QuotedData

Update | Investment companies

13 June 2017

Seneca Global Income & Growth

Changing tack

Seneca Global Income & Growth (SIGT) has continued to outperform its flexible investment peer group, since QuotedData last wrote, while providing lower volatility of returns. Under its discount control mechanism, SIGT has been recently issuing and repurchasing shares (see page 2). Demand has been stronger than its managers expected and the trust has expanded. Assuming this trend continues, it should lower SIGT's ongoing charges ratio (a measure of the annual drag on performance caused by operational expenses).

Recently, SIGT's manager has been reducing exposure to equities, with overseas equities taking the brunt. This reflects the manager's views that equity markets have experienced reasonably strong rises during the last few months, and so are now at less attractive valuations, and that the global business cycle is making progress and we are moving closer to a point where we experience the next global recession (see page 3).

Multi-asset, low volatility, with yield focus

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

Year ended	Share price total return (%)	NAV total return (%)	MSCI World total return (%)	MSCI AC World TR. (%)	MSCI UK total return (%)
31/05/13	33.3	27.6	30.5	28.6	28.3
31/05/14	10.8	7.6	8.0	6.4	7.8
31/05/15	10.0	10.2	16.8	16.1	5.3
31/05/16	5.6	(0.4)	1.3	(0.3)	(7.8)
31/05/17	22.8	21.5	32.0	33.2	25.7

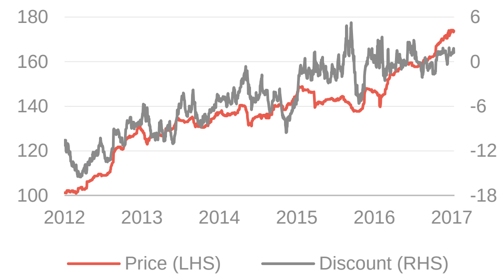
Source: Morningstar, Marten & Co

Sector	Flexible investment
Ticker	SIGT LN
Base currency	GBP
Price	173.75p
NAV	171.75p
Premium/(discount)	1.2%
Yield (prospective)*	3.6%

*Note: yield assumes dividend is paid at SIGT's minimum rate of 1.58p per quarter for the remainder of the year ending 30 April 2018.

Share price and discount

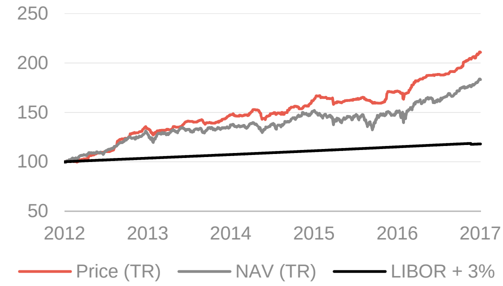
Time period 31/05/2012 to 08/06/2017



Source: Morningstar, Marten & Co

Performance over five years

Time period 31/05/2012 to 31/05/2017



Source: Morningstar, Marten & Co

Domicile	United Kingdom
Inception date	19 August 2005
Manager	Team managed
Market cap	70.5m
Shares outstanding	40.6m
Daily vol. (1-yr. avg.)	96.9k shares
Net gearing	4.5%

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SIGT is growing its asset base, aided by its DCM and a new sales hire

The introduction of SIGT's new discount control mechanism (DCM), in August 2016, was designed to give investors' confidence that they can enter and exit SIGT close to NAV. Since March 2017, SIGT has both issued and bought back shares demonstrating that the DCM is being operated actively. If SIGT's low volatility returns continue to prove attractive to investors, the DCM should provide a good base upon which the board can grow the trust, as it intends.

