QuotedData

Initiation | Investment companies

3 November 2015

Seneca Global Income & Growth

Low volatility and growing income

In recent years Seneca Global Income & Growth has delivered returns ahead of the average of its peer group and ahead of comparable indices and with markedly lower volatility than both. The dividend, which is paid quarterly, is climbing steadily as is the fund's revenue reserve. The manager's multi-asset value investing approach is delivering on all of the fund's objectives. A fund that can grow its income and capital without experiencing the volatility associated with a pure equity fund may be attractive for many investors. This could be one reason why the discount has narrowed in recent months. The Board has said they would like to see the trust expand.

Seneca Global Income & Growth Trust's ("SIGT") investment objective is to outperform 3 month LIBOR+3% over the longer-term, with low volatility and the prospect of income and capital growth, through investment in a multi-asset portfolio which includes investment in both direct investments, mainly UK equities, and commitments to open and closed-end funds.

SIGT' has comfortably beaten its LIBOR+3% objective. We have compared the fund with a variety of other measures.

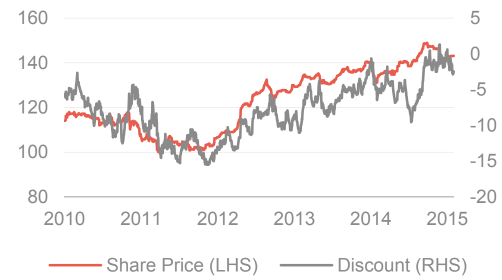
Year Ended	Share Price Total Return (%)	NAV Total Return (%)	FTSE WMA Stk Mkt. Bal. TR (%)	FTSE All-Shr. Total Return (%)	FTSE World Total Return (%)
30/09/11	(0.7)	1.2	(1.2)	(5.1)	(4.1)
30/09/12	5.2	10.7	13.7	17.2	17.7
30/09/13	26.7	20.0	12.5	18.9	19.0
30/09/14	12.5	3.9	8.0	6.1	11.9
30/09/15	5.0	3.8	1.9	(2.3)	0.8

Source: Morningstar and Marten & Co

Sector	Global Income
Ticker	SIGT
Benchmark	3m LIBOR +3%
Base Currency	GBP
Price	143.12
NAV	146.71
Premium/(Discount)	(2.4%)
Yield %	4.0

Share price and discount

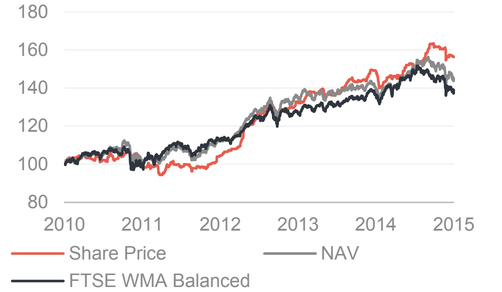
Time period 01/10/2010 to 30/10/2015



Source: Morningstar and Marten & Co

Performance over five years

Time period 01/10/2010 to 30/09/2015



Source: Morningstar and Marten & Co

Domicile	UK
Inception Date	19 August 2005
Manager	Alan Borrows Simon Callow
Market Cap (mlns)	57.1
Shares Outstanding	39.9m
Trading Vol. (1yr avg)	80,774
Net Gearing	9.9%

Contents

Why SIGT?

Income, income growth, capital growth and low volatility

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

Additional information is available at www.senecaim.com

With a market capitalisation of £57.1m, SIGT is much smaller than the Board would like and the fund's manager believes it could easily be applied to a much larger fund. With the fund having traded close to asset value for more than three months, the Board can now consider expanding the fund which would have the benefit of lowering the ongoing charges ratio and improving liquidity in SIGT's shares.

