Seneca Global Income & Growth (LSE: SIGT LN)

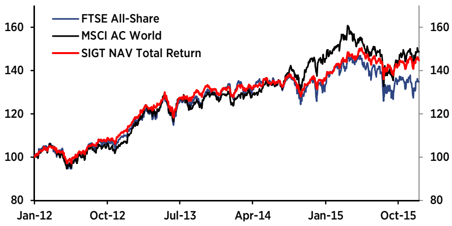
Price / NAV cum inc est (p)	**143.0 / 141.3**
Disc/Prem % (12m range)	+1.2 (-9.4 to +1.6)
Yield (%)	4.1
Market cap (£m)	58.0

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

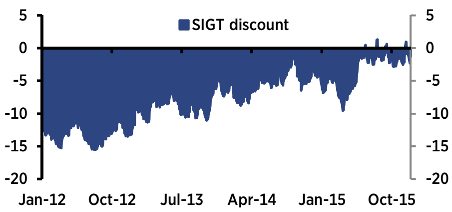
Benchmark	3-month £ LIBOR + 300bps
Listing / Domicile	Main Market / UK
Fund managers	Alan Borrows, Simon Callow
Ann. mgmt fee	below £50m = 0.9% of mkt cap above £50m = 0.65% of mkt cap
Ongoing charges (YE 30 Apr)	1.5%
Net gearing	c.13% (max 20%)
Dividend xd	Feb, May, Aug, Nov
Dividend paid	Mar, Jun, Sep, Dec
Discount control	see page 7
Continuation vote	yearly at AGM (July 2016)
Trust inception	19 August 2005
Revised policy/mandate	18 January 2012

Total Return	1yr	3yr	5yr	10yr
SIGT NAV	3.3	23.0	39.1	47.2
SIGT Price	9.1	42.4	54.5	52.5
MSCI AC World	-4.2	27.1	35.0	74.8

SIGT vs. equity b'marks since mandate change



SIGT discount (cum inc, %) under new mandate



Source: Morningstar, Bloomberg. Data as of 8 Jan 2016.

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Solid returns & discount control set SIGT up for growth

Seneca Global Income & Growth ("SIGT") has a distinctive investment approach, which comprises a multi-asset, fund-of-funds based strategy combined with direct stock-picking (for the UK portion of the portfolio). In the four years since SIGT adopted a revised investment mandate, the trust has produced solid NAV performance with enviably low volatility and this has translated into a steady narrowing (and eventual elimination) of the discount, which the Board are now proposing to preserve with the introduction of a formal discount control mechanism. In our view, these developments make SIGT an attractive, underrated trust which represents a well-balanced way of gaining diversified exposure to global growth.

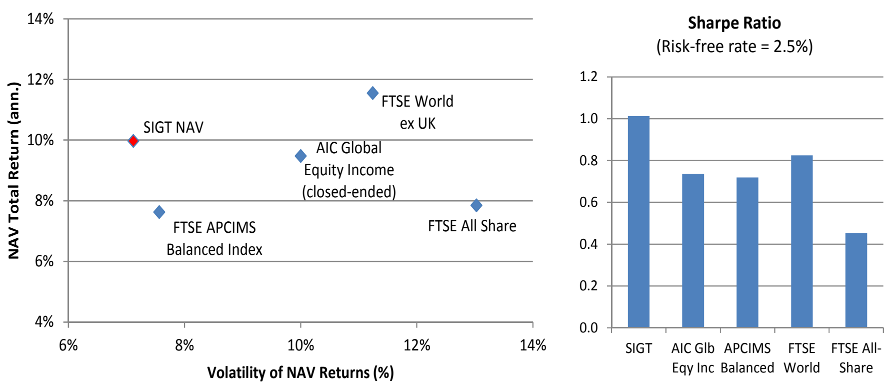
Progress achieved since change to investment mandate (18 January 2012):

