



**Quarterly Investment Report**  
For the period 1 Oct 2014 to 31 December 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 December 2014, the Fund has, from its inception in July 2009, delivered an annual compound return of 6.91%, 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 44.45%. Comparative benchmark figures are shown in Figure 1 and Table 1.

During the 1 October 2014 to 31 December 2014 quarter, the Fund returned -2.60% after fees. This compares with the MSCI ACWI Index and ASX200 in AUD (benchmark) return of 7.00% and 2.23%, resulting in relative performance of -9.60% and -4.83%. For the year ending 31 December 2014, the Fund returned -1.18% after fees which compares with the benchmark returns of 11.62% and 1.10%.

## MARKET REVIEW AND OUTLOOK

Often, when a major event occurs, we do not recognise its true significance until much later. Many years from now, many of us would look back at the formation of the China-led Asian Infrastructure Investment Bank (AIIB) and wonder why we missed its significance, not just for Asia but particularly for Australia. The single most important economy for Australia since the turn of the 21st century has been China. Her sustained and strong economic growth and development has had profound and often unprecedented impact on the Australian economy. On the converse, any major setback or slowdown to China's economy would have worrying implications for Australia, especially when the Australian economy has not had a recession for more than two decades. In this regard, the current broad based economic slowdown experienced by China is triggering renewed concerns on the Australian economy. This issue has to be looked at from a shorter-term and longer-term perspective.

In the shorter-term, it is difficult for Australia, especially her resource and commodity sectors, to escape the impact of a broad based economic slowdown in China. In the longer-term, what China is doing with regards to the AIIB is more important. The reason is simple.

Infrastructure needs in the developing world are enormous. Asia's infrastructure investment needs are estimated to be a massive US\$8 trillion dollars between 2010 and 2020, according to the Japan-dominated Asian Development Bank (ADB). No single economy can replace China as the single most important economy for Australia for a long time to come. However, Asia outside of Japan as a region can play that role. For Australia, developing India, ASEAN, Pakistan and others can as a region play the role that China is playing. What these countries need most now, and for decades, to come is infrastructure development. In this respect, the ADB has been a major disappointment. A new institution is urgently needed.

A total of 57 countries have been approved as founding members of the Asian Infrastructure Investment Bank (AIIB). This included Norway, which despite being in a diplomatic deep freeze with China since a Chinese dissident won the Nobel Peace Prize, was also accepted. No nation that formally sought to become founding members of the AIIB has been refused. The latest countries included Sweden, Israel, South Africa, Azerbaijan, Iceland, Portugal and Poland. Amongst the 57 included are four of the United Nations Security

Council's five permanent seats, 14 of the 28 European Union countries, and 21 members of the OECD.

The International Monetary Fund (IMF), World Bank, etc have been principally influenced by the agenda of the Western developed economies and Japan, hidden or otherwise. For the rest of the world to grow and develop in accordance with their own objectives and standards, the 6 billion people in the rest of the world have to move away from this unhealthy reliance.

Thanks to the strong and sustained growth and development of China, the rest of the world now has a decent chance of having a healthier and fairer global financial system. Before the annual meeting of the Asia-Pacific Economic Co-operation (APEC) Forum in Bali, Indonesia, in 2013, president Xi Jinping announced China's proposal to establish AIIB. Then, in Oct 2014, a new multilateral bank was created with the formal launch of the AIIB, which is backed by almost all the countries in the region. The new multilateral institution's main lending thrust is in the area of infrastructure financing across Asia, backed by an initial paid-up capital of US\$50 bln and with an authorised capital of US\$100 bln.

What is leading China and her Asian partners to cooperate in creating this new bank?

First, with the major developed economies facing secular stagnation, the Asian economy, which has on the main been export led, is under mounting pressure to create new sources of sustainable growth. At the same time, the lack of infrastructure - roads, airports, ports, power facilities and more - are among the biggest barriers to development throughout Asia. It is estimated that about US\$8 trillion of infrastructure investment will be needed over the next decade. Obviously, strong infrastructure investment in most

parts of Asia is a key candidate and will help to create sustained robust demand, increase jobs and bring about a more effective and efficient production environment as regional infrastructure connectivity will be enhanced. Therefore, as the driver of sustainable growth, infrastructure investment will be a critical source for Asia and elsewhere.

