Seneca Global Income & Growth

Cutting back on equities

Seneca Global Income & Growth Trust's (SIGT's) manager continues to expect a global recession in 2020, with a global bear market in equities in 2019. In anticipation, it laid out its strategy of gradually reducing the trust's equity weighting and recent events have served to reinforce its view. The manager highlights the benefit of SIGT's active multi-asset strategy, which it says can add value in a way that cannot be replicated by a passive fund slavishly following an index. In this note, we update on recent changes and provide a detailed overview of the trust.

Multi-asset, low volatility, with yield focus

Over a typical investment cycle, SIGT seeks to achieve a total return of at least the Consumer Price Index (CPI) plus six per cent per annum, after costs, with low volatility, and with the aim of growing aggregate annual dividends at least in line with inflation. To achieve this, SIGT invests in a multi-asset portfolio that includes both direct investments (mainly UK equities) and commitments to open-and-closed-end funds (overseas equities, fixed income and specialist assets). SIGT's manager uses yield as the principal determinant of value when deciding on its tactical asset allocation and holding selection.

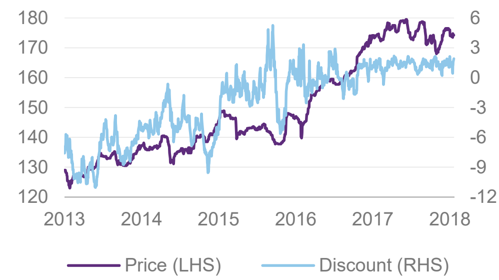
Year ended	Share price total return (%)	NAV total return (%)	Bench-mark* (%)	MSCI World total return (%)	MSCI UK total return (%)
31/05/14	10.8	7.6	3.5	8.0	7.8
31/05/15	10.0	10.2	3.6	16.8	5.3
31/05/16	5.6	(0.4)	3.6	1.3	(7.8)
31/05/17	22.8	21.6	3.4	32.0	25.7
31/05/18	3.8	3.4	8.2	8.8	5.7

Source: Morningstar, Marten & Co *Note: SIGT's benchmark became CPI + 6% with effect from 7 July 2017, having previously been Libor + 3% with effect from 18 January 2012.

Sector	Flexible investment
Ticker	SIGT LN
Base currency	GBP
Price	174.25p
NAV	171.02p
Premium/(discount)	1.9%
Yield	3.7%

Share price and discount

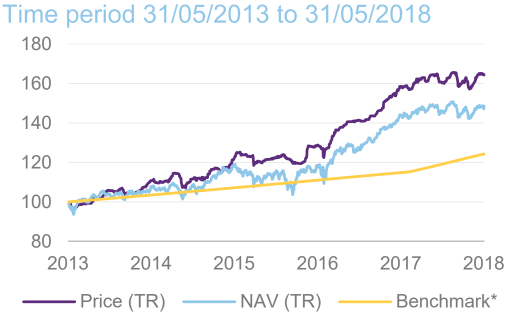
Time period 31/05/2013 to 18/06/2018



Source Morningstar, Marten & Co

Performance over five years

Time period 31/05/2013 to 31/05/2018



Source: Morningstar, Marten & Co

Domicile	United Kingdom
Inception date	19 August 2005
Manager	Team managed
Market cap	83.9m
Shares outstanding	48.2m
Daily vol. (1-yr. avg.)	89.2k shares
Net gearing	1.8%

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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 the manager's website: **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.

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.

CPI + 6% per annum reflects the importance of achieving real returns

The new benchmark is considerably more relevant to the scale of returns that it has been achieving in recent years.

From 7 July 2017, a new benchmark of CPI + 6% per annum came into effect, replacing SIGT's previous Libor + 3% benchmark, which had been in place since the strategy change in January 2012. We welcomed this development as we considered the new benchmark to be much more relevant to SIGT's investment strategy and the scale of returns that it has been achieving in recent years. We also welcome the emphasis on providing a real return to investors.

SIGT's manager says that, as an active manager, CPI + 6% is the sort of return it should be providing.

The manager says that while it aims to beat CPI + 6% per annum over a typical cycle, there may be some cycles in which this is very difficult to achieve. This would typically be the case during cycles in which inflation rises sharply. Its analysis suggests that it can derive an average of 4.8% per annum from strategic asset allocation and an average of 2.3% from tactical asset allocation and stock selection. Gearing will, the manager believes, add another 0.5% to returns, while costs will detract by around 1.5%, giving a real return of 6.0%. The manager says that, while some commentators would consider this ambitious, as an active manager these are the sort of returns it should be providing. These changes also bring SIGT into line with Seneca IM's other funds, all of which are managed against a 'CPI +' benchmark, formally or otherwise.

Strategy has room to grow; AGM proposals seek shareholder approval to issue up to 30% of issued share capital

With a market capitalisation of £83.9m and total net assets of £82.4m (as at 18 June 2018) 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 its discount control mechanism (DCM) (see page 15), 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.

At the forthcoming AGM in July 2018, SIGT's board is asking shareholders to approve two resolutions that would allow the board to issue up to 30% of issued share capital, on a non-pre-emptive basis. The board is taking quite a novel approach, which is discussed on page 18 of this note.

Gary Moglione joins Seneca IM's investment team

At the beginning of May 2018, Gary Moglione joined the investment management team at Seneca IM. Gary joined from Amundi Asset Management, where he managed €5 billion in European equity funds as well as multiple portfolios covering emerging markets, having previously held positions with Tilney Investment Management and Royal Liver Asset Managers.

