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Annual overview | Investment companies

10 March 2017

Seneca Global Income & Growth

Celebrating five years since strategy change

It has been five years since Seneca Global Income and Growth Trust (SIGT) changed its strategy to allow its managers greater flexibility in managing its multi-asset portfolio. As this anniversary passes, SIGT has moved into the flexible investment sector where it is one of the best-performing trusts, yet its return volatility is markedly below the peer-group average. Seven months ago, SIGT introduced a new discount control mechanism (DCM) that is successfully keeping the Trust trading at close to a zero discount and gives investors confidence that they can enter and exit SIGT at close to NAV. We think that this is a strong foundation upon which the board can grow the Trust as it intends.

Multi-asset, low volatility, with yield focus

SIGT's investment objective is to outperform three-month Libor+3% over the longer term, with low volatility and the prospect of income and capital growth, through investment in a multi-asset portfolio, which includes both direct investments (mainly UK equities) and commitments to open- and closed-end funds (overseas equities, fixed income and specialist assets).

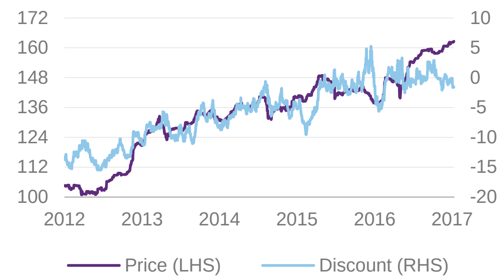
Year ended	Share price total return (%)	NAV total return (%)	MSCI World total return (%)	MSCI AC World TR. (%)	MSCI UK total return (%)
28/02/13	21.3	17.5	17.2	15.7	12.8
28/02/14	13.1	9.4	10.8	7.6	10.6
28/02/15	11.1	7.4	17.6	17.2	5.4
28/02/16	2.7	(1.3)	(0.7)	(2.2)	(9.2)
28/02/17	22.3	20.8	36.6	37.5	24.2

Source: Morningstar, Marten & Co

Sector	Flexible investment
Ticker	SIGT LN
Base currency	GBP
Price	162.53p
NAV	165.31p
Premium/(discount)	(1.7%)
Yield	3.7%

Share price and discount

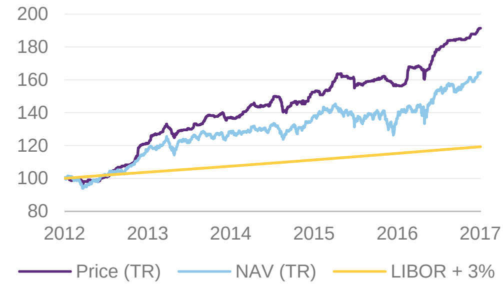
Time period 29/02/2012 to 07/03/2017



Source: Morningstar, Marten & Co

Performance over five years

Time period 29/02/2012 to 28/02/2017



Source: Morningstar, Marten & Co

Domicile	United Kingdom
Inception date	19 August 2005
Manager	Alan Borrows Peter Elston
Market cap (GBP)	64.8m
Shares outstanding	38.9m
Daily vol. (1-yr. avg.)	64.8k shares
Net gearing	7.0%

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Fund profile

Multi-asset portfolio with low volatility returns and an income focus

Further information regarding SIGT can be found at Seneca IM's website: www.senecaim.com

SIGT's aim is to grow both income and capital through investment in a multi-asset portfolio and to have low volatility of returns. Its portfolio includes allocations to UK equities, global equities, fixed income and specialist assets.

SIGT is designed for investors who are looking for income, want that income to grow, want the capital of the investment to grow and are seeking consistency, or lower volatility, in returns. A pure bond fund could meet the first of those needs, a pure equity fund could meet the first three. SIGT invests across a number of different asset classes with the aim of achieving all four.

SIGT has joined the AIC's flexible investment sector

Historically, SIGT has been a member of the AIC's global equity income sector, but it has recently moved to join other multi-asset funds in the flexible investment sector. In our view, the flexible investment sector is more appropriate to SIGT's multi-asset approach, although it has a higher yield than most of its flexible investment peers. SIGT's historic yield is 3.7%, which as illustrated in Figure 14 (see our peer-group comparison section on page 17), is at the top end of its peer group range (SIGT ranks second out of 12 in terms of dividend yield).

As illustrated on pages 14 to 16, SIGT's long-term performance since the change of strategy in 2012, is well ahead of its AIC peer-group average. However, the standard deviation of its NAV returns is lower than the average. In terms of share price total performance over the last five years, SIGT ranks first amongst its flexible investment peers.

Seneca Investment Managers – a multi-asset value investor

Seneca IM is a multi-asset value investor. It uses a team approach

SIGT's portfolio has been managed by Seneca Investment Managers (Seneca IM), and its forerunners, since 2005. Seneca IM describes itself as a multi-asset value investor. We think the combination of multi-asset investing with an explicit value-oriented approach may be unique to Seneca IM. The idea is that Seneca IM can allocate between different asset classes, emphasising those that offer the most attractive opportunities and making both asset allocation and investment selection decisions on a value basis. Allocations to mainstream UK equities are made directly while funds are used to gain access to other asset classes.

Benchmark reflects the outcome orientated mindset used to manage SIGT's portfolio

The fund's benchmark is Libor+3%. It is not based on an equity market index and arguably reflects the more outcome orientated return mindset used in managing SIGT's portfolio. However, we, the board, the managers and the largest shareholders agree that it is not ideal. The board has chosen to compare the fund with a range of indices and competing funds. We agree with this stance and have used this approach for our reports on the Trust.

Strategy has room to grow

With a market capitalisation of £64.8m and total net assets of £66.0m (as at 7 March 2017) SIGT is much smaller than its board would like it to be and, having analysed SIGT's investment approach, we believe that its strategy could easily be applied to a much larger fund. We think that its low volatility returns should prove attractive to investors and with the certainty offered by the new DCM (see page 19), should allow SIGT to attract new shareholders and grow its asset base over time. Expanding the size of the Trust should have the dual benefits of lowering the ongoing charges ratio and improving liquidity in SIGT's shares.

Managers' view

Markets can progress from here

Seneca IM is unashamedly a long-term investor and it believes that, while equity markets have had time to adjust to the UK referendum result and digest news of Donald Trump's election, little has changed in its long-term outlook. It is maintaining its view that, while the outlook for global growth remains muted, and it expects it to be below long-term trend, it will still be sufficiently positive for markets to continue to advance from here.

Global equities

Figure 1: Global equity market valuation data as at 16 January 2017

Heading	UK all cap	UK mid cap	Asia Pacific ex Japan	Emerging Markets	North America	Japan	Europe ex UK
Current yield (%)	3.9	3.8	2.8	2.5	2.1	1.9	3.3
Historical average (%)*	3.8	3.6	3.1	2.6	2.0	1.7	3.2
Relative to history	4%	7%	(9%)	(4%)	3%	17%	11%
Z-score	0.4	0.7	(0.4)	0.0	0.3	0.5	0.1
Return on equity (%)	3.6	10.8	9.7	10.2	11.7	7.3	8.3
Historical average (%)*	11.7	10.5	13.0	14.1	12.5	6.1	11.0
Relative to history	(70%)	2%	(25%)	(28%)	(6%)	20%	(24%)
Operating profit margin (%)	4.8	8.1	11.5	10.7	11.8	7.8	9.3
Historical average (%)*	10.6	8.6	11.8	12.6	12.6	6.4	9.7
Relative to history	(55%)	(6%)	(3%)	(15%)	(6%)	21%	(5%)

Source: Bloomberg, Seneca Investment Managers *Note: Historical averages for current yield and return on equity calculated using 14.9 years of historical data. Historical averages for operating profit margin calculated using 15.1 years of historical data.

