

Seneca Global Income & Growth Trust

Ongoing moves to a more defensive portfolio

Seneca Global Income & Growth Trust (SIGT) aims to generate an average total return of at least CPI +6% pa, with low volatility, over the course of a typical business cycle. It also aims to grow its annual dividend at or above the rate of UK inflation. SIGT's manager seeks undervalued investments across a range of asset classes. It also uses tactical asset allocation (TAA) in the context of a longer-term strategic asset allocation (SAA). SIGT's investment team continues to find interesting opportunities, researching niche assets that other managers may be unable to consider.

12 months ending	Total share price return (%)	Total NAV return (%)	Blended benchmark* (%)	FTSE All-Share (%)	FTSE All-World (%)
30/09/14	12.5	3.9	3.5	6.1	11.8
30/09/15	5.0	3.8	3.6	(2.3)	0.6
30/09/16	16.2	15.4	3.6	16.8	31.3
30/09/17	16.5	16.0	4.6	11.9	15.5
30/09/18	(0.3)	(0.3)	8.7	5.9	13.4

Source: Thomson Datastream. Note: 12-month discrete total returns. *Blended benchmark is three-month Libor +3% to 6 July 2017 and CPI +6% thereafter. Past performance is not necessarily a guide to future performance.

Investment strategy: Seeking undervalued assets

SIGT's investment team seeks high-quality, undervalued securities across multiple asset classes: UK and overseas equities, fixed income and specialist assets. In line with the trust's TAA roadmap, equity exposure is gradually being reduced at a rate of c 1pp every two to three months to ensure that the portfolio is suitably defensively positioned ahead of an anticipated 2020 global stock market downturn. Assets are primarily being redeployed into specialist assets (heterogeneous securities with above-average yields, in areas such as infrastructure, real estate, speciality finance and aircraft leasing), short-duration fixed-income investments, and cash.

Market outlook: Expectation of lower equity returns

Global equity investors have enjoyed above-average total returns in recent years due to robust growth in corporate earnings and a rerating of share prices, with valuation multiples in some markets now at a premium to their historical averages. Given this context, along with risks to global growth due to rising interest rates and macroeconomic uncertainties, it appears reasonable to assume lower equity returns over the medium term.

Valuation: Active use of discount control mechanism

SIGT introduced a discount control mechanism (DCM) in August 2016, since when its shares have traded close to NAV. The trust's current 0.0% share price discount to cum-income NAV compares to average premiums of 1.2% over the past 12 months and 0.5% over the past three years. SIGT has a progressive dividend yield, aiming to grow the annual distribution at least in line with UK inflation. The trust's prospective dividend yield is 4.1%.

Investment trusts

25 October 2018

Price 161.0p
Market cap £76m
AUM £83m

NAV* 158.9p
 Premium to NAV 1.3%
 NAV** 160.9p
 Discount to NAV 0.0%

*Excluding income. **Including income. As at 23 October 2018.

Prospective yield 4.1%

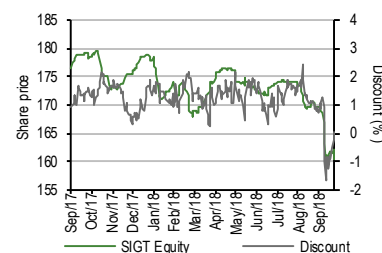
Ordinary shares in issue 47.5m

Code SIGT

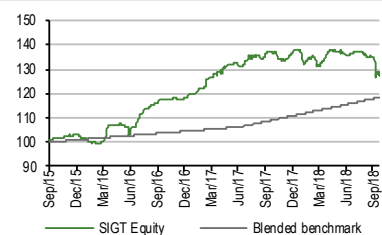
Primary exchange LSE

AIC sector Flexible Investment

Share price/discount performance



Three-year share price perf.



52-week high/low 179.5p 159.5p

NAV* high/low 177.3p 160.9p

*Including income.

Gearing

Gross* 8.5%

Net* 2.0%

*At 30 September 2018.

Sources for this column: Thomson Datastream, SIGT

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[Edison profile page](#)

Seneca Global Income & Growth Trust is a research client of Edison Investment Research Limited

Exhibit 1: Trust at a glance

Investment objective and fund background

SIGT's objective is to achieve net returns in excess of CPI +6% per annum over the course of a typical investment cycle, with low volatility. It also aims to grow aggregate annual dividends at least in line with CPI, through investment in a multi-asset portfolio including UK and overseas equities, fixed-income securities and specialist assets (including property).

Recent developments

- 14 August 2018: first interim dividend of 1.64p announced +3.8% y-o-y.
- 8 June 2018: 12-month results ending 30 April 2018. NAV TR +5.7% versus benchmark +7.7%. Share price TR +5.7%.
- 15 May 2018: fourth interim dividend of 1.64p announced +3.8% y-o-y.
- 22 February 2018: third interim dividend of 1.58p announced +3.9% y-o-y.

