EDISON

Seneca Global Income & Growth Trust

Significant contribution from holding in AJ Bell

Investment trusts

Multi-assets

22 May 2019

Seneca Global Income & Growth Trust (SIGT) has a value-biased, multi-asset investment strategy. It aims to generate average total returns of at least CPI +6% pa over the course of a typical investment cycle. Recent performance has been significantly enhanced by the holding in financial platform AJ Bell, whose shares have nearly trebled since listing in December 2018. This has more than offset the negative effects from SIGT's lack of exposure to US equities and safe-haven government bonds, which have performed relatively well. SIGT has a positive medium- and long-term track record versus its benchmark, despite growth rather than value stocks leading the markets in recent years. Performance has been helped by its c 30% exposure to specialist assets, which offer the potential for enhanced total returns, including high yields, supported by stable, inflation-linked income streams, along with lower volatility.

12 months ending	Total share price return (%)	Total NAV return (%)	Blended benchmark* (%)	FTSE All-Share (%)	FTSE All-World (%)
30/04/15	9.2	9.7	3.6	7.5	18.9
30/04/16	9.2	0.8	3.6	(5.7)	(0.3)
30/04/17	20.7	19.6	3.4	20.1	31.2
30/04/18	5.7	6.1	7.8	8.2	7.8
30/04/19	6.0	7.6	8.3	2.6	11.3

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

At any given stage of the investment cycle, valuation opportunities vary across asset classes. An experienced management team, with a multi-asset approach, has the potential to exploit changes in the opportunity set to generate a diversified income stream and long-term capital growth over the course of a business cycle.

Why consider investing in SIGT?

- Actively managed fund across multiple asset classes. More defensive positioning ahead of anticipated stock market pullback in 2020.
- Medium- and long-term outperformance versus benchmark.
- Lower volatility total returns versus peers and UK stock market.
- High and growing revenue stream; current 3.6% dividend yield.
- Active discount control mechanism providing adequate liquidity.

Regularly trading close to NAV; growing dividend

SIGT has employed a discount control mechanism since August 2016, aiming to ensure that its share price regularly trades close to NAV. Its current 1.8% share price premium to cum-income NAV compares with the range of a 2.4% premium to a 2.8% discount over the last 12 months, and average premiums of 0.5% and 0.6% over the past one and three years, respectively. The board aims to grow SIGT's annual dividend above the rate of UK inflation, and has increased its distribution for the last six consecutive financial years. Gearing of up to 25% of NAV is permitted; net gearing was 3.0% at end-April 2019.

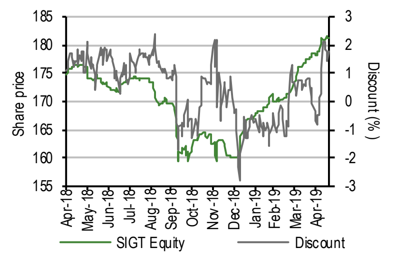
Price	**181.25p**
Market cap	**£87.3m**
AUM	**£90.3m**

NAV*	175.2p
Premium to NAV	3.4%
NAV**	178.1p
Premium to NAV	1.8%

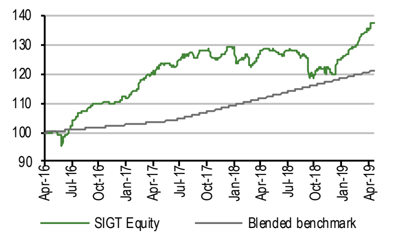
*Excluding income. **Including income. As at 20 May 2019.

Dividend yield	3.6%
Ordinary shares in issue	48.2m
Code	SIGT
Primary exchange	LSE
AIC sector	Flexible Investment

Share price/discount performance



Three-year share price perf.



52-week high/low	181.8p	159.3p
NAV* high/low	179.9p	155.9p

*Including income.

Gearing

Gross*	8.4%
Net*	3.0%

*At 30 April 2019.