Global equities have continued on their path of becoming incrementally more expensive since we last wrote in September (the yields for all of the regions provided in Figure 1 have fallen at the margin). Looking at the UK, the all-cap yield has compressed from 4.5% (6 May 2016) to 3.9% (16 January 2017), which reflects the strong performance of UK equities during 2016, and is now largely in line with its historical average. The UK's yields (both for all-cap and mid-cap) still compare favourably against yields on offer in other geographies, but this yield compression has led SIGT's manager to reduce its UK equities allocation target by some 1.5 percentage points.

The reduction in allocation to the UK reflects the inherent rebalancing mechanism that exists within SIGT's strategy. As a region or sector becomes more expensive, its yield falls and the manager shift allocations away towards other areas that offer more attractive yields.

Fixed income

The managers maintain their view that global fixed income markets are generally very expensive, particularly in developed markets, and when adjusted for inflation. The interest-rate cut in the UK, in the aftermath of the referendum on EU membership, only served to push these already inflated markets higher as investors looked to them as a safe haven. However, in the opinion of SIGT's managers, while fixed income is less volatile, and so is perceived as less risky, the prospect of real capital loss is significant while yields are this low. They believe that this is currently being overlooked by many investors. This is particularly pertinent now that inflation expectations are rising in both the UK and US, which is arguably reflected in the changes in fixed income yields discussed below.

Despite these challenges, the managers say that they are still able to find selective opportunities, particularly at the short duration end of the non-investment grade corporate bond market. A key long-term holding is the Royal London Short Duration Global High Yield Bond Fund. This was discussed in detail in our September 2016 update note (see page 4 of that note). Since we last wrote in September, fixed income markets have generally become less expensive, with a broad yet modest uptick in current yields. For example, G7 real interest rates have increased by 0.1 percentage points, UK by 0.4, world nominal rates by 0.4, emerging market hard currency by 0.1 and emerging market local currency by 0.2. However, the largest change has been for high-yield credit, which has actually fallen by 0.6 percentage points.

Figure 2: Global fixed income market valuation data as at 16 January 2017

Heading	G7 real interest rates	UK nominal rates	World nominal rates	Emerging market hard currency	Emerging market local currency	High yield credit
Current yield (%)	(0.7)	1.9	0.9	5.1	4.5	5.5
Historical average (%)*	1.1	3.9	1.4	5.5	5.0	6.5
Relative to history	(165%)	(50%)	(35%)	(7%)	(15%)	(18%)
Z-score	(1.8)	(2.3)	(1.1)	(0.4)	(1.1)	(0.8)

Source: Bloomberg, Seneca Investment Managers *Note: Historical averages for G7 real interest rates and UK nominal rates are calculated using 14.9 years of historical data. Historical averages for World nominal rates, Emerging market hard currency, emerging market local currency and High yield credit are calculated using 6.9 years of historical data.

Specialist assets - opportunities in infrastructure

SIGT's managers believe infrastructure funds will benefit as increasing demand for finance allows them to achieve higher yields.

In our September 2016 note, we discussed SIGT's managers' view on the outlook for infrastructure spending (see page 5 of that note). SIGT's managers believe that the idea that austerity, by itself, is not sufficient to return the economy to a healthy growth trajectory is gaining some traction. SIGT's managers are not expecting a sudden change in fiscal policy, but they believe that, over the longer term, infrastructure funds are well-positioned to benefit as increased demand for finance allows them to achieve higher yields on the assets in which they invest. In this regard, it is noteworthy that following the referendum in the UK, the government has been less focused on austerity and the Trump administration in the US is talking about a potential $1 trillion infrastructure spend, which is likely to be financed by debt.

Reflecting this view, SIGT's managers added International Public Partnerships (INPP) to the portfolio during 2016. SIGT's managers say that they like the fact that INPP offers a broad exposure to infrastructure assets. INPP has been trading on a marked premium, but SIGT's managers believe that the discount rates used in INPP's NAV are higher than warranted by their level of risk. This has led to over discounting when calculating INPP's NAV, which has caused its premium to be overstated (see page 5 of our September 2016 note for more detail). SIGT also has holdings in Sequoia Economic Infrastructure Fund, Greencoat UK Wind and John Laing Environmental Assets.

Specialist assets - differentiated REITs

SIGT's managers generally see better value in smaller, more niche REITs than in large, mainstream REITS.

In selecting REITs, SIGT's managers prefer to avoid the larger, mainstream REITs, instead preferring smaller, more niche players where they believe they can generally obtain better value. The following bullet points summarise the REIT themes that SIGT's managers like (it is worth noting that they do not require every REIT holding to be exposed to every theme).

- REITs with a non-core focus (i.e. away from residential and mainstream commercial property)
- REITs focused away from the South East (high demand for property in the South East tends to compress rental yields and are therefore not as good value in the managers' view)
- Small lot sizes (large institutional buyers tend to be focused on larger lot sizes, which leads to yield compression in that space, so that smaller lot sizes tend to offer superior value).
- REITS that benefit from a higher degree of asset management as, all things being equal, these should offer greater valuation uplifts.
- REITs that are beneficiaries of government policy or are exposed to a structural growth trend.

As discussed in our September 2016 note, SIGT has holdings in AEW UK REIT, Custodian REIT, Primary Health Properties and LondonMetric Property. A new addition to SIGT's REIT holdings is Civitas Social Housing; further details of the rationale underlying this holding are provided on page 12.

Investment process

Seneca IM uses a team approach with designated research specialists for different research areas.

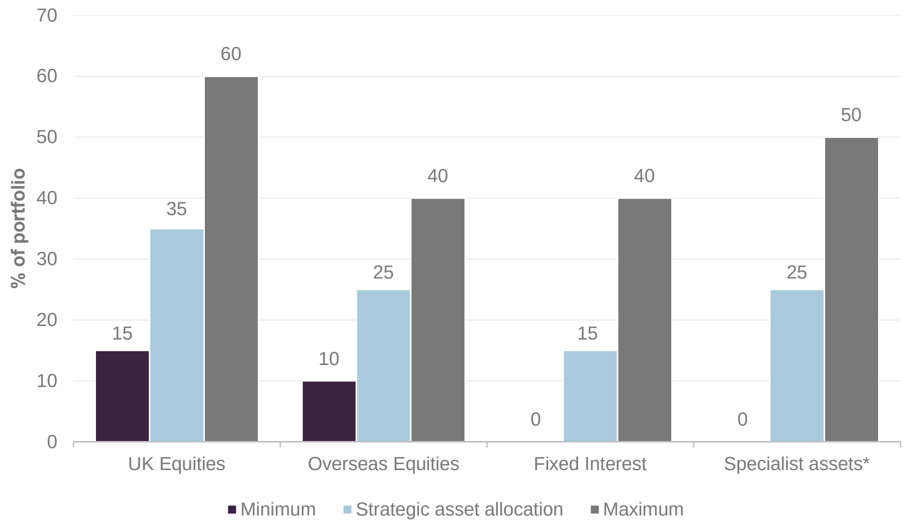
The named fund managers are Alan Borrows (senior fund manager) and Peter Elston (chief investment officer) of Seneca IM. However, Seneca IM takes a team approach to managing its portfolios, with team members taking responsibility for individual research areas. Peter Elston is the research specialist for asset allocation, Alan Borrows for fixed income, Mark Wright for UK equities, Richard Parfect for specialist assets and Tom Delic for overseas equities.

Strategic asset allocation

Long-term strategic asset allocation was set by SIGT's board and agreed by its shareholders in 2012.

As part of the strategy change in 2012, the board set parameters for the individual asset classes in which SIGT invests. The strategic asset allocation, which is illustrated in Figure 3, is to have 35% in UK equities (which can move within a 15% to 60% range), 25% in overseas equities (range 10% to 40%), 15% fixed interest (range 0% to 40%), 15% alternative assets (range 0% to 25%) and 10% property (range 0% to 25%).

Figure 3: Strategic asset allocation and ranges



Source: Seneca IM *Note: specialist assets includes property and alternative assets.