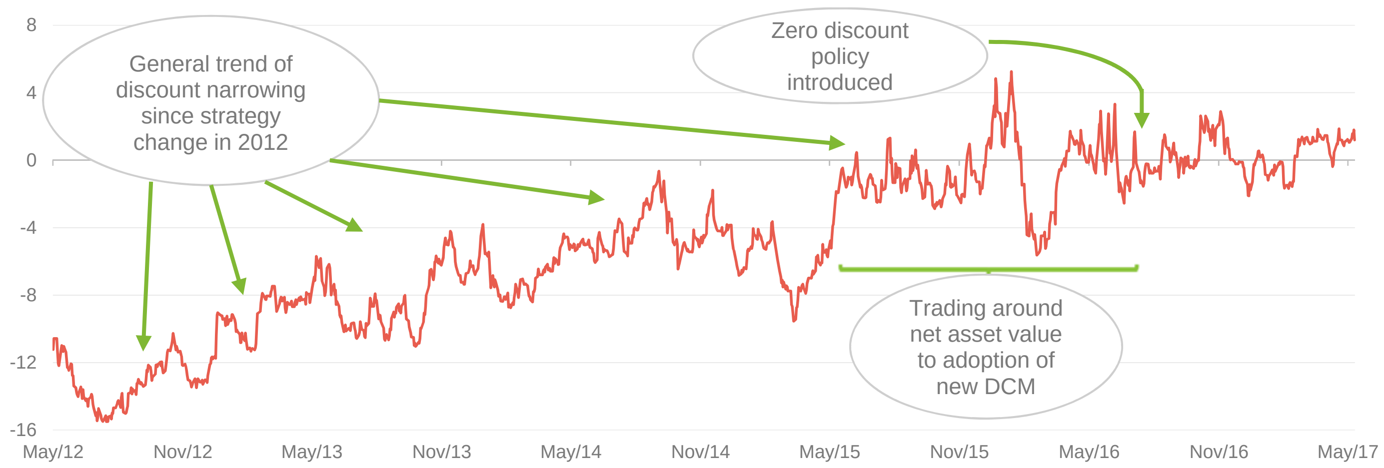
DCM is keeping discount/premium close to zero

SIGT's DCM has been live for 10 months. It has been keeping SIGT trading close to asset value. The mechanism gives investors confidence that they can enter and exit SIGT at close to NAV.

Under the DCM policy (see page 19 of QuotedData's March 2017 annual note for more detail), 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 (a zero discount is when a trust's share price equals its NAV). As illustrated in Figure 1, the DCM appears to have been keeping the trust trading at close to a net asset value.

Since the introduction of the new DCM, SIGT has traded at an average discount of 0.29% (median discount 0.18%) and in a range between a premium of 2.89% and a discount of 2.12%. In comparison, during the 12 months running up to the introduction of the new DCM, SIGT traded at an average discount of 0.75% (median discount 0.78%), but within a range of a premium of 5.25% and a discount of 5.63%.

Figure 1: Premium/(discount) over five years



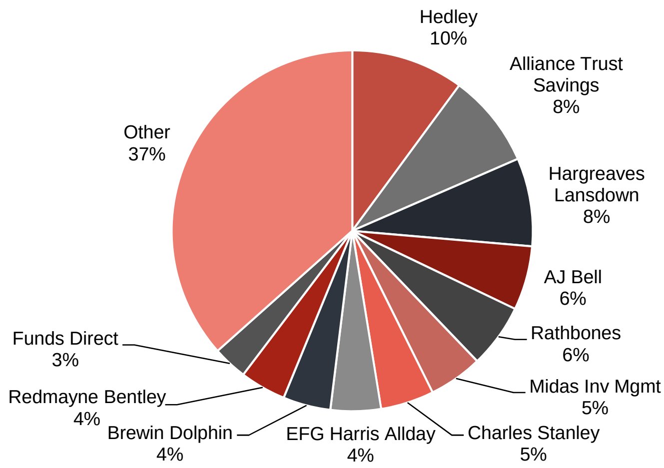
Source: Morningstar, Marten & Co.

New issuance now underway

SIGT has issued a net 660k shares raising £1.14m.

Seneca Investment Managers (Seneca IM or the manager) held some SIGT stock in other Seneca portfolios that it thought it appropriate to sell. SIGT took some time to begin issuing new stock, following the introduction of the DCM, as demand was satisfied by selling down these stakes. However, with Seneca's other holdings of SIGT now sold, SIGT has been issuing new stock and its manager says that demand has been stronger than it expected. To date, a net 660k shares have been issued, raising £1.14m for SIGT.

Figure 2: SIGT shareholder base as at 31 May 2017



Source: Seneca Global Income & Growth Trust

There has been an interesting mix of buyers for SIGT's shares.

The manager says that there has been an interesting mix of buyers and that strong buying has been seen from a number of private client brokers. A number of IFA firms have also been increasing their allocations; as have private individuals (the latter predominantly through the execution only platforms).