Sources for this column: Refinitiv, SIGT

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Edison profile page

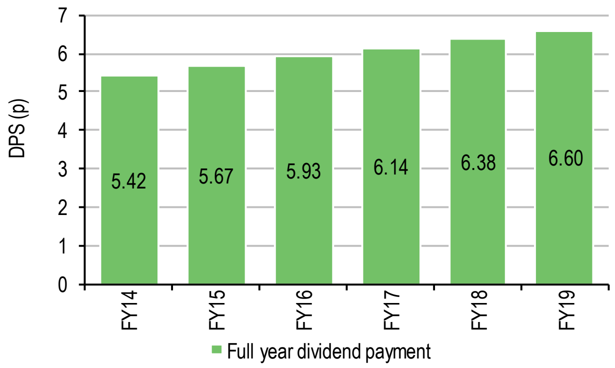
Seneca Global Income & Growth Trust is a research client of Edison Investment Research Limited

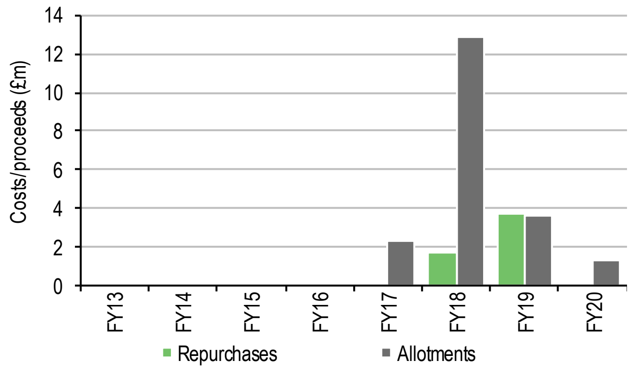
Exhibit 1: Trust at a glance

Investment objective and fund background	Recent developments
SIGT's objective is to achieve net returns in excess of CPI +6% per year 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).	■ 16 May 2019: Fourth interim dividend of 1.68p announced (+2.4% year-on-year). ■ 1 March 2019: Appointment of Sue Inglis as non-executive director, with immediate effect. ■ 21 February 2019: Third interim dividend of 1.64p announced (+3.8% year-on-year).

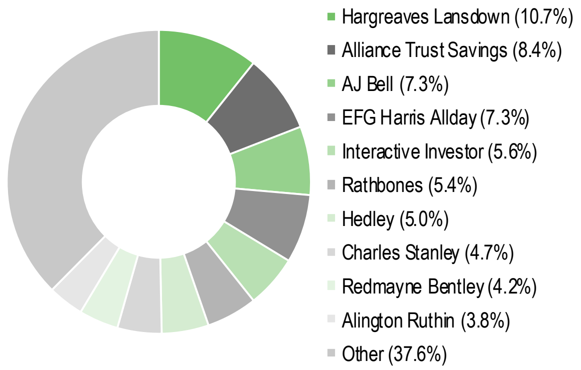
Forthcoming		Capital structure		Fund details	
AGM	July 2019	Ongoing charges	1.45%	Group	Seneca Investment Managers
Final results	June 2019	Net gearing	3.0%	Managers	Seneca team
Year-end	30 April	Annual mgmt fee	0.90% of market cap up to £50m, 0.65% above £50m	Address	10th Floor Horton House, Exchange Flags, Liverpool L2 3YL
Dividend paid	Sep, Dec, Mar, Jun	Performance fee	None		
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

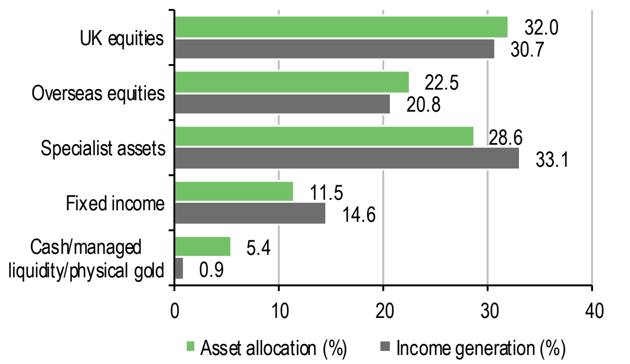
Dividend policy and history (financial years)	Share buyback policy and history (financial years)
SIGT aims to grow annual dividends at least in line with the rate of CPI.	A discount control mechanism was introduced at the July 2016 AGM, effective 1 August 2016.





Shareholder base (at 30 April 2019)	Portfolio distribution by capital and income generation (at 30 April 2019)





Top five holdings by asset category (at 30 April 2019)

	Portfolio weight %		Portfolio weight %
UK direct equities		**Fixed income**	
AJ Bell Holdings	7.4	Royal London Short Duration Global HY Bond Fund	6.9
OneSavings Bank	1.6	TwentyFour Select Monthly Income Fund	1.9
Marston's	1.5	Templeton Emerging Markets Bond Fund	1.7
Kier Group	1.5	Royal London Sterling Extra Yield Bond Fund	1.0
BT Group	1.4	N/A	
Overseas equities		**Specialist assets**	
CIM Dividend Income Fund	4.0	Doric Nimrod Air Two	2.3
Samarang Asian Prosperity Fund	3.1	International Public Partnerships	2.2
HMG Global Emerging Markets Equity Fund	3.0	Merian Chrysalis Investment Company	2.0
CC Japan Income & Growth Trust	2.5	Fair Oaks Income Fund	2.0
Prusik Asian Equity Income Fund	2.2	Sequoia Economic Infrastructure	1.9