Gary Moglione has considerable experience of analysing funds.

Gary has considerable experience of analysing funds. He is the specialist responsible for research in developed market overseas equities and fixed income, where Seneca IM uses open-and-closed-ended funds to gain exposure. Gary is part of Seneca IM's 'indirect investment team', working alongside Tom Delic, who is focused on emerging market equity and fixed income research. Gary also supports Peter Elston, Seneca IM's chief investment officer, on asset allocation and has taken over the primary research responsibility for specialist financials. A summary of the structure is provided in Figure 1 on page 7.

AUM growth facilitates investment in the team

Seneca IM has been appointed to manage a new group of portfolios. This takes its AUM over £0.5bn, allowing Seneca IM to strengthen its team.

Seneca IM has recently completed the transition of a new group of portfolios that it has been appointed to manage. The addition of these assets takes Seneca IM's AUM over £0.5bn, which has provided additional revenue, allowing it to strengthen its team. Recent hires include the appointment of Gary Moglione, discussed above; Lucy Dolan, business development consultant who will assist in the distribution of SIGT; and Dawn Morris who joined Seneca IM in January to head up marketing operations for both the company and its products, including SIGT (see our January 2018 note for more discussion).

Manager's view

Reducing equity exposure in anticipation of a global recession in 2020

Equity exposure is reducing by 1% every couple of months.

As discussed in our notes of June and September 2017, and January 2018, Seneca IM has set out a clear road map for SIGT's equity weighting and how this will be reduced over the next two or so years. Specifically, SIGT's equity exposure is being decreased by 1% every couple of months (give or take, depending on market conditions) in advance of a global recession that Peter Elston (the research specialist for asset allocation) anticipates in 2020. He expects to see a global equity bear market commencing in advance of this, starting at some point in 2019. He is aiming for SIGT to be meaningfully underweight equities at this time, as it is during the peak phase that equities provide the worst performance. In summary:

- Peter believes that developed economies are, on average, in expansion phase.
- Theory suggests that it is during this phase that inflation starts to take hold and inflation rates rise above central-bank targets.
- This causes central banks to shift into tightening mode (the US has been tightening for two years and the UK has had its first interest-rate rise).
- Tightening monetary policy is a warning sign (a key warning sign for equity markets is when the yield curve inverts as this arguably signifies the end of the expansion phase).
- It is in environments such as these that an active manager using a multi-asset framework can add value in a way that cannot be replicated by a passive fund following an index.
- Looking at the UK economy overall, the outlook is still reasonably positive, but within this the picture is mixed. The UK consumer is clearly coming under pressure and UK consumer-facing industries are experiencing weakness as a result.
- Looking at Europe and Japan, their economic recoveries are lagging that of the UK, which is behind that of the US. Unemployment rates in Europe and Japan are still above historic averages and all-time lows, suggesting these economies have a little way to go before reaching full capacity.

Recent developments reinforce the manager's view

Peter tells us that, since we last published in January, his outlook has not changed and developments, such as a softening of leading global economic indicators, has served to reinforce his view. This softening, for example, saw the planned reduction in equity exposure at the end of March 2018 brought forward to the middle of that month. Peter thinks that, as monetary policy is still loose, this softening may be the last intra-cycle dip but, if monetary policy were tighter, he would be more concerned about the cycle turning.

Readers interested in more detail on Peter's outlook should see both our January 2018 note and, for professional investors, an in-depth discussion is provided in Peter Elston's investment letters of July 2017 (*Issue 26: Preparing for the next downturn*) and November 2017 (*Issue 30: Keeping it simple – how to add value effectively through tactical asset allocation*).

Investment process

Seneca IM takes a team approach to managing its portfolios. The team is structured so that individual team members take primary responsibility for specific research areas, with support provided by another team member. A summary of the structure is provided in Figure 1. In addition to his research responsibilities, Peter Elston has responsibility for fund oversight of SIGT, which includes process implementation and cashflow-management.

Figure 1: Research responsibility summary

Research responsibility	Lead	Support
Asset allocation	Peter Elston	Gary Moglione
UK equities	Mark Wright	Tom Delic
Third-party funds – overall process and framework	Tom Delic and Gary Moglione	
Third-party funds – developed (North American equities, European equities, corporate bonds)	Gary Moglione	Tom Delic
Third-party funds – Asia/emerging (Asian equities including Japan, emerging market equities, emerging market debt)	Tom Delic	Gary Moglione
Specialist assets (private equity, property and infrastructure* assets)	Richard Parfect	Peter Elston
Specialist financial funds	Gary Moglione	Peter Elston
Fixed income direct (investment grade corporate bonds and government bonds)	Gary Moglione	Peter Elston

