

# *i* Capital China Fund

A Sub-Fund of *i* Capital Master Fund

Semi-Annual Report 2022

For the period ended 31 July 2022



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## ***i* CAPITAL CHINA FUND AT A GLANCE**

### **Investment Objective**

To achieve long-term capital appreciation by primarily investing in equity securities issued by companies listed in Hong Kong, Shanghai and/or Shenzhen.

### **Investor Profile**

Investors who are seeking to access capital growth over a long term investment horizon, and can tolerate short term volatility and fluctuations in returns.

### **Subscription Fee**

Nil

### **Redemption Fee\* (% of redemption amount)**

5% for Units held for 1 year or less; Nil for Units held for more than 1 year

### **Management Fee\***

1.5% (150 basis points)

### **Trustee Fee\***

Up to 0.15% (15 basis points), subject to a minimum monthly fee of US\$5,000

### **Custodian Fee\***

Up to 0.0275% (2.75 basis points)

### **Performance Fee\***

10% (1000 basis points) of the outperformance of the Net Asset Value per Unit during a performance period over the High Water Mark

### **Inception Date**

2 January 2018

### **Minimum Investment (USD)**

\$1,000

### **Additional Investment (USD)**

\$1,000

Additional subscription form can be downloaded from the Manager's website or obtained directly from the Manager.

**i CAPITAL CHINA FUND AT A GLANCE (Continued)**

**Dealing frequency**

Weekly (last Hong Kong Business Day of every week before 3:00pm)

**Manager**

Capital Dynamics Asset Management (HK) Private Limited  
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**Directors of the Manager**

Tan Teng Boo  
Wu Xiongwei

**Solicitors to the Manager**

Deacons

**Trustee and Registrar**

BOCI-Prudential Trustee Limited

**Custodian**

Bank of China (Hong Kong) Limited

**Auditors**

PricewaterhouseCoopers

\*For more details on the above fees, please refer to the Fees and Expenses under the latest Explanatory Memorandum.

This Semi-Annual Report shall not constitute an offer to sell or a solicitation of an offer to buy units in any of the funds. Subscriptions are to be made only on the basis of the information contained in the relevant explanatory memorandum (and the documents referred to within it), supplemented by the most recent financial report.

## PERFORMANCE REVIEW

For the period between 31 January 2022 and 31 July 2022, the Net Assets Value (“NAV”) attributable to unitholders per unit of the *i* Capital China Fund (ICCF) decreased by 13.63% from USD1.1347 to USD0.9800.

The Chinese equity markets has been experiencing a continuous down trend since the beginning of 2022 due to concerns over a weak economy which are caused by the government’s reform of the property sector and the dynamic Zero-Covid policy. The ongoing anti-China policy of the US is also escalating, leading to more US sanctions on Chinese companies and more decoupling. From 31 January 2022 to 31 July 2022, the Shanghai Composite Index and the

Shenzhen Composite Index fell by 3.22% and 3.59% respectively. As the Renminbi depreciated by about 6.01% against the US dollar over this period, the performance of the Shanghai and Shenzhen indices in USD terms were weaker in the same six months period. The Hong Kong market was further dragged down by aggressive monetary tightening in the US. The Hang Seng China Enterprise Index (HSCEI) comprising a selection of Chinese stocks listed in Hong Kong and denominated in HK dollars plunged 17.54% over this period.

As at 31 July 2022, *i* Capital China Fund held about 7.19% of its NAV in cash.

## MARKET REVIEW AND OUTLOOK

The Chinese government’s structural reform of the property sector has significantly slowed down real estate investment and new home purchase. Together with the spill over effect on other sectors such as banks, investors are becoming concerned over the slowing economy. The emergence of new Covid-19 cases in many parts of China including large cities such as Shanghai and Shenzhen, and the subsequent lockdowns, have not only effectively shut down the local economy but also affected supply chains for many industries. Adding in the negative sentiment

from layoffs in real estate, education, and other service sectors, Chinese consumers’ confidence is also severely affected. The latest economic figures showed a slowing domestic economy with softened domestic demand. Industrial production only grew 3.8% YoY in July 2022, versus June’s 3.9. The social total consumption edged up just 2.7% in July 2022, versus 3.1% in June. Now the policy tone is not to achieve the 5.5% GDP growth target; instead, the Chinese government is aiming at creating enough jobs.

However, we believe that the overall Chinese economy is still in an excellent shape. After continuously addressing problems such as local government debt, P2P, property market, China's financial system has become much more stable, and the debt-to-GDP ratio is at a reasonable level. The policy focus is shifting from preventing risks to stabilising and re-energising growth, which will further support the stock market.