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

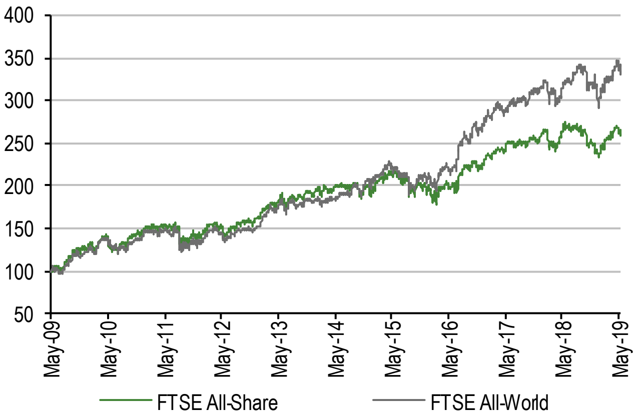
Market outlook: Potential opportunities in the UK

As shown in Exhibit 2 (LHS), following the global financial crisis, UK shares broadly kept pace with the global market (in sterling terms) up until the UK's European referendum in June 2016, but have since underperformed by a considerable amount (partly due to sterling weakness). Looking at the performance of UK equities in more detail, during the global market sell-off in Q418, the shares of mid-cap companies fared particularly poorly, with the FTSE 250 index generating a -13.3% total return compared with a -10.2% total return for the broader FTSE All-Share index.

Due to their relatively poor performance in recent years, UK shares are looking more attractively valued. On a forward P/E basis, they are trading at a c 17% discount to developed markets and an even wider c 27% discount compared with US shares. The UK's current 12.5x forward P/E multiple is broadly in line with its 10-year average, while the US and developed markets as a whole are trading at premiums of c 10% to their 10-year averages. Significant capital outflows from global investors have contributed to the weaker performance of the UK stock market; any improvement in sentiment, perhaps due to more clarity around Brexit, could lead to an increase in allocations to UK equities, supporting a re-rating.

Exhibit 2: Equity performance and valuations

Performance of UK and global equities in £ terms (past 10 years)



Datastream indices forward P/E valuations (x)

	Last	High	Low	10-year average	Last as % of average
UK	12.5	15.7	8.5	12.6	99
US	17.0	19.0	11.3	15.3	111
Europe	12.9	15.5	7.6	12.3	105
Japan	12.6	23.7	10.5	14.3	88
Developed markets	15.1	16.9	9.9	14.1	108
Emerging markets	11.7	13.6	9.2	11.5	102

Source: Refinitiv, Edison Investment Research. Note: Data at 21 May 2019.

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 fund'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 (SIGT), 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 holdings are straightforward. SIML has recently added additional marketing resources in order to raise the trust's profile. Effective 1 March 2019, the depth of SIGT's board was increased with the appointment of Sue Inglis as the fourth non-executive director (see page 9).

SIGT's performance target was raised in July 2017, since when it has aimed to generate low-volatility average annual total returns of at least CPI +6% (after costs) over the course of a typical investment cycle (the previous benchmark was Libor +3% pa). In addition, the board aims to grow the trust's annual dividend at a rate higher than UK inflation. The trust has a multi-asset portfolio comprising UK and overseas equities, fixed income securities, specialist assets (infrastructure, specialist financial, property and private equity) and cash/managed liquidity/physical gold. SIML believes it can achieve SIGT's investment objective via an appropriate combination of strategic asset allocation (SAA), tactical asset allocation (TAA), investing in undervalued assets, and a modest level of gearing. While there are likely to be periods when SIGT's performance trails the benchmark, its managers believe they can achieve the trust's investment objective over the course of a typical investment cycle (where total real returns from equity and bond markets are in line with their long-term historical averages).

In order to mitigate risk, SIGT's managers adhere to the trust's investment guidelines:

- at the time of purchase, a maximum 7.5% of gross assets in any individual direct equity or fixed income investment, and up to 10% in any collective vehicle;
- aggregate holdings in unquoted securities up to 7.5% of gross assets;
- a maximum 25% of gross assets in cash and equivalents; and
- gearing up to 25% of NAV (at end-April 2019, gross/net gearing was 8.4% and 3.0%).

