# Seneca Global Income & Growth (LSE: SIGT LN)

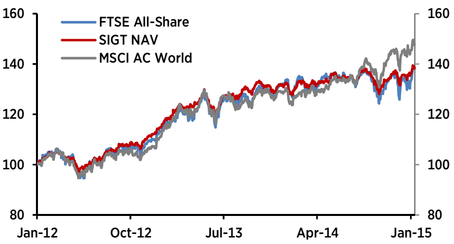
| **Price / NAV cum inc est (p)** | **136.3 / 145.1** |
|---|---|
| Discount % (12 month range) | 6.1 (0.2 to 7.0) |
| Yield (%) | 4.1 |
| Market cap (£m) | 54.0 |

**Objective: outperform 3m LIBOR + 3% over the longer term, with low volatility and the prospect of capital growth through a multi-asset portfolio**

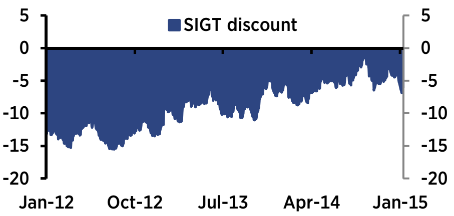
| | |
|---|---|
| Benchmark | 3-month LIBOR + 300bps |
| Listing / Domicile | Main Market / UK |
| Fund managers | Alan Borrows, Simon Callow |
| Ann. mgmt fee | below £50m = 0.9% of mkt cap<br>above £50m = 0.65% of mkt cap |
| Ongoing charges (YE 30 Apr) | 1.5% |
| Net gearing | 10.1% (max 20%) |
| Dividend xd | Feb, May, Aug, Nov |
| Dividend paid | Mar, Jun, Sep, Dec |
| Discount control | authority to buyback shares |
| Continuation vote | yearly at AGM (July 2015) |
| Trust inception | 19 August 2005 |
| Revised policy/mandate | 18 January 2012 |

| Total Return | 1yr | Since 18.01.12 | 3yr | 5yr |
|---|---|---|---|---|
| SIGT NAV | 7.8 | 38.5 | 37.0 | 56.0 |
| SIGT Price | 5.9 | 50.5 | 48.0 | 62.2 |
| MSCI AC World | 17.5 | 47.8 | 45.7 | 74.3 |

**SIGT vs. benchmarks since mandate change (p)**




**SIGT discount (cum inc, %) under new mandate**




**Source: Morningstar, Bloomberg. Data as of 28 Jan 2015.**

## All of the growth, half of the volatility

Seneca Global Income & Growth (SIGT LN) has made strong progress in the three years since it adopted a revised investment mandate. Through its unique investment approach, which comprises a multi-asset strategy combined with direct stock-picking (for the UK equity component), SIGT has outperformed the FTSE All Share Index, notably, with half the volatility and a healthy 4.1% dividend yield. In our view, SIGT is an underrated trust which represents a well-balanced, lower-risk way of accessing the global growth and income sector.

### Progress achieved since change to investment mandate

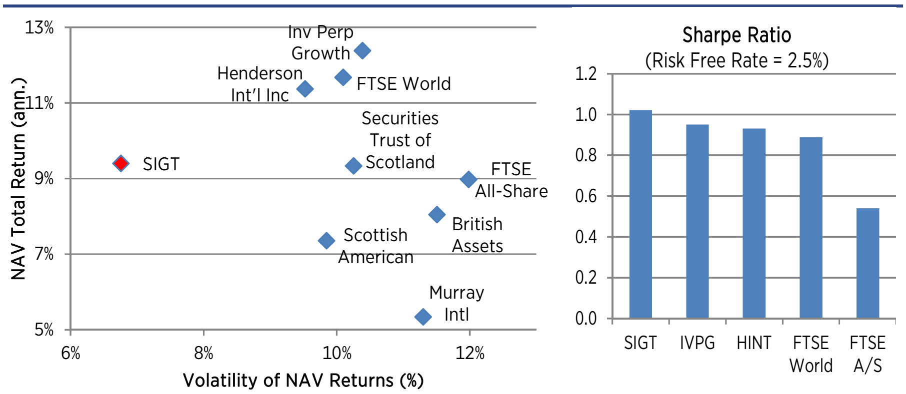
- Benchmark changed from 8.0% p.a. absolute return target to 3-month GBP LIBOR + 300bps. Notably, SIGT's annualised NAV total return has been 9.4% p.a., which compares favourably to the FTSE All Share Index's 9.0%.
- Volatility of SIGT NAV total returns = 6.8% p.a., roughly half that of the FTSE All Share Index (12.0%).
- The dividend has grown from 5.2p/share in 2012 to at least 5.6p/share in the current year (as per the Board's commitment to a progressive dividend policy), broadly in line with UK RPI inflation (3.7% p.a.) over the period.
- Annual management charge cut to 0.9%, charged on market cap rather than NAV
- Annual continuation vote introduced, since the 2013 AGM.

