being offset by the plunge in crude oil price. Would the Eurozone soon experience deflation? Post 2008, the US economy has so far not seen the same severe inflation volatility as the Eurozone – see figure 2 – although this could be changing very soon, depending on how tight the US labour market is and how much wages will be rising in 2015. However, while the US economy has experienced a less volatile

During the 1 July 2014 to 30 September 2014 quarter, the Fund returned 2.52% after fees. This compares with the MSCI ACWI Index and ASX200 in AUD (benchmark) return of 4.87% and -1.91%, resulting in relative performance of -2.35% and 4.43%. For the year ending 30 September 2014, the Fund returned 17.45% after fees which compares with the benchmark returns of 16.58% and 1.42%.

Figure 1 Eurozone Inflation Rate

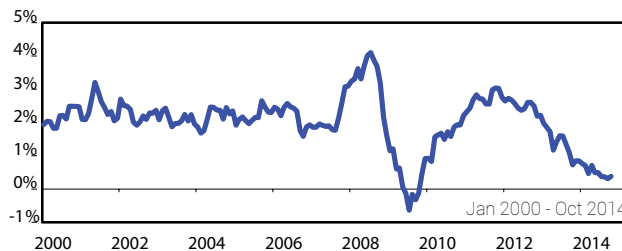
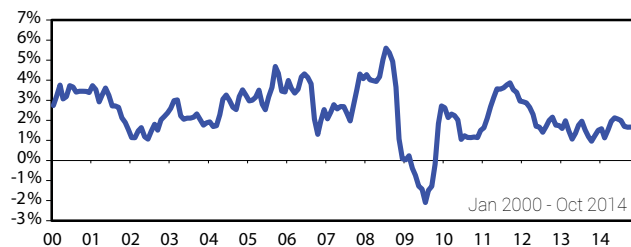


Figure 2 US Inflation Rate



inflation rate, the monetary policy backdrop is not reassuring.

As Capital Dynamics has been warning, post 2008, the conduct of US monetary policy has been increasing in opacity and the Federal Reserve has been shifting its monetary goal posts without clear justification. This uncertainty will aggravate any eventual volatility in inflation and interest rates, equity prices and exchange rates. A recent study by the Federal Reserve Bank of St Louis has found that increased Federal Open Market Committee (FOMC) transparency has led to a paradoxical outcome.

The increased transparency has benefitted financial markets by anchoring inflation expectations but it also has led to longer and more complex statements. To analyze the clarity of FOMC statements, the Federal Reserve Bank of St Louis researchers used the Flesch-Kincaid Grade Level index, a measure of readability. The index combines two measures of text complexity, that is, average word length and average sentence length, to generate a reading level that corresponds to a US grade level or the number of years of education generally required to understand the text.

In the early 1990s, the FOMC statements ranged from 50 to 200 words, with reading grade levels from 9 to 14, meaning that they were accessible to individuals with an education ranging from the first year of high school to two years beyond high school. Pretty clear and accessible.

Then, during Greenspan's time, the FOMC statements averaged 210 words with a reading grade level of 14. By the end of 2008, the statements started to change dramatically with the 2008 US-led global financial crisis breaking out in full force and the beginning of the unconventional monetary policy era. By Jan 2009, the statements were over 400 words with reading grade levels around 16. Then, under Janet Yellen's

yelling, things got really worse and the opacity skyrocketed. The FOMC issued five statements from Mar to Sep 2014 and they all exceeded 800 words, requiring reading grade levels of 18 or 19. This implies that readers of the FOMC statements would require an education level of about 3 years beyond a 4-year degree to understand them. Wow, it is not just about shifting the goal posts as the longer and more complex FOMC statements could unsettle financial markets if they are too difficult to understand, exactly what Capital Dynamics has repeatedly been warning about.

Economist David-Jan Jansen wrote that clear Federal Reserve communications help reduce volatility in the financial markets and not surprisingly, unclear communications cause market participants to delay important investment decisions, generating more uncertainty. With the 2008 US-led global financial crisis, as the Federal Reserve continues to use unconventional instruments, the researchers concluded that the Federal Reserve needs to explain its policy actions in simpler terms to avoid volatility in the financial markets. The US economy is normalising fast. Yet, the US monetary policy is behind the curve. In summary, what we have is a volatile macro environment as the backdrop. Layered upon this is a difficult to understand and hard to interpret US monetary policy. Recipe for a time bomb in the financial markets?

The NAV of the *i* Capital International Value Fund can be viewed at either www.capitaldynamics.com.au or www.funds.icapital.biz.