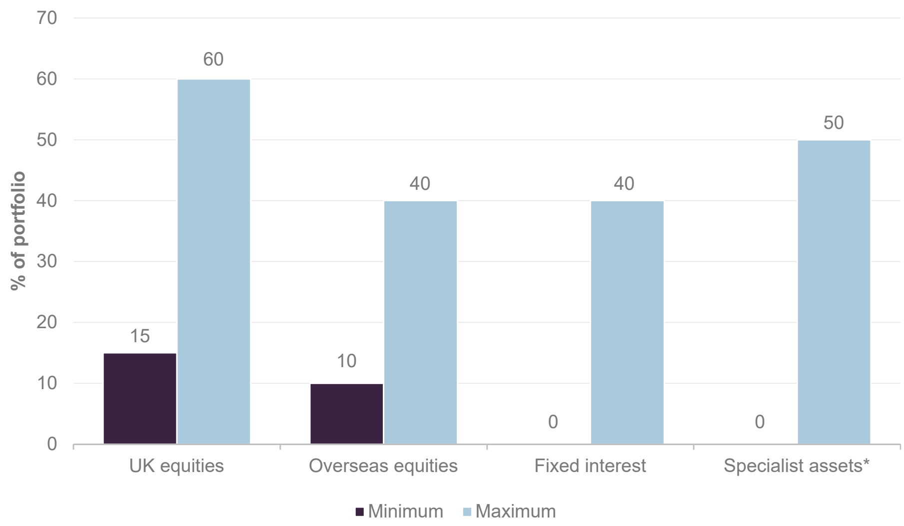
Source: Seneca IM *Note: Infrastructure includes aircraft leasing.

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 illustrated in Figure 2, the board has set ranges for the individual asset classes in which SIGT invests. Peter Elston (research specialist for asset allocation) then recommends a tactical asset allocation based on his assessment of the relative value attractions of different asset classes, where yield is the principal determinant of value. 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.

Figure 2: Asset allocation ranges



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

The manager has 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 manager has 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 manager aims 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.

Increasing the portfolio concentration

Seneca IM is keen that investment decisions have a real impact on performance and has been slowly increasing portfolio concentration since the introduction of the new investment process three years ago. The aim is to focus on higher conviction longer-term ideas, which is expected to generate superior returns. The longer term investment approach has also seen portfolio turnover fall, which has reduced transactions costs.

Exposure to overseas equities and fixed income is gained via funds

Within SIGT's portfolio, exposure to both overseas equities and fixed income is gained via funds, which allows SIGT to gain access to third-party managers' expertise. The research for these areas focuses primarily on assessing the fund manager and its investment process rather than the asset class itself.

For overseas equities, SIGT's manager is looking for funds that are actively managed and have a high active share; in particular 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 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 and specialist financials

SIGT's allocation to specialist assets includes exposure to various areas, such as private equity, property, infrastructure and specialist financial. (Specialist financial includes exposure to such areas as debt funds.) Exposure is mostly gained via funds and the manager looks for assets that are less correlated to SIGT's other asset classes and that offer attractive yields. In evaluating these opportunities, the manager considers the likely return over the life of the investment relative to the current price; security of income with the potential for this to grow in real terms; 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 (viz 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 17, SIGT is permitted to borrow although this is limited to a maximum of 25% of its net assets.

Asset allocation

One per cent reduction in equity exposure every couple of months

The team at Seneca IM set out its intention, in mid-2017, to reduce SIGT's allocation to equities during the next few years with the aim of being significantly underweight by 2020. (We first commented on this in our update note of 13 June 2017 and have commented on the progress made in every note since.) This process has continued since we published our update note. The key changes are as follows:

- A 1% reduction in SIGT's equity weighting at the end of January, which was put into cash; and
- A 1% reduction in SIGT's equity weighting in mid-March, which was also put into cash.

Both of these reductions were achieved by reducing a range of UK equity holdings. Elsewhere, the manager has continued to consolidate the number of positions in SIGT's portfolio.

Figure 3: Comparison end April 2018 asset allocation, end November 2017 asset allocation and end April 2018 income generation

Source: Seneca IM

Balancing SIGT's income generation with the Insight Equity Income Booster fund

A challenge with reducing SIGT's exposure to UK equities is that this is one of SIGT's better yielding asset classes and so this also reduces SIGT's capacity to generate income, particularly compared against holding cash which offers little or no yield. To help address this, the manager has been allocating to the Insight Equity Income Booster Fund. This fund uses strategies, such as call overwriting, to generate a yield in the region of 8%. With SIGT's UK equity holdings offering a yield typically in the region of 4%, a 1% allocation to the Insight fund will broadly match the income lost by reducing the UK equity allocation by 2% and allow SIGT to maintain its income-generating capacity.

The manager expects to continue to use this fund to bolster SIGT's income generation as it makes further reductions in SIGT's equity exposure. It may also use similar overseas-focused funds to manage its reductions in SIGT's exposure to overseas equities.

Overseas equities – modest reduction in net exposure

Overseas equities has not seen a change in tactical asset allocation target since we last wrote. The actual exposure has changed, but the reduction has been modest (24.0% as at the end of April 2018 against 24.7% as at end of November 2017). The principal move has been the initiation of a 3.0% target position in the HMG Global Emerging Markets Equity Fund. This has been funded by selling, in their entirety, SIGT's holdings in the Magna Emerging Markets Dividend Fund and the Somerset Emerging Markets Dividend Growth Fund (both were 1.5% positions).

The manager is in the process of adding the CIM Dividend Income Fund. It is reducing both the Aberdeen Asian Income Fund and the Schroder Asian Income Maximiser to accommodate the change.

HMG Global Emerging Markets Equity Fund

Managed by Marc Girault of HMG Finance (an independent French asset management company), the HMG Global Emerging Markets Equity Fund has a niche offering. It maintains a portfolio of emerging-market subsidiaries of developed-market companies as well as companies listed and operating in emerging markets, which have an important relationship with a developed market business. Its manager believes that these are generally overlooked by the large institutional investors as they are seen as less interesting than domestic emerging market rivals. The manager also believes that these can outperform over the long-term, benefitting from such things as better integrated supply chains and superior corporate governance. SIGT's manager thinks that the fund offers something that is undervalued by the market and its long-term, high-conviction and value-focused approach mirrors SIGT's own philosophy.

