CAPITA

SENECA
INVESTMENT MANAGERS

CF Seneca Diversified Income Fund

a sub-fund of CF Seneca Investment Funds

ACD's Interim Unaudited Short Report

for the half year ended 30 September 2016

Investment Objective and Policy

The investment objective of CF Seneca Diversified Income Fund ('the Fund') is to provide a high level of growing income by investing in a balanced and well diversified portfolio of UK and International equities, fixed interest securities including government and corporate bonds. Investments will also be made in regulated collective investment schemes, money markets and cash deposits to provide further diversification to the Fund in accordance with applicable regulations.

Accounting and Distribution Dates

The annual accounting period of the Fund ends each year on 31 March with a half year accounting period ending on 30 September.

Net revenue is distributed to investors on the last day of each month, payable one month in arrears on the business day prior to the last business day of each month.

Risk and Reward Profile

Typically lower rewards						Typically higher rewards
Lower risk						Higher risk
1	2	3	**4**	5	6	7

This indicator shows how much a fund has risen and fallen in the past, and therefore how much a fund's returns have varied. It is a measure of a fund's volatility. The higher a fund's past volatility the higher the number on the scale and the greater the risk that investors in that fund may have made losses as well as gains. The lowest number on the scale does not mean that a fund is risk free.

The Fund has been classed as 4 because its volatility has been measured as average.

This indicator is based on historical data and may not be a reliable indication of the future risk profile of this Fund.

The risk and reward profile shown is not guaranteed to remain the same and may shift over time.

Credit Risk: Fixed interest securities are affected by trends in interest rates and inflation. If interest rates go up the value of capital may fall and vice versa. Inflation will also decrease the real value of capital. The value of a fixed interest security is also affected by its credit rating.

Liquidity Risk: Smaller companies' securities are often traded less frequently than those of larger companies which means they may be more difficult to buy and sell. Their prices may also be subject to short term swings.

Currency Risk: As the Fund invests in overseas securities movements in exchange rates may, when not hedged, cause the value of your investment to increase or decrease.

For full details of the Fund's risks, please see the Prospectus which may be obtained upon application and can be found on the ACD's website, www.capitafinancial.com, by following the link 'Fund Information'.

Comparative Tables

Information for 30 September 2016 relates to the 6 month period ending 30 September 2016, with the exception of the operating charges in the 'Other Information' section. The operating charges relate to the expenses incurred on an *ex post* basis over the 12 month period ending 30 September 2016, expressed as a percentage of the average net asset value over the same period.

Where the Fund has significant investment in collective investment schemes, the operating charges take account of the ongoing charges incurred in the underlying schemes, calculated as the expense value of such holdings at the period end weighted against the net asset value of the share class at that date.

	30.09.16 (p/share)	31.03.16 (p/share)	31.03.15[1] (p/share)	15.01.14 (p/share)
'A' Income shares				
Change in net assets per share				
Opening net asset value per share	86.25	90.68	90.57	87.63
Return before operating charges*	6.36	1.88	7.70	9.58
Operating charges	(0.81)	(1.66)	(2.18)	(1.76)
Return after operating charges	5.55	0.22	5.52	7.82
Distributions on income shares	(2.28)	(4.65)	(5.41)	(4.88)
Closing net asset value per share	89.52	86.25	90.68	90.57
* after direct transaction costs of:	0.09	0.14	0.16	0.14
Performance				
Return after charges	6.43%	0.24%	6.09%	8.92%
Other Information				
Closing net asset value (£'000)	37,042	36,632	63,467	108,815
Closing number of shares	41,377,795	42,473,974	69,989,266	120,141,122
Operating charges	1.84%	1.88%	2.00%[2]	1.94%
Direct transaction costs	0.10%	0.16%	0.15%[2]	0.15%
Prices				
Highest share price	90.67	93.05	91.64	93.17
Lowest share price	82.91	81.88	85.68	87.86

[1] 14.5 month period due to change of annual accounting date.
[2] Annualised figure.

