Seneca Global Income & Growth

Seeking to achieve total returns of CPI +6% p.a., SIGT invests on a multi-asset basis with a value approach...

Update
30 September 2020

Summary

Seneca Global Income & Growth Trust (SIGT) aims to achieve total returns of at least CPI +6% p.a. net of costs over a typical investment cycle, through investment across a range of asset classes and geographies. The management company, Seneca Investment Managers, looks to achieve real (i.e. inflation-adjusted) growth in capital and income over the longer term through investment in direct securities and via third-party fund managers employing a unique value-influenced decision-making process across a wide range of assets. The trust's managers are avowedly contrarian, and believe SIGT can diversify wider investment portfolios as well as standing alone.

SIGT is managed very much on a team basis, with responsibilities for the various asset classes which comprise the portfolio apportioned amongst the four managers. Using a mixture of qualitative and quantitative inputs, the managers construct a long-term strategic asset allocation (SAA) which will achieve the majority of the trust's long-term objectives. As we discuss under **Portfolio**, a further tactical asset allocation (TAA) is then applied, based upon a variety of observations.

As we highlight under **Dividend**, SIGT currently yields c. 4.6% on a historic basis as at 31/08/2020. SIGT has been successful in growing its dividend in recent years, and revenue generation is diversified by asset class. As well as being able to pay dividends out of historically accumulated revenue reserves, the board has the ability to utilise SIGT's special reserve and realised capital reserve to support the level of dividend distributions.

SIGT employs a discount control mechanism (DCM). As discussed under **Discount**, this has proven effective in reducing discount volatility and in growing the trust.

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Analyst's View

Although value as an investment style has been a challenging strategy for several years, and valuation dispersions in major markets have only accelerated following the COVID-19 pandemic and global economic contraction, the trust's value-influenced multi-asset approach has fared better than might be expected over recent years. Markets have now priced in broad and elevated insolvency risks, whilst those assets perceived as 'secular growth' winners seem valued on the assumption they can continue to take economic share for years to come.

Such a scenario seems unlikely to be economically or societally sustainable, given the impact previously witnessed on productivity and wealth dispersion. Higher inflation expectations should reasonably have been expected to be a tailwind to value strategies, but even as inflation expectations have moved higher, a value recovery has not occurred in recent months. Investors looking to apply a value hedge to their portfolio could see SIGT's different approach and wider range of assets as a way of doing so.

The main point being highlighted by the managers of SIGT, that even moderate economic normalisation could cause substantial repricing of 'value' relative to growth, is hard to ignore given the levels of value dispersion. In the meantime, SIGT investors can benefit from a c. 4.6% yield. This should remain augmented by relatively uncorrelated income streams from 'specialist assets'. Recent amendments to the trust's policy indicate the board remains supportive of the dividend for the foreseeable future.

BULL
Access to niche, boutique, highly active fund management strategies and a focussed portfolio of UK value stocks
Attractive, well-diversified yield, well supported by income and reserves
Should act as a diversifier to mainstream equities with potentially high NAV beta to a macro recovery

BEAR
Uncertainty remains over the macroeconomic environment and associated portfolio risks
Market environment has remained challenging for value
Gearing (although low in SIGT's case) can exacerbate downside as well as amplify upside

Portfolio

Seneca Global Income & Growth Trust (SIGT) aims to achieve total returns of at least CPI +6% p.a. net of costs over a typical investment cycle, through investment across a range of asset classes and geographies. Managed on a team basis by Seneca Investment Managers, assets are primarily selected in line with a 'value' investment criteria. Portfolio asset allocation is very much a team effort, with the various team members taking primary responsibility for stock selection within the different asset classes which comprise SIGT (as detailed under **Management**).

The investment objectives seek to balance a growing income – at least in line with inflation – with real (inflation-adjusted) growth in capital. Portfolio construction is balanced between these considerations.

The managers are avowedly contrarian, and believe that SIGT can diversify wider investment portfolios as well as standing alone. Thus, SIGT's portfolio will typically eschew more 'fashionable' investment areas experiencing strong momentum. For instance, at this time the team have relatively low exposure to the technology sector, noting that sector-level valuations are too high to be accommodated within their disciplined value-based investment approach. However, they do hold some exposure in similar themes where they believe the market does not understand the investment opportunity to be a technology disruption story (as we discuss further below).