Specialist assets – changes driven by bottom up considerations

Since we last published, SIGT's allocation to specialist assets remains effectively unchanged (30.0% as at the end of April 2018 against 30.1% as at end of November 2017) although there have been changes within the allocation driven by bottom-up considerations. SIGT's 1.3% holding in Civitas Social Housing (1.0% in the company's ordinary shares and 0.3% in its C-shares) has been reduced. The majority of the proceeds was redeployed into four of SIGT's existing holdings (Ediston Property, Primary Health Properties, PRS REIT and Sequoia Economic Infrastructure).

SIGT received cash from Aberdeen Private Equity, which is in the process of being wound up. This arrived in two tranches, both in April 2018, following compulsory share redemptions. Richard Parfect (the research specialist for specialist assets) has adjusted the target weights of a number of existing holdings to take up some of the slack (RM Secured Lending, International Public Partnerships, Primary Health Properties and AJ Bell). Small increases have also been made to the actual weights of a number of existing holdings (Doric Nimrod Air Two, Funding Circle SME Income Fund, AEW UK REIT). The balance has been allocated to cash.

Civitas Social Housing

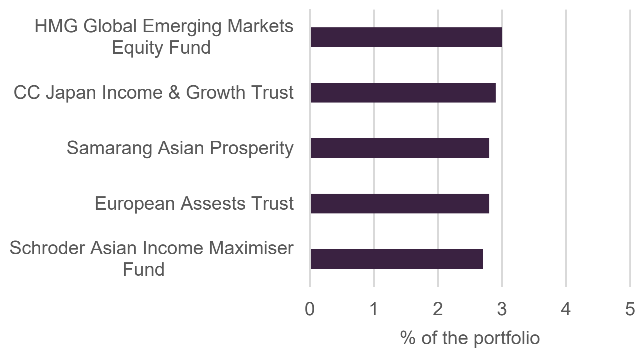
February 2018 saw SIGT's target weight for Civitas Social Housing (CSH) reduced to zero and its holding in CSH's ordinary shares has been exited in its entirety (it still has a residual position in CSH's C-shares). This decision was taken once it became apparent that First Priority Housing Association, through which around 10% of CSH's properties were let (45 out of 414 at the time), was having cash-flow difficulties as a consequence of high voids in its portfolio. While voids in CSH's properties were low, and CSH was able to shift the properties to a new housing association quickly, the fact that a significant partner had got into difficulties caused Richard Parfect some cause for concern. However, the team was particularly concerned that it identified the issue from an announcement on the Housing and Communities Association website, which preceded CSH's own announcement on First Priority by some three weeks.

Largest investments

Figure 4: Top UK equity positions as at 30 April 2018

Source: Seneca IM

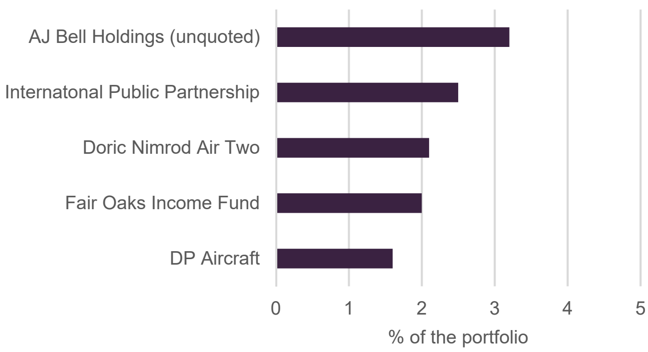
Figure 5: Top five overseas equity positions as at 30 April 2018



Source: Seneca IM

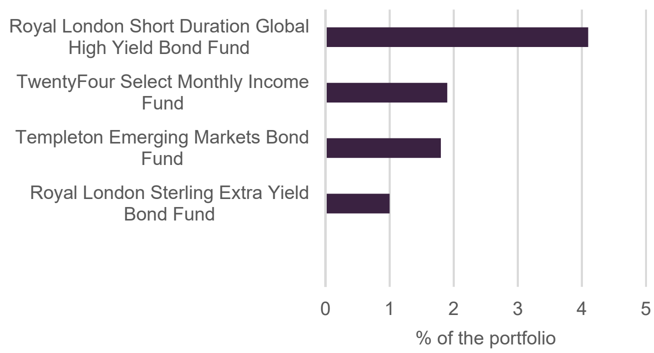
Figures 4, 5, 6 and 7 show the largest positions in each part of the portfolio as at 30 April 2018. Details of the rationale underlying some of these and other positions can be found in our previous notes (see page 20 of this note). Some of the more recent changes are also discussed in detail above.

Figure 6: Top five specialist asset positions as at 30 April 2018



Source: Seneca IM

Figure 7: All fixed income positions as at 30 April 2018



Source: Seneca IM

Performance

Figure 8 illustrates SIGT's share price and NAV total return performances in comparison with those of its peer group, its blended benchmark, the MCSI UK and MSCI World indices. During the last quarter, the trend has been one of outperformance of the broader peer group although SIGT has lagged its benchmark. SIGT's long-term performance record remains very strong (it is ahead of the peer group and various indices over five years and since the strategy change in 2012 and, for the three-year period, is only beaten by the MSCI World). In our view, it is over longer-term horizons that SIGT's performance is best assessed.