Tactical asset allocation – yield is the principal determinant of value

Peter Elston recommends a tactical asset allocation based on his assessment of the relative value attractions of different asset classes.

As described above, whilst the board has set the long-term strategic asset allocation for SIGT's portfolio, the allocations are permitted to move within ranges and Peter Elston (research specialist for asset allocation) recommends a tactical asset allocation based on his assessment of the relative value attractions of different asset classes. As illustrated in Figures 1 and 2, yield is the principal determinant of value when deciding on SIGT's tactical asset allocation. This reflects the fact that yield is relevant to all of the asset classes in which SIGT invests and it is also relevant to SIGT's income requirements. Tactical asset allocation decisions are discussed by the investment team; any changes require majority approval.

The managers have some discretion to deviate from the target weights

Target weights for individual holdings are set by the research specialists. This occurs once an investment has been approved by the investment team. The managers also have some discretion to deviate from the target weights (a maximum of 10% in aggregate), which allows sufficient flexibility to manage the portfolio efficiently with regard to cash flows etc. This discretion can be applied on an ongoing basis but the managers aim to stick closely to the target asset allocation with deviations from this being short term in nature. The individual managers' decisions and indeed all investment decisions are discussed, challenged and reviewed in weekly investment meetings. These are minuted and all investment decisions and the reasons for them are logged centrally so that they can be revisited at a later date. Investment decisions are made on a three-year time horizon and, for all asset classes, the managers may take a contrarian view.

Increasing the concentration

Seneca IM is keen that investment decisions have a real impact on performance and has been slowly increasing portfolio concentration during the last couple of years. The aim is to focus on higher conviction longer-term ideas, which is expected to generate superior returns and lower costs as portfolio turnover is reduced.

Mid-cap bias within UK equity exposure

Within the UK equities portfolio, there is usually a bias towards mid-market capitalisation stocks as this is where the managers tend to find better value (this being a less well-researched part of the market). They also say that mid-caps tend to outperform large caps over time. Analysis is focused on profitability and dividend paying capacity. Holdings are weighted equally.

Exposure to overseas equities is gained via funds

SIGT's managers use funds to gain exposure to overseas equities, which allows them to gain access to third-party managers' expertise. SIGT's managers are looking for funds that are actively managed and have a high active share; particularly emphasis is placed on the underlying manager's investment philosophy and process. The funds may be closed or open-ended although, for closed-end funds, discounts may be an additional indication of value. Either way, the research specialist also takes a view on the value present within a fund's underlying holdings.

Fixed income exposure through actively managed funds

Exposure to fixed income is gained via funds, with tactical asset allocation determining which areas should be targeted. Funds are selected that offer the prospect of attractive yields and where there is a strong focus on capital preservation. The latter consideration generally leads them to favour actively managed funds that work within a structured relative value framework.

Specialist assets – property, infrastructure and alternatives

SIGT's allocation to specialist assets includes exposure to various areas, such as property, infrastructure and other specialist areas. Exposure is gained, mostly, via funds and the manager looks for assets that are less correlated to SIGT's other asset classes and offer attractive yields. In evaluating these opportunities, the managers consider the likely return over the life of the investment relative to the current price; security of income with the potential for this to grow; and strong asset backing.

Unquoted securities, gearing and cash

There are no plans to add to SIGT's exposure to directly held unquoted securities beyond its current allocation (principally its investment in AJ Bell).

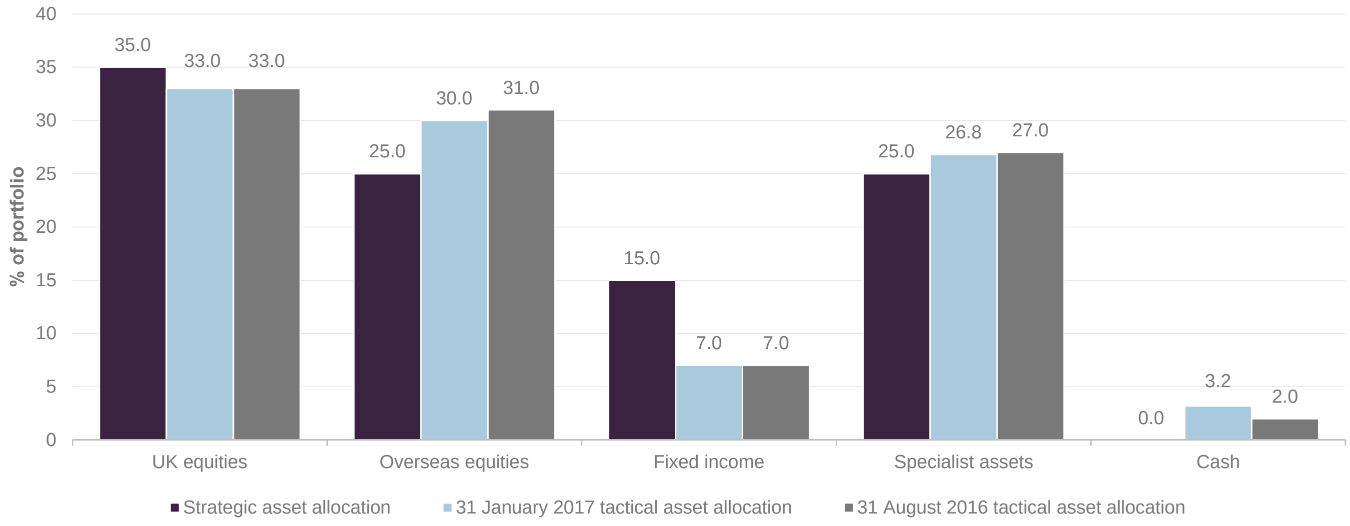
SIGT is permitted to invest in unquoted securities (up to 7.5% of its gross assets). However, while it has been successful with the current allocation to the area, principally through its direct investment in A J Bell, this is not an allocation that the manager is looking to add to at the present time.

SIGT is also permitted to hold cash. However, this cannot exceed 25% of its gross assets. As discussed on page 21, SIGT is permitted to borrow although this is limited to a maximum of 25% of its net assets.

Asset allocation

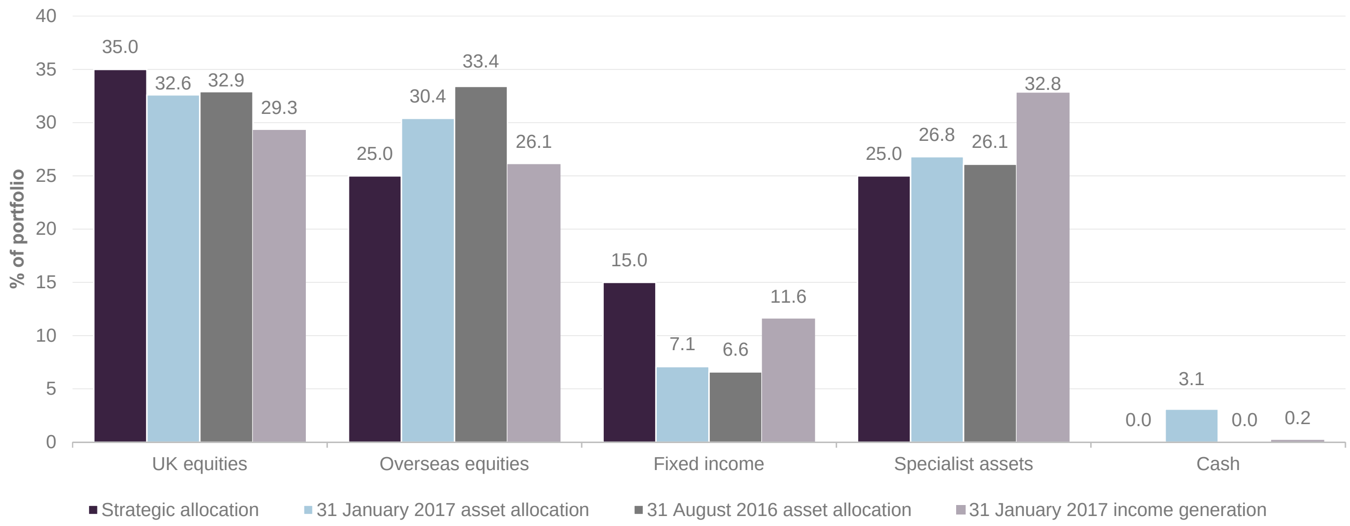
Figure 4 compares SIGT's strategic asset allocation (SAA) to its tactical asset allocations (TAA) as at the end of January 2017 and those at the end of August 2016 (end of August data was the most recently available data when we last wrote on SIGT). Figure 5 compares SIGT's strategic asset allocation (SAA) to its asset allocations as at the end of January 2017 and those at the end of August 2016. The proportion of income generation for each asset class is also included.