Although the portfolio is managed as if to serve as a 'one-stop shop', the managers note that their contrarian approach means the trust often tends to serve as an effective diversifier to more 'in vogue' strategies as they consciously seek to ignore market trends when these are not backed by intrinsic value.

Exposure is typically taken to a mixture of directly held UK equities, overseas equities, and fixed income specialist (alternative) and defensive assets held primarily through third-party open- and closed-ended products. Following changes at the most recent AGM, 20% of the portfolio can now be invested in 'defensive assets', including the ability to 'short' (i.e. benefit from falling markets) equity markets or hold exposure to precious metals, amongst other strategies. Exposure to gold and gold miners has already been historically incorporated, but going forward will instead sit within this 'defensive assets' grouping.

At present an output of this process in our view is that SIGT is likely, within its 'risk-on' exposure, to be highly exposed to any economic outperformance relative to market-level expectations. This is a product of the current market environment, where value dispersions across the globe have grown to very elevated levels. We would argue that such valuation dispersion has been a product of perceived solvency risks, 'value' stocks at this time typically being those perceived to be at greater risk of insolvency. SIGT's team point out that so great are valuation dispersions at this time (reflecting the dispersion of market expectations) that they expect even moderate and mild normalisation of economic and market conditions could drive a substantial value recovery going forward. However, in recognition of the extreme economic conditions currently in place across the globe, the team have undertaken additional in-depth research into company-specific solvency risks for all individual equity holdings.

The management team allocate the portfolio across the assets mentioned above through a mixture of strategic and tactical asset-allocation decisions. Strategic asset-allocation decisions operate within a long-term historical framework, evaluating typical returns for different assets and markets over the business cycle, as well as the volatility of returns and their correlation to one another. This analysis leans on historical data and an assumption of normalisation of returns generated. This is used to create the framework which the managers believe should match the overwhelming majority of the long-term performance objectives of SIGT over the course of the market cycle.

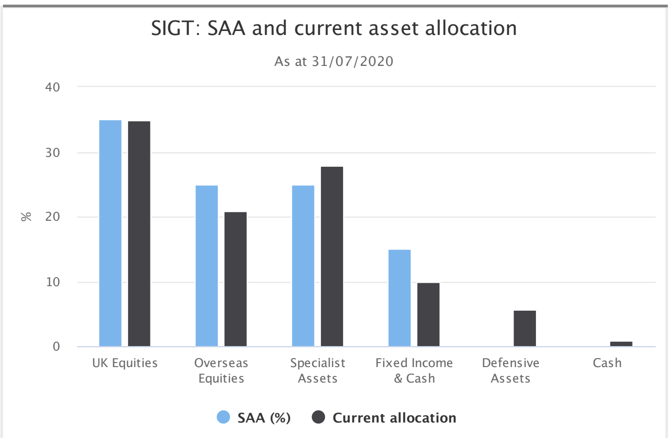
Within this strategic framework, tactical considerations are applied. These tactical considerations are a reflection of the managers' views on asset classes and the bottom-up stock/fund opportunities available therein. Asset allocations and position sizes are managed within operable ranges as a risk management mechanism; these themselves are subject to other risk management considerations.

Qualitative and quantitative assessments of each market and asset class help the team to 'score' each asset class out of ten. In conjunction with the investment ranges that asset allocation may operate in, this gives a target tactical asset allocation.

In keeping with the value approach integrated into the trust, the managers look for opportunities through mean reversion, operating quantitative monitoring systems which assess markets across the globe for opportunities in valuation mean reversion. This also allows them to assess other factors, such as looking for markets where profit margins are presently depressed, optically skewing a traditional trailing P/E valuation model whilst also offering up the potential for profit growth from any normalisation of profit margins.

Again in alignment with the value focus which underpins the management of the trust, the managers are likely to lean into markets and assets which have struggled on a relative basis to other assets, but where this has in their view improved the relative outlook for long-term returns (because they believe mispricings are being driven by sentiment and that there is no fundamental change to the outlook).

