

Seneca Global Income & Growth Trust

Finding opportunities following market weakness

Seneca Global Income & Growth Trust (SIGT) is managed by a four-strong team at Seneca Investment Managers, seeking undervalued securities across multiple asset classes in order to diversify the trust's risk and return drivers. Its UK equity portfolio was particularly negatively affected by the coronavirus-led market sell-off in March, given its focus on domestic, mid-cap value stocks, which performed relatively poorly. However, these holdings could stand SIGT in good stead during an economic recovery. The trust's board has committed to continue paying quarterly dividends, using reserves where necessary if income falls short, which seems likely given the number of dividend cuts announced by corporates in response to the global pandemic.

12 months ending	Total share price return (%)	Total NAV return (%)	Blended benchmark* (%)	CBOE UK All Companies (%)	MSCI AC All- World (%)
30/04/16	9.2	0.8	3.6	(5.6)	(0.5)
30/04/17	20.7	19.6	3.4	20.3	31.1
30/04/18	5.7	6.1	7.8	8.1	7.8
30/04/19	6.0	7.6	8.3	2.5	11.6
30/04/20	(23.9)	(22.6)	7.8	(17.2)	(1.2)

Source: Refinitiv. 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.

The market opportunity

High levels of uncertainty due to the coronavirus outbreak have had a major negative impact on global markets, but investors should be encouraged by steps taken by policymakers to help mitigate the adverse economic effects of the pandemic. They should also bear in mind that equity markets have recovered from all past periods of significant share price weakness and gone on to set new highs.

Why consider investing in SIGT?

- Focus on value across multiple asset classes, using a clearly defined, teambased process.
- Commitment to maintaining quarterly dividend payments, using reserves when necessary (see Dividend policy and record on page 9).
- Lower volatility of total returns versus the UK stock market and its peers.
- Bias to UK equities, which could ensure the trust is well positioned to benefit from an economic recovery.

DCM keeping shares trading close to NAV

SIGT actively employs its discount control mechanism (DCM), which was introduced in August 2016, aiming to ensure that its shares trade close to NAV. The trust is currently trading at a 1.1% discount to cum-income NAV, compared with average premiums of 0.4%, 0.7% and 0.2% over the last one, three and five years, respectively. Historically, SIGT has had a progressive dividend policy and currently offers a 5.0% yield. It has grown its annual dividend at a rate higher than UK CPI inflation for the last seven consecutive financial years.

Investment trusts Multi-asset

28 May 2020

Price	134.5p
Market cap	£62.9m
AUM	£71.2m

 NAV*
 134.3p

 Premium to NAV
 0.2%

 NAV**
 136.1p

 Discount to NAV
 1.1%

*Excluding income. **Including income. As at 22 May 2020.

Dividend yield 5.0%

Ordinary shares in issue 46.8m

Code SIGT

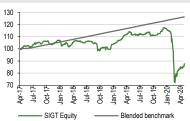
Primary exchange LSE

AIC sector Flexible Investment

Share price/discount performance



Three-year share price perf.



52-week high/low 181.5p 110.5p NAV* high/low 179.6p 110.3p

*Including income.

Gearing Gross* 11.2% Net* 4.1%

*At 30 April 2020.

Sources for this column: Refinitiv, 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

Seneca Global Income & Growth Trust's objective is to achieve net returns in excess of CPI +6% pa 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

- 7 April 2020: Fourth interim dividend of 1.68p announced (flat year-on-year).
- 6 March 2020: Appointment of Anne Gilding as a non-executive director with effect from 15 June 2020.
- 18 February 2020: Third interim dividend of 1.68p announced (+2.4% yearon-year).
- 4 December 2019: Six-month results to 31 October 2019. NAV TR -1.6% versus benchmark +3.7%. Share price TR -0.8%.