Each member of SIML's five-strong investment team has individual research responsibilities: Peter Elston (chief investment officer – asset allocation); Mark Wright (fund manager – UK equities); Gary Moglione (fund manager – developed markets overseas equities/fixed income and specialist financial assets); Tom Delic (fund manager – emerging markets overseas equities/fixed income); and Richard Parfect (fund manager – specialist assets, excluding specialist financials). Elston and Moglione also have portfolio oversight responsibilities, involving decision implementation and cash and cash flow management, but they only have limited discretion to deviate from the target portfolio that is agreed by the whole team.

The fund managers: Seneca team

The manager's view: Expecting higher interest rates

We met with SIGT's CIO, Peter Elston, who says that while global markets performed poorly in Q418, the weakness was more than made up for by the strength in Q119. The improvement in investor sentiment was driven by more dovish statements by central banks, most notably the US Federal Reserve, which has put interest rate hikes on hold in response to inflation data showing less pronounced upward price pressure than previously anticipated.

The manager explains that 'it is all about monetary policy' when considering asset allocation. Normally, an uptick in economic growth is detrimental for bond performance, but safe-haven bond yields have continued to fall. This is not in response to fears about lower growth, but due to expectations of accommodative monetary policy continuing both near and longer term. In terms of inflation, Elston says that while headline numbers have softened, core inflation trends in the majority of developed markets are 'a different story'; these numbers are ticking up due to wage growth. He suggests that while productivity gains can offset some of this cost pressure, over time higher wages will lead to greater inflation, leading central banks to raise interest rates. The manager notes that in the four main developed markets, the US, Europe, the UK and Japan, unemployment is falling, or already low; Europe was later in experiencing rising employment as a result of the eurozone debt crisis, with the improvement starting in 2013, rather than in 2009, following the end of the global financial crisis.

Elston says that it is difficult to convey the impact of central banks reining in quantitative easing, which is a de facto tightening of monetary policy. He refers to studies by Dr Leo Krippner at the Reserve Bank of New Zealand, which convert levels of asset purchases into equivalent interest rate changes. The implication is that at the height of quantitative easing in 2013, the effective key US federal funds rate was c -5%, suggesting that since then, effective interest rates have already risen quite some way to the current 2.5% federal funds rate. Hence, taking quantitative easing into account implies that the investment cycle is further advanced than many investors believe, reinforcing the manager's view that there is likely to be an economic downturn in 2020 or early 2021, preceded by a pronounced stock market sell off beginning in 2020. Keeping to the roadmap laid out by Elston, the team has continued to adopt a more defensive stance by regularly reducing

SIGT's TAA equity exposure every few months; in March 2019, UK TAA exposure was lowered by 0.5pp, along with a 0.3pp reduction to Europe and a 0.2pp reduction to Asia Pacific ex-Japan.

Asset allocation

Investment process: Value focus across multiple asset classes

SIML's managers employ a value-based approach, selecting high-quality investments across a range of asset classes. Aiming to generate average returns in excess of CPI +6% pa over the course of a typical investment cycle, the investment team utilises a long-term SAA, with a shorter-term TAA. The SAA is based on the assumption that future long-term returns of individual asset classes will be comparable to their historical long-term returns, while the TAA takes account of how different asset classes typically perform at each stage of the business cycle (expansion, peak, recession and recovery). To determine the stage of the business cycle, the managers assess economic indicators, such as yield curves, inflation and unemployment.

SIGT's UK equity holdings tend to be direct and primarily in mid-cap companies; these businesses can be under-researched, offering opportunities to invest in mispriced securities. Data from SIML show that over time, in aggregate, mid-cap companies have generated higher annual share price total returns than either large- or small-cap firms. Overseas equity exposure is via collective investments, which can be in boutique as well as mainstream funds. Fixed income and cash investments focus on capital preservation, while specialist assets offer the potential to lower portfolio volatility while enhancing returns (with exposure gained primarily via UK investment trusts across a wide range of investment opportunities). SIGT has a diverse income stream: UK equities (yielding c 5.0%), overseas equities (yielding c 4.5%), fixed income (yielding c 6.5%), specialist assets (yielding c 6.0%), and cash and managed liquidity (yielding c 1.0%).

SIML employs a team-based investment approach – all portfolio changes are agreed by a majority, which acts as an effective risk control. Each asset class and portfolio holding has a target weighting, and while actual portfolio exposures may vary modestly from these targets, all variances are closely monitored.

