

# *i* Capital China Fund

A Sub-Fund of *i* Capital Master Fund

## Semi-Annual Report 2018

For the period ended 31 January 2018



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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\$2,500 for the first 12 months of the launch of the fund and US\$5,000 thereafter

### **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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Website: <http://www.capitaldynamics.hk>

**Directors of the Manager**

Tan Teng Boo  
Wu Xiongwei  
Wu Chin-Shan, Richard

**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

This is the first semi-annual report of the *i Capital China Fund*. Although the financial year end of *i Capital China Fund* ends on 31 July, the fund was launched on 2 Jan 2018.

For the period between 2 Jan 2018 and 31 Jan 2018, the NAV of the *i Capital China Fund* rose by 1.73% from USD1.0000 to USD1.0173.

The *i Capital China Fund* was launched at a time when the global financial markets led by the New York Stock Exchange (NYSE) and NASDAQ are witnessing a very volatile period.

Although the fund size is relatively small, and thus could have been fully invested pretty quickly, your

fund manager did otherwise. By 31 January 2018, *i Capital China Fund* still held about 64% cash, mainly in Renminbi. Your fund manager has taken a very prudent approach to wait for the right investment opportunities.

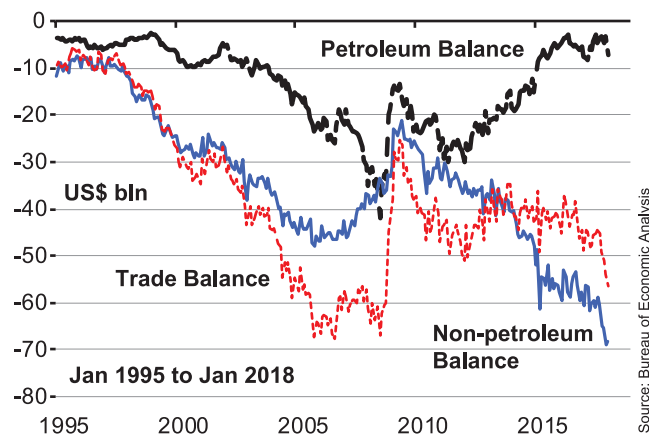
The present portfolio of *i Capital China Fund* is spread across 6 companies, which are engaged in a wide range of business activities. The top three investments are Hangzhou Robam Appliances Co Ltd-A (listed on Shenzhen Stock Exchange), Guangdong Provincial Expressway Development Co Ltd-B (listed on Shenzhen Stock Exchange) and Xiamen Meiya Pico Information Co Ltd-A (listed on Shenzhen Stock Exchange). These 3 investments make up 21.80% (see page 12) of the total funds.

## MARKET REVIEW AND OUTLOOK

As we write this semi-annual report, investors are belatedly shifting their attention to the global trade war that Trump has arrogantly created. Global equity markets are now spooked by Trump's trade protectionist actions. If you look at the US trade deficit and then put yourself in the shoes of Navarro, Lighthizer, Bolton, Pompeo, and Ross, you would say: "Oh my god, we have got to do something about America's horrid trade deficit (**Figure 1**)."

Since 2007-2008, America's trade deficit has narrowed rather substantially. The biggest factor for this improvement is America's petroleum balance. Thanks to surging US oil and gas production and exports since 2008, America's petroleum balance has improved by leaps and bounds. At the same time, America's non-petroleum deficit has been worsening since 2009-2010. As we all know, America has put the

**Figure 1 Trade Balance**



blame of this rising deficit on China, the favourite scapegoat for many of the things that are wrong with America. It is this deficit that is being used by Navarro, Lighthizer and Ross, led by Trump, to justify America's current protectionist stance. The worrying part in the unfolding American engineered trade war is that America's non-petroleum deficit is not going to improve any time soon. Why ?

There are two reasons why America's non-petroleum deficit will persist. One, the deficit is caused by America's fundamental weakness. Two, the solutions adopted by Trump aka America's Apprentice are wrong. America's trade deficit is a structural problem and therefore cannot be solved by simply scapegoating China or imposing tariffs on other countries.