Figure 4: Comparison of strategic asset allocation, end January 2017 tactical asset allocation and end August 2016 asset allocation



Source: Seneca IM, Marten & Co

Figure 5: Comparison of strategic asset allocation, end January 2017 asset allocation, end August 2016 asset allocation and end January 2017 income generation



Source: Seneca IM, Marten & Co

Looking at the actual allocations versus the SAA, the largest change has been a reduction in the overweight allocation to overseas equities, although this continues to be the largest overweight position. The allocation to UK equities remains an underweight, the magnitude of which has increased slightly. Fixed income remains a significant underweight, reflecting the manager's view of the prospect of real capital loss (see page 6) although the underweight has decreased at the margin. The overweight exposure to specialist assets has increased.

As discussed on page 5, the reduction in UK equities reflects the performance and associated yield compression in this market. This has largely been achieved by exiting SIGT's position in International Personal Finance (discussed below).

SIGT's Polypipe holding has also been reduced on valuation grounds. This was acquired at depressed valuations immediately after the EU referendum and its share price has since recovered strongly (52.3% from its low on 6 July 2016 to 31 January 2017). The proceeds of the IPF disposal have largely been allocated to cash. The manager has also initiated a position in OneSavings Bank.

Within specialist assets, the manager has exited SQN Asset Finance, reduced Ranger Direct Lending and has initiated a position in Civitas Social Housing (see discussion below).

International Personal Finance sold out in its entirety

SIGT has recently sold out of its position in International Personal Finance (IPF - part of its UK equities portfolio). The followed an announcement that the Polish Ministry of Justice had made proposals that would severely restrict the additional fees that can be charged on retail loans in Poland. Under the new laws, non-interest charges are limited to 10% per annum, whilst additional fees are limited to 10% per annum (the limits were previously 25% and 30% respectively). IPF's Polish operation is a major part of business and profits and so this was a material development.

SIGT's managers felt that there was a very high probability of the proposals being enacted and believed that this would wipe out circa 50% of IPF's profits. They believed that the new laws would likely make the Polish business unprofitable and lead to it being closed down. SIGT's manager also expected that, as a consequence of the reduction in profitability, IPF would come close to breaching interest covenants of some of the bonds it has in issue. The managers sold out of the position as the shares recovered following the initial bad news. They felt that the new lower valuation did not fully allow for the impact on the Polish business.

Ranger Direct Lending holding reduced following Argon bankruptcy announcement

On 22 December 2016, Ranger Direct Lending (RDL) announced that an SME (small medium enterprise) Credit Line Platform, through which RDL invests, had provided credit lines to Chicago based Argon Credit and that Argon Credit had filed for chapter 11 bankruptcy protection in the US. Argon Credit is an online provider of loans and the funds provided by the SME Credit line, now known to be Princeton, had been used to finance consumer loans, with RDL's indirect participation amounting to US$28.3m. SIGT's managers had already taken some profits on RDL prior to the announcement on valuation grounds.

RDL is a senior secured lender to Argon Credit and RDL's announcement said that, "the Argon bankruptcy proceedings are not currently expected to have an impact on the Company's NAV or aggregate dividend payments". SIGT's managers felt that this would ultimately depend on whether the collateral was found to be realisable for its stated value and whether the legal ring-fencing was clear enough to ensure that there was no conflict with other creditors.

A further concern was a statement in RDL's announcement that, "…Argon has, in breach of the terms of its agreements with the SME Credit Line Platform, assigned a portion of the underlying collateral to an unapproved special purpose vehicle controlled by a former employee". SIGT's managers felt that if fraud was found to have occurred this would bring into question both the security of assets and ultimately the quality of due diligence by the RDL Team.

The exposure to Argon Credit accounts for approximately 10% of RDL's assets and SIGT's managers felt it was unlikely that these assets would be found to be worthless, but that there could be an eventual hit of 3%-5% of capital. More importantly, they felt that the outcome of the investigations could be a defining moment of RDL. They considered that if it transpired that there was no loss of capital that this could actually boost RDL's reputation, but that if fraud was found to have occurred that the market would not likely forgive. However, they felt that overall the prospects of significant capital falls were limited and that, following the price fall, there was potential for significant upside. They therefore took the decision to reduce the holding to reflect the ongoing uncertainties rather than to sell out of the holding altogether.

SQN Asset Finance – sold out in its entirety

SQN Asset Finance (SQN) is a leasing and asset finance company that invests in business-essential, revenue-producing (or cost-saving) equipment and other physical assets. It has a relatively concentrated portfolio and aims to produce returns that are uncorrelated with equity markets.

SIGT's managers observed some stress within SQN's portfolio. They were particularly concerned about a Falklands based asset, which was experiencing difficulties and felt that, given its location, it would be of limited resale value if the lease failed to meet its obligations. SQN had experienced limited underperformance in terms of price and so SIGT's managers took the decision to exit the position.

Civitas Social Housing – invested at IPO

Civitas Social Housing (CSH) is a new position that sits within SIGT's specialist assets portfolio. SIGT invested when CSH had its IPO on the London Stock Exchange in November 2016. The managers' initial intention was that CSH would replace GCP Student Living (DIGS), which has been a successful investment for SIGT. The good yields on offer within the student accommodation space have attracted investors, which has led to some yield compression; DIGS investments were achieving net initial yields in the region of 5%, which translated to a dividend yield of circa 4%. SIGT's managers expected that CSH, by comparison, would achieve net initial yields of 5.5% to 6.5% and provide a dividend yield of 5%.

SIGT's managers believe that there is strong unmet demand for social housing. Between 1980 and 2014 the stock of social and public housing fell from 7m to 4.5m (a function of the right-to-buy policy introduced during this period), while the population expanded from 56m to 64m during the same period. There are an estimated 4.5m people currently on housing waiting lists and, with 17,394 social homes constructed during 2015/2016, there is significant unmet demand. SIGT's managers believe that social housing is likely to be at the forefront of the government's efforts to increase housing and infrastructure spending but that funding, such as that provided by CSH, is the missing link in the chain.

SIGT's managers like the long-term structural growth story behind CSH. They say that it offers a diversified exposure, with long-term inflation adjusted leases, that are quasigovernment backed. CSH also has a very well-connected management team, in their view, and is relatively low risk as it is not undertaking any development activity or forward funding (renovating existing homes is permissible). An additional consideration is that all management and maintenance obligations sit with the registered providers of social housing (the housing associations or local councils to whom CSH leases its properties). Furthermore, SIGT's managers believe there to be potential for an 8% per annum return over the medium term.

OneSavings Bank added – focused on professional buy-to-let

OneSavings Bank (www.osb.co.uk) has been added to the UK equities portfolio and, as illustrated in Figure 6, is a top five position. It is a UK challenger bank, which is focused on Kent (it has about seven branches there), but conducts a lot of its business online. It is a specialist lender that mostly provides loans to professional buy-to-let landlords in the South East of England. SIGT's managers say that it has a very low cost base, with an industry leading cost ratio of 27%, as most administrative functions are conducted by its wholly owned Indian subsidiary (SIGT's managers believe the UK peer group average is more than 60%). SIGT's managers like the quality of the business, which along with other specialist lenders and challenger banks, de-rated following the UK's Brexit vote last year. SIGT's managers felt that the valuation of OneSavings Bank was unduly pessimistic. They felt the valuation factored in something going wrong during 2017, but felt that 2017 would not turn out as badly as analysts fear and see strong potential for upgrades to earnings and multiple expansion.

