11 April 2017

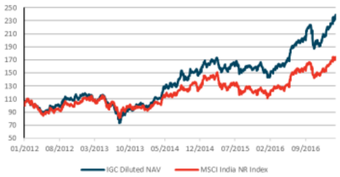
India Capital Growth Fund*

On the road with IGC

Fund in the spotlight:

India Capital Growth Fund (IGC)

IGC NAV Performance



Source: Morningstar

We spent four days during the middle of March accompanying Ocean Dial, the managers of India Capital Growth Fund on an investor trip to India. The meetings included a broad mix of companies, members of the broking community, the media as well as government officials. While the issue of non-performing loans within the banking sector is expected to restrain growth from re-accelerating significantly from c.7% figure it stands at, in the short-term the policies being implemented by the BJP government lay the foundation for an acceleration in growth in the future. We continue to recommend that investors buy India Capital Growth Fund (IGC) to capture India's accelerating growth.

Building the base for stronger growth

We believe the steps that the Indian government is taking significantly enhance growth potential. Demonetisation ended up having a limited impact on the Indian economy, as we had predicted. We continue to maintain that the signalling effect of demonetisation on corruption is significant and is a major long-term positive. The growth of digital payments in India should help in the transition from a data poor to a data rich country. We believe the introduction of the Goods and Services Tax (GST) has the potential to disrupt the economy in the short-term. However, once again the longer-term growth prospects are extremely positive as tax compliance should improve substantially over time. The other major headwind facing the banking sector is the issue of non-performing assets on the balance sheets of several public and private sector banks. This will also continue to act as a drag on growth for the Indian economy in the short-term. With the building blocks for faster growth likely to fall into place over the next twelve to fifteen months we believe that GDP growth in India could accelerate significantly from its current rate of c.7%.

Table 1: IGC NAV TR vs. Benchmark and peer group as at 31 March 2017 (£ returns)

	3 months	6 months	1 year	3 years	5 years
IGC Diluted NAV TR	23.0%	17.8%	52.7%	115.8%	139.0%
IGC Undiluted NAV TR	23.0%	17.8%	64.9%	150.8%	177.8%
S&P BSE MIDCAP TR Index	21.3%	14.3%	57.9%	155.3%	141.9%
MSCI India TR Index	15.5%	12.0%	35.7%	65.0%	73.1%
ANII NAV TR	16.3%	11.1%	34.8%	85.3%	100.8%
JII NAV TR	17.7%	7.5%	34.5%	83.3%	93.8%

Source: Morningstar, Ocean Dial, Stockdale Estimates

IGC, consistently capturing India's accelerating growth

IGC has consistently been outperforming both the benchmark index as well as the peer group. We believe that earnings growth for companies in the IGC portfolio are expected to accelerate substantially in the financial year ending March 2018. The long-term growth potential of the Indian economy, the quality of the companies in its portfolio and the level of day to day monitoring undertaken by the team based in Mumbai makes IGC one of the best ways to capture India's accelerating GDP growth, in our view. We believe that, given the significant performance differential between the fund and its peers, Aberdeen New India Investment Trust (ANII) and JPMorgan India Investment Trust (JII), IGC should be trading at a similar discount to JII and/or ANII, especially given the significant improvement in liquidity. If the performance differential persists, we would expect IGC to trade at a premium to the discounts of JII and ANII, over the long-term.

Priced at close
6 April 2017

Analyst
Saumya Banerjee
020 7601 6629
saumya.banerjee@stockdalesecurities.com

*Stockdale acts as broker and/or advisor to this company

Buy India Capital Growth Fund* (IGC)

A major policy transformation in progress, should lead to significantly faster growth in the future

We recently spent four days in India with the team at Ocean Dial, meeting a whole range of market participants. Our overall conclusion was that India is going through a transformation that is more revolutionary than evolutionary. The ease of doing business has improved substantially and even journalists who are cautious about the government's political agenda, which remains a risk in our view as well, admit that the pace of infrastructure investment has increased substantially. Road construction, which was running at 5-6km per day before the current government took charge is currently running at c.10km per day and is projected to accelerate. Departments like the railways are talking about increasing investment in the freight sector, borrowing from the commercial market.

Equally, because of the introduction of measures like demonetisation and GST, the economy is likely to go through a transition phase, which could prevent growth from accelerating in the next twelve months. Most of the institutions we met felt that the headwinds emanating from the banking sector were likely to continue for the foreseeable future though this has created opportunities for the newer private sector banks like Yes Bank (YES IN), the largest holding in the portfolio of IGC as at the end of March 2017.

Growing optimism is leading to increased flows into the equity markets from domestic investors who have been buying equity mutual funds. The currency remains well supported, thanks to a narrowing current account deficit, though several of the corporates we met expected a modest depreciation in the currency.