Current portfolio positioning

Exhibit 3: Asset allocation ranges, long-term core (SAA) and target TAA

%	Asset allocation range	Core asset allocation (SAA)	TAA end-April 2019
UK equities	15–60	35	29.5
Overseas equities	10–40	25	23.0
Total equities	**25–85**	**60**	**52.5**
Fixed income	0–40	15	12.7
Specialist assets	0–50	25	28.4
Cash/managed liquidity/physical gold	0–10	0	6.4
Total	**100**	**100**	**100.0**

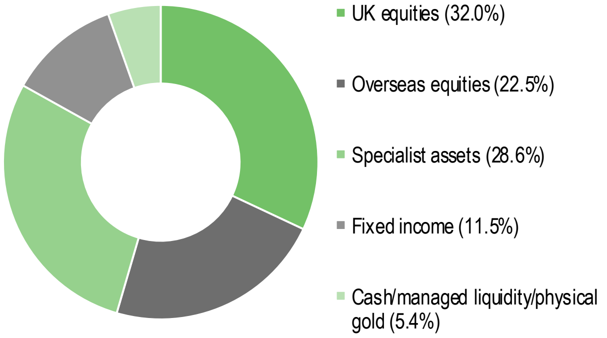
Source: Seneca Global Income & Growth Trust

As shown in Exhibit 3, at end-April 2019, SIGT's equity TAA was 7.5pp underweight compared with the SAA (-5.5pp in the UK and -2.0pp overseas). The trust continues to have no US equity exposure (a zero allocation since August 2017). It is also underweight fixed income (-2.3pp), with no exposure to safe-haven government debt, as the managers also consider this asset class to be unattractively valued. SIGT's TAA is overweight specialist assets (+3.4pp) and has a 6.4pp TAA to cash, managed liquidity and physical gold compared with a zero SAA.

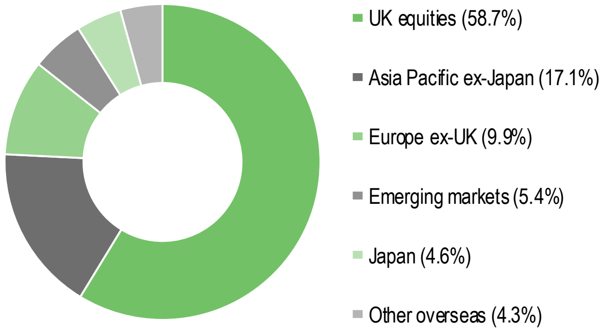
Exhibit 4 shows SIGT's actual portfolio breakdown at the end of April 2019, split between equity investments (54.5%) and non-equity investments (45.5%). Specialist assets comprised 10.4% infrastructure; 7.9% specialist financial; 6.8% property; and 3.6% private equity. Fixed income was 9.8% corporate debt and 1.7% emerging market debt, while 1.4% was held in cash, 3.0% in managed liquidity and 1.0% in physical gold.

Exhibit 4: Portfolio distribution as at 30 April 2019

Portfolio distribution by asset class



Breakdown of equity exposure



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

In keeping with the ongoing moves to a more defensive portfolio, SIGT now has 2.4% of the portfolio invested in gold, 1.4% in the Investec Funds Series iii – Global Gold Fund and 1.0% in physical gold via an exchange-traded certificate. The Investec Global Gold Fund invests around the world primarily in the shares of companies involved in gold mining, but may invest up to one-third of its value in the shares of companies involved in the mining of other precious metals, minerals and non-precious metals. It is a relatively concentrated, open-ended vehicle with 30+ holdings; the top c 20% of the fund is invested in two major gold producers: Barrick Gold and Newmont Goldcorp. The fund's manager focuses on mining companies with robust fundamentals, strong balance sheets and well-respected management teams. Elston feels comfortable with SIGT's position in the Investec Global Gold Fund, citing the Investec fund manager's broad industry experience, along with a good grasp of financial analysis and valuation.

Elston explains his views on gold, saying that while it has jewellery and industrial uses, essentially the metal is a store of value. He suggests that gold can be an interesting asset when central banks are debasing their paper currencies by allowing inflation to rise, or when the economy is weak, requiring stimulation via loose monetary policies. While inflation is currently not rampant, the manager believes that at some point in the next few years, central banks will have to stimulate the economy, which will be positive for the price of gold as, unlike paper currencies, it cannot be debased.

