

# *i* Capital China Fund

A Sub-Fund of *i* Capital Master Fund

Semi-Annual Report 2021

For the period ended 31 July 2021



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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 2021 and 31 July 2021, the Net Assets Value (“NAV”) attributable to unitholders per unit of the *i* Capital China Fund (ICCF) increased by 9.01% from USD1.0566 to USD1.1518.

For the Chinese equity market, 2021 looks like an even more volatile year than 2020 due to various policy concerns and profit taking in some popular sectors. From 31 January 2021 to 31 July 2021, the Shanghai Composite Index fell 2.46% while the Shenzhen Composite Index increased by 2.17%. As the Renminbi appreciated by about 0.51% against the US dollar over this period, the performance of the

Shanghai and Shenzhen indices in USD terms were weaker over the same six months period. The Hang Seng China Enterprise Index (“HSCEI”) comprising a selection of Chinese stocks listed in Hong Kong and denominated in HK dollars decreased by 17.63% over this period.

By 31 July 2021, *i* Capital China Fund held about 15.11% of its NAV in cash. That is also one of the reasons why your fund has outperformed the turbulent markets in China and Hong Kong this year, as your fund manager selected stocks very carefully with no rush to fully invest.

## MARKET REVIEW AND OUTLOOK

After hitting a high around Chinese New Year in Feb 2021, the Chinese equity markets reversed and went down quickly, driven by intensive profit taking and concerns on US interest rate hike. The selling accelerated in July and the Hang Seng Average, for example, tumbled even more than in March last year when the Covid-19 pandemic first hit China. Previous hot sectors such as the internet, healthcare, insurance, online gaming, baijiu, private education and more were hit especially hard, due to concerns over the Chinese government’s policies.

Despite this negative sentiment, we are becoming even more positive about China’s long-term future. First of all, we believe Xi Jinping is not taking China back to the days of Mao’s economic ideology. As we analyzed in Volume 33 Number 1 of our *i* Capital investment publication, investors should understand the reasons behind the Chinese government’s crackdown on various sectors within the context of Xi Jinping’s Thoughts. In a three-and-a-half hour address in the opening session of the 19th National Congress, delivered on 18 Oct 2017, president Xi

Jinping gave a succinct introduction to China's roadmap for the future. This important speech was titled "Secure a decisive victory in building a moderately prosperous society in all respects."

In the said Congress, the CPC enshrined Xi's name and ideas, that is, the "Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era", into the party constitution. Xi has tightened ideological control and revived Maoist and Marxist principles in order to deal with the major shortcomings caused by Deng Xiaoping's Reform and Opening-up era. A key aspect of Xi Jinping's "New Era" is to resolve the contradictions arising from Mao Zedong's egalitarianism and that of Deng Xiaoping's unequal wealth creation. Recent policies are meant to correct the excesses arising from Deng's era. In terms of economic thoughts, Xi believes "The market and the government should complement and coordinate with each other to promote sustained and sound social and economic development." The "visible" hand and the "invisible" hand need to work hand in hand. The Chinese government will still play a major role in driving the economy and this has been the same for the US, Japan, Germany, the UK, and almost every other country.

Chinese economic policy has to tackle a structural supply side problem, which is that "the supply structure cannot adapt to the change in the demand structure, and the variety and quality of products and services cannot meet the multilevel and diversified market demand." The Chinese leadership is aware of current structural problems and are willing to

take short-term pains to sustain long-term growth. This sets China apart other Western countries who are more willing to take easy monetary and fiscal policies to boost short-term growth and favour capital instead of the people. To Chinese leaders, promoting scientific and technological innovation and accelerating scientific and technological self-reliance becomes the basic driving force for China's new development pattern with domestic circulation as the main body and domestic and international circulation promoting each other. Linking this objective to the recent regulatory actions on internet platform companies, for example, we can find the government is trying to develop a healthy market and to encourage more innovations, rather than to drag down the whole tech sector. Supply side reform requires policies to break the monopolies in various sectors, including finance, manufacturing, and technology to strengthen the role of innovation in economic development and enhance the role of entrepreneurs in innovation.

On the demand side, the Chinese government under Xi Jinping is aiming for "Common Prosperity", or effectively a massive affluent middle-income population in China, and striving to meet their higher quality and more diversified demands. "Common prosperity" does not mean prosperity for just a few. It is not fairly dividing a cake which does not grow in size. It is sharing an expanding cake in a more equitable manner. "Common prosperity" refers to affluence, in both material and cultural terms, to be fairly shared by everyone. As the Chinese government has eliminated extreme poverty,

achieving the “common prosperity” objective next will actually benefit the middle and lower-income segments of the Chinese economy and therefore the entire Chinese economy. Besides narrowing the urban-rural gap, gaps across regions and different industries, this policy will actually boost domestic private consumption. Vice premier Liu He believes the increase of China’s middle-income population is one of the most important goal of Chinese socio-economic policies, but he realized: “There are many more political, economic, social and cultural conditions that need to be created for the steady rise of the middle-income group, many of which are slow variables, and the process of increasing the middle-income group’s share is even full of traps.” As China’s GDP per capital has reached US\$10,000 in 2020, the demands for housing, education, healthcare (so-called new three mountains suffocating Chinese families) are increasing even faster; that is why the Chinese government stepped up reforms in these areas this year. Regulatory actions on personal data security and internet financial firms are to protect consumer’s interests to satisfy their high-quality demands.