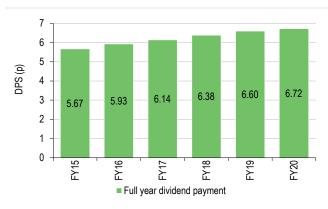
Forthcoming		Capital structure		Fund detai	ls
AGM	July 2020	Ongoing charges	1.47% (FY19)	Group	Seneca Investment Managers
Final results	June 2020	Net gearing	4.1%	Managers	Seneca team
Year-end	30 April	Annual mgmt fee	0.90% of market cap up to £50m, 0.65% above £50m	Address	10th Floor, Horton House, Exchange Flags, Liverpool
Dividend paid	Sep, Dec, Mar, Jun	Performance fee	None		L2 3YL
Launch date	August 2005	Trust life	Indefinite	Phone	+44 (0)151 906 2450
Continuation vote	None	Loan facilities	£14m three-year rolling (£7m drawn)	Website	www.senecaim.com/sigt

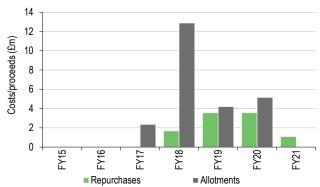
Dividend policy and history (financial years)

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

Share buyback policy and history (financial years)

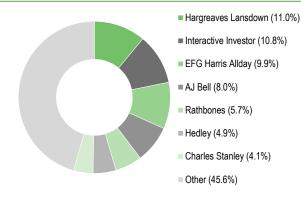
A discount control mechanism was introduced at the July 2016 AGM, effective 1 August 2016.

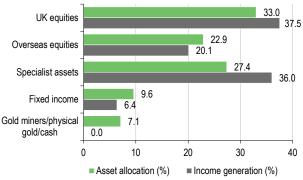




Shareholder base (at 30 April 2020)

Portfolio distribution by capital and income generation (at 30 April 2020)



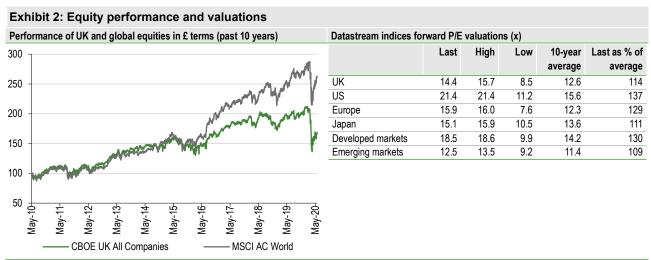


Top five holdings by asset category (at 30 April 2020) Portfolio weight % Portfolio weight % UK direct equities Fixed income iShares Core UK 100 Royal London Short Duration Global HY Bond Fund 49 Babcock International 2.3 Absalon Emerging Markets Corporate Debt Fund 2.6 OneSavings Bank 23 TwentyFour Select Monthly Income Fund 21 Clinigen 2.1 N/A Legal & General Group 2.0 N/A Specialist assets Overseas equities 4.5 2.8 CIM Dividend Income Fund Hipgnosis Songs Fund HMG Global Emerging Markets Equity Fund Merian Chrysalis Investment Company 3.3 2.4 Samarang Asian Prosperity Fund 3.3 Sequoia Economic Infrastructure Income Fund 2.3 29 RM Secured Direct Lending Morant Wright Fuji Yield Fund 19 Liontrust European Enhanced Income Fund 2.4 International Public Partnerships 1.8 Source: SIGT, Edison Investment Research, Morningstar



Market outlook: Uncertainty could favour quality/value

Global stock markets came under significant pressure due to the coronavirus outbreak earlier in 2020. They have staged a limited recovery as policymakers acted swiftly to help offset the negative economic effects of the pandemic, countries are starting to emerge from lockdowns, and investors are shifting their focus to the prospects for 2021. However, we remain in an environment of high uncertainty. In the right-hand table below, we show forward P/E multiples in different regions, but these figures should be taken 'with a pinch of salt' given consensus earnings estimates are in a state of flux. Investors with a longer-term perspective should take heart from the fact that equity markets have recovered from all previous significant setbacks, however painful they may have seemed at the time, and gone on to hit new highs; examples in recent decades include the dotcom bust in 2001–02 and the global financial crisis in 2007–09. Nevertheless, until there is greater clarity about corporate earnings, investors may be well served by focusing on quality companies with strong balance sheets, that are trading on reasonable valuations.