Looking at Figure 9, SIGT has achieved these returns, with lower volatility than the average of its peer group, over all of the time periods provided. Its return volatility has also been markedly lower than that of both the MSCI UK and MSCI World indices.

Figure 8: Cumulative total return performance to 31 May 2018

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)	Strategy change*
SIGT NAV	0.7	1.7	1.9	3.4	25.3	48.5	87.6
SIGT share price	0.5	1.9	2.4	3.8	34.7	64.3	120.2
Flexible Investment NAV	1.3	1.0	1.2	3.7	22.9	35.6	60.6
Flexible Investment share price	1.6	0.7	1.1	5.2	28.0	40.4	65.4
Blended benchmark**	0.7	2.1	4.3	8.2	16.0	24.3	28.2
MSCI UK	2.7	7.3	6.7	5.7	22.6	39.2	70.0
MSCI World	4.3	3.3	3.9	8.8	45.5	83.6	134.4

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. **Note: SIGT's benchmark became CPI + 6% with effect from 7 July 2017, having previously been Libor + 3% with effect from 18 January 2012.

Figure 9 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. In addition, SIGT's share-price standard deviation is lower than that of the flexible investment sector over every time period and is lower over every period than those of the indices.

Figure 9: Annualised standard deviation of NAV returns to 31 May 2018

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
SIGT NAV	6.53	7.43	7.30	6.78	10.83	9.86
SIGT share price	3.12	5.97	6.10	5.32	6.10	5.97
Flexible Investment NAV	6.75	9.14	9.72	8.64	10.46	10.54
Flexible Investment share price	8.50	11.20	12.19	11.17	12.45	12.60
MSCI UK	12.74	14.18	14.15	12.23	17.60	16.37
MSCI World	11.67	15.82	15.89	13.88	15.84	14.72

Source: Morningstar, Marten & Co

Peer group

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

As illustrated in Figure 10, 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 with the exception of the one-month and one-year periods, where it falls marginally behind. Over the five-year horizon, SIGT has provided an NAV total return of 48.7%, which is markedly ahead of the peer-group average for the flexible investment sector of 35.6%. Also, as illustrated in Figure 12, the standard deviation of SIGT's NAV returns, over five years, is lower than the sector average.

Figure 11 illustrates a similar story for share price total return although SIGT's share-price performance is superior to that of the flexible investment sector over all of the periods, except one-month.

Figure 10: Peer group cumulative NAV total return performance to 31 May 2018

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
SIGT	0.3	1.1	2.4	3.3	25.5	48.7
Aberdeen Div Inc & Gth	(1.3)	(1.1)	0.1	1.4	(0.1)	8.2
Capital Gearing	1.7	2.9	1.8	2.7	22.3	27.9
Establishment	(0.6)	(6.6)	(6.4)	(5.6)	19.7	10.0
F&C Man Port. Gth	3.3	3.8	4.4	11.0	34.0	65.5
F&C Man Port Inc	0.6	1.4	0.9	2.9	20.6	40.5
Henderson Alt Strats	2.0	1.7	1.8	5.4	23.4	25.7
I P Select Bal Risk Alloc	2.1	3.1	2.5	6.4	16.3	27.8
Miton Global Opps	1.5	0.1	0.1	8.2	53.6	73.4
New Star	2.7	2.9	4.2	6.2	35.9	48.2
Personal Assets	1.0	(0.1)	(1.5)	(2.6)	16.9	21.3
RIT Capital Partners	2.1	2.3	4.8	7.6	23.5	52.7
Ruffer	1.3	1.3	1.1	0.5	6.4	13.2
SIGT rank	11	9	5	7	4	4
Sector arithmetic avg.	1.3	1.0	1.2	3.7	22.9	35.6

Source: Morningstar, Marten & Co.

Figure 11: Peer group cumulative share price total return performance to 31 May 2018

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
SIGT	0.5	1.9	2.4	3.8	34.7	64.3
Aberdeen Div Inc & Gth	(0.8)	0.3	4.3	8.6	1.2	13.6
Capital Gearing	1.8	3.1	1.5	2.7	15.7	13.4
Establishment	1.5	(2.8)	(3.5)	5.4	31.7	5.3
F&C Man Port. Gth	4.0	3.0	4.5	10.6	34.8	69.9
F&C Man Port Inc	2.2	1.3	1.5	2.6	20.7	44.4
Henderson Alt Strats	0.9	(1.2)	(3.3)	4.0	27.0	26.7
I P Select Bal Risk Alloc	0.0	0.4	1.3	4.5	14.6	25.7
Miton Global Opps	2.9	(0.9)	(0.4)	13.1	72.1	92.1
New Star	1.9	(3.5)	1.9	5.6	50.5	57.5
Personal Assets	1.5	0.1	(1.2)	(2.5)	16.5	20.4
RIT Capital Partners	1.8	5.8	4.6	10.3	35.0	80.9
Ruffer	2.4	1.7	0.8	(0.8)	9.1	11.2
SIGT rank	11	4	4	9	5	4
Sector arithmetic avg.	1.3	1.0	1.2	3.7	22.9	35.6

Source: Morningstar, Marten & Co.

While 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 £155.4k. Investors also benefit from the confidence provided by SIGT's DCM (see page 15).