- Since the change, SIGT's annualised NAV total return has averaged c.10% p.a., which compares favourably to the FTSE All Share Index's c.8.0%, and comfortably exceeds its own benchmark – 3m GBP LIBOR + 3%.
- Most notably, this superior performance has been achieved with a volatility of 7.5% p.a., which is significantly lower than that of major equity indices, e.g. the FTSE All Share Index (12.9%), FTSE World ex. UK (11.1%).
- The dividend has grown from 5.2p/share in 2012 to at least 6.1p/share in the current year, which has exceeded UK RPI inflation over the period. **The yield on SIGT shares is an attractive 4% p.a., which is paid quarterly.**
- The discount to NAV has narrowed from c.15% at the start of the period to c.0% today, and the Board has recently proposed introducing a formal discount control mechanism that would "regulate the share price at close to its net asset value".

Superior risk adjusted returns, scalable investment strategy

SIGT has generated what is an evidently superior set of risk adjusted returns relative to its peers in both open- and closed-end funds, as well as traditional benchmark indices (see below). In our view, SIGT has made very encouraging progress since its mandate change and the numbers affirm the value being added by the managers at Seneca. We believe that recent developments are very positive for SIGT, which should see assets grow as more investors take notice of this underrated globally diversified trust.

SIGT NAV performance vs. benchmark indices and sector peers, since mandate change



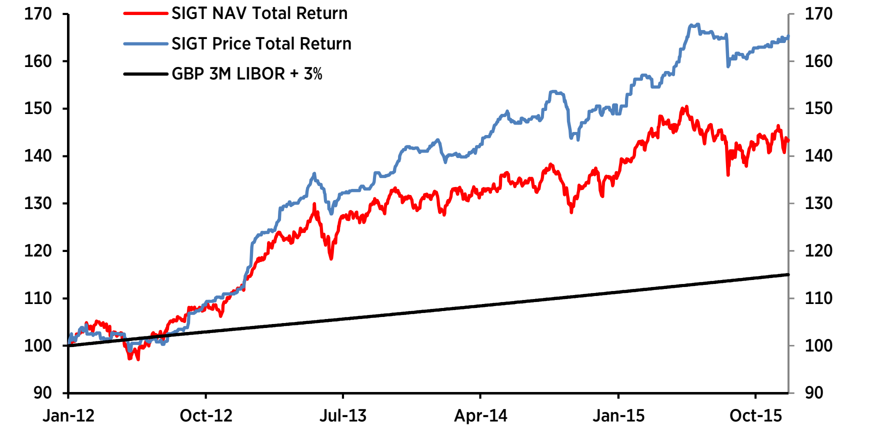
Source: Morningstar, CFE Research. Data from 18 January 2012 to 31 December 2015.

Performance since mandate change

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

Strong absolute performance with low volatility

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



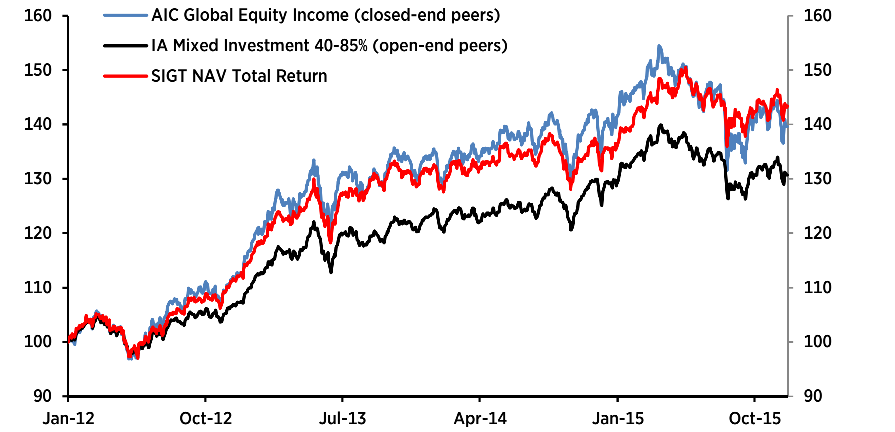
Source: Morningstar. Data from 18 January 2012 to 31 December 2015.

SIGT has outperformed its peers in both the open- and closed-end fund universes.