Source: Refinitiv, Edison Investment Research. Note: Data at 26 May 2020.

Fund profile: Multi-asset value investing

Founded as the Taverners Trust and initially managed by Aberdeen Asset Management, the trust became the Midas Income & Growth Trust in August 2005. In January 2012, the board made a number of changes with a view to improving future total returns, including rebasing the dividend to what was deemed a sustainable level and changing the benchmark from an absolute return of 8% per year to three-month Libor +3%. In March 2014, the fund's investment manager was purchased by Seneca Asset Managers. The fund management business was renamed Seneca Investment Managers (SIML) and the trust itself was renamed Seneca Global Income & Growth Trust (SIGT), highlighting its diverse mandate.

SIML specialises in multi-asset value investing, seeking to identify and invest where there is both quality and unrecognised value. SIGT employs a transparent investment process and its holdings are straightforward to understand; its managers aim to provide reasonable returns over the medium to long term, with lower volatility of returns versus an equity-only fund. The trust's performance is benchmarked against CPI +6% pa (three-month Libor +3% prior to 7 July 2017), which it aims to outperform over the course of a typical investment cycle (defined as a five- to 10-year period, in which returns from various asset classes are generally in line with their very long-term averages). SIML employs a combination of strategic asset allocation (SAA), tactical asset allocation (TAA) and investing in undervalued assets, while employing a modest level of gearing. SIGT has a progressive dividend policy, and aims to grow the annual distribution at least in line with UK CPI inflation.



The trust has a series of investment guidelines in place to mitigate risk. At the time of purchase, up to 7.5% of gross assets may be held in any individual direct equity or fixed income investment, and up to 10% in any collective vehicle; a maximum 7.5% of gross assets may be invested in unquoted securities; and up to 25% of gross assets may be held in cash and equivalents. Gearing of up to 25% of NAV is permitted at the time of drawdown; at end-April 2020, SIGT had 4.1% net gearing.

There are four fund managers in SIML's investment team, all of whom have individual research responsibilities: Mark Wright (UK equities), Gary Moglione (developed markets overseas equities/fixed income and specialist financial assets), Tom Delic (emerging markets overseas equities/fixed income) and Richard Parfect (specialist assets, excluding specialist financials). Portfolio oversight duties including cash and cash flow management and decision implementation are undertaken by Moglione and Parfect. However, they only have limited discretion to deviate from the target portfolio that has been agreed by the whole team. SIML's team-based approach acts as an effective risk control, and any variances between actual portfolio exposures and their target weightings are closely monitored.

The fund managers: Seneca team

The manager's view: Well placed to benefit from a recovery

We met with SIGT manager Moglione, whose view is that there is no clear outlook on the macro backdrop. He says the healthcare crisis resulting from the COVID-19 outbreak is causing an economic crisis, the impacts of which cannot be assessed until there is an improvement in the healthcare situation, which is progressing slowly. The manager opines that there are huge variations in potential scenarios; he believes that a 'V'-shaped economic recovery is possible, and if bond yields rise due to rising inflation expectations, this should favour value stocks, which 'would be the best outcome for SIGT'. However, Moglione suggests there is also the risk of a reintroduction of lockdowns and a deeper recession, leading to high levels of economic uncertainty over the short to medium term. He believes the peak of the crisis was on 23 March 2020, when the UK entered lockdown, with no COVID-19 vaccines or treatments available. The manager says that 'hopefully, the worst has passed and there will be some sort of recovery that will be a multi-year improvement'.

Around the peak of the crisis, markets did not know how to price assets, leading to complete uncertainty (the UK stock market bottomed on 23 March). Companies with consumer exposure and those with debt burdens saw their share prices fall dramatically, while investors sought safety in the US dollar. SIGT has a structural bias to the UK equity market, which has lagged the rest of the world due the Brexit overhang. In the market sell-off, cyclicals, value and mid-cap stocks underperformed markedly, a 'triple whammy' as these are the companies most favoured by the trust's managers.