RM Direct Lending – invested at IPO

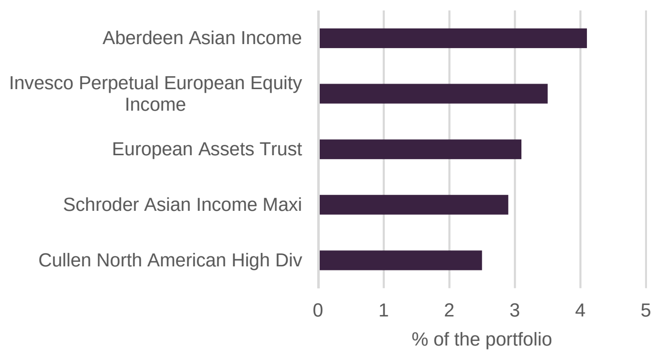
RM Direct lending (RMDL) listed on 15 December 2016; SIGT invested as part of this IPO, which raised £50m. RMDL lends to UK SMEs and middle-market companies directly. It sources and originates its deals in-house, conducting its own credit analysis and due diligence, and does not rely on third-party platforms. SIGT's manager liked the level of experience of the management team and its in-house capabilities, which had allowed it to put in place a seed portfolio and pipeline of some £146m with visibility to a further £136m. SIGT's managers also liked that RMDL's portfolio is designed for interest rate and inflation protection and, being focused on the UK, the minimal currency risk it presents.

Largest investments

Figure 6: Top UK equity positions as at 31 January 2017

Source: Seneca IM

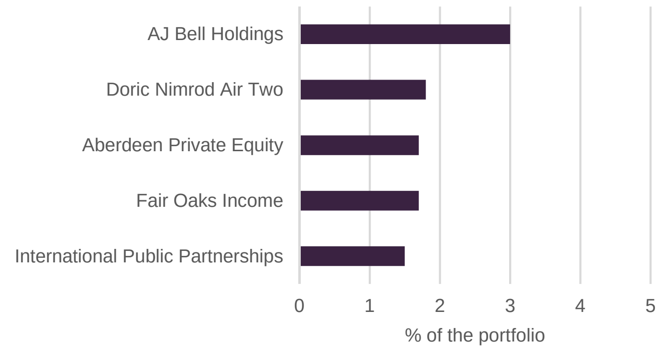
Figure 7: Top five overseas equity positions as at 31 January 2017



Source: Seneca IM

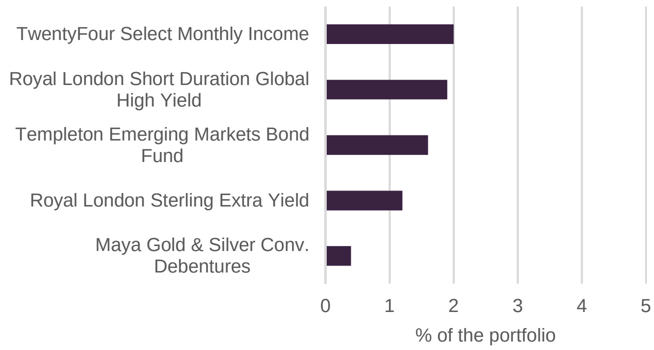
Figures 6, 7, 8 and 9 show the largest positions in each part of the portfolio as at 31 January 2017. Details of the rationale underlying some of these and other positions can be found in our initiation note of November 2015, our update notes of May 2016 and September 2016 (Bovis, Essentra, Royal Dutch Shell, International Public Partnerships and the specialist REITS) and in the managers' view section of this note. Some of the more recent changes are also discussed in detail above.

Figure 8: Top five specialist asset positions as at 31 January 2017



Source: Seneca IM

Figure 9: Top five fixed income positions as at 31 January 2017



Source: Seneca IM

Templeton Emerging Markets Bond Fund

During the last 12 months, emerging market local currency debt has been something of an exception to the general trend to very low yields and this was an area that SIGT's managers were allocating to in the first half of 2016 with the purchase of the Templeton Emerging Markets Bond Fund. This area has seen an increase in value, which has served to compress yields. However, SIGT's managers say that the Templeton fund, despite performing strongly, continues to offer a compelling yield in the region of 9%.

AJ Bell

Private company AJ Bell (online investment platform and stockbroker services provider) continues to be the largest specialist asset in the portfolio. Seneca IM says that it continues to be content to hold the unlisted company, which it says offers a good yield and has strong underlying growth drivers. Falling interest rates have been a headwind to profits growth, during the last few years but, with very limited scope for further interest rate reductions, the impact of this has reduced significantly. Seneca IM expects that profit growth, on the back of strong growth in assets under administration, will start to come through again. AJ Bell has £26bn of assets under administration and continues to attract new business. It is valued on a P/E of 31x, which Seneca IM considers to be extremely good value (Hargreaves Lansdown is trading at a P/E nearer to 46x).

Performance

SIGT's NAV and share price total returns are ahead of UK equity markets with markedly lower volatility of returns.

As illustrated in Figures 12 and 13, in the peer group comparison section, SIGT has beaten its flexible investment peer group over all of the time periods provided, for both NAV and share price total return. Furthermore, as illustrated in Figure 10, SIGT's NAV and share price total returns are comparable to the returns of the UK equity market, as represented by the MSCI UK Index, over the short term time periods; SIGT's returns are significantly ahead for the longer-term time periods of three years and above. This has been achieved whilst providing lower return volatility, as illustrated in Figure 11 below. Using the MSCI World Index as a benchmark for global markets, it can be seen in Figure 10 that SIGT has underperformed, but the MSCI World index's superior performance has come at a price of much greater volatility (see Figure 11).

Figure 10: Cumulative total return performance to 28 February 2016

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)	Strategy change*
SIGT NAV	3.5	6.0	7.4	20.8	27.9	64.6	70.4
SIGT share price	2.0	3.5	7.2	22.3	39.5	91.5	96.1
MSCI UK	3.1	8.0	8.9	24.2	18.9	48.3	53.6
MSCI World	4.0	8.3	13.7	36.6	59.4	107.1	112.9

Source: Morningstar, Marten & Co. *Note: strategy change was approved by shareholders on 18 January 2012. Please see our November 2015 initiation note for more details.

Figure 11 shows the annualised standard deviation of SIGT's NAV and share price returns against those for the average of the flexible investment sector and the MSCI UK and MSCI World indices. SIGT's NAV standard deviation is lower than the average for the flexible investment sector over every time period. It is also lower than that of the indices over every period. SIGT's share price standard deviation is also lower than that of the flexible investment sector over every time period and are also lower over every period than those of the indices.

Figure 11: Annualised standard deviation of NAV returns to 28 February 2016

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
SIGT NAV	4.02	5.95	8.36	12.48	11.17	10.09
SIGT share price	2.56	2.67	2.48	6.46	6.42	6.19
Flexible Investment NAV	5.61	8.82	9.28	10.24	11.19	11.30
Flexible Investment share price	9.55	10.19	11.67	13.43	13.11	13.44
MSCI UK	5.72	9.27	12.79	16.09	18.42	17.23
MSCI World	8.43	13.75	13.87	14.22	15.61	14.59

Source: Morningstar, Marten & Co

Recent performance attribution

During the six months to 31 December 2016, SIGT outperformed against its strategic asset allocation by 2.1% (returning 12.6% at a gross asset level) with asset allocation and stock selection both making positive contributions of 1.0% and 1.1% respectively. Stock selection was particularly strong within the UK equities portfolio, adding 1.8% to performance, whilst asset allocation was neutral. Within overseas equities, asset allocation added 0.5%, which was just offset by negative stock selection that deducted 0.7% from performance. Asset allocation within fixed income contributed 0.5% while stock selection cost 0.1%. Within specialist assets, asset allocation and stock selection both contributed 0.1%.