Figure 1: India GDP Growth (%, YoY)

Figure 2: India Current Account (% GDP)

Source: World Bank, Bloomberg

India tax to GDP ratio needs to rise. Demonetisation and the introduction of GST should help

However, given the underlying improvements in the economy, we believe India's GDP growth should rise substantially from its current level of 7.1%, in the medium term. For example, Neelkanth Mishra, India Equity Strategist for Credit Suisse, felt that the Indian economy was like a house under renovation. It is difficult when the renovation is taking place but the hope is that the end result is a product that is vastly superior. One of the key issues that India needs to address is the low tax to GDP ratio. Mishra, who has been involved in the design of GST, recounted how he had been surprised to hear that the department in charge of indirect taxes and those in charge of direct taxes had not shared data in the past. He believes that, over time, the level of tax compliance should rise substantially following the implementation of GST. He believes that the investment cycle, which has been weak in the recent past is likely to continue to be subdued in the short-term, because of the problem of NPAs within the banking sector. Thus, while we have seen savings growth, credit growth has been absent.

Figure 3: Budget deficit (% of GDP)

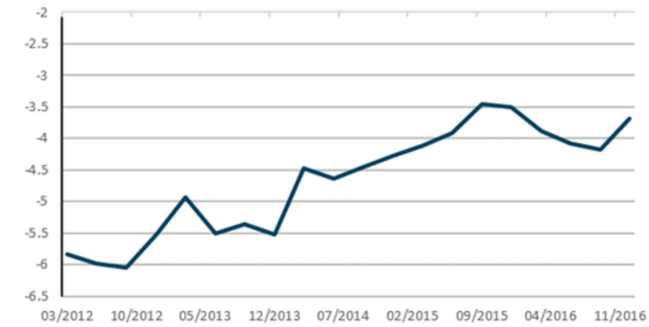
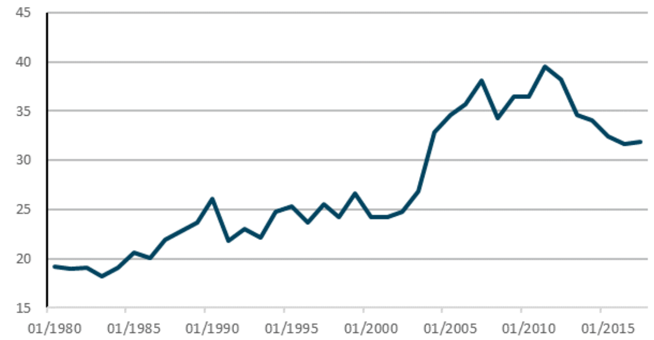


Figure 4: Investment as % of GDP

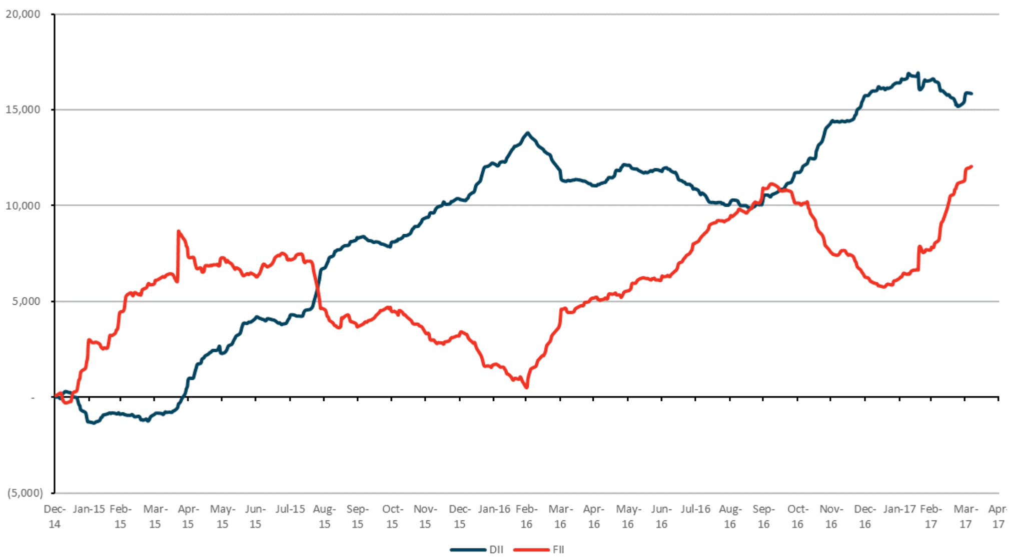


Source: Bloomberg, IMF

Government has been prudent about increasing expenditure without the ability to monitor the effectiveness of the spending

Equally, the government has been reluctant to spend money on investment until it feels certain that it has adequately plugged the loopholes in the system. Thus, while there is strong need for investment in the education and healthcare sectors, the government has been cautious about expanding these schemes. Schemes like Swachh Bharat (Clean India), a national mass movement aimed at reducing the amount of litter, including the provision of universal sanitation coverage; and the Rural Housing Scheme, where the government has for example introduced geo tagging to ensure that houses for which loans are disbursed are actually built, have begun to make a substantial difference. The focus of this government is outcome-based rather than expenditure-based and this is having a positive impact on government finances.