Despite its cheaper valuation at the start of the coronavirus-induced crisis, the UK market has been hit harder than the rest of the world. Looking at the performance of MSCI indices year-to-date to the end of April, the World Index (around two-thirds of which is the US) was down by 12.4% in US dollar terms, while the UK Index in sterling terms was down by 23.5%. Sterling has weakened versus other major currencies such as the US dollar, the Japanese yen and the euro. The manager says that 'it could not have got any worse' for the trust, as in the first four months of 2020, the MSCI UK Midcap Value Index – a good proxy for SIGT's UK equity exposure – fell by 31.5%.

However, Moglione remains optimistic. He says that looking forward, 'SIGT's UK equity portfolio has a higher beta into any recovery'. He suggests that more clarity will emerge as the development of vaccines against COVID-19 progresses, and as the lockdown is lifted SIGT will be well exposed to an economic recovery. The manager says that the trust's performance has bounced back quite well from the UK market low, noting that from 23 March to 30 April, SIGT's UK equity portfolio rallied by 31.5% versus a 20.0% upward move in the broad UK market. Moglione says that at the low point, many consumer stocks were pricing in bankruptcy risk as there was no idea about the length



of the lockdown, mounting concerns about companies' levels of debt, and no coherent government strategy. However, European economies are starting to reopen, and in the UK virus testing is underway and vaccines are under development across the globe, so the manager suggests that 'we are in a much better position now'. He notes that some of the share prices of SIGT's UK holdings have rallied dramatically, including Clinigen, Halfords and National Express.

Asset allocation

Investment process: Seeking value in multiple asset classes

SIGT's managers seek to identify undervalued investments across a range of asset classes. They aim to generate total returns in excess of CPI +6% pa over the course of a typical investment cycle. There is a long-term strategic asset allocation (SAA) between UK equities, overseas equities, fixed income and specialist assets (including property), based on the assumption that future long-term returns of individual asset classes will be comparable to their historical long-term returns. Along with the SAA there is a shorter-term tactical asset allocation (TAA), aiming to identify which assets offer the best value and future return prospects given the stage of the investment cycle, based on a range of macro and bottom-up/top-down valuation factors.

UK equity investments are primarily direct rather than via funds, with a focus on mid-cap companies with growing cash flows and dividends. Smaller companies tend to have superior growth potential and have outperformed larger companies over the long term. They may be under-researched and therefore mispriced. Overseas equity investments are in funds run by niche managers, who are benchmark-agnostic and whose portfolios have a high active share. Fixed income investments are also in funds, focusing on capital preservation as well as yield from managers who avoid defaults. Specialist assets is a heterogeneous asset class providing exposure to real assets, which offer the potential to reduce portfolio volatility while enhancing returns. There is a focus on security of income and asset and terminal values.

Current portfolio positioning

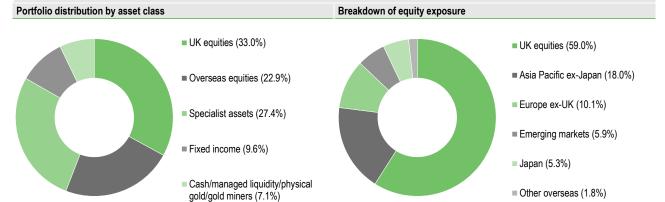
Exhibit 3 highlights SIGT's tactical versus strategic asset allocation at the end of April 2020. In recent months there has been a c 5.0pp TAA addition to UK equities to take advantage of the market sell-off. It was primarily offset by a reduction to the trust's fixed income TAA. At end-April, SIGT was tactically underweight equities by 4.3pp (0.7pp overweight UK and 5.0pp underweight US equities). It should be noted that the trust has not held any US equities since August 2017, as prior to the recent stock market sell-off the managers considered they were unattractively valued. The portfolio was 5.6pp tactically underweight fixed income (with no exposure to safe-haven government bonds), 1.9pp overweight specialist assets and 8.0pp overweight cash, managed liquidity, physical gold and gold miners.