Fig.1: Strategic And Current Asset Allocations



Source: Seneca Investment Managers, as at 31/08/2020

Tactical asset-allocation decisions will reflect a mixture of top-down market-level observations and observed bottom-up opportunities. The former in particular could, in our view, be observed in the decision to boost an existing position in gold bullion in January 2020, reducing holdings in a cash fund to fund this. This move was a reflection of the managers' views on the divergence between exuberant market conditions (at the time) and their concerns over market-level valuations and economic fundamentals.

Despite the team's optimism on the long-term prospects for the UK equity market, they note that the current marginal UK 'underweight' allocation relative to the TAA is a reflection of a mixture of the underperformance of the UK market and UK currency in recent months. It is also a reflection of their observations of the extent of dividend cuts in the UK equity market (conversely lending itself to an overweight allocation to specialist assets as a counterweight for purposes of income generation). However, with the team perceiving strong signs of long-term value opportunities in holdings within this market through their bottom-up stock analysis, they have continued to opt to rebalance holdings to maintain their market-level exposure and increase exposure to these value opportunities. Indeed, the managers have identified the UK market as one of their preferred global markets, based upon its current valuation relative to global peers.

Direct stock selection drives the UK equity exposure, with a bias towards lesser researched small- and mid-cap stocks. As noted above, SIGT as a whole adopts a team approach to portfolio management, but with different segments of the portfolio being the responsibility of different team members. UK equity selection is led by Mark Wright. As these companies typically have lower levels of broker coverage, pricing and information inefficiencies are more common and thus value opportunities occur more often.

Although valuation underpins the stock-selection process, stock positions are not initiated solely on the expectation of valuation uplift to drive returns. Instead, Mark is looking for attractively valued opportunities in companies with strong operational positions. Emblematic of this in our view was the addition of Purplebricks. Having been long aware of the company, the team had avoided investing, based on the elevated valuation level and concerns over the non-core (and non-profitable) US and Australian businesses. However, observing the sharp de-rating in the stock, and following Purplebricks management's decision to exit the US and Australian markets and instead focus on growing market share in the profitable UK and Canadian markets, the team felt the market had misunderstood and misvalued the business and they initiated a position. The market has previously applied a valuation to this stock commensurate with a technology company, and any such revaluation to a similar level would offer very sizeable upside in addition to the potential for operational growth which the business possesses.

Whilst UK equities are primarily directly selected (with some tactical use of collectives to manage overall exposure levels at certain times), overseas and fixed income exposure is primarily undertaken through third-party managers.

Third-party fund manager selection is undertaken primarily by Gary Moglione and Tom Delic. With regards to equity exposure, they are primarily looking to identify 'value' fund managers, but nuance this between 'deep value' and 'quality value', for instance. The manager-selection process emphasises incentivisation of the underlying fund managers, seeking primarily to invest in boutiques in which the fund managers are part-owners, and looking for managers with 'skin in the game'. In this regard, they are looking to ensure they invest with managers who are incentivised, either directly or indirectly, on performance as opposed to on the level of assets.

The return profile of managers selected is likely to emphasise a high tracking error and active share, indicating significant active stock-selection input. In keeping with the 'value' ethos, the manager-selection process is somewhat contrarian. It seeks to identify managers with strong and consistent investment processes which have provided a framework to generate significant outperformance in more favourable market conditions, but where said manager is currently undergoing a challenging performance period. Regular meetings are scheduled with potential and existing holdings to monitor portfolio developments and assess the risk of style drift.

Conventum Lyrical, for example, combines a similar management and ownership structure to the preferred model with a strongly 'deep value' investment ethos focussed on the US market. Given recent trends, the manager is unsurprisingly in the bottom quartile for performance, but has historically exhibited strong outperformance in certain periods of value outperformance. The managers of SIGT note that the US market itself currently exhibits very wide valuation dispersions, and on a look-through basis the Lyrical portfolio is at or around a near record level of valuation discount to the wider market. The SIGT team note that they do not believe a strong catalyst is required to generate attractive long-term performance from this level of valuations. Instead, any, even mild, move towards a normalisation of market conditions and valuation dispersions should in their view likely serve as a strong tailwind to the relative returns of this fund.

This value emphasis on stock selection (in the UK) and on strategy preference (for overseas equities) typically complements the income objective of the trust, whilst the managers indicate that a notable body of research has highlighted the historic outperformance that higher-yielding stocks have demonstrated. We would comment that outperformance of higher-yielding stocks has itself been somewhat a reflection that these stocks were out of favour (as sustainable payout ratios mechanically rise as the stock price depresses relative to operational performance).