The tightening of US monetary policy will not stop the PBOC's easing moves as China's consumer prices are well under control. Learned from China's long historic lessons, Chinese leaders always manage prudently and put food and energy safety as the most important policy objective. What Western media does not report is that China has planned very early on and taken many effective measures to respond to global food security risks caused by the pandemic or geopolitical conflicts. China's per capita grain availability reached 483 kilograms last year, much higher than the global standard of food security. Well before the Ukrainian Crisis, which has pushed up global soybean and edible oil prices, China has aggressively expanded soybean and oil-producing crops, with this year's rapeseed yield hitting a record high. This year's summer grain harvest in China came in at 147.4 mln metric tons, a rise of 1.4 mln tons from last year, with wheat production at 135.7 mln tons, up 1% YoY. China is also expecting a bumper harvest of autumn grain, which accounts for about 75% of the annual grain output. The planting area is expected to increase and the growth in Northeast China, which produces one-third of the nation's autumn grain, is

better than normal years because of plentiful rainfall and good soil moisture, according to the Ministry of Agriculture and Rural Affairs.

The production of pork, Chinese favourite meat, increased 8.2% in the first half of the year. Pork prices have been recovering since late March. In June, the average wholesale price reached RMB21.57 per kilogram, a 4.3% increase on the previous month, but a year-on-year decrease of 8.2%. The supply of vegetables, fruits, eggs and other major foodstuffs are also sufficient in China.

Energy prices are well managed in China with increasing self-sufficiency. In 1H2022, China produced 2.19 bln metric tons of raw coal, up 11.0% YoY, and its coal import which totalled 115 mln tons has dropped 17.5%. In July, raw coal output expanded rapidly, with about 370 mln metric tons produced, surging 16.1%, according to NBS. It produced 102.88 mln tons of crude oil, up 4.0% YoY, and imported 252.52 mln tons of crude oil, down 3.1% YoY. It also produced 109.6 bln cubic meters of natural gas, up 4.9% YoY, and imported 53.57 mln tons, down 10%. More importantly, China has approved 800 mln tons new capacity of coal production this year, which will become a new supply in the next few years. The new energy sector has started to contribute to China's electricity generation. With thermal power generation down 3.9%, wind power and solar power have gone up 7.8% and 13.5% respectively YoY. When hydropower generation, which jumped 20.3% YoY, is added, the three renewable energy sources now account for 26.2% of China's electricity

generation in 1H2022, 3.3 percentage points higher than 1H2021.

All these well-planned policies have resulted in a mere 1.7% YoY increase of China's consumer price index (CPI) in 1H2022. In July, the pace of its CPI growth reached 2.7%, which is still low, especially compared with US and Europe. The producer price index, which measures costs for goods at the factory gate and directly links energy costs, went up only 4.2% YoY in July 2022.

As the PBOC said in its second-quarter monetary policy report, it will still take domestic factors as the dominant determinants in policy-setting, while keeping a close eye on the spill over effects of the economic situation and monetary policy adjustments in developed economies. On 22 August 2022, PBOC announced the one-year loan prime rate (LPR) at 3.65%, down from 3.7%. The over-five-year LPR, on which many lenders base their mortgage rates on, was lowered by 15 basis points to 4.3%. The reduction followed the cut in the over-five-year rates in May. PBOC's policy independence from the US Fed demonstrates the gradual improvement in Chinese economy with solid foundation.

Such a solid foundation is demonstrated by the competitiveness of Chinese industrial sector. China's steady supply capacity has stood out in a shattered global supply chain ruined by skyrocketing energy costs, Ukrainian Crisis and Covid-19, which generated China a huge amount of trade surplus. The RMB is well supported by such favourable trade

condition which helped offset the pressure of capital outflows. According to the State Administration of Foreign Exchange, China's trade surplus in goods surged by 36% YoY to \$320.7 bln in the first half of 2022, reaching the highest reading on record for the same period.

Chinese producers are also catching up the value chain very quickly. The huge base of engineers, excellent infrastructure and favourable policies has made Chinese manufacturers much more competitive in the world. For example, the major driving force of the retail sales this year is the fast growth of auto sales, which is further supported by much stronger auto makers in China. Local firms such as BYD, Great Wall, and XPeng not only make cars with the same quality as foreign ones, but at a cheaper price. More importantly, due to the well-planned government policy, China has grabbed the major parts of the supply chain for the new EV market, which helped China to retrieve much more value from this fast-growing segment compared with the traditional vehicles. As car drivers worldwide are complaining about the rise of fuel prices, Chinese drivers are buying more and more new EVs which are not only cheaper than traditional models but also have a much more affordable fuel cost due to China's stable electricity price.