Exhibit 3: Asset allocation ranges, long-term core SAA and target TAA							
%	Asset allocation range	SAA	TAA end-April 2020				
UK equities	15–60	35	35.7				
Overseas equities	10–40	25	20.0				
Total equities	25-85	60	55.7				
Fixed income	0–40	15	9.4				
Specialist assets	0-50	25	26.9				
Cash/managed liquidity/physical gold/gold miners	0–10	0	8.0				
Total	100	100	100.0				
Source: Seneca Global Income & Growth Trust							

SIGT's actual portfolio breakdown at the end of April 2020 is shown in Exhibit 4; it was split c 56:44 between equity and non-equity investments. As shown in the right-hand chart, the trust's equity exposure is heavily skewed to the UK market. The specialist assets exposure was split as follows: 10.4% specialist financial, 6.6% property, 5.5% infrastructure and 4.5% private equity. The liquid part of the fund was composed of physical gold and gold miners.



Exhibit 4: Portfolio distribution as at 30 April 2020



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

The managers have analysed all of SIGT's UK equity positions to determine the companies' financial stresses, whether they are close to breaching their loan covenants, and what action management is taking to shore up balance sheets where necessary. Where share prices are considered to be oversold, SIGT's managers have been topping up their high-conviction positions, primarily funded by a reduction in the trust's fixed income exposure. However, there have only been small additions to positions in the fund, as the manager believes that small steps are prudent given the uncertainty over the shape of the economic recovery.

Within UK equities there are two new positions, Origin Enterprises and dotdigital, while the holding in Ultra Electronics was sold on valuation grounds. Based in Ireland, Origin Enterprises is an agribusiness company offering value-added services, technologies and strategic inputs to support the delivery of sustainable and profitable food production solutions for primary producers. The company had issued three weather-related profit warnings and was trading at an attractive valuation. Origin's primary operational areas are the UK and Ireland (c 70% of sales), but it also has businesses in Ukraine, Poland, Romania, Belgium and Brazil. The manager explains that the UK experienced its highest level of rainfall in H219 in 30 years, which led to poor crop yields and planting delays, resulting in margin pressure for producers. However, he believes that weather-related issues are a short-term anomaly for this market leader in a steady business, with interesting growth opportunities in Latin America. Origin's management have been buying the company's shares, which currently offer a c 7.5% dividend yield, dotdigital is a digital marketing company offering clients an omnichannel platform for managing marketing campaigns. Its platform, Engagement Cloud, leverages artificial intelligence (AI) to boost customer conversion. Given its focus on value, SIGT is generally priced out of most technology stocks due to their premium valuations. dotdigital is not a deep-value stock, but brings a different aspect to SIGT's portfolio. It is only a small position, as the manager is awaiting a more favourable share price to add to the holding.

The rise in exposure to some of SIGT's overseas equity funds is largely due to currency effects rather than topping up positions. Asian stocks have held up relatively well, which has helped holdings such as the CIM Dividend Income Fund and the Morant Wright Fuji Yield Fund. Moglione explains that the dividend outlook for UK equities is bleak, as companies are slashing their payouts. He contrasts this with Asia, where the coronavirus-induced shutdowns have tended to be sharper and shorter, meaning income prospects are more positive in the region. He also notes that while payouts in Japan are generally low, it is culturally difficult to cut dividends given the country's push for greater focus on shareholder value.

Within fixed income, the Royal London Sterling Extra Yield Bond Fund holding was sold and the position in the Royal London Short Duration Global High Yield Bond Fund was reduced. The manager considers the extra yield fund is more risky than the high yield fund. There was also a switch between the Templeton Emerging Markets Bond Fund (government debt), which was sold following the dividend payment at the end of March, and the Absalon Emerging Market Corporate



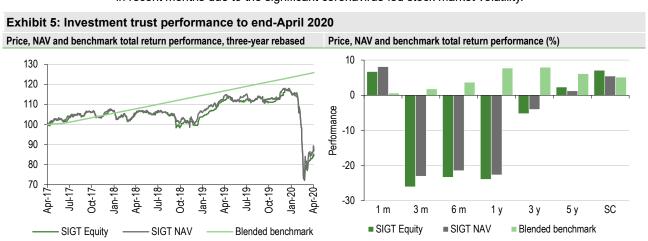
Debt Fund. Absalon follows a value-based approach looking for mispriced assets across emerging market debt. Moglione explains that market dislocations from macro factors such as a government change or a government finance issue can cause a significant and rapid depreciation in emerging markets' local currencies. Rating agencies are very reactionary to these events, and will often issue a negative outlook or rating downgrade that can consequently cause rating reductions across the domestic corporate debt markets. Forced sellers who are constrained by credit rating limits can liquidate holdings in corporates where the fundamentals have not changed, for example in export-focused companies who will benefit from a weakening local currency.