Helen O'Loughlin joins Seneca IM as a Business Development Consultant

Helen is focused on the IFA community and is becoming involved in marketing SIGT.

Seneca IM has expanded its sales and distribution team with the appointment of Helen O'Loughlin (previously of Premier Asset Management) to support Steve Hunter, Head of Business Development. Seneca IM say that Helen is focused on communicating its distinctive multi-asset, value-driven approach to the IFA community and is becoming involved in marketing SIGT.

Manager's view – adjusting allocations with the aim of adding value over the cycle

Reducing equity exposure reflects market performance and business cycle progression

SIGT has seen a material reduction in its allocation to equities.

There has been a material reduction in the allocation to equities since QuotedData published its annual overview note in March. Within this, the allocation to UK equities has increased modestly while overseas equities have shouldered the burden of the reduction. The manager says that the reduction in the allocation to equities reflects its view that 1) markets have made reasonably strong advances during the last few months, and 2) it believes that the global business cycle is making progress and we are moving closer to a point where we experience another global recession. In this regard, it is noteworthy that, with the exception of UK All Cap equities, which have experienced a tiny increase in yield, all of the other regions detailed in Figure 3 have seen their yields reduce slightly with return on equity and operating margins (not illustrated) also coming under increasing pressure.

SIGT's manager expects to reduce the overweight exposure to equities during the next few years.

SIGT's manager says that, while equities are the best overall asset to hold during a recession, it is the worst asset class to hold during the peak phase for the economy. The manager therefore expects to reduce the overweight equities allocation, during the next few years, as markets peak, with the aim of being significantly underweight by 2020 when the manager expects to see a global recession. During this phase, the manager will look to use enhanced yield strategies to cushion the impact of the downturn.

Figure 3: Global equity market valuation data as at 2 May 2017

Heading	UK all cap	UK mid cap	Asia Pacific ex Japan	Emerging markets	North America	Japan	Europe ex UK
Current yield (%)	4.0	3.2	2.7	2.4	2.0	1.9	3.1
Historical average (%)*	3.8	3.6	3.1	2.6	2.0	1.7	3.2
Relative to history	5%	(11%)	(12%)	(6%)	(1%)	17%	(5%)

Source: Bloomberg, Seneca Investment Managers *Note: historical averages for current yield calculated using 15.3 years of historical data.

SIGT's manager believes the US business cycle is quite advanced.

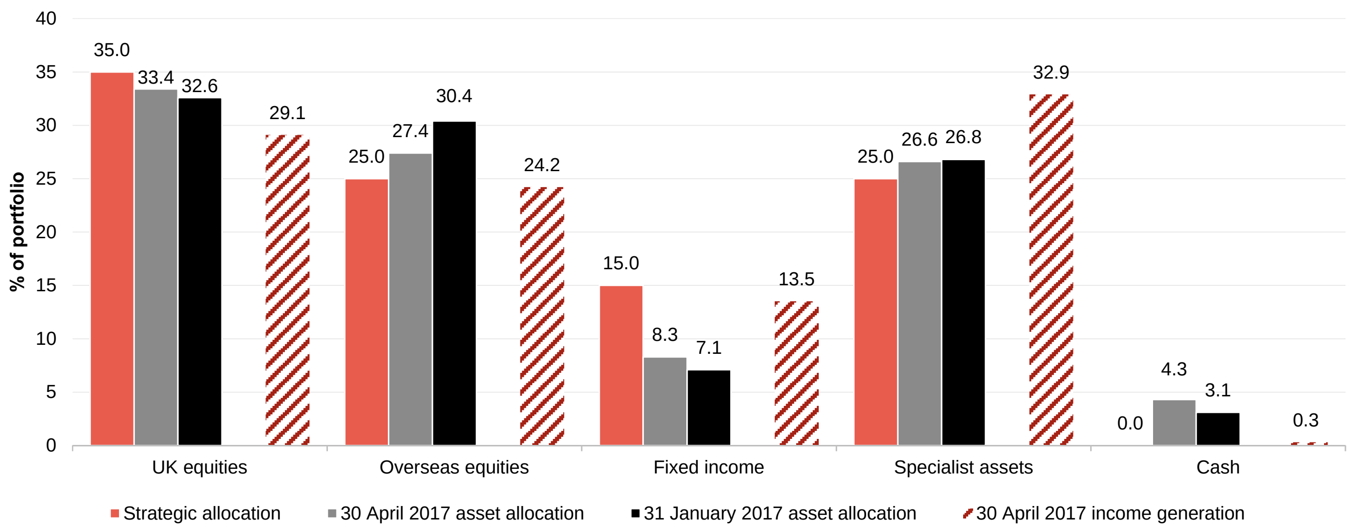
The manager believes that the US business cycle is quite advanced and this is reflected in recent interest rate rises, the pace of which it expects to increase. The manager is mildly negative on the outlook for the UK, but says that it is focused on a small number of mid-cap stocks that it expects to do well irrespective of the phase of the economic cycle.