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 continues to be successful in growing its asset base, the ongoing charges ratio should continue to fall, all else being equal, 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 12: Peer group comparison – size, fees, discount, yield and gearing as at 18 June 2018

	Market cap (£m)	St. dev of NAV returns over 5 years	Ongoing charges (%)	Perf. fee	Discount (%)	Dividend yield (%)	Gross gearing	Net gearing
SIGT	83.9	9.9	1.45	No	1.9	3.7	109	102
Aberdeen Div Inc & Gth	395.9	12.6	0.38	No	0.4	3.3	113	113
Capital Gearing	236.6	7.1	0.86	No	1.6	0.5	100	100
Establishment	41.8	14.1	1.22	No	(15.7)	3.0	100	100
F&C Man Port. Gth	73.5	11.8	0.95	No	0.4	0.0	100	100
F&C Man Port Inc	59.4	10.7	1.1	No	1.4	4.0	100	100
Henderson Alt Strats	108.9	13.4	1.06	No	(19.5)	1.7	100	100
I P Select Bal Risk Alloc	9.0	7.8	1.2	Yes	(1.7)	0.0	100	100
Miton Global Opps	76.4	7.2	1.34	No	1.9	0.0	100	100
New Star	77.4	12.3	0.9	No	(31.1)	0.7	100	100
Personal Assets	884.9	6.9	0.95	No	1.0	1.4	100	100
RIT Capital Partners	3,145.9	14.0	1.05	No	1.6	1.6	107	107
Ruffer	413.6	9.9	1.16	No	0.8	0.8	100	100
SIGT rank	7	9	13	N/A	1	2	2	3
Sector arithmetic avg.	431.3	10.6	1.0	N/A	(4.4)	1.6	102	101.6

Source: Morningstar, Marten & Co.

Quarterly dividend payments

SIGT pays quarterly dividends. For a given financial year, the first interim dividend is paid in September 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 (ex-dividend dates and record dates being the month prior to payment).

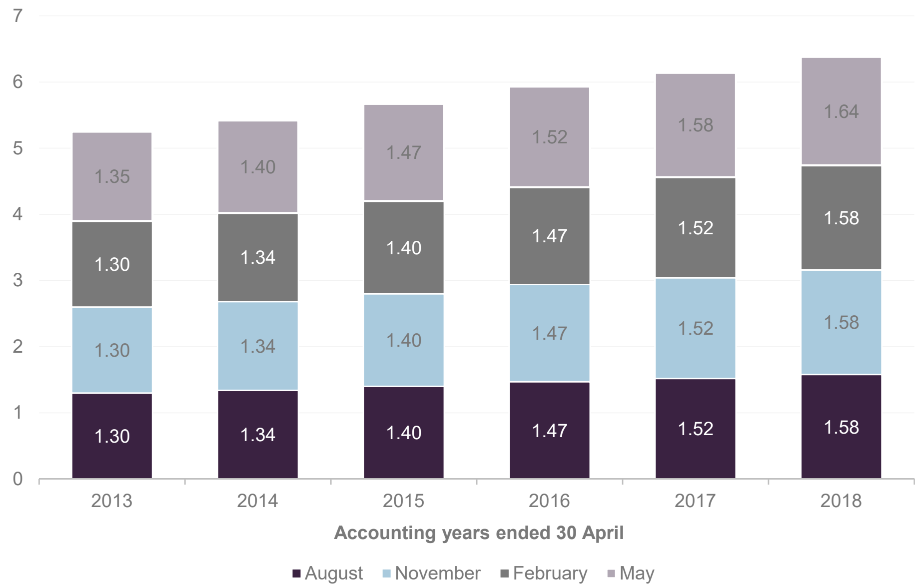
On 15 May 2018, SIGT declared its fourth interim dividend at 1.64p per share. This means that, for the year ending 30 April 2018, SIGT paid a total dividend for the year of 6.38p per share, which is an increase of 3.9% over the 6.14p per share paid for the 2017 year, as illustrated in Figure 13. This also suggests a minimum payment of 6.56p per share, for the year ended 30 April 2019, assuming that SIGT at least maintains the quarterly dividend at 1.64p per share.

Average annual dividend growth of 4.0% since strategy change in 2012

The average increase in the total annual dividend, since the change of strategy in 2012, has been 4.0%. This is significantly above the rate of inflation during the period. As illustrated in Figure 13, SIGT's dividends have been on a rising trend over the past few years. However, this has been achieved at a time when the trust has also been rebuilding its revenue reserves (see our March 2017 note for further discussion).

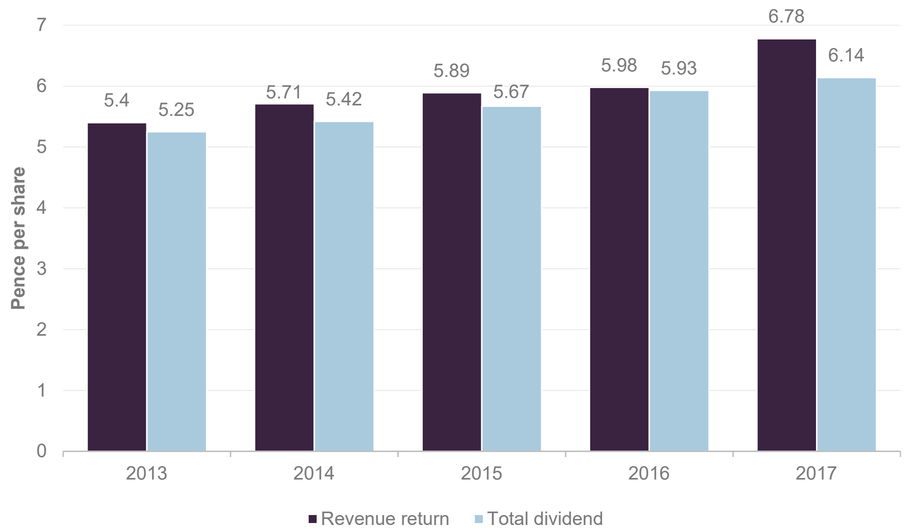
Figure 14 provides a comparison of SIGT's revenue income versus the total dividend paid, since the 2012 strategy change. The dividend for the year ended 30 April 2017 was covered 1.10x by earnings (2016: 1.01x). As at 31 October 2017, SIGT's revenue reserve stood at £1.336m or 3.04p per share. Prior to the strategy change in 2012, it stood at 0.3p per share.