Since the mandate change, SIGT is marginally ahead of the AIC Global Equity Income sector, with significantly lower volatility, and strongly ahead of the IA Mixed Investment 40% - 85% peer group, with significantly lower volatility.

Solid NAV performance, better risk-adjusted returns vs. sector peers

SIGT NAV total returns vs. sector peers, indexed to 100



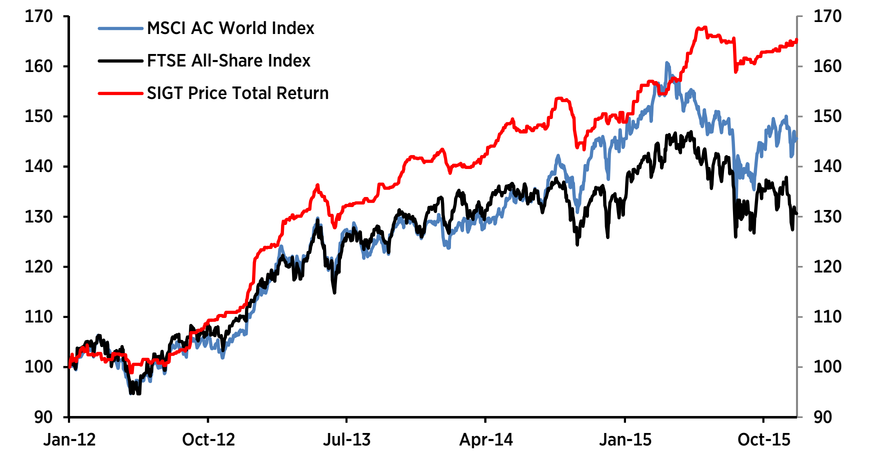
Source: Morningstar. Data from 18 January 2012 to 31 December 2015. AIC Global Equity Income sector returns are unweighted.

Investors in SIGT shares would have considerably outperformed global and UK equities since the mandate change in January 2012.

However, what makes this outperformance even more noteworthy, in our opinion, is the fact that it has been achieved despite equities making up only c.60% of the SIGT portfolio on average, which also explains in part the lower volatility profile of SIGT's returns.

SIGT has outperformed global and UK equities considerably

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



Source: Morningstar. Data from 18 January 2012 to 31 December 2015.

Fund manager views – key points

The more things change, the more they stay the same

Fund manager Alan Borrows argues that the outlook for 2016 looks suspiciously similar to 2015 – characterised by the now-familiar phrase “lower for longer”. Global GDP growth looks likely to remain lacklustre, inflation stubbornly low and, as a result, monetary policy should stay accommodative. Against this dour macroeconomic backdrop, Borrows reiterates the importance of selecting investments and managers who add genuine value by generating outperformance (i.e. alpha) rather than gearing up on the market (i.e. beta) to generate significant returns for investors.

Keep calm and carry on

The manager is positive on the UK as he believes it is, and will continue to be, one of the better performing economies in a post-crisis developed world having identified and addressed their issues earlier than most. However, despite the weak economic situation, he is broadly optimistic about the prospects for European financial markets as the recent introduction of Quantitative Easing (QE) should have a beneficial effect on asset prices and a weaker euro should help lift general business conditions.