Figure 5: Fund flows into the Indian market-foreign (FII) vs.domestic (DII), US$M



Source: Ocean Dial

A reduction of government borrowing should allow interest rates to fall. Growth should accelerate over time

Mishra believes that a reduction in government borrowings and/or a better use of capital should reduce the overall cost of capital and thereby sustain higher stock market valuations. Given the increased demand for equity investments from domestic investors he believes that corrections in the Indian equity market are likely to be relatively modest. However, he also sees limited upside in the market over the next twelve months because of muted earnings growth, though the possibility of long-term acceleration could lead to the market continuing to trade at elevated multiples. Over the longer-term he sees strong upside for Indian equity markets from current levels, based on his view of accelerating growth.

Select Company Meetings

Yes Bank (YES IN)

Companies like Yes Bank (YES IN), the largest holding in IGC as at the end of March 2017 (5.7% of NAV), are finding the current operating environment to be incredibly attractive. YES is one of India's new-age private sector banks. Founded in 2004, the bank initially chose to focus on its key strength – corporate finance and investment banking. It has subsequently boosted its retail franchise. Having expanded to 964 retail branches, the bank now has 33%+ of its deposits coming from low cost current account and savings account deposits.

Demonetisation has had a positive effect on banks like YES

We met Rajat Monga, who is the Senior Group President - Financial Markets & Chief Financial Officer at Yes Bank. Monga believes that the older banks continue to be challenged because of legacy issues. He believes that demonetisation has been a major beneficiary for banks like YES which have a well-developed electronic platform. The focus of YES has always been on the new economy and the bank has not been that active in lending to sectors like Steel, Cement and Thermal Power, which are some of the key sectors where stress has emerged for lenders. Even within the energy sector the bulk of the loans are to the renewable energy space, which is a major area of investment for the current government. The bank continues to grow organically, entering new lines of business such as offshore banking while also looking for small strategic acquisitions that can add value.

Figure 6: YES Share Price

Figure 7: YES Price/Book (pre-recent capital raise)

Source: Bloomberg

This is an expensive bank (trading at c.3.7x historic P/B) compared to most Indian and global banks. At over US$9bn it is the largest cap stock in the portfolio of IGC, which tends to be dominated by mid/small cap companies. However, this has been a holding of the fund for the last seven years and has generated strong returns. The attractiveness of the franchise can be seen in the market response to a recent capital raise of US$750m. Not only was the raise done at the top end of the range of the issue, the share price has remained well supported, post the raise. Ocean Dial continues to believe in this investment as it builds its retail franchise, though it is likely to be a seller of the stock into rallies, rather than a buyer.

(https://www.yesbank.in/pdf/investorpresentation_q3fy17_inr_pdf)

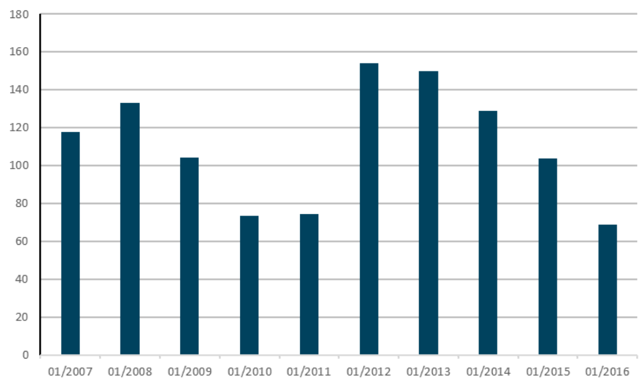
BIL has seen its share price rally as its debt/equity has declined

Balkrishna Industries (BIL IN)

We next met the Chairman and Managing Director of Balkrishna Industries (BIL IN), Mr. Arvind Poddar. BIL is a leading manufacturer in the Off-Highway tyres market, catering mainly to the replacement market in Europe and the US. These tyres are used in specialist segments such as agricultural, construction, and industrial vehicles as well as earthmoving and mining. These applications typically have low volumes but wide size ranges, which means they require a lot of customisation. About two years ago, Narain highlighted the example of BIL, specifically on the basis of increasing free cash flow and it is interesting how the share price has reacted to this. Another major catalyst is the fact that imports from BIL into the US only attract countervailing duty as opposed to anti-dumping duty attracted by other suppliers from Sri Lanka and India.