During the launch of the AIIB, Chinese President Xi Jinping told representatives of the 20 other nations who signed the Memorandum of Understanding establishing the bank that "to build fortune, roads should be built first." As Asia continues to take center stage in driving the global economy, the region's full potential can only be fully realised when the infrastructure gap is sealed.

Beyond national infrastructure projects, there is also a need to develop and finance infrastructure projects with regional connectivity. These projects are even more important with the rise of trade and production networks across Asia. These networks have contributed to the industrial upgrading and competitiveness of many countries. However, for countries to meaningfully participate in these production networks, a reliable network of cross-border infrastructure facilities, including road and rail systems, ports, and telecommunications, for example, should be present.

Secondly, Asia is facing a mismatch between demand and supply of capital. On the one hand, the current infrastructure of many Asian economies falls far short of meeting their needs for sustainable economic development (for example, Indonesia and India) and suffer from a capital shortage in financing infrastructure investment. On the other hand, some Asian economies possess massive accumulation of savings, for example, China and some ASEAN countries. On the whole, the

supply of Asian savings is more than adequate to meet the demand for infrastructure investment in Asia. There is a bottleneck in that there is no effective financing platform and channel to meet the needs of the savers and investors in infrastructure. The World Bank and the stodgy Japan-controlled ADB have shifted their focus to poverty reduction even though they have the expertise to lend a lot more for infrastructure, leaving an important vacuum to be filled by a new financial institution. And here comes the AIIB. As a catalyst of the continent, its mandate is to focus on financing in infrastructure development that helps Asia at both the national and regional levels. The AIIB, as a multilateral development institution, will tap into the expertise of experienced Multilateral Development Banks (MDBs) to build the capacity to assess and implement projects successfully. The relationship between the AIIB and existing MDBs will be complementary and cooperative rather than substitutive and duplicative, to jointly advance the sustainable and stable development of Asian economies.

The AIIB is an open and inclusive platform that welcomes not just countries from Asia but others as well, including the United States and European countries in accordance with the principle of first Asian countries and then non-Asian countries. However, the United States has openly put severe pressure on numerous countries to refrain from joining the AIIB. And Japan has of course expressed her reluctance to accept an invitation to be one of the founding members of the AIIB. The United States and Japan viewed the AIIB as a serious threat, claiming that it would not only undermine the ADB but also marginalise American and Japanese influence in Asia and would at best produce a zero-sum outcome. Yet, the US and Japan have abrasively brushed aside truthful statistics that the demand for infrastructure investment and hence finance in Asia is so massive that even the AIIB when it is fully functioning cannot fulfil on its own.

By starting the AIIB, China is actually acting for the good of the world economy, besides for her own economy. In an environment where the major developed economies are struggling to deleverage and reduce budget deficits and stop austerity programmes, a vibrant Asia obviously leads to a vibrant global economy. In the longer-term, this can only be healthy for the Australian economy. The timing of the establishment of the bank could not be more opportune. The infrastructure needs across Asia are great, and the economic growth needs of not just the developing countries but also the major developed economies are also great. Simple facts, hard truths.

China's growing economic stature should be reflected in the governance structure of global institutions such as the IMF and the World Bank which are dogged by rigidity, inflexibility, and exclusively Western-linked economic thinking and ideologies. Unfortunately, reforms to change these institutions have been slow or non-existent. Ever since China floated the idea of a new development institution about 2 years ago, the US has been irrationally against it. America and her allies like Japan myopically see the AIIB as part of China's bid for global leadership, economic leadership, broader political leadership, and compete with the United States. America and her allies like Japan are not looking at the interests of the rest of the world. Why be so rude?

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).