Comparative Tables *(continued)*

'B' Income shares

	30.09.16 (p/share)	31.03.16 (p/share)	31.03.15[1] (p/share)	15.01.14 (p/share)
Change in net assets per share				
Opening net asset value per share	102.50	107.27	106.47	102.39
Return before operating charges*	7.52	2.02	8.91	11.16
Operating charges	(0.63)	(1.28)	(1.73)	(1.37)
Return after operating charges	6.89	0.74	7.18	9.79
Distributions on income shares	(2.71)	(5.51)	(6.38)	(5.71)
Closing net asset value per share	106.68	102.50	107.27	106.47
* after direct transaction costs of:	0.10	0.16	0.19	0.16
Performance				
Return after charges	6.72%	0.69%	6.74%	9.56%
Other Information				
Closing net asset value (£'000)	62,363	61,831	49,145	30,343
Closing number of shares	58,460,048	60,320,764	45,812,885	28,498,952
Operating charges	1.19%	1.23%	1.35%[2]	1.29%
Direct transaction costs	0.10%	0.16%	0.15%[2]	0.15%
Prices				
Highest share price	108.01	110.15	108.28	109.06
Lowest share price	98.67	97.25	101.12	102.66

[1] 14.5 month period due to change of annual accounting date.
[2] Annualised figure.

'N' Income shares

	30.09.16 (p/share)	31.03.16 (p/share)	31.03.15[1] (p/share)	15.01.14 (p/share)
Change in net assets per share				
Opening net asset value per share	101.44	106.34	105.81	102.02
Return before operating charges*	7.47	2.07	8.91	11.11
Operating charges	(0.76)	(1.52)	(2.05)	(1.64)
Return after operating charges	6.71	0.55	6.86	9.47
Distributions on income shares	(2.68)	(5.45)	(6.33)	(5.68)
Closing net asset value per share	105.47	101.44	106.34	105.81
* after direct transaction costs of:	0.10	0.16	0.19	0.16
Performance				
Return after charges	6.62%	0.52%	6.48%	9.28%
Other Information				
Closing net asset value (£'000)	259	275	314	261
Closing number of shares	245,934	271,289	295,345	246,321
Operating charges	1.44%	1.48%	1.60%[2]	1.54%
Direct transaction costs	0.10%	0.16%	0.15%[2]	0.15%
Prices				
Highest share price	106.80	109.17	107.35	108.59
Lowest share price	97.60	96.27	100.34	102.29

[1] 14.5 month period due to change of annual accounting date.
[2] Annualised figure.

Fund Performance to 30 September 2016 (%)

	6 months	1 year	3 years	5 years
CF Seneca Diversified Income Fund	6.08	9.89	16.06	40.39

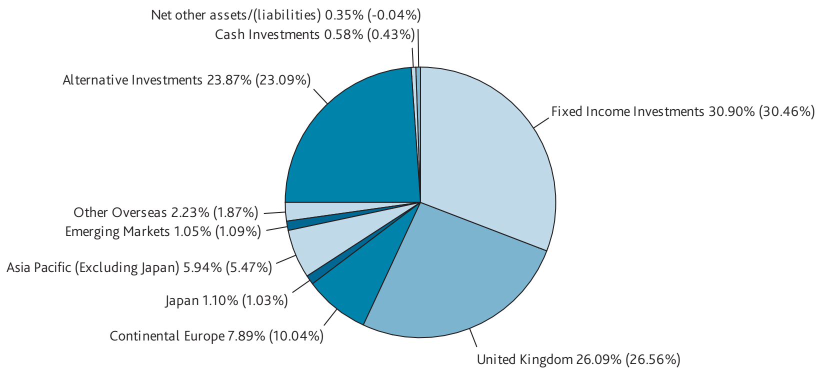
The performance of the Fund is based on the published price per 'A' Income share with income reinvested.

The performance of the Fund disclosed in the above table may differ from the 'Return after charges' disclosed in the Comparative Table due to the above performance being calculated on the latest published price prior to the period end, rather than the period end return after operating charges.

Risk Warning

Please remember that past performance should not be seen as a guide to future performance and that the value of an investment and the income from it can fall as well as rise and may be affected by exchange rate variations.

Sector Spread of Investments



The figures in brackets show allocations at 31 March 2016.

Major Holdings

The top ten holdings at the end of each period are shown below.