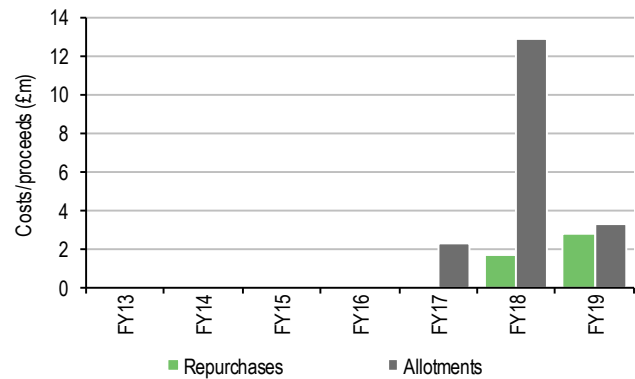
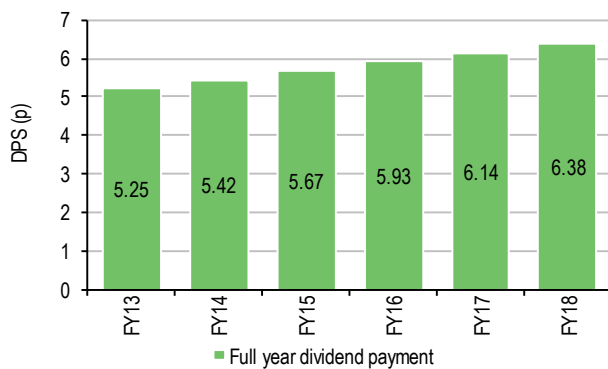
Forthcoming		Capital structure		Fund details	
AGM	July 2019	Ongoing charges	1.45%	Group	Seneca Investment Managers
Interim results	December 2018	Net gearing	2.0%	Managers	Seneca team
Year-end	30 April	Annual mgmt fee	0.90% of market cap up to £50m, 0.65% above £50m	Address	10th Floor Horton House, Exchange Flags, Liverpool L2 3YL
Dividend paid	Sep, Dec, Mar, Jun	Performance fee	None	Phone	+44 (0)151 906 2461/2475
Launch date	August 2005	Trust life	Indefinite	Website	www.senecaim.com/sigt
Continuation vote	None	Loan facilities	£14m three-year rolling (£7m drawn)		

Dividend policy and history (financial years)

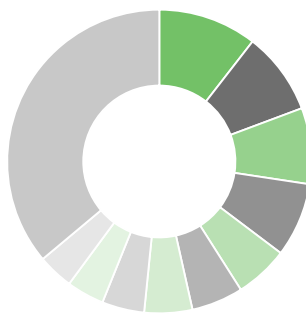
SIGT aims to grow annual dividends at least in line with the rate of CPI.

Share buyback policy and history (financial years)

A DCM was introduced at the July 2016 AGM, effective 1 August 2016.

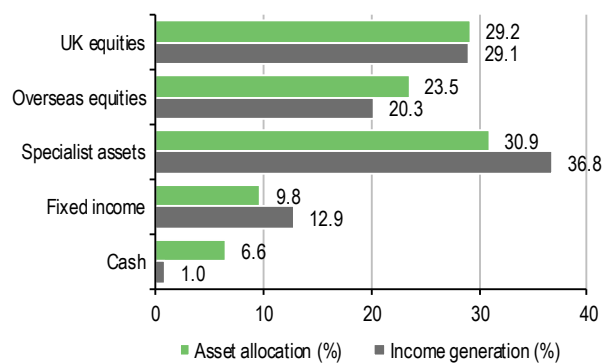


Shareholder base (at 30 September 2018)



- Hargreaves Lansdown (10.5%)
- Alliance Trust Savings (8.8%)
- AJ Bell (8.1%)
- Hedley (7.9%)
- EFG Harris Allday (5.7%)
- Interactive Investor (5.5%)
- Rathbones (5.1%)
- Charles Stanley (4.5%)
- Redmayne Bentley (4.0%)
- Alington Ruthin (3.8%)
- Other (36.1%)

Portfolio distribution by capital and income generation (at 30 Sept 2018)



Top five holdings by asset category (at 30 September 2018)