### Market-beating returns, with half the volatility of UK equities

As the scatter diagram below illustrates, SIGT has, by some measure, the lowest NAV total return volatility in its Global Income & Growth sector, while its returns in absolute terms are marginally better than the UK equity market.

It is worth noting that, when viewed in terms of risk-adjusted performance (as measured by the Sharpe ratio), SIGT ranks at the top of its sector peer group since the change of mandate in 2012. Furthermore, the discount to NAV has narrowed from c.15% to the present c.5%, a reflection of the progress made since the mandate change. In our view, the relative strength and stability of NAV returns continues to support a further narrowing of the discount on which SIGT shares still trade.

**SIGT NAV and volatility vs. equity indices vs. Global Equity Inc peers, since mandate change**




Source: Morningstar, CFE Investment Companies. Data from 18 January 2012 to 31 December 2014.

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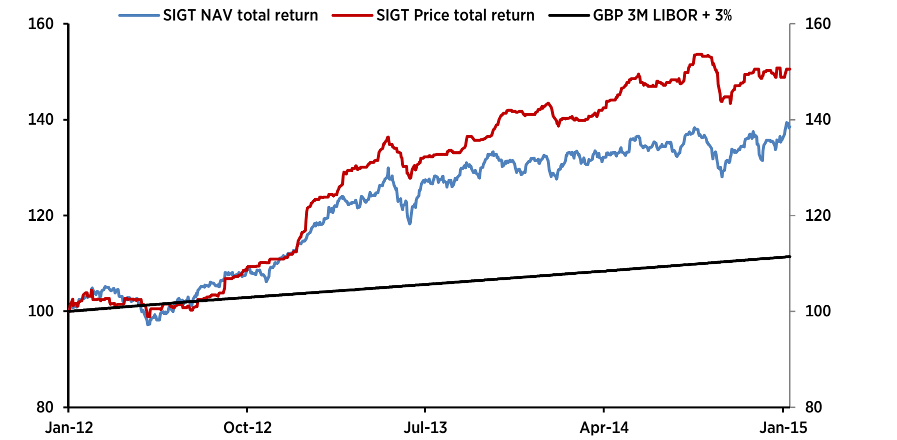
## Performance since mandate change

### Strong absolute performance with low volatility

Since the change of mandate, SIGT has strongly outperformed its official benchmark – the 3-month GBP LIBOR + 3% – whilst maintaining a low volatility profile.

**SIGT NAV and Price total returns vs. fund's own benchmark, indexed to 100**




Source: Morningstar. Data from 18 January 2012 to 22 November 2013.

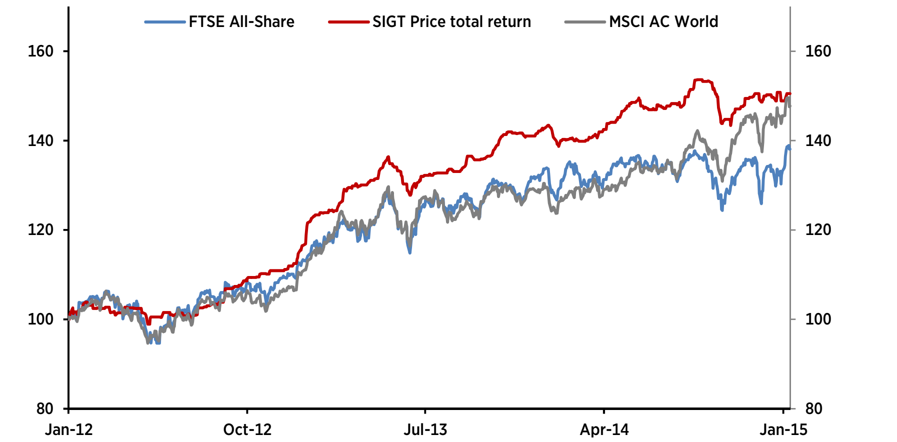
### Solid performance compared to global equities, with a higher yield

SIGT has slightly outperformed the MSCI AC World index in Price total return terms, but on an NAV basis, SIGT has broadly kept pace with the FTSE All-Share and thus underperformed the MSCI AC World index.