Looking at specialist assets, there is a new holding in Assura, which was sold in Q419 on valuation grounds, but subsequently moved to a discount to NAV. It is a specialist healthcare REIT, and the manager favours the company's business model as it has very secure NHS income. The relatively new position in LXI REIT was increased, while the position in International Public Partnerships was reduced. This is one of SIGT's infrastructure funds; these assets are somewhat defensive and have held up relatively well, so the manager has reduced the trust's exposure.

Moglione also reduced the trust's exposure to physical gold, following an appreciation in the commodity's price, and has added to SIGT's gold mining exposure. The manager explains that at the peak of the fear on 23 March – when one would have expected gold to rally, given its safe-haven status – the gold price actually fell, as investors sold holdings to fund margin calls. Gold miners' share prices fell by 20–30% in the market sell-off, acting like traditional equities, due to concern that the coronavirus would mean their mines would close. Ahead of the pandemic, SIGT's total gold exposure was c 7%; it rose to c 10–11% of the fund but is now back at c 7%.

Performance: Recovering from virus-led weakness

SIGT aims to generate relatively low volatility in its NAV total returns; in H120 (ending 30 October 2019), the trust's annualised volatility was 6.2% compared with 11.4% for the broad UK market. Data from SIML show that from the change in SIGT's mandate in January 2012 to the end of April 2020, SIGT's volatility of returns is 12.1% pa, versus an average 20.6% pa for the AIC Flexible Investment sector and 13.2% pa for the broad UK stock market. All these averages have increased in recent months due to the significant coronavirus-led stock market volatility.



Source: Refinitiv, Edison Investment Research. Note: Since change of mandate (SC) is from 18 January 2012. Blended benchmark is 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. While the trust's track record has been significantly negatively affected by the recent market sell-off due to the COVID-19 outbreak, performance in April showed a meaningful improvement.

Offering some perspectives on how SIGT's performance was affected during the recent market weakness, Moglione notes that 'April was a good month following a very tough March'. The trust's



UK equity portfolio was a major detractor from performance, but the manager says that this is more a function of style than stock selection. SIGT focuses on mid-cap value, domestic and cyclical stocks, and these underperformed the broader market in March 2020. Moglione says that at the low point, the trust's UK equity portfolio had declined by c 40% compared with a 25–30% fall in the market, while matching the performance of the MSCI UK Midcap Value Index.

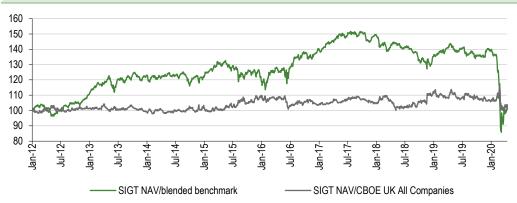
The manager also highlights weakness in SIGT's specialist assets, which in aggregate have declined by c 20% year-to-date. Funds that have been particularly affected include aircraft leasing vehicles, DP Aircraft, Doric Nimrod Air Two and Doric Nimrod Air Three. Moglione says that their businesses were under pressure even before the pandemic grounded entire fleets. While the underlying credit quality of DP Aircraft's lessees (including Thai Airways and Norwegian) has deteriorated, the Doric funds (whose assets are leased to Emirates) are trading as if their planes have no value, which he believes is unrealistic. They are still paying dividends and there are four to five years before the contracts expire, which 'provides some breathing room'.