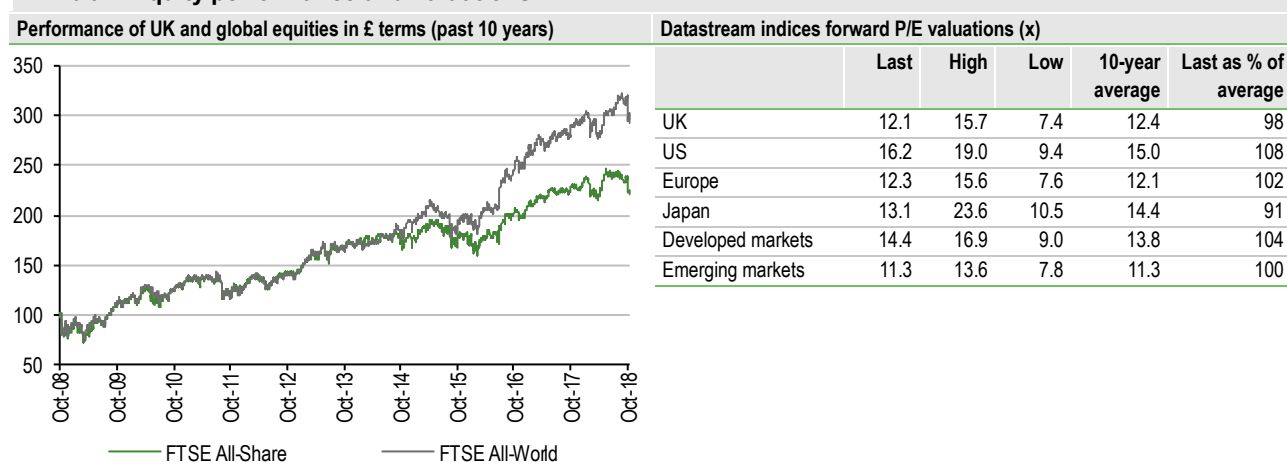
	Portfolio weight %		Portfolio weight %
UK direct equities		Fixed income	
BT Group	1.5	Royal London Short Duration Global High Yield	4.7
Marston's	1.5	TwentyFour Select Monthly Income	2.0
Babcock International	1.4	Templeton Emerging Markets Bond	1.9
Kier Group	1.4	Royal London Sterling Extra Yield Bond	1.1
OneSavings Bank	1.4	N/A	
Overseas equities		Specialist assets	
CIM Dividend Income Fund	4.0	AJ Bell Holdings (unquoted)	3.2
CC Japan Income & Growth Trust	3.0	International Public Partnerships	2.7
Samarang Asian Prosperity	2.8	Doric Nimrod Air Two	2.2
HMG Global Emerging Markets Equity Fund	2.7	Fair Oaks Income Fund	2.0
European Assets Trust	2.5	Sequoia Economic Infrastructure	2.0

Source for charts and tables above: SIGT, Edison Investment Research, Morningstar

Market outlook: Equity returns likely more modest

As shown in Exhibit 2 (LHS), in sterling terms, global equities have meaningfully outperformed UK equities in recent years. Global share price rises have been supported by robust corporate earnings growth and have also benefited from a rerating, while sterling weakness has boosted returns for UK investors. As a result, in terms of forward P/E multiples, some regional stock markets are trading at a premium to their 10-year averages (Exhibit 2, RHS). Risks to economic growth are now arguably to the downside, given a backdrop of rising interest rates, due to a maturing business cycle, along with other considerations, such as US President Trump's protectionist policies and uncertainty due to ongoing Brexit negotiations. In such an environment, it would seem reasonable for equity investors to expect lower total returns than those enjoyed since early 2016, and there may be increased appeal in a more valuation-aware approach.

Exhibit 2: Equity performance and valuations



Source: Thomson Datastream, Edison Investment Research. Note: Data as at 24 October 2018.

Fund profile: 'Multi-asset value investing'

Founded as the Taverners Trust and managed by Aberdeen Asset Management, the trust became the Midas Income & Growth Trust in August 2005. In March 2014, the trust's investment manager was purchased by [Seneca Asset Managers Limited](#). The fund management business was renamed Seneca Investment Managers Limited (SIML) and the trust itself was renamed Seneca Global Income & Growth Trust, highlighting its diverse mandate. SIML is a multi-asset specialist, with a focus on value. The investment process is transparent and team-based, and the portfolio investments are straightforward.

Since July 2017, SIGT's aim has been to generate an average total return of at least CPI +6% pa (after costs), with low volatility, over the course of a typical business cycle (the previous hurdle was Libor +3% pa). It also aims to grow its annual dividend at least in line with UK inflation. The trust invests in UK and overseas equities, fixed income and specialist assets (infrastructure, specialist financial, property and private equity). SIML believes that the investment objective can be achieved by an appropriate combination of SAA, TAA, investment in undervalued assets, and the use of gearing. While there may be periods when SIGT's total returns lag the benchmark, the managers are confident that over the course of a typical business cycle (when total real returns from equities and bonds over the entire cycle are in line with, or above, long-term expected averages), CPI +6% pa is an achievable hurdle.

SIGT has investment limits in place. At the time of purchase, up to 7.5% of gross assets is permitted in any individual direct or fixed income investment, and up to 10% may be invested in any collective vehicle. Up to 7.5% of gross assets can be held in unquoted securities, and up to 25%

may be held in cash and equivalents. Gearing of up to 25% of NAV is permitted; at end-September 2018, net gearing was 2.0% (8.5% gross).

Historically, SIGT was subject to an annual continuation vote, but this requirement was removed at the July 2018 AGM. The board believes that the active DCM provides sufficient liquidity in SIGT's shares and removes the need for an annual continuation vote.

SIML has a team of five investment professionals, each with specific research responsibilities: Peter Elston (chief investment officer – SAA and TAA); Mark Wright (fund manager – UK equities); Gary Moglione (fund manager – developed markets overseas equities, developed markets fixed income and specialist financial assets); Tom Delic (fund manager – emerging markets overseas equities and emerging markets fixed income); and Richard Parfect (fund manager – specialist assets, excluding specialist financials). SIGT's portfolio is overseen by Elston and Moglione, who implement investment decisions and manage cash flows. SIML employs a team-based approach, so Elston and Moglione have limited discretion to deviate from the target portfolio, which has been agreed by the whole team.