Fixed income holdings further augment income generation, whilst typically offering diversification benefits in more acute 'risk-off' moments (though holdings in emerging market debt typically trade in line with general risk sentiment in moments of acute market risk aversion). The managers have the option of buying direct fixed income securities if they deem it appropriate, but presently hold exposure to this asset class through three third-party managers.

Top Ten Holdings

HOLDING	ASSET ALLOCATION	%
Royal London Short Duration Global High Yield	Fixed Income	4.0
CIM Dividend Income	Overseas Equities	3.6
Ninety One Global Gold	Defensive Assets	3.4
Samarang Asian Prosperity	Overseas Equities	3.0
Purplebricks Group plc	UK Equities	2.9
HMG Global Emerging Markets	Overseas Equities	2.8
OneSavings Bank	UK Equities	2.8
Absalon EM Corporate Debt	Fixed Income	2.8
Hipgnosis Songs Fund	Specialist Assets	2.5
Morant Wright Fuji Yield	Overseas Equities	2.5
TOTAL		**30.3**

Source: Seneca Investment Managers, as at 31/08/2020

Specialist assets, primarily overseen by Richard Parfect, perform a role in generating income returns that are generally lowly correlated to all but the most extreme economic shocks. Compared to the rest of the portfolio, the managers acknowledge that the value approach is perhaps more muted in this portion of the portfolio. Many of the areas these specialist assets operate in are, as might be reasonably inferred, highly specialised and niche with limited options available to investors. Thus, an ostensible valuation discount is less likely to be accessible at any given time.

Such is the case for Hipgnosis Songs (SONG), currently the largest specialist assets holding within SIGT. Optically, with SONG trading on a premium to NAV of c. 5.9% (as at 01/09/2020), this would not perhaps fit solely quantitative criteria for 'value'. Yet Gary Moglione, who takes primary responsibility for specialist financials (a subsection of specialist assets), notes that this fails to accurately reflect the dynamics in NAV. Furthermore, he notes that this remains a significantly lower valuation multiple than would typically be assigned to a similar company at this time if it were perceived by the market to be a technology company. Yet this is exactly how Gary believes SONG should be perceived, noting that its growth lies in technological disruption of the industry. This is helping to drive significant growth in streaming revenues generated by the music royalties owned by SONG, with large emerging market economies in particular proving fertile areas to drive further revenue growth. Meanwhile, increased efficiencies in the business model offer the potential for further margin expansion in the future. With income streams having already been resilient in the highly adverse economic conditions seen thus far in 2020, the team believe this should continue to serve as an uncorrelated income stream with significant room for NAV (and share price) uplift.

At the most recent AGM, amendments to the investment policy were approved which will afford the managers greater ability to hedge against adverse outlooks for market conditions going forward. This will include greater ability to use strategies designed to benefit from equity market falls, as well as housing long-term holdings in assets such as gold and gold miners.

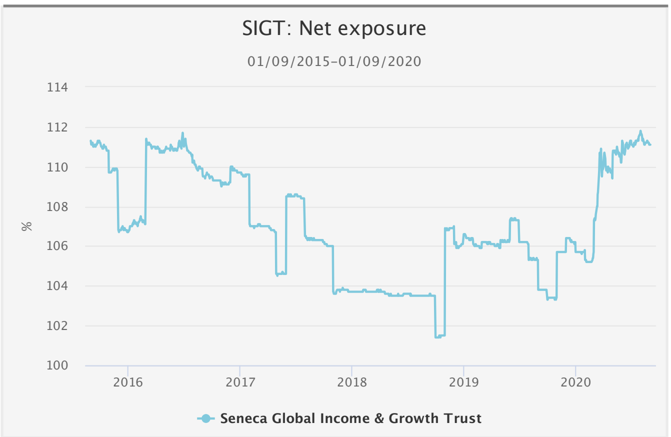
Gearing

SIGT currently has net gearing of c. 11% (as at 31/08/2020). Gearing is utilised flexibly at a relatively low level, and with reference to broader market conditions.