Figure 8: BIL Share Price

Figure 9: BIL Debt/Equity Ratio



Source: Bloomberg

High degree of customisation is a barrier to entry

The overall market for the Off-Highway tyre (OTR) segment is around US$15bn. BIL is a leading manufacturer in the category, catering mainly to the replacement market in Europe and the US. The low volume, high variety model means it requires lot of customisation. Hence, these cannot be mass produced through automation. Over the years, BIL has developed more than 2,400 individual specifications and it adds c.300 moulds every year. The manufacturing process involves over 100 different curing processes, further adding to the complexity. This acts as a significant entry barrier (as competitors will take several years to produce such a wide range of tyres) and also takes Chinese players out of competition, who prefer large volume passenger car and commercial vehicle tyres.

Low labour costs allow BIL to enjoy significantly higher margins

Since the manufacturing process has a high degree of customisation, it is a labour-intensive business. With all its manufacturing plants based in India, BIL's employee costs as a proportion of sales are 5-6% vs. 20-25% for competitors, which includes manufacturers like Michelin, Bridgestone and Goodyear. This gives BIL a significant cost advantage over its peers. Thus, despite pricing its tyres at a discount to the competition, it still usually makes EBITDA margins of 20-25% vs. the competition's margins in high single digit. the margins are currently high, at 30%, because of low raw material prices, this is likely to be unsustainable and Ocean Dial expects margins to stabilise c.25%. While most of its raw material costs are dollar denominated, labour costs are in Indian Rupees. However, the company tends to hedge its net exposure using forward contracts up to 10-12 months in advance.

BIL business has been virtually unaffected by the process of demonetisation. As far as the introduction of GST is concerned, Mr. Poddar expects the impact to be relatively small. BIL has recently commissioned its new plant in Bhuj, in the state of Gujarat, (close to the port), which will improve its margins by about 200bps. With current utilisation running at c.55-60% it doesn't see any major capital expenditure over the next 3 years. Going forward further capacity expansion is likely to be modular in nature. Thus, over the next 3 years, Ocean Dial expects to see strong growth in free cash flow, though part of it will go in further paying down the debt that had been incurred to set up the Bhuj plant. As at the end of March 2017, BIL accounted for 2.1% of IGC's net assets.

Welspun India Limited (WLSI IN)

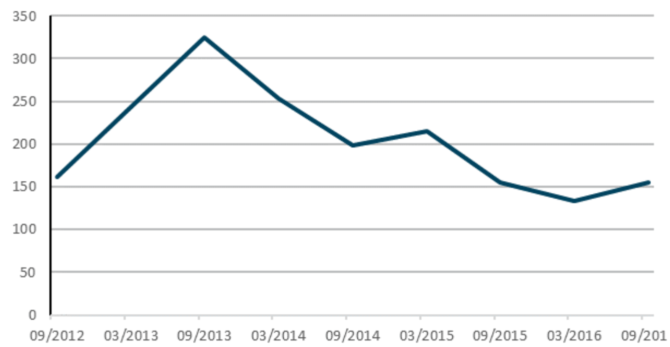
Welspun India Limited (WLSI IN), established in 1985, accounts for 3.2% of the portfolio of IGC as at the end of March 2017. WLSI is one of the top three home textile manufacturers globally and the largest home textile company in Asia (US$ 45bn market). It has modern manufacturing facilities at Anjar and Vapi in Gujarat where it produces an entire range of home textiles for the bed & bath category. The company has state-of-the-art completely vertically integrated plants.

Market leader in the home textile supply segment in the US, with distribution networks in over 32 countries

Welspun has been ranked No.1 among home textile suppliers in the US (Source: Home Textile Today). It has a distribution network in over 32 countries including US, UK, Europe, Canada and Australia. In addition to manufacturing facilities, which predominantly supply to private labels, the company also maintains its own brands: Christy, Hygrocotton, Welhome and Spaces - Home and Beyond. Management felt that low labour costs and fact that India has a surplus production of raw cotton are distinct advantages over countries like China. In addition, management highlighted the level of innovation introduced to the supply chain by WLSI, which they believe contributes to its superior margins

Figure 10: WLSI Share Price

Figure 11: WLSI Debt/Equity Ratio



Source: Bloomberg

Shortly after IGC acquired a position the company had a major negative development

IGC acquired a small position in WLSI in mid-2016. However, in August 2016 the stock fell by 50% on the basis of reports that it had been supplying sheets to Target (TGT US), which were labelled as Egyptian cotton, but could not be verified as such. At that point, IGC was faced with a key decision-to exit the position in WLSI or to add to it. Narain kept interacting with the management in order to better understand the litigation risk. According to WLSI the affected products totalled about 6% of its business in fiscal 2016. In addition, the management team adopted new labelling practices and hired Ernst & Young LLP to audit its supply process going forward.