The fund managers: Seneca team

The managers' view: 'Braking ahead of the curve'

Elston, SIGT's asset allocation specialist, is following the previously laid out roadmap – reducing equity exposure in anticipation of a stock market downturn in 2020. He explains that his approach is not very precise with regards to timing; however, Elston is confident in his predictions based on the business cycle, in terms of the extrapolation of historical trends in employment, inflation and government bond yield curves.

Since mid-2017, SIGT's equity target exposure has broadly been reduced at a rate of 1.0pp every couple of months; the latest implementation was 0.5pp out of European and 0.5pp out of Japanese equities at the beginning of October 2018. The manager says that economic progress across developed markets is in line with his expectations. He notes the low or declining unemployment in the US, Europe, UK and Japan, which is causing inflationary pressures. Wages have been rising in developed markets since mid-2017, led by the US, which is further advanced in its economic cycle, with activity this year stimulated by tax cuts. Higher inflationary pressures are leading to central banks moving to normalise their monetary policies. The Federal Reserve Bank in the US and, to a lesser extent, the Bank of England, have raised interest rates, and the European Central Bank has moderated its pace of bond purchases. Japan will be the last of the four countries/regions to tighten monetary policy as it has the greatest deflationary influences due to an ageing population. However, Japan has seen both headline and core inflation move out of negative territory.

In terms of negative yield curves indicating an upcoming recession, Elston says that while the US government bond yield curve remains positive, it is flattening as a result of higher short-term interest rates. Following another couple of hikes in the Federal Funds rate, Elston believes that the US yield curve may become inverted. He notes the change in language at the latest Federal Open Market Committee meeting from an accommodative to a neutral stance, commenting that when monetary policy moves one step further into a restrictive mode, economic activity will almost certainly start to be constrained.

Regarding the threat of a global trade war, as a result of the US's 'America First' policy, Elston says that so far, the US's protectionist policies are not having a major impact. He believes that Trump is acting cynically ahead of the US mid-term congressional elections in early-November 2018. The manager says that the US fiscal position bears watching. For example, due to the ongoing trade dispute, the US government is having to buy up a lot of excess food production that would previously have been exported and tax cuts are having a big impact on government tax receipts.

However, Elston comments that if investors had real concerns about the US's fiscal position, its key 10-year treasury bond yield would be well above the current level of c 3.1%.

Elston discusses his thoughts on potential opportunities in emerging markets, which have been negatively affected by US dollar strength and investor risk aversion, given developments in Turkey and Argentina. In terms of fundamentals, the manager notes how much stronger and broader emerging market economies are compared with when the first emerging market fund was launched in the 1970s, and since the Asian crisis in 1997. Elston says that China "has made amazing progress" and, along with some other emerging markets, is running a current account surplus. He notes that due to economic expansion, emerging economies are now less reliant on developed markets and intra-emerging market trade is now a much higher percentage of their economic activity. However, the manager believes that investor perception has not kept up with economic reality, meaning that emerging equity markets could still be at the mercy of negative sentiment and may decline further, despite the sell-off so far in 2018.

Asset allocation

Investment process: Multi-asset, value-based approach

SIML employs a 'multi-asset value investing' process, seeking high-quality, undervalued securities. The investment team utilises a long-term SAA, along with a shorter-term TAA, and active portfolio management, aiming to generate average returns in excess of CPI +6% pa over the course of a typical business cycle. The SAA assumes that future long-term returns of individual asset classes will generally be similar to their historical long-term returns, while the TAA takes account of how different asset classes typically perform at each stage of the investment cycle: expansion, peak, recession and recovery. To determine the stage of the business cycle, the managers assess economic indicators such as unemployment, inflation and yield curves. SIML's investment approach is team-based – any portfolio changes must be agreed by a majority, which acts as an effective risk control. Each asset allocation and portfolio holding has a target weighting and while actual portfolio exposures may vary slightly from the targets, all variances are limited and closely monitored.

UK equity exposure is primarily direct, with a focus on undervalued, higher-quality companies. SIGT tends to invest in mid-cap companies, which are often underfollowed, and so provide greater opportunities to invest in mispriced securities (data from SIML highlights the outperformance of mid-cap versus large-cap companies over the long term). Overseas exposure is via collective investments, where Moglione and Delic focus on managers with a value bias and a modest level of assets under management, as they believe this makes them more nimble, with lower transaction costs and the ability to move up and down the market cap spectrum when seeking investments. SIGT's fixed income and cash investments focus on capital preservation, while specialist assets is a heterogeneous asset class offering exposure to real assets, with potential to lower volatility while enhancing returns, mostly via UK investment trusts.