The board has set a borrowing policy which limits gearing to 25% of SIGT's net assets. Gearing is undertaken through a £10m revolving loan facility. Without increasing this loan facility or other sources of gearing, SIGT's gearing is therefore currently limited to c. 16% of the current net assets.

SIGT's current level of gearing is elevated relative to historical levels, reflecting the opportunities the managers currently believe exist and the smaller scale of assets following the sharp market sell-off seen in Q1 2020.

Fig.2: Net Exposure

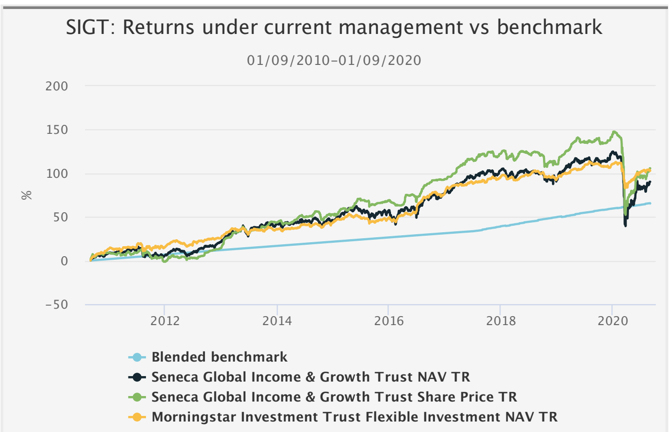


Source: Morningstar

Returns

Over the ten-year period covering 01/09/2010 to 01/09/2020, SIGT has produced NAV and share price returns of c. 90.3% and c. 105.7% respectively. Over this same period, the Morningstar Flexible Investment peer group which SIGT sits within has produced average NAV and share price returns of c. 103.1% and c. 94% respectively. However, we believe that a comparison to the 'peer group' is not an appropriate assessment of SIGT's relative performance. The Morningstar Flexible Investment sector is a composite of a highly disparate variety of strategies with different investment focuses, and unlikely at any particular point to offer particular insight into the effectiveness of the decisions made by SIGT's managers.

Fig.3: Cumulative Ten-Year Returns Vs Peers And Benchmark



Source: Morningstar

Likely to be of more relevance to shareholders is performance relative to the benchmark. SIGT has, since July 2017, been benchmarked against an absolute level of CPI +6% p.a. Prior to 06/07/2017, it was benchmarked against three-month GBP LIBOR +3% p.a. UK CPI data is currently only available to 01/09/2020.

We estimate that, over this same ten-year period to 01/09/2020, the blended benchmark (incorporating the previous benchmark until 06/07/2017, and the current benchmark since) has delivered returns of c. 65.3%.

SIGT's NAV total returns over this period represent an annualised rate of growth of c. 6.6%; with UK CPI growing by an annualised rate of c. 1.9% over this same period (Source: Morningstar), this represents 'real' (i.e. inflation-adjusted) growth of c. 4.7% p.a. over the past ten years.

The avowedly value-focussed investment approach has proven a headwind over much of this period. Although general asset price inflation has been beneficial to returns overall, the grinding lower of interest rates and concomitant preference equity market investors have typically reflexively displayed for quality and growth factor strategies over value factor stocks has been a stylistic headwind. We note that over this ten-year period under review, a global value factor equity index has sharply underperformed other factor indices, as can be seen in the table below.

Relative Performance Of Factor Indices Vs Global Value Index (01/09/2010 - 01/09//2020)

GLOBAL FACTOR INDEX	CUMULATIVE OUTPERFORMANCE OF VALUE FACTOR INDEX	ANNUALISED OUTPERFORMANCE OF VALUE FACTOR INDEX
Growth	203%	9%
Momentum	277%	14%
Quality	216%	12%