Valuations are key – buy low, sell high

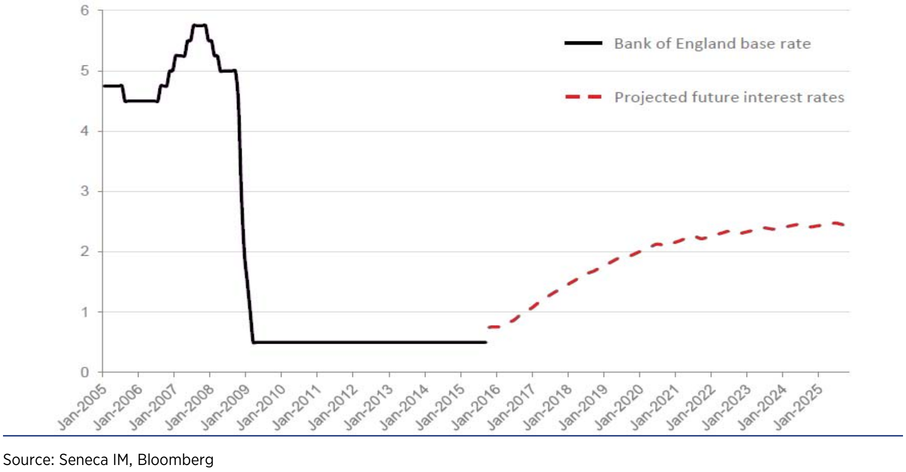
In the manager’s view, developed market equities (e.g. UK, Europe & Japan) look to be fairly valued – stocks are not excessively expensive, but it is even harder to make the case that they are cheap at current levels. The read-across from this is that returns going forward are unlikely to be driven by an expansion of earnings multiples, and the imperative is instead to focus on generating returns through a combination of income and positive stock selection, which is what SIGT aims to achieve.

Valuations in the emerging markets are significantly cheaper, but are reflective of the austere economic conditions that face regions such as Latin America, Russia and the Middle East for years to come, given their reliance on commodity exports for growth – and the likelihood that commodity prices will stay low for some time given the global demand / supply imbalance.

Lower interest rates will drive demand for alternative income

Borrows believes that while interest rates will inevitably rise from current levels, the Bank of England and other major central banks around the world are likely to do so more gently and to stop sooner than they have in previous cycles. The market appears to concur with this view (see chart below). Long-term demographic trends also mean that demand for relatively secure, high-yielding assets should increase with time, as loose monetary policy crimps the supply of such assets. As a result, the manager believes that specialist funds which provide “alternative income” should be in high demand and SIGT’s allocation to them has increased steadily over time (see page 5).

Bank of England base rate – historic and projected (based on GBP swaps curve)



Source: Seneca IM, Bloomberg

Analyst View

In our opinion, Borrow’s views are an honest and realistic assessment of the various opportunities and challenges facing investors in a post-2008 financial crisis world. His views and the resultant fund positioning have helped SIGT to generate healthy, peer-beating returns since the mandate change in 2012 and we believe the trust should continue to perform strongly in both absolute and relative terms, providing shareholders with income and capital growth over time.

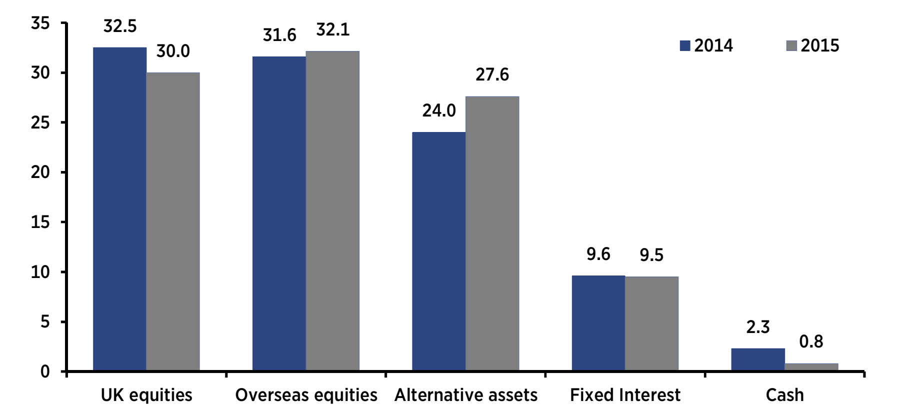
Portfolio statistics

Notable asset allocation movements

Over the past year, SIGT's asset allocation mix has continued to shift toward alternative assets (including property). This is not just a reflection of the manager's concerns over valuations in traditional asset classes (i.e. equities and fixed interest) but also recognition of the relative attractiveness of "secure income" assets in the low-growth, low-inflation environment post-financial crisis.

The allocation to alternative assets and property has increased to almost 30% (up from 24% at the start of the year), while the equities positioning has been trimmed slightly from c.65% at the start of the year. The cash position, notably, has been drawn down and SIGT is essentially fully invested as at 31 December 2015.