%	Asset allocation range	Core asset allocation (SAA)	TAA end-September 2018
UK equities	15–60	35	29.5
Overseas equities	10–40	25	24.0
Total equities	25–85	60	53.5
Fixed income	0–40	15	9.7
Specialist assets	0–50	25	30.4
Cash	0–10	0	6.4
Total	100	100	100.0

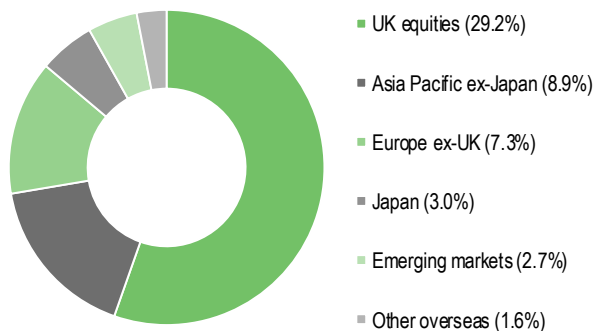
Source: Seneca Global Income & Growth Trust

Current portfolio positioning

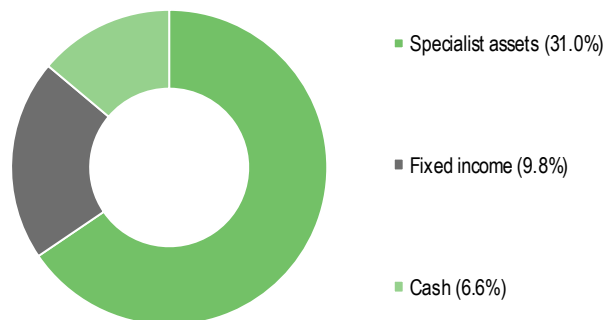
As shown in Exhibit 3, at end-September 2018, SIGT's total equity TAA was 6.5pp underweight versus the SAA (5.5pp in UK equities and 1.0pp in overseas equities). Within the overseas equity allocation, SIGT was overweight Asia Pacific ex-Japan and global (a mining fund); market weight Europe ex-UK and Japan; and underweight emerging markets and US (zero allocation since August 2017). SIGT was also underweight fixed income (zero exposure in developed market government debt). Within specialist assets, SIGT was overweight specialist financial and infrastructure, while underweight private equity and property. The trust was also running a more than 6pp cash position versus a zero-weighting in the SAA.

Exhibit 4: Portfolio distribution of equity and non-equity investments at 30 September 2018

Geographic distribution of equity investments (53% of portfolio)



Analysis of non-equity investments (47% of portfolio)



Source: Seneca Global Income & Growth Trust, Edison Investment Research. Note: Numbers subject to rounding.

SIGT's actual portfolio breakdown at end-September 2018 is shown in Exhibit 4. It was split 53:47 percent between equity and non-equity investments, which compares with 54:46 at end-May 2018 (see our last [report](#)). The trust's specialist asset exposure at end-September 2018 was split as follows: infrastructure 11.2%, specialist financial 9.1%, property 7.0% and private equity 3.7%.

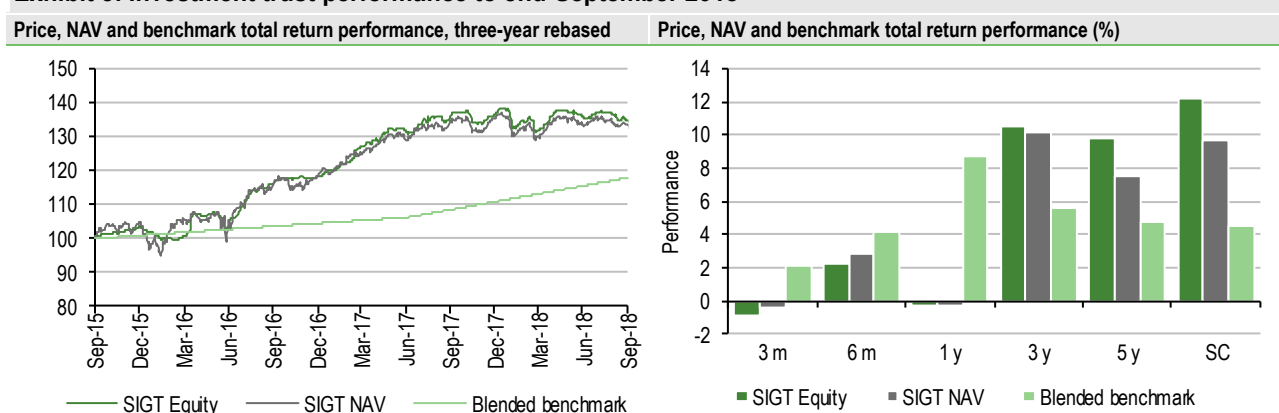
Moglione highlights SIGT's recent new specialist financial position in music royalties investment company Hipgnosis Songs Fund, which he considers a "really interesting holding". Hipgnosis came to the market in June 2018 and the manager believes the fund fulfils SIGT's desired attributes of bond-like characteristics, an attractive valuation with the prospect of capital growth and rising dividends. The fund has an experienced management team; the founder Merck Mercuriadis has a background at record companies Hipgnosis Music, The Sanctuary Group and Virgin Records. He is also a former manager of acts such as Elton John, Guns N' Roses, Iron Maiden and Beyoncé. Well-renowned American record producer Nile Rogers is on the advisory board. Hipgnosis has recently signed up famous songwriter The-Dream, acquiring 75% of his revenue stream, and appointing him to the advisory board. He has written songs for many famous artists including Beyoncé, Rihanna, Justin Bieber, Jay Z and Kanye West. Hipgnosis's advisory board is scouring the globe for further well-known catalogues and there are a number of deals in the pipeline.