Figure 13: Quarterly dividend history



Source: Seneca Global Income & Growth Trust, Marten & Co

Figure 14: SIGT revenue income and dividend by financial year



Source: Seneca Global Income & Growth Trust

Discount / premium

SIGT's DCM ensures that it trades close to net asset value

SIGT's DCM gives investors confidence that they can enter and exit SIGT at close to NAV.

Under SIGT's DCM, which went live on 1 August 2016, 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 have previously stated our view that the introduction of the DCM has been a very positive development for SIGT as it gives existing and potential shareholders confidence that they should be able to enter and exit the trust at close to NAV. As illustrated in Figure 15, SIGT has exhibited lower discount volatility since the introduction of the DCM; SIGT has traded at an average premium of 0.82% (median premium 1.11%) and in a range of a premium of 2.89% and a discount of 2.12%.

SIGT's offers an annual continuation vote.

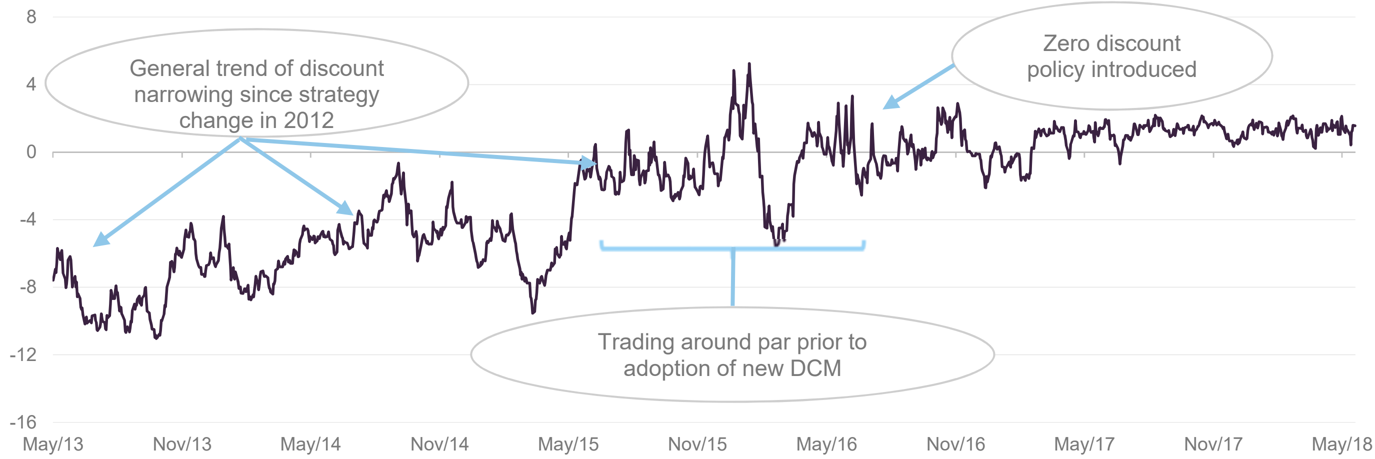
In addition to the DCM, SIGT offers an annual continuation vote, which should also help to moderate the discount. In addition, the board and manager have allocated more resources to increasing awareness of the trust, among investors, in recent years.

Further potential to grow asset base

Further asset growth should serve to lower ongoing charges and support liquidity.

We believe that 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 DCM, should allow SIGT to continue 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. SIGT continues to be successful in issuing stock. During the last 12 months, it has issued 6.6m shares (equivalent to 15.9% of the shares in issue at the beginning of the period).

Figure 15: Premium/(discount) over five years



Source: Morningstar, Marten & Co.

Fees and expenses

Management fee

SIGT pays a management fee 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. As 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, administrative, AIFM and discount management services

PATAC Limited (PATAC) provides administrative, company secretarial and discount management services to SIGT. PATAC is entitled to fixed fees of £110,000 for secretarial and administration services and £33,000 for discount management services. Both of these fees are indexed against the retail price index annually. The agreement with PATAC can be terminated by either party on three months' notice.

With effect from 4 April 2018, PATAC also became SIGT's Alternative Investment Fund Manager (AIFM). The investment management agreement with Seneca IM was terminated and a new AIFMD compliant agreement was entered into with PATAC. PATAC delegated the portfolio management services back to Seneca IM who continue to provide the same services as previous. The commercial terms of the delegation agreement are the same as the previous agreement with the exception that the AIFM fee is borne by Seneca IM out of its management fee.