Within specialist assets, SIGT has two relatively new positions, property company Assura and aircraft leasing company Doric Nimrod Air Three. The trust has a long-term holding in specialist REIT Primary Health Properties (PHP), where the majority of its assets are NHS GP surgeries (offering a reliable and predictable revenue stream). Following its merger with MedicX, the company's share price moved to a significant premium to NAV, so SIGT's managers sought to diversify exposure to this defensive sector by reducing the PHP position and initiating a holding in Assura. Assura has a similar market cap to PHP, but a lower loan to value, and is trading on a much smaller premium to NAV; it is currently offering a 4.3% dividend yield, compared with 4.0% for PHP.

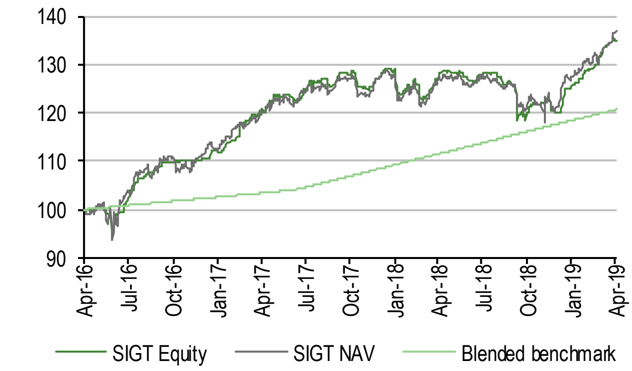
Doric Nimrod Air Three aims to generate income and grow capital by acquiring, leasing and selling aircraft. The company has a portfolio of four Airbus A380 aircraft, all of which are on long-term leases with Emirates, the Dubai national carrier. SIGT manager Richard Parfect is well acquainted with this industry, believing it is misunderstood (the trust also has a position in Doric Nimrod Air Two). While Airbus has announced that it will cease production of the A380, which investors viewed negatively, the manager believes that the plane's scarcity should protect its value, similar to when Boeing ceased production of the 747. He says that Emirates will have to secure its fleet for the next decade, and the sell-off in Doric Nimrod Air Three's share price provided an attractive buying opportunity; the company currently offers a dividend yield in excess of 9.0%.

Performance: Significant contribution from AJ Bell

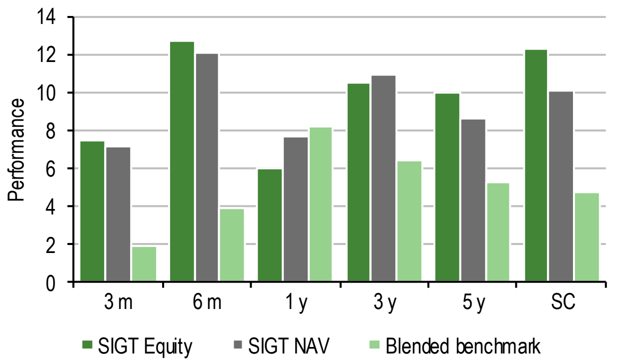
Commenting on SIGT's performance so far in 2019, Elston says the managers have benefited from strong stock selection from holdings such as AJ Bell, which has more than offset the headwinds of holding UK mid-cap equities, which have fared relatively poorly, and zero exposure to both US equities and safe-haven government bonds, which have performed strongly. AJ Bell's initial public offering in December 2018 was at 160p per share compared to the current price of c 430p (a rise of c 170%). The manager says that US equities and safe-haven government bonds were expensive asset classes and have become even more so; he stresses that the team is 'absolutely not prepared to invest in expensive assets, as it cannot justify deviating from its value-based strategy to its clients, even if it negatively affects short-term performance'.

Exhibit 5: Investment trust performance to end-April 2019

Price, NAV and benchmark total return performance, three-year rebased



Price, NAV and benchmark total return performance (%)



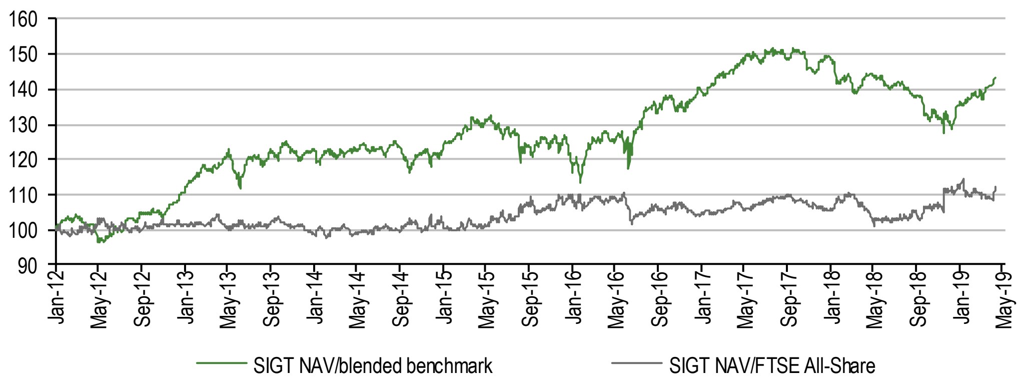
Source: Refinitiv, Edison Investment Research. Note: Since change of mandate (SC) is from 18 January 2012. Blended benchmark is an absolute return of 8% per year until 18 January 2012, three-month Libor +3% to 6 July 2017 and CPI +6% thereafter. Performance figures for periods of more than one year are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