Holding	% of Fund as at 30.09.16	Holding	% of Fund as at 31.03.16
Royal London Sterling Extra Yield Bond	6.26	Seneca Global Income & Growth	4.93
Muzinich Short Duration High Yield	6.09	Templeton Emerging Markets Bond	4.29
Royal London Short Duration Global High Yield Bond	5.93	Royal London Short Duration Global High Yield Bond	3.98
Seneca Global Income & Growth	4.26	MI TwentyFour Dynamic Bond	3.94
Templeton Emerging Markets Bond	4.08	Royal London Sterling Extra Yield Bond	3.78
Invesco Perpetual European Equity Income	3.99	AXA US Short Duration High Yield	3.54
MI TwentyFour Dynamic Bond	3.99	Muzinich Short Duration High Yield	3.42
TwentyFour Select Monthly Income	3.65	Invesco Perpetual European Equity Income	3.04
A J Bell Holdings	2.88	Schroder European Alpha Income	2.97
Schroder Asian Income Maximiser	2.62	A J Bell Holdings	2.91

ACD'S REPORT
for the half year ended 30 September 2016

Important Information
With effect from 21 July 2016, the address of the registrar has changed to Arlington Business Centre, Millshaw Park Lane, Leeds LS11 0PA, and the address for all correspondences to PO Box 389, Darlington DL1 9UF.

Capita Financial Managers Limited
ACD of CF Seneca Diversified Income Fund
24 November 2016

INVESTMENT MANAGER'S REPORT
for the half year ended 30 September 2016

Asset Allocation

Fund Structure as at 30 September 2016
There have been no changes to the strategic asset allocation for the Fund over the period. The strategic asset allocation has been set to achieve the Fund's investment objectives over the long term and, as such, is likely to change infrequently, being subject to review every 12 months.

Asset Class	Fund %	Strategic Asset Allocation %
Equities	**44.3**	**40.0**
UK	26.1	22.5
North America	–	2.5
Europe	7.9	5.0
Japan	1.1	2.0
Asia (exc. Japan)	5.9	5.5
Emerging Markets	1.1	2.5
Global/Other Overseas	2.2	–
Fixed Income	**30.9**	**35.0**
Specialist Assets	**23.9**	**25.0**
Cash	**0.9**	**–**
Total	**100.0**	**100.0**

Source: Seneca Investment Managers Limited.

In terms of tactical asset allocation, European equity exposure was reduced slightly by 2%, following the UK's vote to leave the EU. We still view European equities as offering value which is why the weighting remains above that of the strategic asset allocation. However, Brexit creates uncertainty which could impact business confidence and investment, thereby reducing economic activity and profitability. Correspondingly, both Specialist Assets and Cash were increased by 1%.

The Fund remains overweight equities and underweight fixed income. Sufficient 'bottom up' opportunities within UK equities warrant an overweight stance, whilst we also see value in Asia ex Japan where we believe there is significant potential for our selected managers to outperform benchmark indices, due to the relative inefficiency of the local markets.

The Fund remains underweight fixed income, predominantly due to our view that developed government bond yields offer little in the way of value at current low yields. However, reasonable yields can still be found in specific areas of the credit market, such as short duration high yield debt and emerging markets. The Fund is invested in both of these areas.

Specialist Assets continues to offer attractive income yields, backed by real assets, such as aircraft leasing, renewable energy and targeted areas of the property market.

Portfolio Activity

UK Equities

During the first part of the period a new investment was made in **Essentra**, a global manufacturer and distributor of high volume, small, but essential components, cigarette filters and specialist health and personal care packaging solutions. Many of the markets in which the company operates are highly fragmented, providing scope for organic growth and acquisitions. The shares had de-rated materially, following what we believe will prove to be a temporary setback, largely as a result of a delay in integrating a recent acquisition. **Fidelity Enhanced Income Fund** was reduced, in order to fund the new investment.

A further new position was introduced in **Britvic**, maker of Robinson's fruit juice and sole distributor of Pepsi in the UK. Britvic is a high quality business with an impressive track record of dividend growth. The shares had de-rated over the last couple of years, leaving them on a prospective yield of 3.3%. **UBM** was exited on valuation grounds, in order to fund the investment.