Narain, after analysing the share price reaction and the potential impact to the business decided to add rather than sell the position

While WLSI had offered to buy back all the sheets that they supplied labelled as Egyptian cotton, not just from TGT, their largest customer at that time, but also their other customers such as Walmart, JC Penney and Macy's, they were also facing a class action lawsuit brought by retail customers. WLSI is in the process of trying to resolve the issue, while making provisions to cover any potential liability. Whilst the current challenge is substantial, Narain felt that the share price reaction was extreme, especially as it gained more confidence that, apart from TGT, the other key customers of WLSI were likely to continue to buy from them. Therefore, the team decided to add to their position, rather than sell.

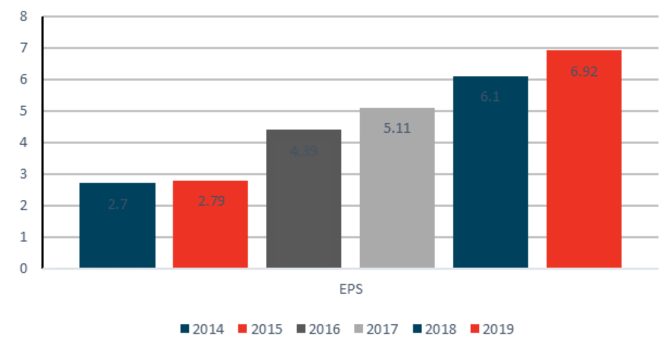
A well-managed company, in a sector which is likely to grow at a rate of between 1.5X -2X India's GDP growth rate

Berger Paints (BRGR IN)

Our meeting with Berger Paints (BRGR IN) (2.4% of NAV as at 28 March 2017), made us feel more comfortable with a stock trading at an extremely high valuation (Narain estimates that the stock is trading at over 40x forward earnings). This is a stock which has seen consistent earnings growth but, most importantly for Narain, operates in an industry where the four largest market participants, including Berger, control a large percentage of the market. We met the Mr. Kuldip Singh Dhingra who serves as the Chairman of Berger Paints Group. Mr. Dhingra has been the Non-Executive Chairman of Berger Paints India Limited since July 17, 1994. The company is majority owned by the Dhingra family who own c.75%. The company is headed by Mr.Abhijit Roy, managing director since 2012, who had previous experience with Asian Paints (APNT IN). The family have limited themselves to an advisory role in Berger and let the professionals run the business since they acquired the company in 1991. Under their guidance, Berger climbed from fifth to second position, in terms of market share.

Figure 12: BRGR Share Price

Figure 13: Calendar Year EPS (Actual and Estimated)



Source: Bloomberg

Mr. Dhingra believes that the growth rate of the paint industry is likely to continue to run at 1.5X to 2X GDP for the next 10 to 15 years. He believes that the introduction of GST should ultimately help the organised sector. The alignment of management and shareholder interests via an ESOP linked to the achievement of pre-specified objectives such as, for example, increasing margins while maintaining market share, creates a corporate machine that is geared toward capturing India's accelerating growth. Equally Mr. Dhingra is quick to emphasise that the quantum of the issue creates only a limited amount of dilution for shareholders. Whenever the family shareholding has fallen below 75% because of these schemes, they have tended to buy shares in the market over time to take them back to the maximum shareholding level permitted by the regulators. Narain is thus happy to continue to hold a position in BRGR, though he trades the volatility in the stock despite the valuation levels, because of his strong conviction that the company is what he calls "a compounding machine", which will continue to generate significant amounts of free cash flow over time.

We also met PI Industries (PI IN), which represented 3% of NAV as at 28 Feb 2017. The stock has been a strong performer and the business, which has strong elements of research and development in the agrochemical space, predominantly with companies in the Far East, continues to invest for future growth. This was small company (Mkt cap US$286m) when Narain first identified it in April 2012 as an investment target. As at 31 March 2017, the market cap stood at c.US$1.8bn. This is typical of several other holdings in Ocean Dial's portfolios where they have often been one of the first foreign institutional investors in the stock.

Radico Khaitan (RDCK IN)

Radico Khaitan is well positioned to benefit from the secular demand growth for alcoholic beverages

We met Abhishek Khaitan of Radico Khaitan (RDCK IN). Ocean Dial invested in RDCK in 2014, post Diageo (DGE) taking a majority stake in United Spirits (UNSP IN). Narain believed that the arrival of a global player would usher in positive change within the alcoholic beverages sector. RDCK was one of the established players and the investment looked attractive, given the growth prospects of the industry and the relatively inexpensive valuation at which RDCK was trading. RDCK is currently the third largest player in the sector. However, the secular earnings growth story, or a takeover of the company by a foreign entrant in order to capitalise on RDCK's extensive distribution network has failed to materialise.

Figure 14: PI Share Price

Figure 15: RDCK Share Price

Source: Bloomberg

Narain continues to be cautious about adding to the position, waiting to see more concrete signs of earnings growth

While several of the brands introduced by RDCK have gathered momentum, the stock price performance has been lacklustre on an absolute basis and disastrous on a relative basis. Ocean Dial have held their original position but have refrained from adding to it as Narain continues to investigate the company for signs that a significant improvement in the company's operating metrics is on the cards. In our meeting, Khaitan emphasised that cash flow would predominantly be used to pay down debt. Whilst Narain considered this to be a positive development, he was still undecided immediately after the meeting, about whether he wanted to add to IGC's existing position.