Yours sincerely,



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26 December 2014

FUND PERFORMANCE 1

Figure 3 Total Return (1 Jul 2009 to 30 Sep 2014)

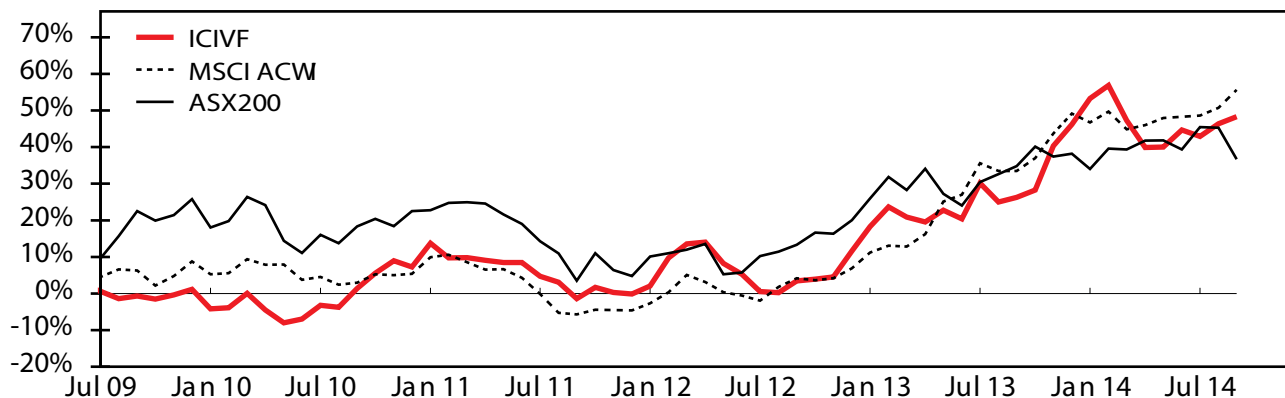


Table 1 Cumulative Total return and Compound return

	Cumulative Total Return (%)			Compound Return (%)
	1-Year-Return	2-Year-Return	Since Inception	Since Inception
ICIVF (AUD)	17.45%	43.39%	48.31%	7.79%
MSCI ACWI (AUD)	16.58%	49.40%	55.60%	8.78%
ASX200 (AUD)	1.42%	20.65%	36.68%	6.13%

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 3 performing stocks (in local currency)

	Quarter ending 30 Sep 2014 (% of change)
QBE Insurance	7.27%
IP Group PLC	2.20%
Petra Diamonds Ltd	1.01%

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 2014), and held till the end of the quarter (i.e. 30 September 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 July 2014 and sold on 30 September 2014, its performance is only measured over 21 July 2014 to 30 September 2014 and not over the full quarter. Similarly, if it was bought on 1 July 2014 and sold on 28 September 2014, its performance is measured over the period 1 July 2014 to 28 September 2014.

FUND PERFORMANCE 3

Table 3 shows the percentage gain or loss of each company held by your Fund as at 30 September 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 Sep 2014 (A\$)	% Change
China Windpower	0.05	0.07	55.92%
Clover Corporation Limited	0.30	0.36	18.16%
Dah Chong Hong	1.02	0.56	-45.36%
IP Group PLC	0.70	3.16	348.74%
Mermaid Marine Australia Limited	2.81	1.93	-31.27%
Mermaid Maritime PCL	0.58	0.30	-47.46%
Petra Diamonds Ltd	2.51	2.84	13.08%
QBE Insurance	16.19	11.66	-28.00%
Rexlot Holdings Ltd	0.10	0.12	17.48%

Table 4 shows the percentage gain or loss arising from currency movements as at 30 September 2014. 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 2014 (A\$)	% Change
China Windpower	0.05	0.06	22.47%
Clover Corporation Limited	0.30	0.30	0.00%
Dah Chong Hong	1.02	1.21	18.73%
IP Group PLC	0.70	0.84	19.77%
Mermaid Marine Australia Limited	2.81	2.81	0.00%
Mermaid Maritime PCL	0.58	0.63	8.78%
Petra Diamonds Ltd	2.51	3.12	24.20%
QBE Insurance	16.19	16.19	0.00%
Rexlot Holdings Ltd	0.10	0.10	-1.14%

PORTFOLIO INFORMATION

Table 5 Percentage of assets held as cash

	Cash (%)	Equities (%)
End of Dec 2013	25.53%	74.47%
End of Mar 2014	41.18%	58.82%
End of Jun 2014	45.54%	54.46%
End of Sep 2014	50.03%	49.97%

Table 6 Top 5 holdings as at end September 2014

	41.6%
IP Group PLC	19.0%
Rexlot Holdings Ltd	6.9%
China Windpower	6.3%
Petra Diamonds Ltd	5.7%
Mermaid Maritime PCL	3.6%

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

	100%
United Kingdom	50%
Hong Kong	28%
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. 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

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.

Federal Open Market Committee (FOMC)

The branch of the Federal Reserve Board that determines the direction of monetary policy. The FOMC is composed of 12 members- The seven members of the Board of Governors, and five of the 12 Reserve Bank presidents. The president of the Federal Reserve Bank of New York serves continuously, while the presidents of the other reserve banks rotate their service of one-year terms.

FOMC Statement

The Federal Open Market Committee releases a short statement after each of its meetings, announcing any change in monetary policy and assessing the risks the economy is facing.

Flesch-Kincaid Grade Level index

A measure of readability that generates a score based on characteristics such as statistical average word length and sentence length of various documents and texts, to generate a reading level that corresponds to a US grade level or the number of years of education generally required to understand.

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, 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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NOTES



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BY Capital Dynamics

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