Arrow Global Group was the third and final new investment purchased in the initial three months of the period. The company is one of the largest acquirers of defaulted consumer debt in the UK and has recently been expanding overseas. It is also growing its capital-lite asset management business at a healthy pace. Operating in a regulated environment, Arrow Global Group conservatively aims to recover small, affordable amounts of money over a long time horizon, thereby providing an annuity-like cash flow. The company's dividend is growing rapidly and yet the shares trade on just a single digit P/E.

Royal Dutch Shell had performed particularly well since our initial investment was made earlier this year. The shares received a further boost, post the UK's vote for Brexit, due to the group earning a large percentage of its revenues in US dollars. The holding was sold in late June and early July, having moved, we felt, to a less attractive valuation following such strong performance.

Polypipe Group was a new investment made on material share price weakness, post the UK's vote to leave the EU. The company manufactures and supplies plastic piping products, as well as water and air management systems. We believe Polypipe Group is well placed to benefit from secular trends, including the displacement of legacy materials used in construction and the pursuit for carbon efficient solutions within heating. The shares were yielding over 4% when the Fund started building its new position in early July.

Towards the end of the period a new investment was made in **Ultra Electronics Holdings**, after the equity had de-rated, leaving the shares on close to a 10-year high dividend yield. The company applies specialist electronic and software capabilities in demanding environments and critical applications across numerous industries, including aerospace, defence, security, cyber, transport and energy. Organic revenue growth has been a struggle over recent years, but we believe that the outlook is improving and that the business is strategically positioned to benefit from high growth markets, such as cyber security, as well as electronic and underwater warfare.

Providing funding for this purchase was **Ashmore Group**, the emerging market asset manager, which was exited on valuation grounds, following a very strong rise in the share price – the shares had returned over 80% from their lows earlier in the year. The rally meant that the valuation was already discounting a return to material positive net inflows in assets under management and a further improvement in the performance of emerging market assets. The P/E ratio was close to the highest in 10 years and other valuation metrics, such as enterprise value to assets under management, were also rich. This was despite continued revenue margin pressure and less scope for performance fees than has historically been the case.

Overseas Equities

It was a fairly quiet period of activity across the overseas equities allocation.

During May and June, several sales were made from the **European Assets Trust** and **Invesco Perpetual European Equity Income Fund** positions in order to bring weights back to target. This was also the story elsewhere, with small reductions to the **Liontrust Asia Income Fund** and **MI Somerset Emerging Markets Dividend Growth Fund**. As the period progressed we sold the **Schroder European Alpha Income Fund**, in order to consolidate positions into our favoured holdings. The majority of the proceeds were reinvested into the existing holdings of the **Invesco Perpetual European Equity Income Fund** and **European Assets Trust**.

During the latter part of the period in Asia Pacific ex Japan and Emerging Markets, we reduced the holdings in **Liontrust Asia Income Fund**, **Schroder Asian Income Maximiser Fund** and **MI Somerset Emerging Markets Dividend Growth Fund**, following strong performance which was compounded by currency gains as sterling weakened. Elsewhere in Asia Pacific ex Japan, we switched the **Prusik Asian Equity Income Fund** from a sterling hedged share class into a US dollar unhedged share class.

Fixed Income

The M&G Global Floating Rate High Yield Fund was sold as we took the view that higher interest rates in the UK, from which the fund would benefit, are less likely in short to medium term. The running yield on the fund was below that offered by other High Yield funds held in the portfolio and as such was unattractive.

The process of fund consolidation continued over the period as we fine-tuned our focus on the areas of fixed income markets which we feel still offer value, whist also emphasising managers in which we have the highest degree of confidence. The holding in the **AXA US Short Duration High Yield Fund** was sold with much of the proceeds being invested in the **Muzinich Short Duration High Yield Bond Fund**. Both funds invest in short duration sub investment grade corporate bonds in the United States and offer similar yields. However, we consider the managers of the Muzinich fund to be very conservative and they have proved very open to meetings and in their communication during our regular investment monitoring process.

Another fund sold was the **Baillie Gifford High Yield Bond Fund**, with the yield on the fund of around 3.5% having fallen to less attractive levels following a period of relatively strong performance. The position in the **Royal London Short Duration Global High Yield Bond Fund** was increased with the manager providing good risk adjusted returns, and with the yield still in excess of 6%. The fund benefits from the manager being able to seek value across shorter duration sub-investment grade corporate bonds on a global basis. In addition, the holding in the **Royal London Sterling Extra Yield Bond Fund**, which has a yield of 6.8%, was increased as we feel the manager has historically added value by investing a significant part of the fund in non-rated bonds, which other high yield managers often shun. We believe there still remains considerable potential for the manager to add value following this strategy in the future.

