

India Capital GROWTH FUND

INDIA CAPITAL GROWTH FUND LIMITED

Publication of a circular setting out proposals for the future of the company

- Significant actions to improve performance including near doubling of the investment team devoted to managing the fund
- Proposed redemption facility on 31 December 2021 and every two years thereafter
- Cut in the investment manager's fee and a further review of the fee in 2022
- Shareholders to vote on the proposals at an EGM on 12 June

The Board of India Capital Growth Fund Limited (the 'Company') has today published a circular to shareholders (the 'Circular') in relation to a continuation vote and the recommended proposals for the continuation of the company (the 'Proposals') alongside a notice of extraordinary general meeting (the 'EGM').

The investment manager, Ocean Dial, will be hosting two webinars so shareholders can hear from the Chairman, Elisabeth Scott, and the Portfolio Adviser, Gaurav Narain, on the following dates: [Friday 29 May – 12.00 BST](#) and [Wednesday 3 June – 12.00 BST](#)

Elisabeth Scott, Chairman of India Capital Growth Fund, said:

"The company has significantly underperformed its benchmark, India's BSE Mid Cap Total Return Index, in the recent past. This is disappointing and means the company is likely to fail the second part of its three-yearly assessment in August, triggering a continuation vote, details of which are set out below. As a result, the Board has been carefully assessing, in the interest of shareholders, the best options for the future of the company.

"The choice is between winding up the company at a time when Indian mid-cap and small-cap equities are trading at close to their 15-year lows; or taking strong measures to improve performance and provide shareholders with a way to redeem the bulk of their holdings, if they wish, at a set date in the future.

"The Board has weighed both options and is now putting before shareholders its proposed way forward. These include extensive measures to improve performance, a redemption offer at the end of 2021 and a cut in the fee the company pays to the investment manager, Ocean Dial. Below, and in more detail in the circular being dispatched today, is information on the proposals.

"The Directors consider this way forward is in the best interests of the company and shareholders. If you wish India Capital Growth Fund to continue you should vote in favour of these proposals at the EGM on 12 June, with proxy votes needing to be lodged by 10 June. The Directors unanimously recommend you do this."

THE PROPOSALS

Despite the underperformance and taking account of the measures to improve performance and the investment manager's outlook set out below, the Board considers that there is good potential for the company's performance to improve markedly. The Board is therefore proposing that the company should continue on the basis of the proposals outlined below:

- the introduction of a redemption facility, giving shareholders the right to request the redemption of part or all of their shareholding on 31 December 2021 and every second year thereafter at an exit discount equal to a maximum of a six per cent. discount to NAV per redemption share;
- a change to the investment manager's fee from 1.25 per cent. of total assets per annum, to the lower of 1.25 per cent. of average market capitalisation (calculated on a daily basis) per annum or 1.25 per cent. of total assets per annum with effect from 1 July 2020 with a further review of the investment manager's fee in 2022.

Given the strong likelihood of there needing to be a continuation vote this year and the changes made by the investment manager, the Board has decided to bring forward the date for proposing a continuation resolution and at the same time to put forward these proposals. In order to implement the proposals, the Board proposes amending the company's articles of association to introduce a redemption facility subject to the terms set out in New Article 132 in the circular which is available in electronic form on the company's website at <http://www.indiacapitalgrowth.com>. If the resolutions are passed, the first redemption facility will be on 31 December 2021.

IMPROVING PERFORMANCE

In addressing the issue of poor recent performance the investment manager has taken several steps. First, the research team has been materially strengthened (from 4 to 7) with the appointment of a co-Head of Equity (30 years' experience) and two analysts, one senior and one junior.

In addition, and following a rigorous review process, several incremental measures were introduced to strengthen the investment process, but without altering the investment strategy *per se*. The first was to create a 'focus list' of circa 140 companies, which now forms the investible universe from which the investment manager constructs the portfolio. This enables greater analytical depth and stronger conviction. Financial models of companies included in the universe are integrated via the team data analyst who is responsible for building the 'ranking tool'. This tool ranks the potential investee companies in order of the team's expectation of upside to value. The ranking tool does not dictate the portfolio construction process but strengthens the team's sell discipline in particular, providing the investment manager with objectivity and a clearer understanding of the relative opportunity that a particular stock offers. Turnover in the portfolio has increased commensurately and is now expected to stabilise at 20%-25%.

Artificial Intelligence tools have been introduced to the screening and monitoring process through a tool that pulls information on an investee company from multiple sources of unstructured data onto a single dashboard that is readily accessible by the investment team.

Integral to this enhanced process is the opportunity the investment team now has to work alongside Ocean Dial's key shareholders and related entities on the ground in India, where appropriate to do so. The potential benefits are material in this regard, as the team is better able to leverage associates' depth of knowledge and strong relationships, helping to identify key shifts in consumer or business activities (by way of example) in a timely and productive manner.