In terms of the popular music industry backdrop, Moglione says that global revenues peaked in 1999 and declined steadily thereafter, primarily due to piracy. However, over the years there have been a number of behavioural shifts and the advent of music streaming has led to an inflexion in industry revenues. The manager explains that the streaming subscription model is a big shift in how music is consumed; it has growth potential from increasing emerging-market penetration and it is expected to be resilient during periods of economic weakness. Music is now cheaper and easier to access, while piracy is now more difficult. Moglione says that Hipgnosis offers an attractively valued asset in a growing market and is a very different investment from SIGT's other specialist financial assets.

Performance: Outperforming over medium/long term

Over the 12 months to end-September, SIGT's NAV and share price total returns of -0.3% trailed the benchmark's +8.7% total return. Elston explains that much of this shortfall related to the performance of underlying markets, but active management also detracted; SIGT's UK mid-cap holdings in particular underperformed the broader UK stock market. However, Elston and Moglione are confident in SIGT's UK equity positions on a longer-term view. In addition, Elston says that it is understandable that the trust is lagging the benchmark at this stage of the economic cycle, given its defensive positioning in anticipation of stock market weakness in 2020. Moglioni also discusses the style bias trends within global equity markets. He says that in Q118, value stocks led, which was supportive for SIGT's relative performance. However, he says that the following six months were characterised by the outperformance of growth and US stocks, which presented the trust with significant headwinds.

Exhibit 5: Investment trust performance to end-September 2018



Source: Thomson Datastream, Edison Investment Research. Note: Since change of mandate (SC) is from 18 January 2012. Blended benchmark is an absolute return of 8% per year until 18 January 2012, three-month Libor +3% to 6 July 2017 and CPI +6% thereafter. Performance figures for periods of more than one year are annualised.

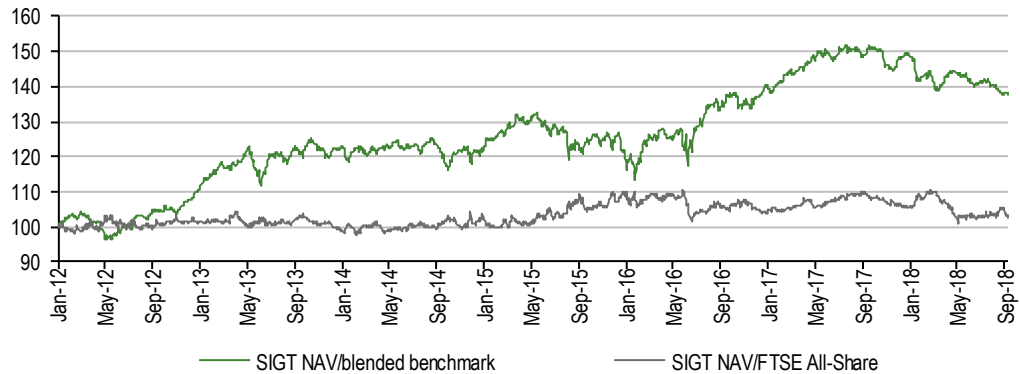
SIGT's relative returns are shown in Exhibit 6. It has outperformed its blended benchmark over three and five years, and since the change in mandate on 18 January 2012, while lagging over the shorter periods shown. The trust aims to generate low volatility of investment returns – data from SIML shows that, from the 2012 mandate change up to end-September 2018, SIGT's annualised volatility was 7.9%, which compares to the 9.7% average for the AIC Flexible Investment sector and 12.8% for the FTSE All-Share index.

Exhibit 6: Share price and NAV total return relative performance

	Three months	Six months	One year	Three years	Five years	Since change of mandate
Price relative to blended benchmark	(3.0)	(1.9)	(8.3)	14.5	26.0	61.1
NAV relative to blended benchmark	(2.4)	(1.3)	(8.3)	13.3	13.9	37.7
Price relative to FTSE All-Share	(0.1)	(5.6)	(5.9)	(2.6)	11.0	20.6
NAV relative to FTSE All-Share	0.4	(5.1)	(5.8)	(3.6)	0.3	3.1
Price relative to FTSE All-World	(6.2)	(9.5)	(12.1)	(21.6)	(17.7)	(9.1)
NAV relative to FTSE All-World	(5.7)	(8.9)	(12.1)	(22.4)	(25.6)	(22.3)

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-September 2018. Geometric calculation. Since change of mandate is from 18 January 2012. Blended benchmark is an absolute return of 8% per year until 18 January 2012, three-month Libor +3% to 6 July 2017 and CPI +6% thereafter.