Peer group

Please click here to visit QuotedData.com for a live comparison of SIGT and its flexible investment peers.

As discussed on page 4, SIGT has recently moved to join the AIC's flexible investment sector, having previously been a member of the global equity income sector. We think that the new sector better reflects SIGT's multi-asset approach, but are cognisant that it is more income-focused than most members of the new peer group. We have therefore included peer-group averages for the AIC Global Equity Income sector in the table below as we also consider that this provides a useful illustration.

Please click here to visit QuotedData.com for a live comparison of the global equity income peer group.

As illustrated in Figure 12, SIGT's cumulative NAV total return performance is ahead of the peer-group average for the flexible investment sector for all of the time horizons provided. Over the five-year horizon, which largely represents the period since the change of strategy in January 2012, SIGT has provided an NAV total return of 64.8%. This is markedly ahead of the peer group average for the flexible investment sector of 34.3% and, as illustrated in Figure 14, the standard deviation of SIGT's NAV returns, over five years, is lower than the sector average.

Figure 13 illustrates a similar story for share price total return although, reflecting the narrowing of the discount during the period, share price total return performance has been superior to that of NAV total return performance. Over five years, SIGT's share price total performance ranks first within its flexible investment peer group.

Figure 12: Peer group cumulative NAV total return performance to 28 February 2017

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
SIGT	2.5	6.1	7.1	21.0	28.2	64.8
Aberdeen Div Inc & Gr	1.7	4.9	2.2	3.5	(3.6)	20.9
Capital Gearing	1.4	3.8	6.1	13.8	24.3	33.2
Establishment	2.2	6.1	3.2	29.3	34.7	36.1
Henderson Alt. Strats.	0.6	3.5	8.9	25.1	14.7	0.4
IP Select – Balanced	2.2	4.4	3.1	16.0	17.1	28.0
Miton Global Opps	2.9	9.4	18.9	38.9	43.9	68.1
New Star	3.4	7.5	8.0	25.3	35.5	41.1
Personal Assets	2.9	5.7	3.0	12.3	27.5	27.7
RIT Capital Partners	3.1	6.1	9.8	18.9	38.0	65.0
Ruffer	(0.3)	2.8	2.1	15.8	16.0	25.7
Syncona	1.2	3.6	6.7	10.4	22.5	
SIGT rank	5	5	5	5	5	3
Sector arithmetic avg.	2.0	5.3	6.6	19.2	24.9	34.3
Global Equity Inc. Avg	3.5	7.8	10.1	29.8	34.9	91.0

Source: Morningstar, Marten & Co.

Figure 13: Peer group cumulative share price total return performance to 28 February 2017

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
SIGT	2.0	3.5	7.2	22.3	39.5	91.5
Aberdeen Div Inc & Gr	4.4	8.2	3.9	0.1	(7.1)	12.6
Capital Gearing	0.9	3.5	5.8	14.4	15.3	29.1
Establishment	1.9	2.7	6.0	37.3	29.6	31.1
Henderson Alt. Strats.	(2.2)	6.2	14.7	33.1	16.2	0.6
IP Select – Balanced	1.9	4.1	2.9	16.7	20.4	44.7
Miton Global Opps	3.1	9.0	23.4	47.1	52.5	77.2
New Star	0.5	(3.1)	5.3	36.1	34.8	33.4
Personal Assets	3.4	5.3	2.3	14.5	30.0	25.2
RIT Capital Partners	1.9	4.8	10.7	24.0	56.1	71.9
Ruffer	0.3	1.7	7.1	21.0	16.5	25.2
Syncona	9.3	8.2	10.3	12.4	21.4	0.0
SIGT rank	5	9	5	6	3	1
Sector arithmetic avg.	2.3	4.5	8.3	23.2	27.1	36.9
Global Equity Inc. Avg	3.6	9.0	12.7	33.5	35.9	81.6

Source: Morningstar, Marten & Co.

Whilst not the smallest fund in the peer group, SIGT's market cap is markedly below the sector average, however there is still reasonable liquidity in its shares; at current prices, the value of its one-year average daily volume of shares traded is £105.3k. Investors also benefit from the confidence provided by SIGT's DCM.

SIGT's smaller size also explains why its ongoing charges are at the top end of the range although it should be noted that SIGT's ongoing charges are not that much higher than some funds that are considerably bigger. Moreover, if SIGT is successful in growing its asset base as the board intends, it seems reasonable that the ongoing charges ratio would fall as its fixed costs are spread over a larger asset base.

SIGT's discount is tighter than that of the sector average, reflecting both demand for SIGT's strategy and its DCM. In terms of gearing, SIGT's exposure, at both the gross and net level, is above the peer group average, but is not unduly high in our view.

Figure 14: Peer group comparison – size, fees, discount, yield and gearing as at 7 March 2017

	Market cap (£m)	St. dev of NAV returns over 5 years	Ongoing charges (%)	Perf. fee	Discount (%)	Dividend yield (%)	Gross gearing	Net gearing
SIGT	64.8	10.1	1.60	No	(1.7)	3.7	107	107
Aberdeen Div Inc & Gr	303.8	15.4	0.62	No	(7.3)	5.8	110	110
Capital Gearing	170.8	9.6	1.03	No	1.9	0.5	100	100
Establishment Inv Tst	40.1	13.5	1.25	No	(21.7)	2.5	100	100
Henderson Alt. Strats.	106.2	13.8	1.01	No	(17.1)	1.4	100	100
IP Select – Balanced	9.5	7.9	1.20	No	0.2	0.0	100	100
Miton Global Opps	58.6	6.7	1.16	No	(4.7)	0.0	100	100
New Star Inv Tst	73.2	12.2	0.92	Yes	(29.6)	0.3	100	100
Personal Assets	784.7	7.2	0.95	No	0.9	1.4	100	100
RIT Capital Partners	2,975.0	13.4	0.00	No	3.6	0.0	113	113
Ruffer Inv Tst	377.8	11.4	1.17	No	2.4	1.1	100	100
Syncona	1,000.7	14.5	1.27	No	14.8	1.5	100	100
SIGT rank	9	5	12	N/A	7	2	3	3
Sector arithmetic avg.	497.1	11.3	1.02	N/A	(4.9)	1.5	102.5	102.5
Global Equity Inc. Avg	333.3	14.8	1.21	N/A	(4.1)	3.6	110.2	110.2

Source: Morningstar, Marten & Co.

Quarterly dividend payments

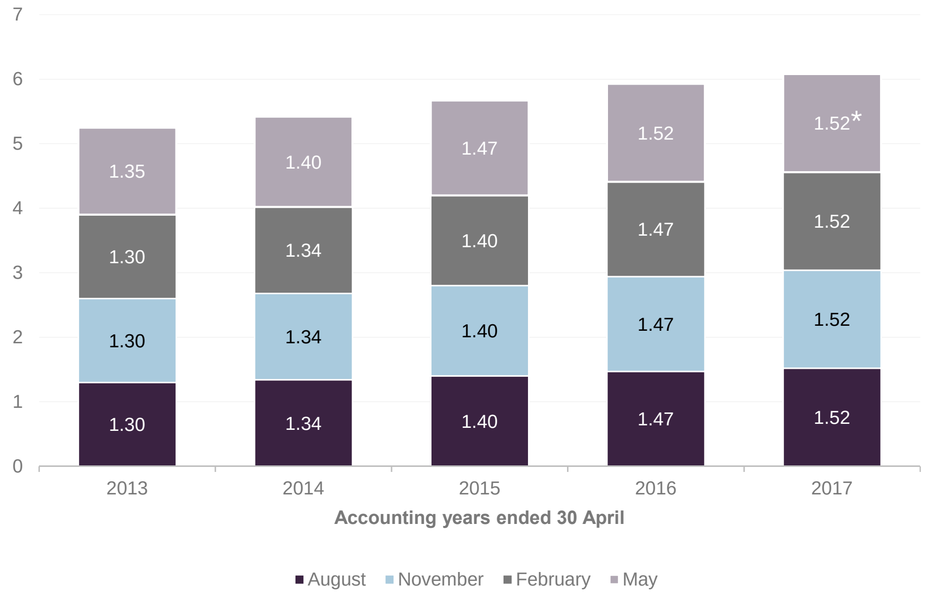
SIGT pays quarterly dividends. For a given financial year, the first interim dividend is paid in September (2016: 1.52p) with the second, third and fourth interims paid in December, March and June. In recent years, the quarterly dividend rate paid for the first quarter has been maintained for the second and third interims in December and March. This has then been followed by an increased dividend for the fourth interim (the June payment) which has established the base level for the first three interims of the following financial year in June (xd dates and record dates being the month prior to payment). As illustrated in Figure 15, for the year ending 30 April 2016 SIGT paid a total dividend for the year of 5.93p (2015: 5.67p).