Reduced European exposure reflects increased political risk.

Exposure has also been reduced to Europe (a 3% overweight has been reduced to a 1% overweight). The manager says that this is less of a reflection of the business cycle, which is behind that of the UK and the US, but is more related to an increase in political risk and uncertainty as to what impact this could have on economic growth. The fixed income allocation has increased. This reflects an increase in the allocation to the Templeton Emerging Markets Bond Fund, which in itself reflects increased confidence that emerging markets countries are showing continued signs of improving.

Asset allocation

Figure 4: Comparison of strategic asset allocation, end April 2017 asset allocation, end January 2017 asset allocation and end April 2017 income generation



Source: Seneca IM, Marten & Co

Figure 4 compares SIGT's strategic asset allocation (SAA) to its actual asset allocations as at the end of January 2017 (the most recently available data when QuotedData last wrote on SIGT) and at the end of April 2017. It also shows where SIGT was generating its income at the end of April. As discussed on page 3, there has been a meaningful change in the overall allocation to equities (both UK and overseas combined), which has fallen from 63.0% to 60.8%. There has been a small increase in the allocation to specialist assets and a small increase in the allocation to fixed income (an increase in the allocation to the Templeton Emerging Markets Bond Fund), while cash has also expanded.

Portfolio activity – turning to 'Bargain Booze'

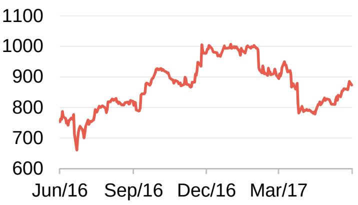
The UK equities portfolio has seen the addition of Conviviality Retail (Conviviality - www.conviviality.co.uk), which was financed by making very modest reductions (circa 0.1% a piece) from various UK equity positions. Conviviality is a drink retailer. Its main brand is 'Bargain Booze', which is focused on Northern England, but Conviviality has ambitions to grow (it operates a franchise model) and SIGT's managers believe that, whilst it has low market share (the off-licence market is highly fragmented), Conviviality is the market leader and is very well positioned to consolidate the industry (allowing it to benefit from economies of scale and higher margins). Conviviality is also the UK's largest independent wholesaler to the on-trade (pubs and hotels). Like the off-licence market, the on-trade is another very fragmented industry and SIGT's managers expect that Conviviality should be able to grow its market share. The manager likes the cash generative nature of the business, its return on invested capital (absent acquisitions), its strong balance sheet and decent yield. Note: return on invested capital is a profitability ratio. It is usually computed as net income less dividends, as a percentage of total capital invested.

Figure 5: Conviviality Retail share price

Source: Bloomberg

The other new addition to the UK equities portfolio is packaging manufacturer, RPC Group (RPC - www.rpc-group.com). SIGT's manager is very familiar with RPC. It likes the company and has held its stock in its growth portfolios, but could not justify it for SIGT as its yield (the annual income from an investment as a percentage of its price) was too low. However, RPC's share price suffered following a relatively negative note from Northern Trust in February (see Figure 6). SIGT's manager thought that the move was excessive, and brought the yield into a range that was appropriate for SIGT.

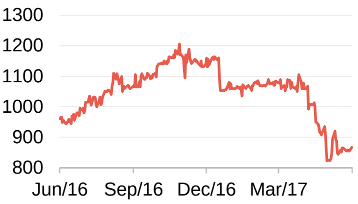
Figure 6: RPC Group share price



Source: Bloomberg

Within specialist assets, the manager has exited Ranger Direct Lending (RDL) in its entirety (see pages 11 and 12 of QuotedData's March 2017 annual overview note for more information on RDL and the problems experienced with one of its borrowers, Argon Credit). The manager exited over 2/3 of the RDL position prior to April's share price fall (see Figure 7) and highlights that this allowed it to avoid much of the capital loss SIGT might have otherwise faced. The exit, early this year, funded a small increase in the allocations to Fair Oaks Income and International Public Partnerships (INPP – see page 5 of QuotedData's September 2016 update note for more detail on INPP).