For investors who fear and panic over Chinese stocks, let us reiterate my eclectic investment philosophy or value investing with bamboo characteristics. We recognize that conventional value investing may be inadequate in the context of investing in developing countries where established or matured institutions may be lacking and or market forces not significant or are in an embryonic stage. As such, we formulate our value investing approach by considering factors

like political and economic structures and social conditions. Based on this approach, we understand what the Chinese government under Xi Jinping is trying to achieve with the crackdowns.

In fact, the current crackdowns have made me even more convinced that the Communist Party of China under Xi Jinping is on the right path in achieving the 2049 objectives and hence make China the first advanced civilization. According to China’s 14th Five-Year Plan (2021-25) (14FYP) and long-range objectives through 2035, China aims to double its 2020 GDP in 2035 with GDP per capita reaching the level of a moderately developed country, which translates to an average annual growth rate around 4.8% in the next 15 years. China’s new growth pattern is much more sustainable than before, with a focus on high-quality growth characterized by self-reliance in the high-tech sector, domestic demand, and environmental protection. On 22 Sep 2020, in the Seventy-fifth session of the United Nations General Assembly, President Xi proposed China’s targets of peaking carbon dioxide emissions before 2030 and achieving carbon neutrality before 2060 as the nationally determined contribution under the Paris Agreement.

One example of China’s fast development is her auto industry. As other countries are still busy at fighting the pandemic restraining manufacturing activities, China’s auto industry is making some revolutionary changes. In this year’s Shanghai auto show, the number of tech companies and their exhibits might make people wonder if they had gone to the right



venue instead of the biennial event for vehicle makers. There were almost 100 technology companies, consisting roughly one-tenth of the exhibitors. Tech giants from Huawei to Baidu were there explaining their understanding of smart vehicles and showing their products, covering AI chips, high-definition maps, and even car models. New automakers such as XPeng are rolling out advanced autonomous vehicles which are going to be equipped with city navigation guided pilot function, supported by China's advanced network connections. As the Covid-19 virus could coexist with us for a longer time, the digital infrastructure will become more and more important. With a quick catching up in both technology and applications, China will probably be the best positioned in the post-pandemic world.

Given such a well-managed country and positive outlook, the current panic selling in many Chinese stocks offers many attractive long-term investing opportunities. A well-managed company, fully cognizant of its many societal responsibilities, will still be able to prosper and grow in a China that will

be growing robustly and healthily for a long time to come. Investors who want to invest in China need to understand the government's objectives and policies. When they are viewed correctly, prospects for China and the *i* Capital China Fund are extremely bright.

Best wishes.



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

5 November 2021

## FUND PERFORMANCE 1

**Table 1** Top 3 Performing Stocks from 31 January 2021 to 31 July 2021

	Ending 31 July 2021 (% of Change)
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD - B SHARES	19.82%
CHINA TRADITIONAL CHINESE MEDICINE HOLDINGS CO LTD	12.49%
CHINA SUNSINE CHEMICAL HLDGS LTD	10.12%

The table above represents the top 3 performing stocks 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. 31 January 2021), and held till the end of the interim period (i.e. 31 July 2021). 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 China Sunsine Chemical Hldgs Ltd was bought on 23 April 2021 and sold on 31 July 2021, its performance is only measured over 23 April 2021 to 31 July 2021 and not over the full interim period. Similarly, if it was bought on 31 January 2021 and sold on 12 July 2021, its performance is measured over the period 31 January 2021 to 12 July 2021.

## 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 2021.

**Table 2** Percentage of unrealised gain or loss (in US\$) arising as at 31 July 2021

	% Change
JIANGSU YANGHE BREWERY JOINT-STOCK CO LTD - A SHARES	64.22%
CONCORD NEW ENERGY GROUP LTD	39.20%
CHINA TRADITIONAL CHINESE MEDICINE	20.18%
PICO FAR EAST HLDGS LTD	13.48%
ALIBABA GROUP HLDG LTD	6.76%

	% Change
HAN'S LASER TECHNOLOGY INDUSTRY GROUP CO LTD - A SHARES	3.75%
XPENG INC	1.93%
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD - B SHARES	-4.31%
CHINA SUNSINE CHEMICAL HLDGS LTD	-10.97%
ANGEL YEAST CO LTD - A SHARES	-21.15%
PING AN INSURANCE GROUP CO OF CHINESE LTD - H SHARES	-28.79%

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 2021	12.16%	90.31%	-2.46%	100.00%
End of Jul 2021	26.42%	84.89%	-11.31%	100.00%

**Table 4** Top 5 holdings as at end Jul 2021

JIANGSU YANGHE BREWERY JOINT-STOCK CO LTD - A SHARES	11.26%
CONCORD NEW ENERGY GROUP LTD	10.84%
XPENG INC	10.18%
HAN'S LASER TECHNOLOGY INDUSTRY GROUP CO LTD - A SHARES	9.54%
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD - B SHARES	9.21%

## 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 and individually managed accounts.

Capital Dynamics Asset Management Sdn Bhd (CDAM), based in Kuala Lumpur, manages *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 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-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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