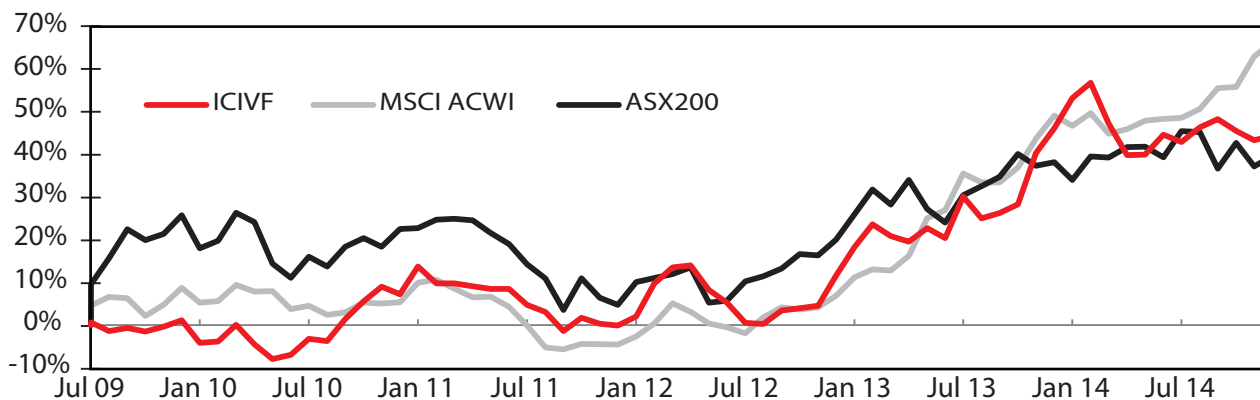
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## FUND PERFORMANCE 1

**Figure 1** ICIVF Total Return (1 Jul 2009 to 31 Dec 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)	-1.18%	29.40%	44.45%	6.91%
MSCI ACWI (AUD)	11.62%	55.76%	66.49%	9.70%
ASX200 (AUD)	1.10%	16.39%	39.74%	6.27%

**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>Quarter ending 31 Dec 2014 (% of change)</b>
Petra Diamonds Ltd	2.71%
IP Group PLC	0.39%

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 October 2014), and held till the end of the quarter (i.e. 31 December 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 Petra Diamonds was bought on 21 October 2014 and sold on 31 December 2014, its performance is only measured over 21 October 2014 to 31 December 2014 and not over the full quarter. Similarly, if it was bought on 1 October 2014 and sold on 11 December 2014, its performance is measured over the period 1 October 2014 to 11 December 2014.

## FUND PERFORMANCE 3

**Table 3** shows the percentage gain or loss of each company held by your Fund as at 31 December 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 Dec 2014 (A\$)	% Change
China Windpower	0.05	0.05	4.36%
Clover Corporation Limited	0.30	0.30	-0.15%
Dah Chong Hong	1.02	0.52	-49.01%
IP Group PLC	0.70	3.17	350.50%
Mermaid Marine Australia Limited	2.81	1.24	-55.84%
Mermaid Maritime PCL	0.58	0.24	-58.82%
QBE Insurance	16.19	11.21	-30.78%
Rexlot Holdings Ltd	0.10	0.09	-6.31%

**Table 4** shows the percentage gain or loss arising from currency movements as at 31 December 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 Dec 2014 (A\$)</b>	<b>% Change</b>
China Windpower	0.05	0.06	31.13%
Clover Corporation Limited	0.30	0.30	0.00%
Dah Chong Hong	1.02	1.29	27.13%
IP Group PLC	0.70	0.87	23.18%
Mermaid Marine Australia Limited	2.81	2.81	0.00%
Mermaid Maritime PCL	0.58	0.65	11.94%
QBE Insurance	16.19	16.19	0.00%
Rexlot Holdings Ltd	0.10	0.11	5.85%

## PORTFOLIO INFORMATION

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

	Cash (%)	Equities (%)
End of Mar 2014	41.18%	58.82%
End of Jun 2014	45.54%	54.46%
End of Sep 2014	50.03%	49.97%
End of Dec 2014	77.38%	22.62%

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

	<b>19.8%</b>
Rexlot Holdings Ltd	6.1%
China Windpower	4.7%
QBE Insurance	3.1%
Mermaid Maritime PCL	3.0%
IP Group PLC	2.9%

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

	<b>100%</b>
Hong Kong	51%
Australia	22%
Singapore	13%
United Kingdom	13%

**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

### **Asian Infrastructure Investment Bank (AIIB)**

The Asian Infrastructure Investment Bank (AIIB) is an international financial institution proposed by the government of China and formed in October 2014. The purpose of the multilateral development bank is to provide finance for infrastructure projects in the Asia region.

### **Asian Development Bank (ADB)**

The Asian Development Bank (ADB) is a regional development bank established on 22 August 1966 which is headquartered in Metro Manila, Philippines, to facilitate economic development in Asia. The two largest shareholders of the Asian Development Bank are the United States and Japan.

### **Secular Stagnation**

Secular stagnation is a condition of negligible or no economic growth in a market-based economy. The term secular is used in contrast to cyclical or short-term, and suggests a change of fundamental dynamics which would play out only in its own time.

### **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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