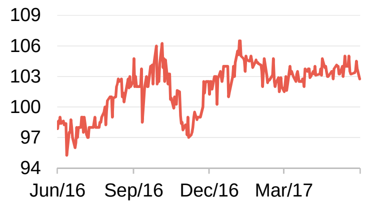
Figure 7: Ranger Direct Lending share price



Source: Bloomberg

Funding Circle SME Income Fund (FCIF) is a new entrant to the portfolio. SIGT's manager continues to like the online lending space. The manager believes that the process of financial disintermediation (reduction in the use of the traditional as FCIF have lower cost bases and benefit from not being burdened by historic loan books.

Figure 8: Funding Circle SME Income Fund share price

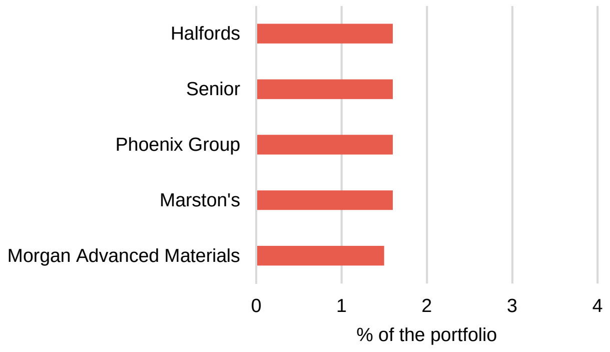


Source: Bloomberg

Largest investments

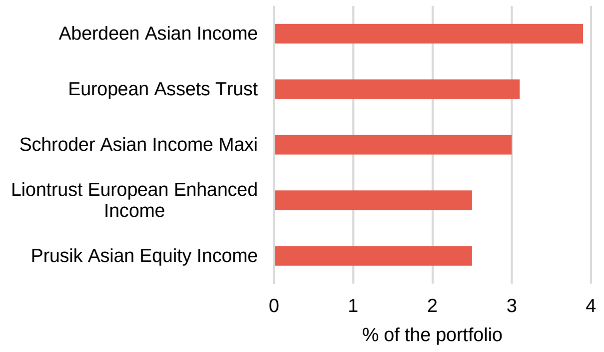
Figures 9, 10, 11 and 12 show the largest positions in each part of the portfolio as at 30 April 2017. Details of the rationale underlying some of these and other positions can be found in QuotedData's previous research notes (see page 8 for details). Some of the more recent changes are also discussed in detail above.