SIGT portfolio, asset allocation breakdown (% of NAV), calendar year end, 2014 vs. 2015



Source: Seneca IM

Well diversified portfolio – both by capital and income exposure

In addition to being diversified by asset class, the portfolio is also diversified by its income generation exposure – UK equities account for c.25%, Overseas Equities for c.28%, Alternative Assets (incl. Property) for 38% and Fixed Interest for c.9% of total income generated.

The number of holdings currently stands at just over 60. The portfolio typically holds 50-65 names at any one time and single holdings do not exceed 5% of NAV (see below for details of top holdings).

Top 5 holdings, by asset class, 31 December 2015

	UK Direct Equities (business description)	%		Overseas Equities	%
1	Bovis Homes (regional housebuilder)	1.8	1	European Assets Trust	3.2
2	Marston's (independent brewery)	1.8	2	BlackRock Continental Euro Equity Income	3.1
3	National Express (transport operator)	1.8	3	Schroder Euro Alpha Income	3.0
4	Dairy Crest (packaged food products)	1.7	4	Aberdeen Asian Income	2.4
5	Kier Group (construction services)	1.7	5	CC Japan Income & Growth	2.4
	Total	**8.8**		**Total**	**14.1**
	Fixed Interest	%		Alternative Assets	%
1	TwentyFour Select Monthly Income	2.0	1	AJ Bell (unquoted)	3.2
2	Royal London Short Duration Global High Yield	1.9	2	Fair Oaks Income	1.8
3	Royal London Sterling Extra Yield Bond	1.9	3	Blue Cap. Global Reinsurance	1.8
4	M&G Global Floating Rate High Yield	1.0	4	Doric Nimrod Air Two	1.7
5	Maya Gold & Silver Convertible Debentures	0.4	5	UK Mortgages	1.5
	Total	**7.2**		**Total**	**10.0**

Source: Seneca IM

Unquoted holdings – AJ Bell

AJ Bell, the largest portfolio position at 3.2% of NAV, remains the only unlisted holding in SIGT's portfolio. Unlisted investments are permitted up to 7.5% of the portfolio by value, measured at the time of investment. However, the manager does not envisage holding direct private equity / unlisted equity in general and notes that AJ Bell was very much an exceptional investment, unlikely to be repeated in the near future.

About AJ Bell:

- A UK leading SIPP provider (c.£26bn of assets under administration as at 30 Sept 2015, up 10% yoy, driven by strong growth in the platform business).
- Currently operating under the brand Youinvest (www.youinvest.co.uk).
- Offers on-line, low cost SIPP services and third party SIPP administration solutions
- SIGT's stake was last re-valued in May 2015 at 600p/share (which translates into a 19.9x historic P/E, 4.25% yield) following a partial disposal to Woodford Patient Capital Trust at that price.
- In the financial year ended 30 Sep 2015, revenues were £57m (up 7% yoy), and profit after tax was £12.3m, or 30.2p/share, from which, a dividend of 25.5p/share was declared.
- More than 200% of SIGT's initial investment has already been returned via income distributions and partial disposals.
- Shares are currently valued in the portfolio at c.6x cost.

Alternative assets

Alternative assets are a growing part of the SIGT portfolio, and the trust's allocation to the sector has risen steadily in recent years, providing an increasingly diversified, uncorrelated source of returns and income (see table below).

Name	% of NAV	Yield (%)	Div. Cover	Debt/ Assets	Description
Assura plc	1.1	3.5	1.1	52	UK REIT that invests in primary healthcare assets (e.g. GP practices)
AJ Bell	3.2	4.2	1.2	0	Refer to details above
Blue Capital Global Re	1.8	6.4	1.3	0	Invests in the global catastrophe reinsurance market
Doric Nimrod Air 2	1.7	8.5	-0.7	53	Owns seven Airbus A380s which are on long leases to Emirates Airlines
DP Aircraft	1.5	8.6	1	53	Owns two Boeing 787s, both on long leases with Norwegian Air Shuttle
Ediston Property	1.3	5	0.4	23	UK REIT that invests in high-yielding regional commercial property
John Laing Env. Assets	1.4	5.6	1	57	Fund of environmental infrastructure assets (e.g. renewable energy, water & waste management)
Ranger Direct Lending	1.4	9.4	1.1	0	Invests in specialist loans to small and medium-sized businesses, secured by commercial assets and/or guarantees
SQN Asset Finance	1.2	5.9	1.3	0	Invests in the financing of business-essential, revenue-producing equipment and other physical assets
UK Mortgages	1.5	5.6	1.2	80	Invests in portfolios of loans secured against UK residential property assets