For the year ended 30 April 2017, PATAC was paid a total fee of £129,000. This reflects the fact that it was not appointed as company secretary until 11 July 2016, it did not commence operating the DCM until 1 August 2016 and it also earned a fee of £7,500 for completing SIGT's AIFM return (this requirement changed following the appointment of PATAC as AIFM and this fee is no longer charged).

Allocation of fees and costs

SIGT's ongoing charges ratio of 1.45% reflects its current size. We expect this 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 2018, was 1.45% (2016: 1.61%). As illustrated in Figure 12, 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 should continue to fall if the trust continues to grow as its board and manager intend.

Capital structure and trust life

Simple capital structure

SIGT had one class of 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 18 June 2018, there were 48,171,361 in issue with none held in treasury.

The trust is permitted to borrow up to 25% of net assets and has a £14 million three-year short-term rolling loan, provided by RBS, for this purpose. As at 31 May 2018, £7m of the facility was drawn. The facility, which expires in October 2020, could theoretically provide gearing up to 17.0% (based on SIGT's NAV per share of 171.02p as at 18 June 2018) and incurs interest at a rate of 110bps over Libor. SIGT does not have any other borrowing facilities in place. At 31 May 2018, SIGT had gross gearing of 8.5% and net gearing of 1.8%. SIGT's 25% limit is in place to provide flexibility and is only likely to be used in more extreme market conditions. SIGT typically operates with more modest levels of gearing. The manager also sees the fund's fixed income exposure as a natural hedge against its borrowings.

AGM seeks approval for new issuance of up to 30% of issued share capital

The July 2017 AGM saw shareholders approve the issue of up to 20% of SIGT's issued share capital, on a non-pre-emptive basis. Approval to issue a further 10% was then provided at a general meeting in March 2018. The second approval was sought to satisfy the needs of SIGT's DCM.

Reflecting this experience, the board is asking shareholders to approve two resolutions that will allow it to issue up to 30% of issued share capital, on a non-pre-emptive basis, at this year's AGM in July. The first seeks permission to issue up to 10%. The second (or extra resolution) seeks permission to issue a further 20% that is solely in relation to SIGT's DCM.

The board acknowledge that this approach is unusual and that the aggregate of 30% is higher than corporate governance guidelines recommend. However, it believes the approach "is shareholder friendly as it facilitates the efficient and cost-effective operation of the DCM". We support the board's view as, given the recent level of demand for SIGT's shares, this approach makes a sensible attempt to avoid the cost of having to convene an EGM solely for the purpose of getting approval for additional share issuance. Furthermore, we have repeatedly stated that our view that expanding the size of the trust is in shareholders' interests as it should have the dual benefits of lowering the ongoing charges ratio and improving liquidity in SIGT's shares.

Unlimited life; proposals to remove the annual continuation vote

SIGT has an unlimited life and, for a number of years, its shareholders have been offered an annual continuation vote at each AGM. The next vote is due at SIGT's AGM on 13 July 2018.

In its recent results announcement, the board has said that it is proposing a resolution to remove the requirement to hold an annual continuation vote from SIGT's articles of association. The board says that SIGT's DCM is now well established and makes the annual continuation vote unnecessary given the liquidity the DCM provides.

The board says that there has been a steady trend in the type of investor holding SIGT's shares towards those investing via a platform and/or via an adviser. The board is concerned that few such shareholders vote, or have the chance to vote, their shares at SIGT's AGMs. The side effect of this is that it could give a relatively small group of shareholders an undue influence and potentially cause mischief over a continuation vote, which could be to the detriment of SIGT's broader shareholder base.

The board says that should the DCM be suspended or withdrawn for any reason in the future, it would seek engagement with shareholders and explore the possible re-instatement of a continuation vote.

Financial calendar

The trust's year-end is 30 April. The annual results are usually released in June (interims in December) and its AGMs are usually held in July of each year. As discussed on page 14, 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 and overleaf); 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 now stand for re-election annually.

Beginning with this year's AGM, all of SIGT's board members will offer themselves for re-election annually. Previously board members were required to retire and stand for re-election at least once every three-years. Of SIGT's board members, the only director to have served more than 10 years is Ian Davis (13.6 years).

Figure 16: 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	5.2	24,500	133,014	9.5
Ian Davis	Chairman of the Audit Committee	1 November 2004	13.6	22,000	92,796	7.3
James McCulloch	Director	2 January 2015	3.4	20,000	95,000	8.3
Average (service length, fee, shareholding, fees invested)			7.4	22,167	106,937	8.4

Source: Seneca Global Income & Growth Trust, Marten & Co. *Note: shareholdings as per most recent company announcements as at 18 June 2018. Years of fee invested based on SIGT's ordinary share price of 174.25p as at 18 June 2018.

SIGT's board members do not have any other shared 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 16, all of the directors have over four years of fees invested in the trust (an average of 8.4 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.

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, a director of URICA and chairman of Wolsey Group. 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.

Previous publications

Readers interested in further information about SIGT may wish to read our previous notes (details are provided in Figure 17 below). You can read the notes by clicking on them in Figure 17 or by visiting our website.

Figure 17: Marten & Co. previously published notes on SIGT

Title	Note type	Date
Low volatility and growing income	Initiation	2 November 2015
On track for zero discount policy	Update	11 May 2016
In demand and no discount	Update	16 September 2016
Celebrating five years since strategy change	Annual overview	10 March 2017
Changing tack	Update	13 June 2017
Steady reduction in equity exposure	Update	13 September 2017
Walking the walk	Update	16 January 2018

Source: Marten & Co.

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IMPORTANT INFORMATION