Source: Morningstar

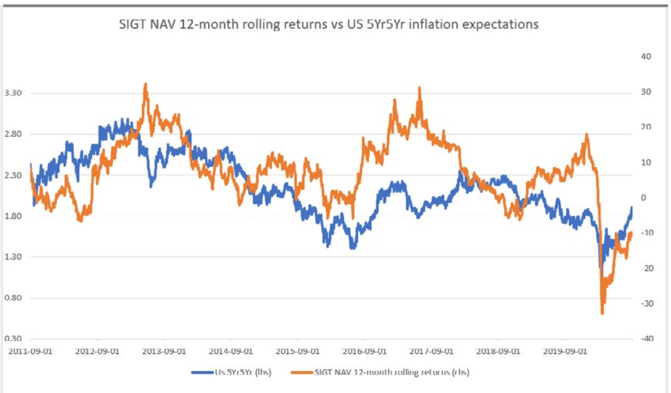
Similarly, the past 12 months have remained challenging from a stylistic perspective. General market conditions, with a very sharp drawdown in Q1 2020, have exacerbated the relative style challenges SIGT has faced over this period, with a general market reach for perceived certainty and 'quality'. SIGT has delivered NAV and share price returns over the 12 months to 31/08/2020 of c. -10.1% and -12.9% respectively. By comparison, the AIC Flexible Investment peer group has delivered average NAV and share price returns of c. -3.1% and -10.8% respectively.

Recent returns have benefitted from the relative resilience seen from many specialist investments, though in the indiscriminate market sell-off and reach for liquidity in Q1 2020 many of these holdings saw share prices sharply marked down by market-makers for a period, irrespective of reported NAV levels. The sizeable weighting to the

UK market proved a headwind as the UK market sharply underperformed many global peers in both the sell-off and then the wider market recovery.

The underperformance of 'value' relative to 'growth' over this period has, we would argue, in large part been influenced by market-level valuations of future cash flows against present values. As inflation and interest rate expectations ground lower over this period, this increased the market-level perceived value of future cash flows, to the detriment of companies exhibiting more immediate value. This is because the market has read through an association between higher inflation, higher interest rates and thus a higher discount rate that needs to be applied to future cash flows (and vice versa). Accordingly, higher inflation expectations have been associated with a repricing of the current value of assets, benefitting the underlying value strategies that typically comprise SIGT. We can see the impact of the inflation environment on SIGT in the chart below.

Fig.4: Rolling 12-Month NAV Returns Vs US 5Yr5yr Inflation Expectations

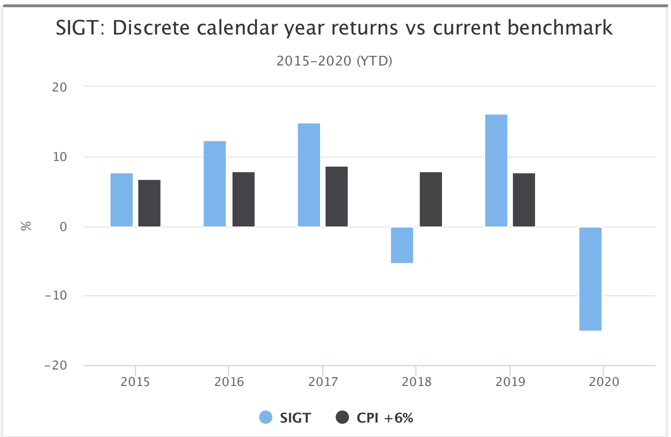


Source: Morningstar, St. Louis Federal Reserve

We can see a somewhat similar pattern in discrete calendar-year returns, with SIGT typically seeing stronger periods of performance during discrete periods where the benchmark (UK CPI +6%) saw higher returns, though 2019 was something of an (positive) exception to this. It should be noted that this benchmark was only adopted by the managers in 2017, and that prior to this the benchmark was three-month GBP LIBOR +3%. However, we have used the current benchmark for all data points in the chart below.

As we have noted under **Portfolio**, the managers are also concerned with the path of returns and look to manage portfolio-level volatility. This is partially undertaken through asset class diversification (including fixed income holdings and alternatives), and following the recent AGM the managers now have greater scope to implement outright portfolio hedges.