Other Background Meetings

The economic mood in India has improved substantially

Our meeting with Mr. T.S.Ninan, one of the best known political and economic commentators in the country was extremely interesting. Mr. Ninan has been cautious on the political agenda of the current government but was ready to admit that the English language press was probably having a difficult time gauging the mood of the country. The recent election results in UP, for example, demonstrates that several news commentators had underestimated the popularity of Prime Minister Narendra Modi. Despite his wariness about the political agenda of the government, he is complimentary about their economic vision.

The government is thinking scale

The government is thinking scale, a dimension that has often been lacking in India's planning in the past. For example, the government has increased the amount of energy to be generated from solar from 3,000MW in 2014 to 9,000MW currently. The figure is projected to rise to 20,000MW by the end of the year and 100,000MW by the end of 2020. After having already increased the pace at which new highways are being built, the government is targeting doubling the pace of road construction over the next three years. Freight trains, which currently transport goods at an average speed of 25km/hr should see significant change, as should passenger traffic, which currently moves at an average speed of 70km/hr. The acceleration seen in the infrastructure sector should boost growth over the long-term from the current level of 7%, which has predominantly been driven by consumption growth.

Coordination between various ministries has improved substantially

Government officials in both the railways and the National Highway Authority reiterated these views. Under the guidance of the Prime Minister, the co-ordination between the various ministries has improved significantly. This has eliminated several of the bottle-necks that had slowed down road construction projects in the past. The railways are being encouraged to initially leverage their balance sheet to build out new profitable freight corridors. Simultaneously, the authorities are looking at ways the substantial real estate assets of the Indian Railways can be used to improve cash flow.

India is in the midst of a major transformation. Historic data offers only a limited insight to the true potential of companies and sectors. We believe several mid and small cap companies are likely to witness rapid earnings growth as a consequence. Equally, it is critical to try to avoid buying into companies which promise growth but have tainted balance sheets. We believe that investors in IGC benefit from having a management team of extremely high quality, with a tremendous degree of experience in Indian equity markets, which should allow them to effectively screen these opportunities.

Summary: The case for IGC

Similar teams tend to be running many multiples of the amount being managed by Ocean Dial and often struggle to acquire meaningful positions in companies in the mid-cap/small-cap space. This is Ocean Dial's sweet spot, and is where we are likely to see most of India's high growth companies which promise to continue to add alpha to an investor's portfolio. Given that key individuals like David Cornell (CIO) and Gaurav Narain are equity holders in the business we believe that the team has an extraordinarily high level of stability. We are enthused by the fact that overall assets under management for Ocean Dial have grown to c.US$480m, as at the end of March 2017.

Table 2: Top Ten holdings, Mkt Cap breakdown and sector breakdown as at 31 March 2017

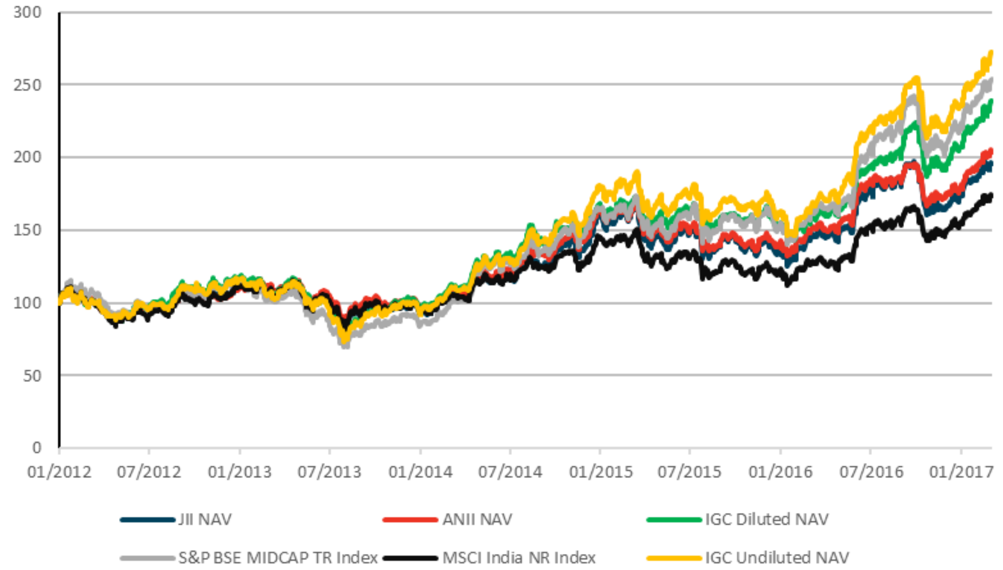
Company	%	Market Capitalisation	%	Sector Breakdown	%
Yes Bank	5.7				
Dewan Housing	5.0	Large (>US$7bn)	14.2	Financials	25.9
Federal Bank	4.6	Medium (US$2bn<x<US$7bn)	26.2	Materials	21.2
Jyothy Laboratories	3.7	Small (<US$2bn)	57.0	Consumer Discretionary	18.6
Motherson Sumi Systems	3.7	Cash	2.6	Consumer Staples	10.5
Ramkrishna Forgings	3.4			Industrials	9.5
Dish TV India	3.2			IT	4.6
Kajaria Ceramics	3.2			Healthcare	3.7
Welspun India	3.2			Real Estate	3.4
Indusind Bank	3.2			Cash	2.6