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	5.5	8.5	(2.1)	12.0	24.4	65.2
NAV relative to blended benchmark	5.2	7.9	(0.6)	13.2	16.7	43.1
Price relative to FTSE All-Share	(0.4)	6.0	3.3	1.4	19.2	28.3
NAV relative to FTSE All-Share	(0.7)	5.4	4.9	2.5	11.8	11.1
Price relative to FTSE All-World	(1.0)	5.0	(4.7)	(14.1)	(13.6)	(3.9)
NAV relative to FTSE All-World	(1.3)	4.4	(3.2)	(13.1)	(18.9)	(16.7)

Source: Refinitiv, Edison Investment Research. Note: Data to end-April 2019. 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: Refinitiv, Edison Investment Research. Note: *Change of mandate on 18 January 2012.

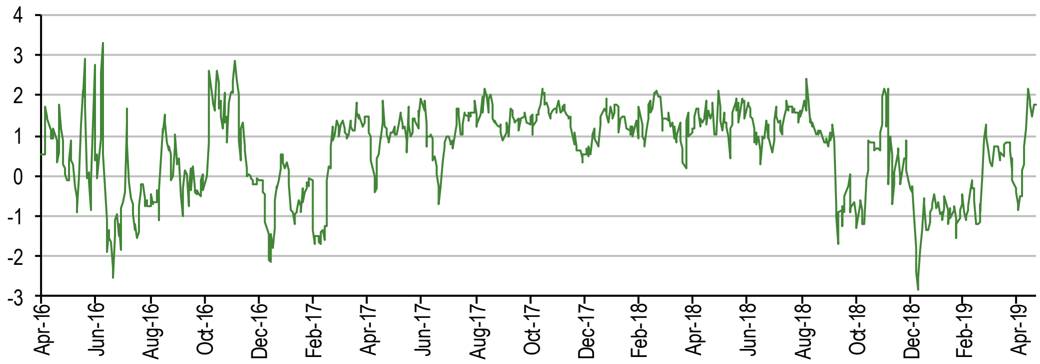
SIGT's relative returns are highlighted in Exhibit 6; apart from modest underperformance over the last 12 months, the trust has outperformed its blended benchmark in both NAV and share price terms over all periods shown. It has also outperformed the FTSE All-Share index over six months, one, three and five years and since the change of mandate in January 2012.

Data from SIML show that SIGT generates relatively low-volatility investment returns. Since the change in mandate to end-April 2019, the trust's annualised volatility is 8.3%, versus an average 10.1% for the AIC Flexible Investment sector and 13.0% for the FTSE All-Share index.

Valuation: Continuing to employ the DCM effectively

SIGT's board introduced a discount control mechanism on 1 August 2016, which it actively employs. Since that date, 3.3m shares have been repurchased at a small discount, costing c £5.4m, while 11.6m shares have been allotted at a small premium raising c £20.2m; the net effect has been to increase the share base by c 21%. Renewed annually, SIGT has authority to buy back up to 14.99% and issue up to 30% of its outstanding shares in order to facilitate the DCM. This has enabled the board to ensure that the trust's shares regularly trade close to NAV. SIGT is currently trading at a 1.8% premium to cum income NAV compared with the range of a 2.4% premium to a 2.8% discount over the past 12 months. Over the last one, three and five years, the trust has traded at an average 0.5% premium, 0.6% premium, and 0.9% discount respectively.

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 48.2m ordinary shares outstanding, with a further 1.2m held in treasury. The trust has a £14m three-year rolling credit facility at Libor +1.1%, of which £7m is drawn. Gearing of up to 25% of NAV is permitted; at end-April 2019, gross gearing was 8.4% and net gearing was 3.0%.