Fig.5: Discrete Calendar-Year Returns Vs Current Benchmark



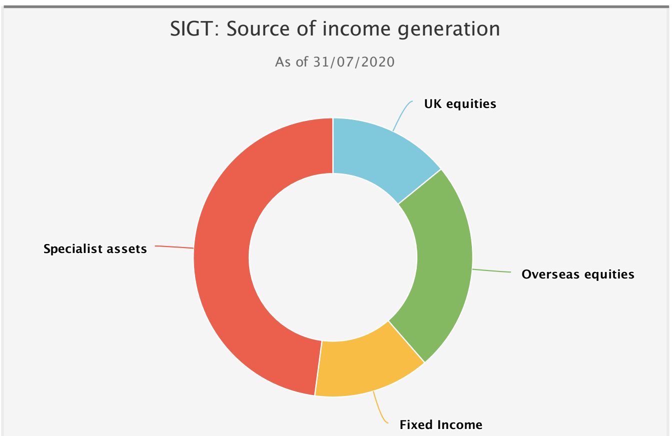
Source: Morningstar, St. Louis Federal Reserve

Dividend

SIGT shares currently yield c. 4.6% (as at 31/08/2020) on a historic basis. SIGT has a total return mandate, to which dividends will contribute, and the board looks to grow annual aggregate dividends by at least the rate of inflation.

Income generation is diversified by both asset classes and geography. Whilst a substantial proportion of income has historically been generated from equity allocations, there is a reasonably high income generation from alternatives at this time. There are challenges facing equity income investors across the globe because of sharp curtailments in corporate dividends as a result of the sharp recession which is currently ongoing. We believe that income generation from alternatives should therefore prove useful in ensuring SIGT retains relatively uncorrelated income generation. The managers note that these income streams have been relatively unimpaired despite the challenging economic environment. SIGT's board has further noted the challenging current backdrop for dividend generation,

Fig.7: Sources Of Income Generation



Source: Seneca Investment Managers, as at 31/08/2020 but has recently indicated its intention to maintain the quarterly dividend at the current rate until greater clarity on the underlying operating environment and impact upon dividend generation is available.

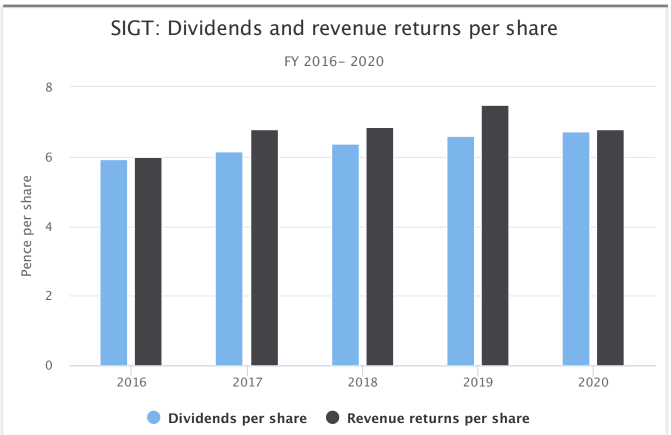
Dividends have increased at an annualised rate of c. 2.5% p.a. over the past five years, and have remained covered by income. Income generation has increased at an annualised rate of c. 2.6% p.a. over this period. With dividends consistently covered by revenue returns, the board has been able to build up revenue reserves, which now amount to c. 4.1 pence per share (c. 0.6x the FY 2020 dividend).

At the time of the trust's annual results statement, the board made the following comment on the dividend:

"The Company is well endowed with distributable reserves and is comfortably able to sustain the current dividend rate, even if, as seems certain, for the year to April 2021 that means paying an uncovered dividend. There are many listed companies being forced, or deciding it is prudent, to cut, suspend or cancel their dividends. It remains to be seen how long these actions or policies will last and what level of dividends such companies will distribute in due course. Once this is clearer, the Board will evaluate an appropriate level for the Company's dividend. Until then, it is the Board's intention, barring further unforeseen circumstances, that it will maintain the quarterly dividend rate of 1.68 pence per share."

As well as being able to pay dividends out of historically accumulated revenue reserves, the board has the ability to utilise SIGT's special reserve and realised capital reserve to support the level of dividend distributions.

Fig.8: Dividends And Revenue Returns Per Share



Source: Seneca Investment Managers

Management

SIGT is managed as a team effort by Seneca Investment Managers. Responsibilities for research into different areas are split between Gary Moglione, Mark Wright, Richard Parfect and Tom Delic.

Gary and Tom are jointly responsible for third-party fund selection in overseas equity and bond funds, with Gary also responsible for overall portfolio oversight. Mark is charged with UK equity research and selection, whilst Richard focusses on specialist assets (as well as assisting Gary with overall portfolio oversight).