Source: Ocean Dial

A common concern raised by potential investors is the valuation of the portfolio. We believe the concerns are unjustified, given the quality of the companies in the portfolio and Narain's focus on free cash flows. A reason for the higher PE multiples than the benchmark is the weighting in the fast-moving consumer goods sector. This is a sector that traditionally performs extremely well, especially on a relative basis, during periods of market weakness due to the secular growth nature of these stocks and the fact that they are predominantly free cash flow positive. Another common misunderstanding is the materials weight of IGC. Rather than global commodity producers, these consist of cement manufacturers, which tend to have strong pricing power because of the large transportation costs of the finished products, as well as producers of commodities with strong entry barriers such as paints (BRGR) and agrochemicals (PI).

Narain is happy to identify positions, buy the stock and allow the company time to deliver results. Their ability to take meaningful positions in mid/small cap stocks allows them to adopt a long-term buy and hold strategy. For example, the last four investments by IGC have all had a market capitalisation of less than US$500m at the time of investment. This long-term approach means that turnover tends to be reasonably low. Over the last five years, the average annual turnover has been 13%.

Figure 16: IGC NAV Performance vs Index and peer group



Source: Morningstar, Ocean Dial, Stockdale estimates

As the chart above and the table on page 1 demonstrate, the performance of IGC, both diluted and undiluted has been consistently better than trusts like JP Morgan India Investment Trust (JII) and Aberdeen New India Investment Trust (ANII). We note that over the 5-year period, on a monthly basis, IGC was the top performing fund amongst the three funds for 31 out of the 60 months, based on NAV TR. In 13 of the remaining 29 months it was ranked second amongst the three funds. In the case of IGC the difference in performance is even more stark because of the dilution that occurred in the NAV performance.

Equally we note that the liquidity in IGC has improved steadily. Part of the current rise in liquidity can be attributed to the subscription share issue. This would expectedly generate some selling pressure, especially given the fund's strong absolute and relative performance. However, the relatively stable discount, albeit at wide levels, indicates that demand for the fund remains robust. We would speculate that a significant portion of this demand is coming from a new category of shareholders.

Figure 17: IGC Daily Traded Volume (10 Day Moving Average, £M)

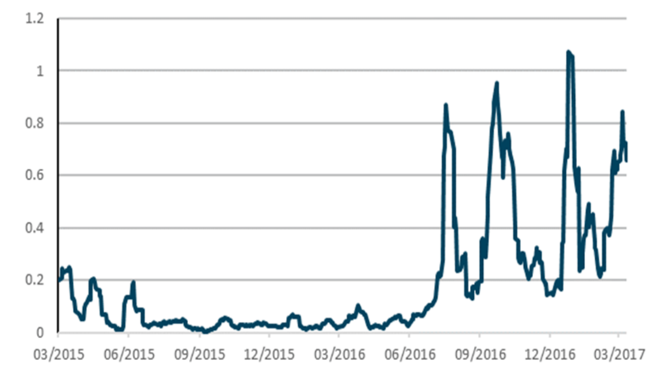
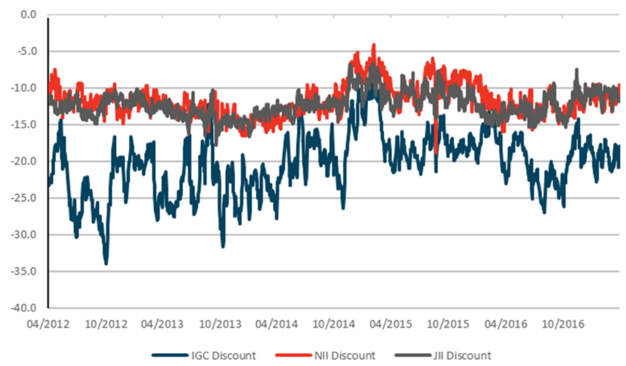


Figure 18: IGC Discount vs. Peers



Source: Bloomberg, Morningstar

Despite this superior performance IGC currently trades at significantly wider discount. We believe that this differential is unlikely to persist. We view this is an opportunity for potential investors, especially given that the liquidity in IGC has improved substantially. We believe that post the successful conclusion of the subscription share issue in August 2016 the fund is now at a size where it should be appealing to a much broader swathe of investors, which should help the discount to contract substantially. Our base case is that IGC should trade at a similar discount to JII and ANII given its past performance. Should it continue to outperform the benchmark indices and the peer group by a similar percentage as it has done over the last five years then we would not be surprised if it started trading at a premium, on an average, as has happened with funds like Baillie Gifford Japan (BGFD) and Baillie Gifford Shin Nippon (BGS).