SIML is paid a tiered annual management fee: 0.90% of SIGT's market cap up to £50m, and 0.65% above £50m (allocated equally between the capital and revenue accounts). In FY18, ongoing charges were 1.45% of NAV, which was 16bp lower year-on-year, helped by spreading fixed costs over a larger asset base. In April 2018, PATAC, which is SIGT's company secretary and administrator, was also appointed as its alternative investment fund manager (AIFM). Historically, the trust was subject to an annual continuation vote; however, this feature was removed at the July 2018 AGM, as the board believes that SIGT's active DCM provides sufficient share liquidity.

Dividend policy and record

SIGT pays dividends in September, December, March and June; the first three interim payments are equal, with the fourth acting as an indicator for the first three in the following year. In FY18, the 6.38p per share total distribution was 3.9% higher year-on-year. It was more than covered by income, allowing a sixth consecutive annual addition to revenue reserves.

The board has recently declared SIGT's 1.68p per share FY19 fourth interim dividend. The total annual distribution of 6.60p per share is a 3.4% increase year-on-year, and represents the sixth consecutive yearly increase. Over this period, the annual distribution has compounded at a rate of 3.9%, which is higher than the rate of UK inflation. Barring unforeseen circumstances, the board expects to maintain the quarterly dividend rate of 1.68p per share for the full year to 30 April 2020; this equates to a prospective yield of 3.7%.

Peer group comparison

SIGT is a member of the AIC Flexible investment sector; in Exhibit 9, we highlight the 12 sector funds with a market cap greater than £80m that have been trading for more than three years. The comparison has some relevance, but it should be remembered that the peers have varied investment mandates. SIGT's NAV total returns are above the selected peer group average over three years, ranking third, while trailing over one and five years. However, the trust is above median over three and five years (the average performance figures are skewed by UIL). SIGT's managers are keen to stress that the trust's returns have been less volatile than both the average of its peers and the broad UK stock market (page 7).

Helped by its active discount control mechanism, SIGT is one of three funds trading close to its NAV. It has a higher than average ongoing charge and a level of gearing that is below the mean, (where the average is skewed by UIL's high structural debt). The trust offers a competitive 3.6% dividend yield ranking fifth out of 12 funds, and 1.1pp above the selected peer group average.

Exhibit 9: Selected AIC Flexible Investment sector peer group at 21 May 2019*

% 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	87.3	6.2	36.2	49.9	1.6	1.5	103	3.6
Aberdeen Diversified Income & Growth	377.8	0.5	7.8	5.9	(3.5)	0.6	110	4.6
Caledonia Investments	1,633.9	7.8	34.0	58.3	(16.8)	1.2	100	1.9
Capital Gearing	345.4	6.8	23.3	36.1	1.6	0.8	100	0.5
Hansa Trust 'A'	240.0	(0.2)	34.2	24.8	(29.9)	0.5	100	1.6
Henderson Alternative Strategies Trust	106.6	2.1	33.0	27.0	(19.3)	1.1	100	1.8
JZ Capital Partners	388.8	12.0	19.3	43.5	(40.4)	3.2	102	3.9
Personal Assets	989.9	6.4	16.7	31.7	0.9	0.9	100	1.4
RIT Capital Partners	3,169.2	1.2	30.9	52.2	8.8	0.7	113	0.3
Ruffer Investment Company	385.1	(2.6)	11.2	17.7	(4.3)	1.2	100	0.8
Tetragon Financial	904.9	22.1	56.5	119.7	(46.1)	1.9	100	5.7
UIL	176.9	37.5	99.0	178.9	(43.3)	1.2	174	3.8
Simple average	**733.8**	**8.3**	**33.5**	**53.8**	**(15.9)**	**1.2**	**109**	**2.5**
SIGT rank in peer group (12 funds)	**12**	**7**	**3**	**5**	**3**	**3**	**4**	**5**

Source: Morningstar, Edison Investment Research. Note: *Performance to 20 May 2019 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

Following the appointment of Sue Inglis on 1 March 2019, there are now four directors on SIGT's board, all of whom are non-executive and independent of the manager. Richard Ramsay was appointed on 2 April 2013, and assumed the role of chairman on 3 September 2013. Ian Davis joined the board on 1 November 2004, and has been chairman of the audit committee since 15 December 2004. James McCulloch was appointed on 2 January 2015.

Inglis has more than 30 years' experience advising investment companies and financial institutions, including at Cantor Fitzgerald Europe and Canaccord Genuity, and is a qualified lawyer. She is currently the chairman of The Bankers Investment Trust, and a non-executive director of Baillie Gifford US Growth Trust, BMO Managed Portfolio Trust and The European Investment Trust.

Collectively, the directors have backgrounds in investment banking, corporate finance, law, portfolio management and private client investment.

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. 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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