This is why China has attracted a huge amount of foreign direct investment this year despite rampant capital outflow in many countries. Contrary to Western media's criticism of the Chinese government, it is clear that global business leaders have a very



different idea. According to China's Ministry of Commerce, foreign direct investment (FDI) in China expanded 16.4% year-on-year to RMB892.74 bln (US\$127.24 bln) in the first eight months of this year. Sector wise, FDI in China's services sector was up 8.7% YoY, while FDI in high-tech industries jumped 33.6% YoY. Some people worry that some countries or companies plan to implement the so-called "China Plus One" strategy by diversifying their supply chains to other countries such as Vietnam and India. The truth is that FDI from Korea surged 58.9% YoY in China in the first eight months of 2022, while investment from Germany and Japan climbed 30.3% and 26.8%, respectively. You may notice these three countries are the most important industry players in the global supply chain.

Global business leaders are pouring money with long-term commitments into China, especially companies from Korea, Germany, and Japan, who should know much more about China than US or UK. So, what should investors like us do? Benjamin Graham said, "Investment is most intelligent when it is most business like." The reason why value investing is so tough and not many people can make money is because patience is required especially when there are temporary disruptions. We expect both

the Chinese economy and equity markets to remain relatively stable, and with the Covid-19 pandemic closer to its end rather than a new beginning, 2023 will see better days ahead for Chinese stocks and therefore your Fund. In conclusion, we strongly encourage investors to follow the global business leaders to invest more into the i Capital China Fund.

Best wishes.



Tan Teng Boo  
Managing Director  
Capital Dynamics Asset Management  
(HK) Private Limited

12th October 2022

## FUND PERFORMANCE 1

**Table 1** Top Performing Stock from 31 January 2022 to 31 July 2022

	Ending 31 July 2022 (% Changed)
Jiangsu Yanghe Brewery Joint-Stock Co Ltd - A shares	0.06%

The table above represents the top performing stock your fund held at sometime within the referenced interim period. The stocks do not necessarily need to be bought at the start of the interim period (i.e. 1 February 2022), and held till the end of the interim period (i.e. 31 July 2022). Stock performance will only be measured over the specific period that your fund held the stock in the referenced interim period. This

means that, for example, if Jiangsu Yanghe Brewery was bought on 22 April 2022 and sold on 29 July 2022, its performance is only measured over 22 April 2022 to 29 July 2022 and not over the full interim period. Similarly, if it was bought on 7 February 2022 and sold on 12 July 2022, its performance is measured over the period 7 February 2022 to 12 July 2022.

## FUND PERFORMANCE 2

Table 2 shows the percentage of unrealised gain or loss (in US\$) of each company held by your Fund as at 31 July 2022.

**Table 2** Percentage of unrealised gain or loss (in US\$) arising as at 31 July 2022

	% Change
Concord New Energy Group Ltd	78.97%
Jiangsu Yanghe Brewery Joint-Stock Co Ltd - A shares	59.66%
Guangdong Provincial Expressway Development Co Ltd - B shares	4.73%
Pico Far East Hldgs Ltd	-4.04%
Han's Laser Technology Industry Group Co Ltd - A shares	-14.28%

	% Change
AIA Group Ltd	-16.47%
China Sunsine Chemical Hldgs Ltd	-25.49%
Angel Yeast Co Ltd - A shares	-28.18%
Xpeng Inc	-37.76%
Alibaba Group Hldg Ltd (HKEX-listed)	-39.62%
Ping An Insurance Group Co of Chinese Ltd - H shares	-45.37%
Alibaba Group Hldg Ltd (NYSE-listed)	-51.12%

Notes: The returns shown above are not adjusted to dividends and may not fully reflect the true returns

## PORTFOLIO INFORMATION

**Table 3** Percentage of assets held as cash

	Cash	Equities	Other net assets	Total
End of Jan 2022	5.31%	94.53%	0.16%	100.00%
End of Jul 2022	7.19%	92.65%	0.16%	100.00%

**Table 4** Top 5 holdings as at end of Jul 2022

Concord New Energy Group Ltd	16.34%
Jiangsu Yanghe Brewery Joint-Stock Co Ltd - A shares	12.84%
Guangdong Provincial Expressway Development Co Ltd - B shares	11.82%
Han's Laser Technology Industry Group Co Ltd - A shares	9.25%
China Sunsine Chemical Hldgs Ltd	8.61%

## OTHER INFORMATION

### About *i* Capital China Fund

*i* Capital China Fund is a fund constituted in the form of a unit trust under *i* Capital Master Fund, an umbrella unit trust established under the laws of Hong Kong.