Average annual dividend growth of 4.1% since strategy change in 2012

The dividend was rebased in 2012 to a level from which the board believed it could grow and be covered in normal circumstances. The rebased level was 1.3p per quarter or 5.2p per year. The decision to rebase the dividend followed a period in which it had not been covered by earnings and SIGT's revenue reserves had contracted.

For the year ended 30 April 2016, SIGT paid a total dividend of 5.93p. The fourth quarterly dividend of 1.52p established the level that has been declared for the first three quarters of the current financial year. In SIGT's interim accounts, the board said that, barring unforeseen circumstances, it intends to at least maintain the quarterly rate, of 1.52p per quarter, for the remainder of the dividends for the current financial year. Assuming that the board is able to honour this commitment, this suggests a minimum dividend payment for the current financial year of 6.08p per share. Based on the share price of 162.53p as at 7 March 2017, this puts SIGT on a prospective yield of 3.7%. However, this may be higher if the board is able to increase the dividend as it has done in prior years. The average increase in the total annual dividend, since the change of strategy in 2012, has been 4.1%. This is significantly above the rate of inflation during the period.

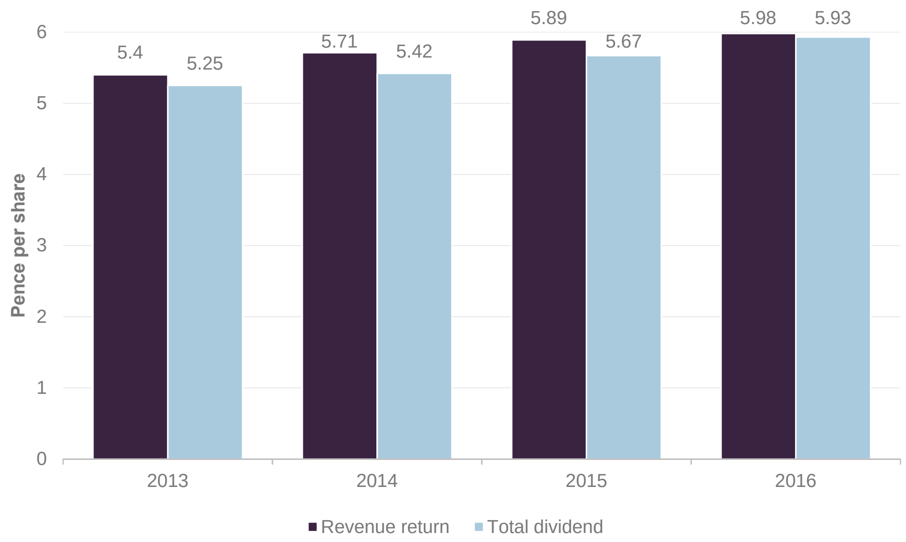
Figure 15: Quarterly dividend history



Source: Seneca Global Income & Growth Trust, Marten & Co *Note: Although the fourth quarterly dividend for the 2017 year is yet to be announced, the board has said that, barring unforeseen circumstances, it intends to at least maintain the quarterly rate, of 1.52p per quarter.

Growing revenue reserves

Figure 16: SIGT revenue income and dividend by financial year



Source: Seneca Global Income & Growth Trust

As illustrated in Figure 15, SIGT's dividends have been on a rising trend over the past few years. However, this has been achieved at time when the Trust has also been rebuilding its revenue reserves. Last year's dividend was covered 1.01x by earnings (2015: 1.04x). Figure 16 provides a comparison of SIGT's revenue income versus the total dividend paid, since the strategy change. As at 31 October 2016, SIGT's revenue reserve stood at £1.184m or 3.04p per share. Prior to the strategy change in 2012, it stood at 0.3p per share.

Discount / premium

Six months since new DCM went live

SIGT's DCM has been live for six months. SIGT has been trading close to asset value. The mechanism gives investors confidence that they can enter and exit SIGT at close to NAV.

SIGT's new DCM went live on 1 August 2016. Under the policy, the Trust actively provides support to the secondary market: buying and selling shares as necessary so that it effectively trades at, or close to, a zero discount. We believe that the introduction of the DCM has been a very positive development for the Trust as it gives existing and potential shareholders confidence that they should be able to enter and exit at close to NAV. In addition to the DCM, SIGT also offers an annual continuation vote. This mechanism should also help to moderate the discount. The board has also allocated more resources to increase awareness of the Trust, among investors, in recent years.

Potential to grow asset base

We believe that, over time, the comfort provided by the DCM should help to support liquidity in the secondary market. We also think that, provided that the Trust continues to provide low-volatility returns that are attractive to investors, this, combined with the certainty offered by the new DCM, should allow SIGT to attract new shareholders and grow its asset base over time. This should serve to lower its ongoing charges ratio and further support liquidity, for the benefit of all shareholders.

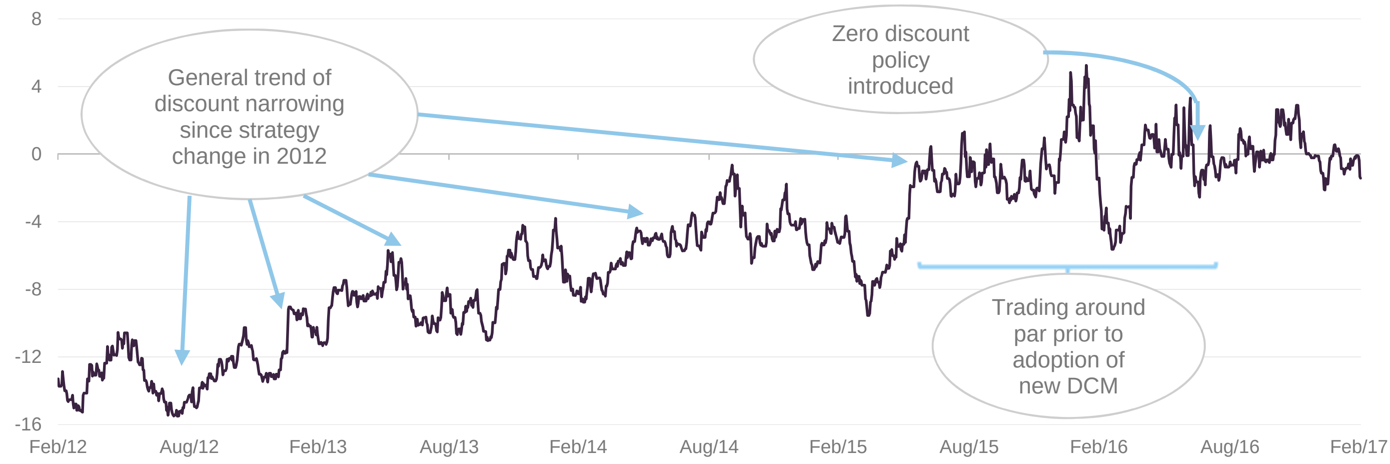
Long-term trend of discount narrowing following 2012 strategy change

SIGT shareholders approved a significant change of strategy in January 2012 (this saw a change in SIGT's investment policy that altered its benchmark; provided greater flexibility in the strategic asset allocation; and which introduced an improved management fee structure; a rebased quarterly dividend; and an annual continuation vote). As Figure 16, which illustrates SIGT's discount over the last five years, shows, SIGT's discount followed a general narrowing trend from mid-2012 to mid-2015 at which point this trust was trading around par. Since mid-2015, it has continued to trade around par albeit with some elevated volatility in 2016 reflecting significant risk-off and risk-on markets during this period. However, the narrowing and sustained period of trading close to par paved the way for the introduction of the DCM in August 2016.