Fixed Income *(continued)*

Finally, the existing holding in the **TwentyFour Select Monthly Income Fund** was added to with the fund still appearing attractive on a yield of over 7%. The manager is able to use the closed end fund structure to invest in less liquid corporate bonds and more esoteric areas of the fixed income markets such as Asset Backed Securities, where there is often a significant yield pick-up compared to more conventional bonds.

Emphasis within the fixed income positions remains on high yield corporate bonds and emerging market debt, with no exposure to developed market sovereign bonds, where we see little value with such low levels of yield being offered.

Specialist Assets

Early in the period there was a degree of rotation within the property assets as we exited **Ediston Property Investment** as it shared a number of attributes with our other REITs and we wished to release capital in order to participate in the capital raising for **Primary Health Properties**. We feel the security of tenant income (largely the NHS) and the growing need for modern purpose built surgery and medical centre infrastructure gives excellent income and growth credentials independent of the economic cycle.

Later in the period we initiated a new holding in the **Aberdeen Private Equity Fund** as the company amended its dividend policy to a higher level of pay-out, which will be made from profitable investments within its private equity portfolio. We feel the trust is well positioned to close its discount to net asset value and begin to increase in size.

Unwarranted softness in the share price of **Doric Nimrod Air Two** due to the negative press surrounding the lack of new orders for the A380 super jumbo presented an opportunity to increase the holding size. The high level of income is underpinned by an aircraft that we feel has a secure future, not least due to the overwhelming popularity it enjoys amongst passengers and current operators.

We have further diversified our infrastructure investments by exiting **Bluefield Solar Income Fund**, as we already achieve exposure to solar investments in one of our other remaining investments; the capital raised was utilised to initiate into a new holding of **International Public Partnerships**, which holds equity investments across a number of economic infrastructure assets in sectors such as power distribution, transportation, water management, schools and non-acute hospital care.

Outlook

Business cycles in the US, the UK and Japan appear well advanced and yet there are few signs of overheating as far as inflation is concerned. There may well be good reasons why business cycles will last longer than would be the case in a normal cycle. Business expansions tend to reflect the severity of the downturn that preceded them. Since the 2008/9 downturn was severe in terms of the impact on unemployment, it is possible that employment can continue to rise for perhaps another 3-4 years. Indeed, the average unemployment rate for the US, the UK, Europe and Japan has only fallen to where it was in early 2005, a good three years before the 2008 downturn.

Furthermore, the unemployment rate of 4.9% in the US may well not accurately reflect the true state of capacity in the economy. The participation rate has not risen, as would normally be expected during the business expansion phase, suggesting that there are many who left the workforce in 2009 who have yet to return. If they were to return to the workforce, this would put downward pressure on wages, thus allowing the cycle to last longer.

We therefore tend to think that central bank policy can remain looser for longer and that there remains scope for equity markets to continue to advance. Certainly, equity market valuations are not particularly stretched in relation to history.

As for safe haven bonds, we believe that current yields can only be justified by an extremely grim economic outlook, one that we do not think likely. We thus continue to maintain our underweight position in this area.

Seneca Investment Managers Limited
Investment Manager
28 October 2016

Buying and Selling Shares

The ACD will accept orders to deal in the shares on normal business days between 8.30am and 5.30pm (London time) and transactions will be effected at prices determined by the following valuation. Instructions to buy or sell shares may be either in writing to: PO Box 389, Darlington DL1 9UF or by telephone on 0345 608 1497.

Reports and Accounts

This document is a short report of the CF Seneca Diversified Income Fund for the half year ended 30 September 2016. The full Report and Accounts for the Fund is available free of charge upon written request to Capita Financial Managers Limited, 40 Dukes Place, London EC3A 7NH and can be found on the ACD's website, www.capitafinancial.com, by following the link 'Fund Information'.

Other Information

The information in this report is designed to enable you to make an informed judgement on the activities of the Fund during the half year it covers and the results of those activities at the end of the half year.

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