Figure 9: Top UK equity positions as at 30 April 2017



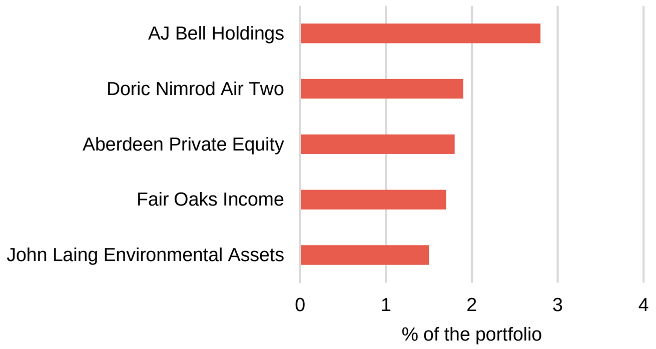
Source: Seneca IM

Figure 10: Top five overseas equity positions as at 30 April 2017



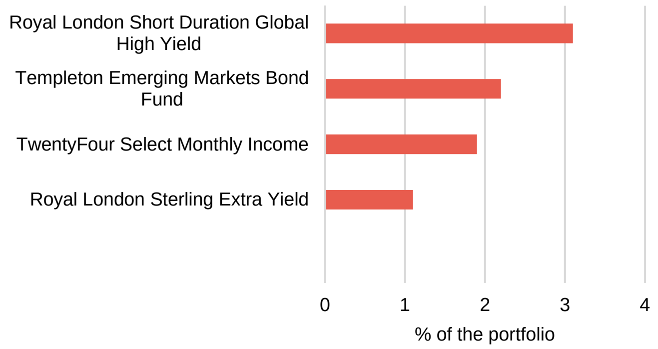
Source: Seneca IM

Figure 11: Top five specialist asset positions as at 30 April 2017



Source: Seneca IM

Figure 12: All fixed income positions as at 30 April 2017



Source: Seneca IM

Performance

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

As illustrated in Figure 13, SIGT's NAV has beaten that of its flexible investment peer group over all of the time periods provided. The same can be said for share price for most of the time periods; the longer-term outperformance over the five-year period for both share price and NAV is particularly marked. This has been achieved while providing lower return volatility, as illustrated in Figure 14 below. Using the MSCI World Index as a benchmark for global markets, it can be seen in Figure 13 that SIGT has underperformed for periods of one-year and above, but the MSCI World Index's superior performance has been accompanied by much greater volatility (see Figure 14). It is also worth noting that, during the last twelve months, the MSCI World Index's performance, in sterling terms, has benefitted from sterling's decline to a greater extent than SIGT's performance has.

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

Looking at SIGT's recent performance (using the three-month period, as this largely covers the period since QuotedData last wrote) SIGT's share price and NAV have outperformed those of the flexible investment sector, the MSCI UK Index and the MSCI World Index, while continuing to provide lower return volatility.

Figure 13: Cumulative total return performance to 31 May 2017

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)	Strategy change*
SIGT NAV	3.2	6.4	12.8	21.5	33.5	83.2	81.3
SIGT share price	2.3	8.1	11.9	22.8	42.8	111.0	112.1
Flexible Investment NAV	1.8	2.8	7.8	19.3	30.6	52.3	N/A
Flexible Investment share price	2.4	4.1	10.0	25.5	38.1	68.3	N/A
MSCI UK	4.9	4.7	13.1	25.7	22.1	68.8	60.8
MSCI World	2.4	1.2	9.6	32.0	56.2	120.1	115.4

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

Figure 14: Annualised standard deviation of NAV returns to 31 May 2017

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
SIGT NAV	6.46	6.06	5.99	11.80	11.04	9.91
SIGT share price	5.81	5.25	4.21	6.23	6.50	6.12
Flexible Investment NAV	6.76	8.02	8.66	10.65	11.23	11.26
Flexible Investment share price	10.34	11.09	11.16	13.82	13.94	13.99
MSCI UK	7.46	11.33	10.36	15.21	18.42	16.79
MSCI World	10.06	12.12	12.93	13.96	15.67	14.53

Source: Morningstar, Marten & Co

Fund profile

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

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

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

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

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. Its combination of multi-asset investing with an explicit value-oriented approach may be unique. 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).

Oversight of the portfolio is carried out by Alan Borrows (senior fund manager – see below) and Peter Elston (CIO). However, Seneca IM takes a team approach to managing its portfolios: Peter Elston is the research specialist for asset allocation, Alan Borrows for fixed income, Mark Wright for UK equities, Richard Parfect for specialist assets and Tom Delic for overseas equities.

Figure 15 below, provided by Seneca IM, sums up the manager's view of the strength of its investment approach.

Figure 15: The value of Seneca

Source: Seneca IM

Alan Borrows to retire

On 20 March 2017, it was announced that Alan Borrows, a named fund manager of SIGT since August 2005 when the trust first adopted a multi-asset portfolio, intends to retire at the end of 2017. Alan has long been one of the public faces of SIGT but, arguably reflecting the strength of the current team, under Peter Elston, the market appeared to be comfortable with the news (SIGT's price increased by 0.14% on the day, whilst its NAV increased by 0.21%).

Previous research publications

Readers interested in further information about SIGT, such as investment process, fees, capital structure, trust life and the board, may wish to read QuotedData's annual overview note *Celebrating five years since strategy change*, published on 10 March 2017, as well as QuotedData's previous update notes and initiation note (details are provided in Figure 16 below). The contents pages of the annual overview note have been reproduced below. You can read the notes by clicking on them in Figure 16 or by visiting the QuotedData website.

Figure 16: Marten & Co. previously published research 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

Source: Marten & Co.

Celebrating five years since strategy change – 10 March 2015

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QuotedData

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