Source: Seneca IM, as at 31 October 2015

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 (which became Miton Capital Partners) by Seneca Asset Managers in 2014, the Trust changed its name to Seneca Global Income & Growth Trust plc on 1 October 2014.

Investment approach

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

The managers follow a multi-asset value approach and 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 and alternative assets

The managers can invest in UK and overseas equities (25%-85%), fixed interest securities (0%-40%), property (0%-25%) and alternative assets (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 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.

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 has been co-manager of the Trust since 2008. 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.

The managers of SIGT are further supported by the four other members of Seneca's six-strong investment team – Peter Elston (CIO), Richard Parfect, Mark Wright and Tom Delic – all of whom contribute to the Trust's management through their individual research specialisations.

Management fee

The management fee payable is calculated by reference to the Company's market capitalisation, at a rate of 0.9% per annum on market capitalisation up to £50m and 0.65% per annum on market capitalisation above this figure.

The agreement is terminable by either party on twelve months' notice. The fee is chargeable 50% to capital and 50% to revenue within the Income Statement.

Gearing policy

SIGT has put in place a two year short term rolling debt facility of £7m. The new facility replaces the two year short term rolling debt facility which expired on 31 October 2015.

The margin on the new facility is 0.7% over LIBOR, significantly less than the 1.15% margin on the facility that it replaces. The other commercial terms on the new facility are similar to those of the facility that it replaces.

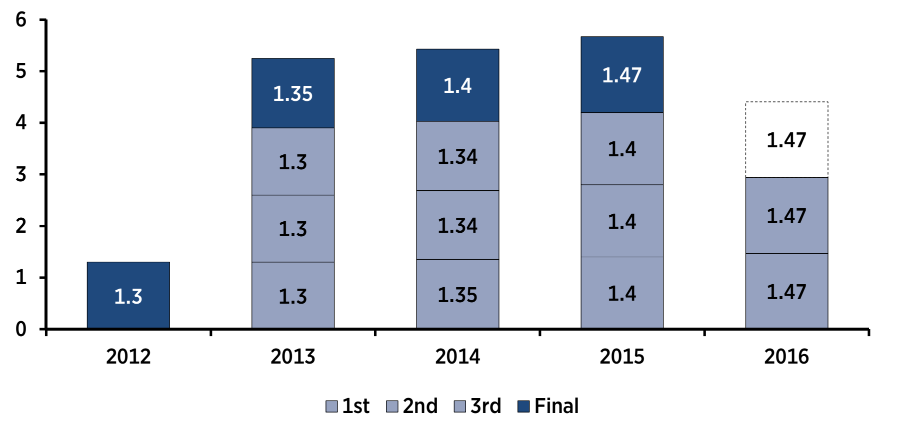
The Company was 12% geared at the end of October 2015.

Dividend policy

The Trust pays three interim dividends of an equal amount, with a fourth interim dividend announced after the end of the financial year (xd May, paid June) that sets the payout for the next three interim dividends, barring unforeseen circumstances. 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 2015 the Trust paid a total dividend of 5.67p (FY2014 5.25p), 1.04x covered by earnings. The revenue reserve at 30 April 2015 stood at 2.5p/share.

SIGT quarterly dividend history, since mandate change (2012)



Source: Bloomberg, Seneca IM

Discount control policy

The Board is committed to pursuing the enlargement of SIGT and to this end will be putting forward any necessary resolutions at the next AGM in July 2016 to introduce a discount control mechanism that would aim to regulate the share price at close to its net asset value (NAV).

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