The primary reason for the latter has been an exceptionally strong 2014 for US equities and, by extension the MSCI AC World index. Considering SIGT's structural underweight to non-UK equities (core allocation of 25% of NAV vs. 93% of the MSCI), this is not an unexpected outcome.

Against this backdrop, it is worth reminding investors of SIGT's lower volatility, multi-asset investment profile and healthy dividend yield (4.1% vs the MSCI's 2.4%).

**SIGT Price total returns vs. equity benchmarks, indexed to 100**

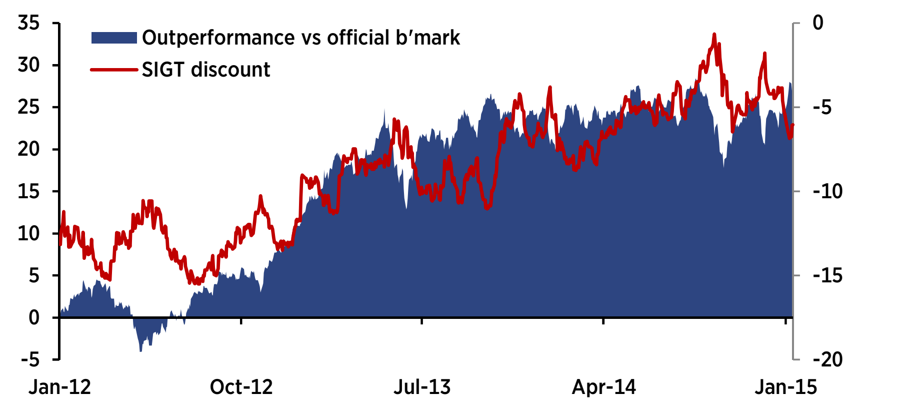



Source: Morningstar. Data from 18 January 2012 to 28 January 2015.

### Discount has narrowed significantly with improving performance

Since the change of mandate in January 2012, SIGT's discount to NAV has narrowed from c.15% to the c.5% level where it sits today.

**Performance under revised investment mandate: GBP total return, indexed to 100**




Source: Morningstar. Data from 18 January 2012 to 22 November 2013.

# Portfolio breakdown

## Asset allocation guidelines

**Portfolio asset allocation guidelines (%)**

| % | Core long-term positon | Range |
|---|---|---|
| Equities | 60 | 25 – 85 |
| UK equites | 35 | 15 – 60 |
| Overseas equites | 25 | 10 – 40 |
| Fixed Interest | 15 | 0 – 40 |
| Alternative assets | 15 | 0 – 25 |
| Property | 10 | 0 – 25 |