Exhibit 7: SIGT NAV total return vs blended benchmark and FTSE All-Share total return since change of mandate, rebased



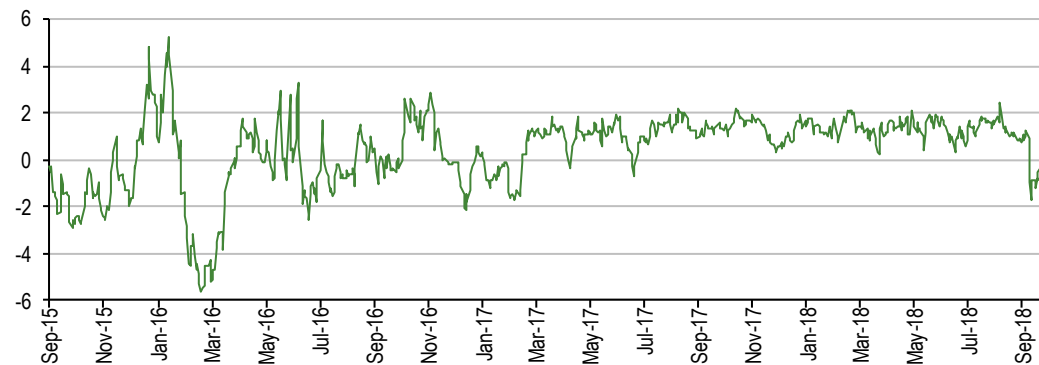
Source: Thomson Datastream, Edison Investment Research

Valuation: Shares now regularly trade at a premium

Exhibit 8 shows the effectiveness of SIGT's DCM that was introduced on 1 August 2016, since when its shares have consistently traded close to par. So far in FY19, the share count has declined by 0.3%; 1.6m shares have been allotted at a premium, raising gross proceeds of £3.4m, while 1.7m shares have been repurchased at a discount, for a gross consideration of £2.8m. Since the DCM was introduced, the board has both repurchased shares when they traded at a small discount (a total of 2.7m shares costing £4.5m), and allotted shares when they traded at a small premium (a total of 10.3m shares raising £18.6m). This has addressed investors' concerns about the potential for a widening discount, while also providing sufficient liquidity to satisfy investor demand. Renewed annually, SIGT has authority to buy back up to 14.99% of its outstanding shares. In addition, at the July 2018 AGM the board sought permission to issue 10%, and up to a further 20%, of shares outstanding, on a non-pre-emptive basis, in order to facilitate the DCM (both resolutions were duly passed).

SIGT is currently trading at a 0.0% discount to cum-income NAV. This compares to the range of a 1.7% discount to a 2.4% premium over the past 12 months. Over the last one, three, five and 10 years, the trust has traded at an average 1.2% premium, a 0.5% premium, a 1.7% discount and a 5.6% discount, respectively.

Exhibit 8: Share price premium/discount to NAV (including income) over three years (%)



Source: Thomson Datastream, Edison Investment Research. Note: Negative values indicate a discount, positive values a premium.

Capital structure and fees

SIGT is a conventional investment trust with one class of share. There are currently 47.5m ordinary shares outstanding, with a further 1.7m held in treasury. The trust has a £14m three-year rolling credit facility at Libor +1.1%, of which £7m is drawn. Given the managers' current conservative view of potential investment returns, SIGT's gearing is towards the low end of its historical range. At end-September 2018, net gearing was 2.0% (compared with gross gearing of 8.5%).

SIML is paid an annual management fee of 0.90% of SIGT's market cap up to £50m, and 0.65% above £50m. The fee is allocated 50:50 between the capital and income accounts. In FY18, ongoing charges were 1.45% of net assets, which was 16bp lower than 1.61% in FY17; SIGT's larger size helped to spread fixed costs over a larger base. The trust is now large enough to have an alternative investment fund manager under the AIFM directive. PATAC, which was already the trust's company secretary and administrator, was appointed in April 2018.

Dividend policy and record

SIGT pays quarterly dividends in September, December, March and June. The first three interim dividends are equal, while the fourth acts as an indicator for the first three in the following year. Total dividends have grown in each of the past five consecutive years, compounding at an annual rate of c 4%, which is above the annual rate of UK inflation over the period. The 6.38p per share dividend paid for FY18 was fully covered by income; revenue reserves have increased in each of the past six financial years. For FY19, the four interim dividends should be at least 1.64p per share, which equates to a prospective yield of 4.1% based on SIGT's current share price.