Ediston Property Investment Company has also declined meaningfully and is now trading at a significant discount to its NAV. The majority of its portfolio is retail property, of which around half is relatively safe in terms of rental income as they are shops that have stayed open during the coronavirus lockdown, such as Aldi, B&M and Home Bargains. Ediston cut its dividend by 30%, as have other portfolio companies Fair Oaks Income, which suspended its dividend, and UK Mortgages, which cut its dividend by two-thirds. Specialist assets that have performed relatively well include SIGT's infrastructure assets and Hipgnosis Songs Fund.

Exhibit 6: Share price and NAV total return relative performance									
	One month	Three months	Six months	One year	Three years	Five years	Since change of mandate		
Price relative to blended benchmark	6.1	(27.4)	(26.0)	(29.4)	(32.3)	(16.7)	16.6		
NAV relative to blended benchmark	7.5	(24.4)	(24.2)	(28.2)	(29.7)	(20.9)	2.7		
Price relative to CBOE UK All Companies	1.7	(8.6)	(6.8)	(8.2)	(7.1)	7.8	17.2		
NAV relative to CBOE UK All Companies	3.0	(4.8)	(4.5)	(6.6)	(3.7)	2.3	3.2		
Price relative to MSCI AC World	(2.0)	(19.8)	(19.2)	(23.0)	(28.3)	(27.6)	(25.8)		
NAV relative to MSCI AC World	(0.7)	(16.4)	(17.3)	(21.7)	(25.6)	(31.3)	(34.7)		

Source: Refinitiv, Edison Investment Research. Note: Data to end-April 2020. Geometric calculation. Since change of mandate is from 18 January 2012. Blended benchmark is three-month Libor +3% to 6 July 2017, and CPI +6% thereafter.

Exhibit 7: SIGT NAV total return vs blended benchmark and CBOE UK All Companies Index total returns since change of mandate* to 30 April 2020, rebased



Source: Refinitiv, Edison Investment Research. Note: *Change of mandate on 18 January 2012.

Valuation: DCM ensures that shares trade close to NAV

SIGT introduced a discount control mechanism on 1 August 2016, aiming to increase liquidity in the trust's shares and ensure that they trade close to NAV. Renewed annually, SIGT has authority to buy back up to 14.99% and issue up to 30% of its outstanding shares and, as shown in Exhibit 1, the board actively repurchases shares when they are trading at a small discount and issues them when they are trading at a small premium. Since the DCM was introduced, 6.7m shares have been



repurchased, at a cost of c £10.2m, while 13.8m shares have been issued, raising c £24.1m; in aggregate, the share base has increased by 17.6%.

The trust is currently trading at a 1.1% discount to cum-income NAV, which compares with a range over the last 12 months of a 4.1% premium to a three-year widest 6.7% discount (on 25 March). Over the last one, three and five years, SIGT has traded at average premiums of 0.4%, 0.7% and 0.2% respectively, while over the last decade it traded at an average 4.0% discount.

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



Source: Refinitiv, 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 46.8m ordinary shares outstanding, with a further 2.8m held in treasury. The trust has a £14m three-year rolling credit facility with the Royal Bank of Scotland, at a rate of Libor +1.1%. Only £7m is drawn, with the balance available to assist with the DCM if required. Gearing of up to 25% of NAV is permitted; at end-April 2020, net gearing was 4.1%.

SIML is paid a tiered 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 revenue accounts. In FY19, SIGT's ongoing charges were 1.47%, 2bp higher than 1.45% in FY18.

SIGT's historical annual continuation vote was removed at the July 2018 AGM, with significant support from shareholders.

Dividend policy and record

SIGT pays quarterly dividends in September, December, March and June. Historically, the first three are equal, with the fourth acting as an indicator for the first three in the following financial year. The FY20 total dividend of 6.72p per share (four equal payments of 1.68p per share) was 1.8% higher year-on-year, and represented the seventh consecutive year of above-inflation dividend growth. At the end of H120 (31 October 2019), SIGT had c £2.2m of revenue reserves, which is equivalent to around 0.7x the FY20 annual dividend.