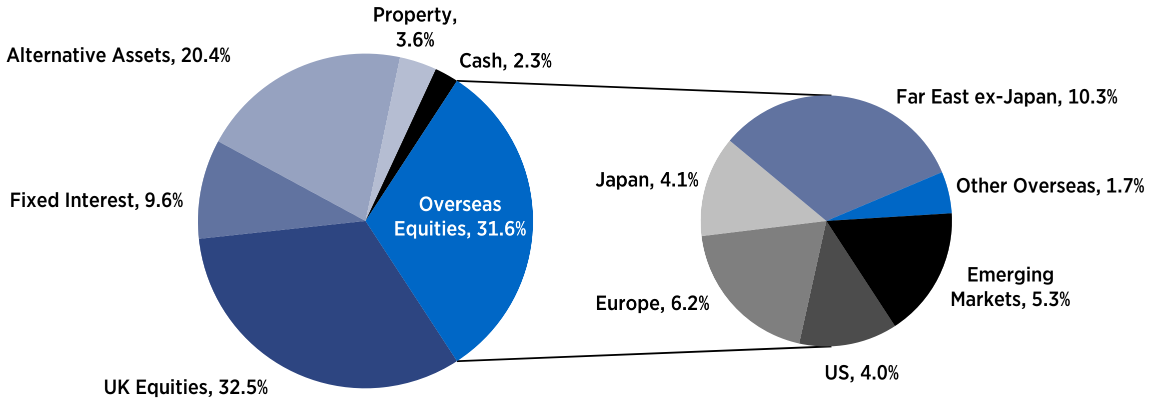
Source: Seneca IM

## Notable asset allocation movements

Over the past year, SIGT's asset allocation mix has remained broadly constant, with one notable exception: weightings have been shifted away from Fixed Interest (currently less than 10% of NAV, down from 14.2% a year earlier) and into Alternative Assets (currently c.20%, up from 12.1%).

The manager notes that this is a reflection of the fact that continued downward pressure on benchmark yields and further compression in corporate bond spreads have pushed conventional fixed income assets to levels at which other income-producing alternatives (e.g. renewable energy and asset leasing investment trusts) become more attractive.

**Asset allocation, 31 December 2014**




Source: Seneca IM

## Manager's views – market outlook (as at 16 December 2014)

"The outlook for financial markets remains challenging. **Asset prices have been inflated by the extraordinarily loose monetary environment** prevalent since the financial crisis. The frictions caused by economies at different stages in the recovery process may further exacerbate issues surrounding the longer term effects of such unconventional policy response. It seems likely that returns over the next five years will be lower than those seen in the immediate post-crash crisis phase.

However, economic recovery in the United States looks well established and recent oil price falls will provide a boost to consumers and industrial companies around the world. We continue to feel that **emphasis on real assets over monetary assets**, which have been at the centre of policy response, provides further potential to grow dividends and provide capital growth. The diversification offered within a multi asset approach should continue to reduce volatility and enable advantage to be taken of tactical opportunities as they arise."

## Diversification by holding and income generation

### Largest investments and largest contributors to income

As well as being diversified by asset class, the portfolio is also diversified by holding (generally the portfolio holds 50-70 names and single holdings do not exceed 5%) and by contributors to income.

**Top holdings, 31 December 2014**

| | Top 10 directly held equity positions | % | | Top 10 fund holdings (%) | % |
|---|---|---|---|---|---|
| 1 | AJ Bell Holdings Limited (unquoted) | 3.8 | 1 | Lindsell Train Japanese Equity | 2.4 |
| 2 | Phoenix Group | 2.2 | 2 | Somerset EM Dividend Growth | 2.2 |
| 3 | UBM | 1.9 | 3 | Royal London Short Duration Global High Yield | 2.0 |
| 4 | National Express Group | 1.9 | 4 | Magna Emerging Markets Dividend | 2.0 |
| 5 | Aberdeen Asset Mgmt | 1.8 | 5 | Newton Asian Income | 2.0 |
| 6 | Legal & General | 1.8 | 6 | GCP Student Living | 1.9 |
| 7 | Intermediate Capital Group | 1.7 | 7 | Schroder Asian Income Maximiser | 1.9 |
| 8 | Amlin | 1.7 | 8 | Blue Capital Global Reinsurance | 1.8 |
| 9 | Marston's | 1.7 | 9 | Tritax Big Box REIT | 1.8 |
| 10 | LondonMetric Property | 1.7 | 10 | Goodhart Michinori Japan Equity | 1.8 |
| | **Total** | **20.2** | | **Total** | **19.8** |

Source: Seneca IM

**Top contributors, full year ended 31 December 2014**

| | Top 10 contributors to returns | % | Top 10 detractors from returns | % | Contribution to income generation | % |
|---|---|---|---|---|---|---|
| 1 | Phoenix Group Holdings | +0.33 | Blackrock World Mining | -0.50 | UK Equities | 31.6 |
| 2 | Barratt Developments plc | +0.31 | Balfour Beatty | -0.33 | Alternative Assets | 25.9 |
| 3 | Assura Group Ltd | +0.28 | Tesco | -0.33 | Overseas Equities | 25.4 |
| 4 | Newton Asian Income Fund | +0.25 | Standard Chartered | -0.31 | Fixed Interest | 10.8 |
| 5 | Prusik Asian Equity Income Fund | +0.25 | BHP Billiton | -0.26 | Property | 6.1 |
| 6 | Legal & General | +0.19 | Menzies (John) plc | -0.24 | | |
| 7 | Cullen Global North American Fund | +0.19 | Ladbrokes | -0.21 | | |
| 8 | GCP Student Living plc | +0.17 | Kier Group plc | -0.21 | | |
| 9 | Amlin plc | +0.17 | Centrica | -0.20 | | |
| 10 | Intermediate Capital | +0.17 | Vodafone | -0.15 | | |

