

Deja-vu for icapital.biz?

Closed-end fund may face a second board representation attempt

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Is this a case of deja-vu for share owners of icapital.biz Bhd?

Could there be a possible second attempt by share owners City of London Investment Management and Laxey Partners Ltd to seek board representation at the listed closed-end fund, icapital.biz?

Two weeks ago, Tunku Abdul Aziz Tunku Ibrahim, a director of icapital.biz Bhd, failed to get reappointed when shareholders with 27.04% of the company voted against the resolution at an adjourned AGM.

The resolution was not carried out despite 72.96% of the share owners voting for his reappointment.

This is because it did not reach the required 75% of votes for the reappointment of a director, who is over 70 years old and retiring as a director.

Abdul Aziz has been on the icapital's board since Dec 21, 2011.

icapital.biz's designated person and fund manager Tan Teng Boo feels that the failure to reappoint Abdul Aziz is possibly an overture for a second attempt by City of London and Laxey Partners Ltd for board representation.

What happened

Tan reckons that the two largest shareowners of icapital.biz, City of London Investment and Laxey Partners, voted against the resolution for Abdul Aziz's reappointment via a proxy form, just two days before the Oct 11 AGM.

City of London has a 11.15% stake in icapital.biz while Laxey Partners has a 6.79% stake, making them the largest and second largest shareholders of the closed-end fund.

icapital.biz has over 3,400 shareowners with 55% having less than 100,000 shares each.

Initially the voting of Abdul Aziz's reappointment was supposed to be held on Oct 11. However it was adjourned to Nov 30, as a majority of the share owners decided it was unfair to conduct polling because the majority of share owners did not know there was a pressing matter at hand, and hence many did not attend.

"It's just like the elections. If people know a new and serious development has taken place, they will come in droves to ensure that their voice is heard. If they think it is just a business-as-usual AGM, people won't turn up," he explains.

Nonetheless, despite being adjourned, Abdul Aziz failed to be re-elected. It was a close call, as 72.96% out of the required 75% of share owners voted for his reappointment.

After holding a media conference, Tan requested that City of London to send their representative to attend the adjourned AGM on Nov 30 to explain their reasons.

Tan said that the City of London sent to him and some media organisations, a written response on why they opposed the reappointment of Abdul Aziz.

City of London's concerns centred on Abdul Aziz not having the requisite experience of closed-end funds and not being in active employment over the last five years.

"Requisite experience and understanding of closed-end funds is more relevant than knowledge of the country or region in which the Fund invests. The latter is the responsibility of the manager, who is contracted by the board, and is being paid to supply this skill," City of London said in its corporate governance standards.

In addition, City of London has concerns about the length of time Abdul Aziz has been retired.

"Directors should not start a new term in office if they have been retired from active employment for more than 5 years. City of London believes that the skills and contribu-



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tions of a director outside this criterion may be too far removed from current business practices or thinking to truly add value to the board over the long term," it said.

Tan however questions why the issue of requisite experience is not being applied to all the other directors of icapital.biz.

"icapital.biz is the only listed closed-end fund in Malaysia. All the other directors do not have the 'requisite experience and understanding of closed-end funds' unless they are on board icapital.biz," said Tan.

What next?

Tan reckons these two funds are increasing their stake in the icapital.biz and that a repeat of 2012 will take place, namely that these funds would seek to get board representation.

Since the AGM on Nov 30 to now, City of London has increased its stake by 1% to 11.15%.

Apart from increasing the number of its directors, there is little icapital.biz can do, as shareholding counts. Tan himself holds less than 1% of icapital.biz.

With Abdul Aziz gone, the company was left with four directors, from its maximum of seven board seats.

This is because its chairman-cum-non-independent, non-executive director, Tunku Tan Sri Ahmad Yahaya had resigned from his position, after he sought for retirement in the Oct 11 AGM.

However on Dec 3, Datuk Seri Syed Ismail Syed Azizan was appointed as an independent and non executive director.

Syed Ismail has primarily served in the police force since 1977. He was Chief Police of Kedah between 2007 to 2010, was later appointed as the Director of the Commercial Crime Investigation Department in October 2010, until his retirement in January 2014.

So icapital.biz still has a choice of appoint-

ing two new directors.

Repeat of history

Recall that in Nov 2012, London-based hedge fund Laxey Partners Ltd had sought three board representations and took issue with the management of icapital.biz in relation to the persistent discount of the stock's share price in relation to its net asset value (NAV).

Laxey first surfaced as a substantial shareholder in April 2012, while City of London emerged with a 5.12% stake in August 2011. Back then, icapital.biz's NAV stood at RM2.92 against its share price of roughly RM2.28, which was a 21% discount.

At its current share price of RM2.33, icapital.biz is trading at a 24.1% discount to its net asset value of RM3.07.

Laxey was recommending, among others, share buybacks to close the discount between the shares and NAV. It argued that the company was more than able to do this, as its cash position stood at RM133mil.

At that time, Tan said he would leave the company should investor Laxey Partners Ltd secure board seats in the company.

Both Laxey and icapital.biz's founder Tan traded barbs leading to the Nov 10 AGM.

Tan took up a full page ad space in *The Star*, urging share owners to vote against the entry of the new directors, to safeguard their long-term interests.

Laxey founder Pegge also did the media rounds, as well as taking up ad space in Google.

However, during the company's AGM on Nov 10, share owners of icapital.biz unanimously voted against the nomination of three Laxey appointees, deciding to keep the present board intact. For its first quarter to Aug 31, 2014, net profit 80.4% to RM2.17mil, while revenue increased 3.68% to RM3.53mil.

KEY POINT

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