Key risks

The principal risks associated with IGC and this asset class include the following:

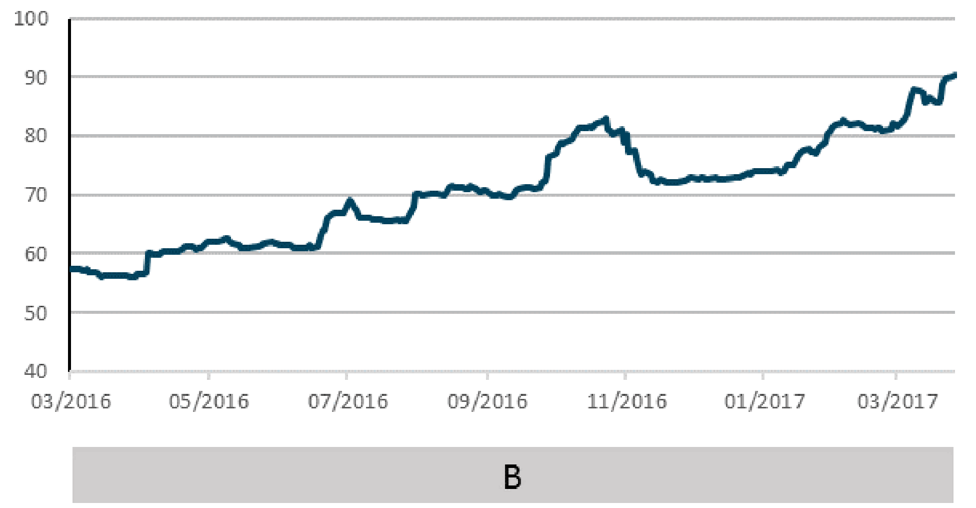
Key asset class risks include

- Emerging Market related risks
- Country specific risks
- Stock-specific risk
- Strategy or sector-specific risks

Key fund risks

- Premium/discount of IGC may be volatile
- The Trust has a substantial investment in mid and small cap companies, which can be more volatile than the large cap indices.

Figure 19: Share price & recommendation tracker graph



Source: Bloomberg, Stockdale Securities

Investment Funds research disclosures

Explanation of Investment Funds recommendations

Stockdale Securities Limited uses a three-tier system for its investment funds recommendations. Investors should carefully read the definitions of all ratings used in each research report. In addition, since the research report contains more complete information concerning the analyst's views, investors should carefully read the entire research report and not infer its contents from the rating alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock or investment fund should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

Investment funds ratings are explained as follows:

BUY: Total returns expected to be in excess of those from the fund's benchmark

HOLD: Total returns expected to be in line with those from the fund's benchmark

SELL: Total returns expected to be lower than those from the fund's benchmark

Total return is defined as the movement in the share price over the medium- to long-term, and includes any dividends paid.

Distribution of Stockdale Securities' investment funds recommendations:

Stockdale Securities must disclose in each research report the percentage of all investment funds rated by the member to which the member would assign a "BUY", "HOLD" or "SELL" rating, and also the proportion of relevant investments in each category issued by the issuers to which the firm supplied investment banking services during the previous 12 months. The said ratings are updated on a quarterly basis. This recommendation system differs from the recommendation system used on non-Investment Fund research.

Investment Funds recommendation proportions in last quarter

	BUY	HOLD	SELL
Funds to which Stockdale has supplied investment banking services	100%	0%	0%

Source: Stockdale

The company has seen this research but no material changes have been made as a result.

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Stockdale Securities, Beaufort House, 15 St. Botolph Street, London EC3A 7BB **Email: firstname.surname@stockdalesecurities.com**

Investment Funds Contacts

IF Sales/Market Making		IF Research	
Matthew Kinkead	+44 (0)20 7601 6626	Saumya Banerjee	+44 (0)20 7601 6629
Richard Harris	+44 (0)20 7601 6107	**IF Corporate Finance**	
Darren Papper	+44 (0)20 7601 6632	Robert Finlay	+44 (0)20 7601 6115
Calum Summers	+44 (0)20 7601 6631	Owen Matthews	+44 (0)20 7601 6118
Pauline Tribe	+44 (0)20 7601 6623	Rose Ramsden	+44 (0)20 7601 6110