Recently Ocean Dial closed its Emerging India Fund (a mid-cap and small-cap open ended alternative to India Capital Growth Fund). The closure has significantly reduced the number of stocks under ownership, freeing up the investment team's bandwidth to the benefit of the company's shareholders.

In conjunction with this strengthening of the investment team, Ocean Dial has modified its stock selection process and selling discipline which has led to a careful re-orientation of the portfolio. Exposure to areas such as wholesale banking and consumer discretionary sectors, which contributed negatively to performance, have been reduced, as has been exposure to highly valued companies where the holding is significant. The money raised has been invested in existing portfolio companies and new companies that Ocean Dial believes have the best medium-term prospects. The Board is also pleased to see a lower cash weighting in the portfolio as stocks have become more attractively valued. These changes are already leading to improved performance.

INVESTMENT MANAGER'S OUTLOOK

It is expected that India's small and mid-cap sector will regain investors' attention in anticipation of an economic recovery in India back to, at least, the historical growth rate of around six per cent a year. The beneficial, longer term impact of structural reforms made by Prime Minister Modi should also help drive a higher and more sustainable level of economic growth, improving corporate earnings expectations and equity multiples.

Analysis of historic market valuations shows that mid and small-cap Indian equities are trading at close to 15-year lows. Therefore, despite the near-term uncertainty around corporate profits, the investment risk/reward outlook is highly attractive. A recovery in mid and small-cap equity performance in India, combined with a more robust and focused investment process should lead to a positive outcome for shareholders over the investment cycle ahead.

BENEFITS OF THE PROPOSALS

The Directors believe that the proposals will benefit shareholders through:

- being able to redeem some or all of their shareholding, without being reliant on the market liquidity of the ordinary shares
- progressively reducing the discount at which the shares trade
- addressing, through the redemption facility and the issue of shares from treasury, market imbalances in the supply and demand for the shares
- an uplift in NAV per share for continuing shareholders as a result of the exit discount applied to the ordinary shares that are redeemed
- a greater likelihood that the value of the shares will reflect the prospects of the company's investment strategy
- a reduction in the operating costs of the company and a more effective alignment between the investment manager and shareholders by switching the fee calculation from total assets to market capitalisation.

CONSEQUENCES IF THE PROPOSALS ARE NOT APPROVED

If the proposals are not passed, the Board is required to put forward to shareholders plans to wind-up, reorganise or reconstruct the company.

Given the extremely volatile market environment and the as yet unknown impact of Covid-19 on India, the Board considers that the realisation of the company's portfolio of investments at the present time is likely to result in sub-optimal returns for shareholders and is not in the interests of the company or of shareholders as a whole.

EXTRAORDINARY GENERAL MEETING

The proposals require approval of the shareholders by the passing of the resolutions at the EGM. A notice convening the EGM to be held at 10:00 a.m. on 12 June 2020 is set out at the end of the circular. To be valid, a form of proxy must be received no later than 10:00 a.m. on 10 June 2020.

RECOMMENDATION

The Directors, who have been advised by Shore Capital, consider that the proposals and the resolutions to be proposed at the EGM are in the best interests of the company and shareholders as a whole. In providing advice to the Board, Shore Capital has placed reliance on the Directors' commercial assessments.

The Directors unanimously recommend that shareholders vote in favour of each of the resolutions at the EGM as the Directors intend to do in respect of their own beneficial and non-beneficial holdings of shares (amounting in aggregate to 92,500 shares, representing approximately 0.08 per cent. of the issued share capital of the company as at the date of the circular).

ENDS

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About India Capital Growth Fund

India Capital Growth Fund Limited ('ICGF'), the LSE premium listed investment company registered and incorporated in Guernsey was established to take advantage of long-term investment opportunities in companies based in India. ICGF predominantly invests in listed mid and small-cap companies, although investments may also be made in large cap and private Indian companies where the investment manager believes long-term capital appreciation will be achieved. www.indiacapitalgrowth.com

ⁱ THREE-YEARLY ASSESSMENT

The Board carries out an assessment of the company's performance every three years and a vote on the company's continued existence is put to shareholders only in the event that either of the following criteria are met:

- (a) the company's monthly average market capitalisation million over the past year is below £30 million; or
- (b) the company's published diluted NAV per ordinary share has underperformed its benchmark by more than a cumulative five per cent. over the previous three years.

When the last three yearly assessment was conducted in August 2017 both thresholds were comfortably exceeded so no continuation vote took place.

Today, the company is exceeding the first part of the test, with its monthly average market capitalisation at a little over £46 million. But with less than three months to go until 6 August 2020 (the date for the next three yearly assessment) the Board regards it as unlikely that performance could improve sufficiently to exceed the second part of the test by then, since the diluted NAV per share fell 45.8 per cent from 7 August 2017 to 15 May 2020, giving a cumulative underperformance against the benchmark of 14.1 per cent.

From 7 August 2017 to 15 May 2020 there was a 31.7 per cent. decline in the Benchmark Index and the share price fell 55.7 per cent. over the same period.