Source: Seneca IM

## AJ Bell Holdings

AJ Bell, the largest portfolio position at 3.8% of NAV, remains the only unlisted holding. Unlisted investments are permitted up to 7.5% of the portfolio by value, measured at the time of investment. However, with the exception of AJ Bell, the manager does not envisage holding other unlisted investments in general.

### About AJ Bell:

- A UK leading provider of SIPP administration (c.£24bn under administration).
- Currently operating under the brand Youinvest (www.youinvest.co.uk).
- Offers online, low cost SIPP services and third party SIPP administration solutions
- Last re-valued in December 2012 at £230m, or 575p/share (which translates into a 18.3x historic P/E, 4.4% yield); valuation last reviewed in April 2014.
- The company is held by Invesco (39.5%), Andy Bell (31.8%) Seneca (c.6.4% across multiple portfolios, including c.1% in SIGT), and others (22.3%, mainly AJ Bell staff).
- In the financial year ended 30 Sep 2014, revenues were £53.5m, and profit after tax was £12.5m, or 30.9p/share, from which, a dividend of 25.25p/share was declared.
- More than 200% of the initial investment has already been returned via income distributions and partial disposals.
- Shares are currently valued in the portfolio at c.5.6x cost.

# About the Trust

The Trust was launched on 19 March 1996 as The Taverners Trust. On 19 August 2005 the name was changed to Midas Income and Growth Trust and Midas Capital Partners were appointed managers. Following the acquisition of Midas Capital Partners by Seneca Asset Managers in 2014, the trust changed its name to Seneca Global Income & Growth Trust plc on 1 October 2014.

## The managers

Alan Borrows is lead manager of the Trust. With over 30 years' experience, he jointly founded Midas Capital Partners in 2002. He has been lead manager on the CF Seneca Diversified Income Fund (formerly CF Midas Balanced Income Fund) since launch in 2002. Previously he was Senior Investment Manager at the Merseyside Pension Fund, where he led the introduction of a wide range of alternative asset classes.

Simon Callow is deputy manager on the Trust. He was promoted to lead manager of the CF Seneca Diversified Growth Fund (previously CF Midas Balanced Growth Fund) on 1 July 2011, having previously been deputy manager. He has 16 years investment management experience, including eight years as an Associate Director at BWD Rensburg, specialising in private client broking and discretionary fund management.

## Investment approach

### Top-down, multi-asset, growing income, capital growth, lower volatility

The managers look to construct a balanced portfolio of assets with both market and non-market correlation. The emphasis is on reducing volatility and risk and on achieving absolute returns while delivering a yield that is comparable to mainstream equity funds. This is done by using a predominantly top-down approach. Individual investments are selected as best ideas to implement the top-down thematic decisions.

### Equities, fixed interest, property, alternatives, structured products

The managers can invest in UK and overseas equities (25%-85%), fixed interest securities (0%-40%), property (0%-25%), alternative assets and structured products (0%-25%). They vary the asset allocation of the portfolio around a core long-term position for each asset class with a view to adding value through tactical asset allocation.

### Diversification into non-equity asset classes

The non-equity investments seek to diversify further the portfolio and reduce volatility. The alternative assets and structured products aim to add an element of absolute return to the portfolio, while the property and fixed interest elements aim to provide a degree of income security and further capital preservation.

### Strong balance sheets, cash flow and dividend growth

The equity element of the portfolio is principally focused on FTSE 350 companies with strong balance sheet, cash flow and dividend growth characteristics. In addition, a significant proportion of the equity portfolio is also invested in overseas markets.

## Dividend policy

The Trust pays three interim dividends of an equal amount, with a fourth interim dividend giving the total dividend payable for each financial year. In deciding the level of the fourth interim dividend the Board takes into account current year performance and future year prospects.

For the financial year to 30 April 2013 the Trust paid a total dividend of 5.25p (FY 2012 5.20p), fully covered by earnings of 5.40p.

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