Peer group comparison

Exhibit 9: AIC Flexible Investment sector at 24 October 2018*

% unless stated	Market cap £m	NAV TR 1-year	NAV TR 3-year	NAV TR 5-year	Premium/discount	Ongoing charge	Net gearing	Dividend yield (%)
Seneca Global Income & Growth Trust	76.5	(5.7)	22.6	33.5	0.0	1.5	102	4.0
Aberdeen Diversified Income & Growth	394.9	(0.5)	2.9	6.9	(1.2)	0.4	111	4.4
Capital Gearing	270.0	2.5	23.1	30.6	2.1	0.8	100	0.5
Establishment Investment Trust	35.5	(17.4)	14.9	11.7	(17.5)	1.3	100	3.4
F&C Managed Portfolio Growth	72.8	(0.6)	32.0	46.4	4.5	1.0	100	0.0
F&C Managed Portfolio Income	54.9	(4.1)	21.7	31.2	1.3	1.1	107	4.5
Hansa Trust 'A' Class A	234.0	(0.5)	31.6	32.1	(27.6)	0.5	100	1.6
Henderson Alternative Strategies Trust	107.3	(2.6)	25.5	20.0	(16.4)	1.1	100	1.1
Invesco Perp Select Balanced Risk	8.1	(2.5)	14.0	18.2	(0.3)	1.2	100	1.1
JZ Capital Partners	380.8	3.3	23.9	37.1	(38.9)	3.9	100	3.9
Miton Global Opportunities	76.0	(1.0)	53.5	60.4	1.2	1.5	100	0.0
New Star Investment Trust	78.1	6.6	45.7	51.3	(30.6)	0.9	100	0.9
Personal Assets	908.8	(0.8)	16.7	27.6	1.2	0.9	100	1.4
RIT Capital Partners	3,069.7	1.0	23.2	47.5	8.1	1.0	115	0.3
Ruffer Investment Company	411.6	(0.6)	9.5	13.7	2.9	1.2	100	0.8
Tetragon Financial	912.6	11.2	60.0	104.6	(42.8)	1.6	100	5.8
UIL	161.1	10.4	103.3	108.7	(38.2)	1.6	100	4.2
Simple average	426.6	(0.1)	30.8	40.1	(11.3)	1.3	102	2.5
SIGT rank in peer group (17 funds)	12	16	11	8	8	5	4	5

Source: Morningstar, Edison Investment Research. Note: *Performance to 23 October 2018. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

In Exhibit 9, we show the 17 trusts in the AIC Flexible Investment sector that have been trading for more than a year. When comparing the peers, it is important to note that they follow different mandates. While SIGT's NAV total returns are below the peer group average over the periods shown, as highlighted on page 7, it has a lower volatility of returns compared to both the peer group and the UK stock market. The trust has an above-average ongoing charge, and an average level of

gearing. SIGT offers a relatively attractive dividend yield, which is 1.5pp higher than the peer group average (its prospective yield is 4.1%).

The board

SIGT's board has three directors, all of whom are non-executive and independent of the manager. The chairman is Richard Ramsay, who was appointed to the board on 2 April 2013 and assumed his current role on 3 September 2013. Ian Davis has been chairman of the audit committee since 15 December 2004, having been appointed to the board on 1 November 2004. The third director is James McCulloch, who was appointed on 2 January 2015. The board members have backgrounds in investment banking, corporate finance, private client investment and portfolio management.

Glossary

CPI

The Consumer Price Index, which is a measure of UK inflation.

Discount control mechanism (DCM)

A DCM will usually involve a trust buying back its own shares in the market and either cancelling them or holding them in treasury to be reissued when demand is stronger.

Gearing

Investment companies frequently employ a moderate level of borrowing to buy additional investments to increase returns when they appreciate. The risk is that gearing magnifies losses if the investments fall in value.

Libor

The London Interbank Offered Rate is a reference interest rate widely used in financial markets as a basis for lending rates or an indication of the return available on cash.

Multi-asset fund

Multi-asset funds have a mandate to invest across different asset classes such as equities, fixed income, property and other specialist areas. The fund manager will vary exposures according to market conditions, seeking to optimise the balance of risk and reward.

OECD

The Organisation for Economic Co-operation and Development. It is a group of 35 member countries that discuss and develop economic and social policy.

Ongoing charge

This is a measure of the regular, recurring costs of running an investment company expressed as a percentage of the NAV.

P/E ratio

A price-to-earnings ratio, which is a valuation measure of a company's share price relative to its annual net income per share.

Premium/discount to net asset value (NAV)

The net asset value of a company, including an investment company, is the value of its assets less liabilities. Depending on a range of factors, including the market's assessment of the prospects for

a company or appetite for yield, its shares may trade at a price above the NAV, at a premium, or at a discount.

Strategic asset allocation (SAA)

SAA can be thought of as the broad allocation to each asset class that would be required to help achieve the investment performance objective over time. For example, a simple multi-asset fund might have an SAA of 60% global equities and 40% global bonds. Given an understanding of how global equities and global bonds would be expected to behave over the longer term, one would have an understanding of how the fund should behave over the longer term as a result of exposure to bonds and equities in the proportions mentioned.

Tactical asset allocation (TAA)

TAA is generally used in conjunction with SAA. TAA refers to decisions to deviate from time to time from SAA. Using the example cited, this might mean a decision to have only 50% in equities rather than the strategic allocation of 60% because one might have a slightly negative view on the outlook for equities.

Typical investment cycle

A typical investment cycle is defined as one in which various asset classes produce total real returns over the entire cycle that are broadly in line with their historic, and expected, long-term average real returns.

Volatility

This is a term used to describe the frequency and severity with which the price of an investment goes up and down.

Yield (income)

The amount of income you receive in monetary terms will be equivalent to the dividend per share multiplied by the number of shares you own. This is usually expressed annually as a percentage based on the investment's market value.

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