America's economic structure is wrong. America saves too little. The education system of the US is producing the wrong types of graduates. America's manufacturers are no longer globally competitive. The Japanese and Koreans told them so a long time ago. When US reduce imports from China, the same imports will just stream in from low-cost countries like Vietnam, India, Bangladesh, etc. Like the previous American presidents, starting from Ronald Reagan onwards, Trump is using the wrong people to tackle America's persistent trade deficit issue. How can a trade lawyer like Lighthizer, albeit a very experienced one, tackle fundamental macro-economic problems ? Lighthizer will just use legal engineering to deal with trade deficit. Navarro, supposedly an economics professor, does not know what is fundamentally causing America's trade problems. He should thoroughly examine why Germany can succeed in exporting to the very same country that he is stabbing at - China. Ross does not know manufacturing. Period.

Bolton, the latest national security advisor is a controversial super-hawk. He cheered on the 2003

invasion of Iraq, called for bombing Iran to stop her nuclear program, dismissed the idea of a two-state solution in the Middle East and derided the United Nations. Bolton's approach to North Korea includes a pre-emptive military strike and dismissing direct negotiations. More importantly, Bolton has taken a tough position on tariffs on China and Taiwan. Like Navarro, Lighthizer et al, Bolton says China is systematically cheating on global trade. He has also urged a rethink of US restrictions of contacts with Taiwan. Bolton criticized America's "One-China" policy. John Bolton will certainly contribute to further deterioration in China-US relations and North Korea-US relations.

To solve America's trade deficit, Donald Duck, oops Trump should urgently assemble a new team of real advisers and officials. The current protectionist team at the White House will harm all of us. We have been advising investors to be vigilant over the interest, wage and inflation growth rates. Now, we have to add to that list - American-made tariffs.

As the fund manager of i Capital China Fund, we will continue to hunt for opportunities in the current turbulent market conditions utilising our eclectic value investing style.

The NAV of i Capital China Fund can be viewed at either [www.capitaldynamics.hk](http://www.capitaldynamics.hk) or [www.funds.icapital.biz](http://www.funds.icapital.biz)

Best wishes.



**Tan Teng Boo**  
**Managing Director**  
**Capital Dynamics Asset Management**  
**(HK) Private Limited**  
28<sup>th</sup> Mar 2018

## STATEMENT OF FINANCIAL POSITION (UNAUDITED)

**As at 31 January 2018**

	<b>As at 31 January 2018</b>
	<b>US\$</b>
<b>Assets</b>	
Investment in securities, at fair value (cost US\$1,789,347)	1,834,563
Cash and cash equivalents	1,345,368
Interest receivable	537
Short-term deposits	2,066,021
Total assets	<u>5,246,489</u>
<b>Liabilities</b>	
Management fee payable	6,317
Trustee fee payable	2,420
Audit fee payable	2,194
Accrued performance fee	9,841
Accrued preliminary expenses	3,552
Accrued expenses and other payables	8,225
<b>Total liabilities</b>	<u>32,549</u>
<b>Net assets attributable to the unitholders of the Fund</b>	<u>5,213,940</u>
<b>Net asset value per unit</b>	
Based on 5,125,407.0980 units outstanding	<u>1.0173</u>



**STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**

**For the financial period ended 31 January 2018**

**For the financial  
period ended 31  
January 2018**

**US\$**

**Investment Income**

Interest income	1,150
Total investment income	1,150

**Expenses**

Management fee	6,317
Trustee fee	2,420
Custodian Fee	120
Auditor's remuneration	2,194
Preliminary expenses	3,552
Performance fee	9,841
Brokerage fee and other transaction costs	6,415
Other expenses	8,090
Total expenses	38,949
Net investment loss	(37,799)

**STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED) (Continued)**

**For the financial period ended 31 January 2018**

**For the financial  
period ended 31  
January 2018**

**US\$**

**Gain on investment and foreign currency transactions**

Net change in unrealised gain on securities transactions 45,216

Net gain on foreign currency transactions 81,149

Net gain on investment and foreign currency transactions 126,365

**Net change in net assets attributable to unitholders resulting from operations 88,566**

**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (UNAUDITED)**

**For the financial period ended 31 January 2018**

**For the financial  
period ended 31  
January 2018**

**US\$**

<b>Net change in net assets attributable to unitholders resulting from operations</b>	<b>88,566</b>
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**Capital transactions**