Whilst team members take primary responsibility for different roles within the investment process, the focus is very much on ensuring a team-based approach remains in place with a communal basis for key investment decisions.

Between them, the team have over 60 years of experience in the investment industry in fund management, institutional money management and research. Seneca Investment Managers is a Liverpool-based company launched in 2002 which specialises in multi-asset investing, emphasising a value-based approach. The management team are further supported by Matthew Connor, who works as an investment analyst focussed on UK equities, and Gabby Byron, who supports the whole team as an investment services executive. The SIGT team also run two open-ended multi-asset products, as well as other investment mandates.

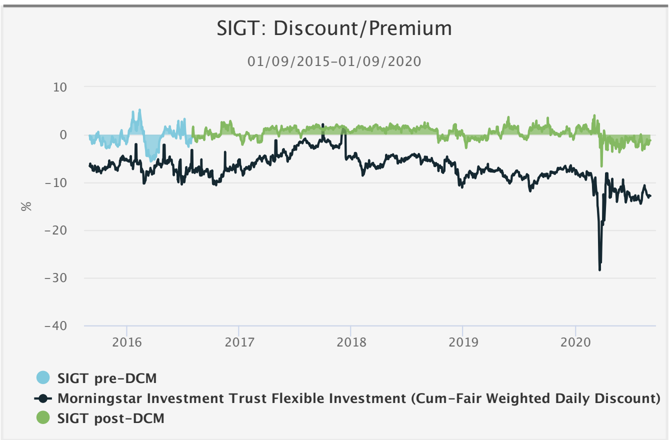
Discount

SIGT currently trades on a discount of c. 1.2% (as at 31/08/2020). A discount control mechanism (DCM) was implemented on 01/08/2016, and as can be seen in the chart below, since this time the share price has consistently traded close to NAV.

Operation of the DCM includes both issuance of new shares at a premium and repurchasing shares when the trust is trading at a discount. This is undertaken with a view to improving liquidity in SIGT's shares and to reducing discount volatility. In the previous financial year to 30/04/2020, SIGT saw net share issuance of c. 289,000 shares, with the board having repurchased 2,626,000 and issued 2,915,000 shares over the course of the year.

Subsequently, in the current financial year to date (01/05/2020–01/09/2020), a total of 5,083,240 shares have been repurchased at a weighted average discount of c. 1.7%. However, it has been more normal in recent years for SIGT to be a net issuer of shares, increasing the size of assets under management with benefits to economies of scale. As noted above, the previous financial year to 30/04/2020 saw net share issuance of c. 289,000 shares. Since the DCM was introduced in August 2016, SIGT has seen net issuance of c. 2.7m shares as of 01/09/2020. As issuances have been undertaken at premiums to NAV, whilst discounts are undertaken at a discount to NAV, the board notes that this has enhanced NAV returns for shareholders over this period.

Fig.9: Discount/Premium



Source: Morningstar

Charges

SIGT presently has ongoing charges of c. 1.51%, compared to a peer group average of c. 0.85% (Source: JPMorgan Cazenove). However, as we have noted under the **Performance section**, we do not regard the Morningstar Flexible Investment sector in which these trusts sit as an accurate comparative tool, given the eclectic and diverse array of strategies contained therein. The management fee is charged at 0.9% on the market capitalisation up to £50m, and at 0.65% on the market capitalisation above this level. On the current market capitalisation of c. £62.5m, this equates to a weighted management fee of c. 0.85%, but this will reduce further if the market capitalisation grows.

Following recent policy changes, this fee is now charged at 70% to capital and 30% to revenue. SIGT has a KID RIY of c. 2.52%, compared to a peer group average of c. 2.83%. The disparity between the ongoing charges and KID RIY is largely attributable to charges on the underlying investments.

ESG

Whilst not running an explicit ESG mandate, the investment managers and board of SIGT are cognisant of ESG factors. The stock-selection process tends to lend itself to identifying companies with strong corporate governance, and a concern for the vicarious interests of SIGT shareholders is also visible in the external fund-selection process (with its emphasis on alignment of manager and investor interests).

Within the specialist assets allocation, SIGT holds substantial exposure to renewable energy investment opportunities. Furthermore, going forward the managers are cognisant of the likely impact of ESG factors on more normalised valuation levels, and incorporate this into their investment decisions.

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