Lower discount volatility under new DCM

Since the introduction of the new DCM, SIGT has traded at an average discount of 0.10% (median discount 0.15%) and in a range of a premium of 2.89% and a discount of 2.12%. In comparison, during the 12 months running up to the introduction of the new DCM, SIGT traded at an average discount of 0.75% (median discount 0.78%), but within a range of a premium of 5.25% and a discount of 5.63%.

Figure 17: Premium/(discount) over five years



Source: Morningstar, Marten & Co.

Fees and expenses

Management fee

SIGT pays a management of 0.9% on the first £50m of its market capitalisation. This falls to 0.65% for any balance above £50m. SIGT does not pay a performance fee.

Under the terms of its investment management agreement, with Seneca IM, SIGT pays a base management fee of 0.9% per annum of its market capitalisation, up to £50m, falling to 0.65% thereafter. Because the management fee is charged as a proportion of market capitalisation, rather than net assets, this structure incentivises the manager to minimise the discount. The investment management agreement does not include a performance fee element and is terminable on 12 months' notice by either side.

Secretarial and administrative services

PATAC Limited (PATAC) provides administrative and company secretarial services to SIGT. It also administers SIGT's AIFM returns and provides discount management services. For these services, PATAC charges SIGT a total annual fee of £150,500, which is broken down as follows: £110,000 for secretarial and administration services; £7,500 for completion and filing of small registered AIFM returns; and £33,000 for discount management services. The agreement with PATAC can be terminated by either party on three months' notice.

Allocation of fees and costs

SIGT's ongoing charges ratio of 1.60% reflect its current size. We expect these will fall if the board is successful in growing the Trust.

SIGT's management fee and finance costs are charged 50% to revenue and 50% to capital. All other fees are charged wholly to revenue with the exception of any loan break costs, which would be charged wholly to capital.

SIGT's ongoing charges ratio, for the year ended 30 April 2016, was 1.60% (2015: 1.51%). As illustrated in Figure 14, SIGT's ongoing charges are at the top end of the range for its peer group, reflecting that its size is markedly below the sector average. However, SIGT's ongoing charges are not that much higher than some funds that are considerably bigger and are comparable and should fall if the board is successful in growing the trust as it intends.

Capital structure and trust life

Simple capital structure

SIGT had one class f ordinary share in issue. It can gear up to 25% of net assets.

SIGT has a simple capital structure with one class of ordinary share in issue. Its ordinary shares have a premium main market listing on the London Stock Exchange and, as at 7 March 2016, there were 39,896,361 in issue with none held in treasury.

The Trust is permitted to borrow up to 25% of net assets and has a £11 million two-year short-term rolling loan, provided by RBS, for this purpose. Prior to August 2016, the facility was for £7 million, and this continues to be the amount draw down, but the limit was increased to £11m to provide the additional flexibility required to operate the DCM.

The facility, which expires in October 2017, could theoretically provide gearing up to 16.7% (based on SIGT's NAV per share of 165.31p as at 7 March 2017) and incurs interest at a rate of 70bps over Libor. SIGT does not have any other borrowing facilities in place. At 31 January 2017, SIGT had gross gearing of 10.9% and net gearing of 7.0%. These are more natural levels of gearing for SIGT (the 25% limit is in place to provide flexibility and is only likely to be used in more extreme market conditions). The managers also see the fund's fixed income exposure as a natural hedge against its borrowings.

Unlimited life with an annual continuation vote

SIGT has an unlimited life, but offers shareholders an annual continuation vote at each AGM. If the resolution is not passed, the directors will be required to bring forward proposals to liquidate, open-end or otherwise reconstruct the company. This puts pressure on the board to ensure that the fund's investment objective is relevant to shareholders' needs and that the fund meets that investment objective.

Financial calendar

The Trust's year-end is 30 April. The annual results are usually released in December (interims in December) and its AGMs are usually held in September of each year. As discussed on page 17, SIGT pays quarterly dividends in September, December, March and June.

The board

SIGT's compact board is appropriate for its current scale and helps to control costs.

SIGT's board comprises three directors (details of their individual experience are provided below); all members are non-executive and considered to be independent of the investment manager. The size of the board is small relative to many investment trusts but, in our view, is appropriate to the Trust's current scale and helps to keep a rein on costs.

Board members stand for re-election at three-yearly intervals.

SIGT's articles of association require that board members offer themselves for re-election at least once every three years. Board members that have served for 10 or more years must offer themselves for re-election annually. Of SIGT's board members, the only director to have served more than 10 years is Ian Davis. Ian was last re-elected to the board on 7 July 2016 and, assuming that he wishes to serve as a director beyond the current financial year, we would expect Ian to offer himself for re-election at SIGT's next AGM (scheduled for July 2017).

SIGT's board members do not have any other share directorships. All members have significant personal investments in the trust.

Other than SIGT's board, its directors do not have any other shared directorships and, as illustrated in Figure 18, all of the directors have over four years of fees invested in the Trust (an average of 5.7 years). This is very favourable in our view, as it shows significant commitment to the Trust and helps to align directors' interests with those of shareholders.

Figure 18: Board member - length of service and shareholdings

Director	Position	Date of appointment	Length of service (years)	Annual director's fee (GBP)	Share-holding*	Years of fee invested*
Richard Ramsay	Chairman	2 April 2013	3.9	24,500	73,667	4.9
Ian Davis	Chairman of the Audit Committee	1 November 2004	12.4	22,000	92,796	6.9
James McCulloch	Director	2 January 2015	2.2	20,000	65,000	5.3
Average (service length, fee, shareholding, fees invested)			6.2	22,167	77,154	5.7

Source: Seneca Global Income & Growth Trust, Marten & Co. *Note: shareholdings as per most recent company announcements as at 7 March 2017. Years of fee invested based on SIGT's ordinary share price of 162.534p as at 7 March 2017.

Richard Ramsay (chairman)

Richard was previously an investment banker. He had considerable experience of the investment trust sector gained as a managing director at Barclays de Zoete Wedd and a director at Intelli Corporate Finance. His experience also covers the fund management sector as a director with Ivory & Sime, the leisure sector as finance director at Aberdeen Football Club, the energy sector as a managing director at Ofgem and the public sector as a director at the Shareholder Executive. He is currently chairman of Northcourt and Castle Trust and a director of URICA, all recent start-ups in the financial services sector; and chairman of Wolsey Group, a provider of finance to house builders. Richard is also a director of John Laing Environmental Assets Group.

Ian Davis (Chairman of the audit committee)

Ian was a director of corporate finance with Hoare Govett Limited until 2002 having previously worked in Equity Capital Markets at De Zoete Bevan Limited and corporate finance at Baring Brothers & Co. Limited. Prior to this he qualified as a chartered accountant with Price Waterhouse. Ian is also a non-executive director of Wintech Group Limited.

James (Jimmy) McCulloch

James was the executive chairman of Speirs & Jeffrey Ltd until his retirement in May 2016. He is a FCSI having previously qualified as a chartered accountant with Coopers & Lybrand. James is a non-executive director of the Wealth Management Association and a trustee of Foundation Scotland.

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