Subscription of units during the financial period	5,125,374
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Net changes in net assets attributable to unitholders resulting from capital transactions	5,125,374
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Net changes in net assets attributable to unitholders for the period	5,213,940
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Net assets attributable to unitholders at the beginning of the period	-
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<b>Net assets attributable to unitholders at end of period</b>	<b>5,213,940</b>
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## STATEMENT OF CASH FLOWS (UNAUDITED)

For the financial period ended 31 January 2018

For the financial  
period ended 31  
January 2018

US\$

### Cash flows from operating activities

Net change in net assets attributable to unitholders resulting from operations	88,566
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Adjustment to reconcile net change in net assets attributable to unitholders resulting from operations to net cash used in operating activities :

Changes in operating assets and liabilities:

Investments in securities, at fair value	(1,834,563)
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Interest receivable	(537)
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Short-term deposit	(2,066,021)
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Management fee payable	6,317
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Trustee fee payable	2,420
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Audit fee payable	2,194
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Accrued performance fee	9,841
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Accrued preliminary expenses	3,552
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Accrued expenses and other payables	8,225
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<b>Net cash flows used in operating activities</b>	<b>(3,780,006)</b>
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**STATEMENT OF CASH FLOWS (UNAUDITED) (Continued)**

**For the financial period ended 31 January 2018**

**For the financial  
period ended 31  
January 2018**

**US\$**

**Cash flows from financing activities**

Subscription of units during the financial period	5,125,374
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<b>Net cash flows from financing activities</b>	<b>5,125,374</b>
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<b>Net change in cash and cash equivalents for the period</b>	<b>1,345,368</b>
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Cash and cash equivalents at the beginning of the period	-
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<b>Cash and cash equivalents at the end of the period</b>	<b>1,345,368</b>
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## INVESTMENT PORTFOLIO (UNAUDITED)

**As at 31 January 2018**

	Holdings as at 31-Jan-18	Fair Value as at 31-Jan-18	Percentage of total net assets attributable to unitholders at 31-Jan-18
	No. of Shares	US\$	%
<b>LISTED/ QUOTED EQUITY SECURITIES</b>			
<b>CHINA</b>			
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD-B	400,000	342,692	6.57
HANGZHOU ROBAM APPLIANCES CO LTD-A	55,000	467,650	8.97
XIAMEN MEIYA PICO INFORMATION CO LTD-A	100,000	326,381	6.26
ZHENGZHOU YUTONG BUS CO LTD-A	60,000	208,985	4.01
<b>HONG KONG</b>			
YANGTZE OPTICAL FIBRE AND CABLE JOINT STOCK LTD CO-H	50,000	232,084	4.45
<b>SINGAPORE</b>			
CHINA SUNSINE CHEMICAL HLDGS LTD	300,000	256,771	4.93

**INVESTMENT PORTFOLIO (UNAUDITED) (Continued)**

**As at 31 January 2018**

	Holdings as at 31-Jan-18	Fair Value as at 31-Jan-18	Percentage of total net assets attributable to unitholders at 31-Jan-18
	No. of Shares	US\$	%
<b>LISTED/ QUOTED EQUITY SECURITIES (Continued)</b>			
<b>Total listed / quoted investments</b>		1,834,563	35.19
<b>Other net assets</b>		3,379,377	64.81
<b>Net assets as at 31 Jan 2018</b>		5,213,940	100.00
<b>Total investments, at cost</b>		1,789,347	

## STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS (UNAUDITED)

For the financial period ended 31 January 2018

For the financial  
period ended 31  
January 2018

%

### Listed/Quoted investments

#### Equity Securities

China	25.81
Hong Kong	4.45
Singapore	4.93
<b>TOTAL INVESTMENTS</b>	<b>35.19</b>
<b>Other net assets</b>	<b>64.81</b>
<b>Net assets as at 31 January 2018</b>	<b>100.00</b>



## OTHER INFORMATION

### 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](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 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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