Moglione comments that the current environment, where dividends are under pressure due to the coronavirus pandemic, 'is tough for clients who invest for income; they want continuity'. SIGT will use its reserves to ensure that it can continue to pay dividends. The trust's board has announced that 'barring further unforeseen circumstances' it will continue to pay quarterly dividends of 1.68p per share until there is greater clarity on SIGT's level of income, at which stage it will evaluate an appropriate quarterly payment. Based on its current share price, the trust offers a 5.0% yield.



Peer group comparison

In Exhibit 9, we show the 17 funds in the AIC Flexible Investment sector with a track record of more than three years and a market cap greater than £50m. It should be noted that the funds follow a wide variety of investment mandates. SIGT's NAV total returns are below average over the periods shown, ranking 16th over one and three years and 15th over five years, although its returns have been less volatile than both the average of its peers and the broad UK market (see page 7). The trust's discount is considerably narrower than the peer group average. SIGT's ongoing charge is above average, its net gearing is below the mean, while it has one of the higher dividend yields, currently 2.4pp above average, ranking fourth.

Exhibit 9: Selected AIC Flexible Investment sector peer group at 26 May 2020*								
% 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	62.9	(19.4)	(12.5)	6.2	(1.9)	1.5	104	5.0
Aberdeen Diversified Income & Growth	281.1	(3.1)	(3.0)	(2.0)	(17.8)	0.6	108	6.1
BMO Managed Portfolio Growth	73.6	(1.0)	10.7	33.5	(1.7)	1.0	100	0.0
BMO Managed Portfolio Income	53.9	(10.0)	(5.0)	11.0	0.1	1.1	100	5.3
Caledonia Investments	1,450.4	(6.7)	5.9	28.0	(20.2)	0.9	100	2.3
Capital Gearing	506.5	3.4	12.3	34.2	1.1	0.7	100	0.5
Hansa Trust 'A'	181.8	(9.0)	0.4	13.5	(40.0)	0.6	100	2.1
Henderson Alternative Strategies Trust	104.4	(10.6)	(2.7)	13.8	(12.1)	0.9	100	1.9
JZ Capital Partners	70.1	(37.7)	(38.5)	(27.4)	(81.1)	3.2	104	0.0
Livermore Investments	65.6	(4.5)	6.8	62.0	(47.9)	2.8	100	8.8
Miton Global Opportunities	60.0	(18.9)	(12.1)	23.2	(4.7)	1.4	100	0.0
New Star Investment Trust	73.9	(4.2)	6.0	33.1	(31.3)	0.9	100	1.3
Personal Assets	1,213.4	8.2	11.7	33.4	1.4	0.9	100	1.3
RIT Capital Partners	2,895.4	(0.4)	9.8	29.9	(0.2)	0.7	112	0.0
Ruffer Investment Company	441.1	12.1	8.9	16.3	(0.3)	1.1	100	0.7
Tetragon Financial	632.6	2.8	32.3	91.4	(62.5)	2.1	100	4.7
UIL	135.4	(18.2)	9.5	87.0	(43.6)	2.1	203	4.8
Simple average	488.4	(6.9)	2.4	28.6	(21.3)	1.3	108	2.6
SIGT rank in peer group (17 funds)	15	16	16	15	7	5	5	4

Source: Morningstar, Edison Investment Research. Note: *Performance to 22 May 2020 based on ex-par NAVs. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

SIGT's board currently has three directors, all of whom are non-executive and independent of the manager. The chairman is Richard Ramsay, who joined the board on 2 April 2013 and assumed his current role on 3 September 2013. James McCulloch was appointed as a director on 2 January 2015, and Sue Inglis on 1 March 2019. On 15 June 2020 (the expected date of the publication of SIGT's FY20 annual results), SIGT's board will be strengthened by the addition of a fourth director, Anne Gilding. She has a background in marketing and communications, including previous roles at Impax Asset Management Group, BMO GAM (formerly F&C), Vernalis Group and UBS. Gilding is currently a senior advisor to Peregrine Communications and a non-executive director of Aberdeen New Thai Investment Trust.



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 historical, and expected, long-term average real returns. The use of the term is in recognition of the likelihood there will be investment cycles, principally those during periods of higher inflation, when real returns from asset classes are lower than normal.

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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