The fund seeks to achieve long-term capital appreciation by primarily investing in equity securities issued by companies listed in Hong Kong, Shanghai and/or Shenzhen.

Investors should note that the fund's allocation between instruments in the mainland China and the Hong Kong markets may change significantly from time to time. This may result in the fund's investment portfolio becoming more concentrated on either the mainland China market or the Hong Kong market from time to time.

The fund's investment strategy is driven by the Manager's long term value investing philosophy. The Manager adapts its value investing approach by considering political and economic factors, and aims at drawing on the intrinsic value of a company having regard to the principle of margin of safety (the difference between the intrinsic value of a stock and its market price) as its core investment philosophy. The fund's investment horizon will not be restricted by sector or market cap.

The fund aims to invest predominantly in listed securities whilst maintaining a cash buffer on a temporary basis (pending suitable investment

opportunities and also for defensive purposes). The actual asset allocation is driven by the Manager's value investing philosophy which is based on two components: namely the valuation of a listed company AND its market price. When the Manager considers the market is undervalued and there are appropriate investment opportunities whereby listed companies are trading below their fair value, the fund may invest as much as 98% of its Net Asset Value in listed equity securities. In times of extreme market conditions such as when there are speculative bubbles in the mainland China and/or Hong Kong markets where the Manager considers that securities are overvalued and/or the mainland China or the Hong Kong economy is overheating, the fund's assets may invest up to 100% in cash/cash equivalent products on a temporary basis (such as money market instruments) in order to mitigate risk and/or maintain liquidity of the fund.

In seeking to achieve the long term capital appreciation investment objective of the fund, the Manager may consider a broad variety of factors and circumstances in the selection of securities and construction of the fund's portfolio. Such factors may include, but are not limited to, a company's profitability, debt, valuation, growth prospects, actual or future cash flows, volatility, availability and liquidity of securities, sector outlook or prospects, the overall economic, political, tax and regulatory environment affecting the relevant securities and markets in mainland China and/or Hong Kong.

## OTHER INFORMATION (Continued)

### About Capital Dynamics Group

Capital Dynamics is an independent global fund manager and investment adviser, not tied to any bank, insurer, stockbroker or political organization.

Having more than 30 years of investing experience, and with offices in Shanghai, Hong Kong, Sydney, Singapore and Kuala Lumpur, Capital Dynamics is the first Asian fund manager to go global. As a result of its research driven approach, Capital Dynamics has delivered strong long term returns for its clients over the last few decades.

Our managed funds and investment advisory services are all directly accessible by individual, corporate and institutional investors around the world, and we also offer individually managed accounts to professional investors. 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.

Capital Dynamics Asset Management (HK) Private Limited (CDHK) obtained the Type 9 (Asset Management) license issued by the Securities and Futures Commission Hong Kong (SFC) in January 2013. CDHK provides discretionary investment management service and the first client was onboarded in October 2015. CDHK manages the *i* Capital China Fund, a newly launched retail unit trust fund authorized by the SFC.

Capital Dynamics (S) Private Limited (CDPL), a global fund manager based in Singapore. CDPL commenced operations in June 2006. It manages the *i* Capital Global Fund, an open-end fund and discretionary accounts.

Capital Dynamics (Australia) Limited (CDAL) obtained its Australian Financial Services License (AFSL 326283) from the Australian Securities and Investments Commission in December 2008. This allows CDAL to provide fund management and financial advisory services to retail and wholesale investors. Based in Sydney, CDAL manages the *i* Capital International Value Fund, *i* Capital Asia-Pacific ex-Japan BTB Fund and individually managed accounts.

Capital Dynamics Asset Management Sdn Bhd (CDAM), based in Kuala Lumpur, manages [icapital.biz](http://icapital.biz) Berhad, a closed-end fund listed on Bursa Malaysia and discretionary accounts.

For more information about Capital Dynamics, visit [www.capitaldynamics.biz](http://www.capitaldynamics.biz)

## OTHER INFORMATION (Continued)

### Our Philosophy

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-term 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.

Disclaimer: The information in this 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. Past performance is not a reliable indicator of future performance.





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