Fund profile

Outperforming its peer group with lower volatility of returns

SIGT's aim is to grow both income and capital through investment in a multi-asset portfolio (covering fixed interest, property and alternative investments such as leasing and reinsurance contracts) and to have low volatility of returns. It sits within the Association of Investment Companies' (AIC) Global Equity Income sector. SIGT's historic yield is currently 4.0% which, as we show in our section on SIGT's peer group on page 8, is about middle of the pack for this sector. As illustrated on pages 7 and 8, its long-term performance is well ahead of its AIC peer group average but the standard deviation of its NAV returns (a measure of volatility which gives an indication of how extreme moves are) is much lower.

Seneca IM is a multi-asset value investor

Seneca IM describes itself as a multi-asset value investor. We think the combination of multi-asset investing with a value approach may be unique to Seneca IM. The idea is that Seneca IM can allocate between different asset classes, emphasising those that offer the most attractive opportunities and making both asset allocation and investment selection decisions on a value basis. Allocations to mainstream UK equities are made directly while funds are used to gain access to other asset classes.

Adopting a multi-asset approach offers the chance of reduced risk relative to say a pure equity fund. The extra diversification is intended to help reduce the volatility of the portfolio and offer opportunities to add value that would not be present in a more narrowly focused portfolio.

Although the fund's benchmark is LIBOR+3%, we, the Board, the Manager and the largest shareholders agree that it is not ideal. The fund's investment objective does not lend itself easily to the adoption of any other formal benchmark. The Board has chosen to compare the fund with a range of indices and competing funds. We agree with this stance and have adopted that approach throughout the report.

Investment process

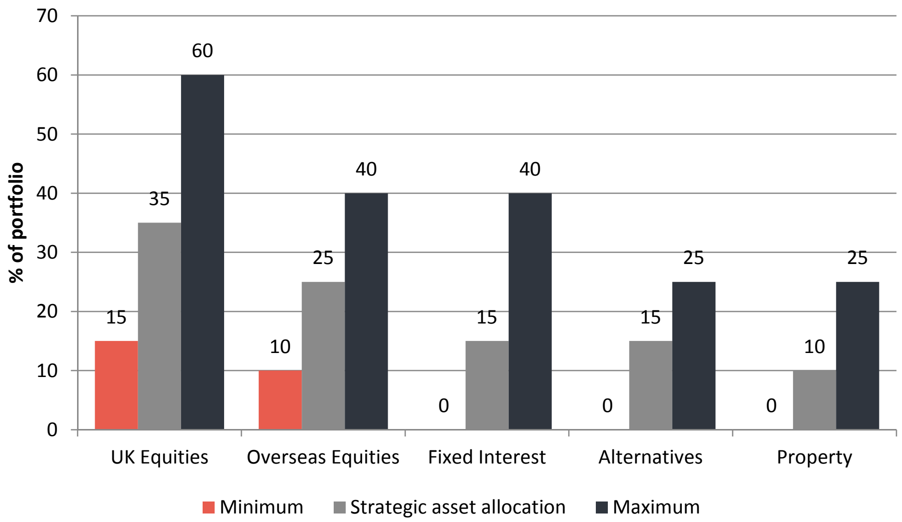
Six strong team with clearly defined responsibilities

On a day to day basis the portfolio is managed by Alan Borrows and Simon Callow. They work as part of a six strong investment team headed up by Peter Elston, Chief Investment Officer of Seneca IM. Each member specialises in an area of research –

asset allocation for Peter (deciding which asset classes and geographies look attractive), fixed interest for Alan, overseas equities for Simon, alternative assets for Richard Parfect, UK equities for Mark Wright and thematic investments for Tom Delic. Peter is a relatively new recruit – he used to manage multi-asset funds for Aberdeen Asset Management in Singapore and has been with Seneca IM for just over a year. Alan and Richard worked together for many years at Merseyside Pension Fund before founding their own asset management company. Simon has worked with them for ten years, Mark for nine and Tom for three.

The Board has set parameters within which the managers operate which were set after consultation with shareholders at the end of 2011 and adopted in January 2012. The strategic asset allocation is to have 35% in UK equities (which can move within a 15% to 60% range), 25% in overseas equities (range 10% to 40%), 15% fixed interest (range 0% to 40%), 15% alternative assets (range 0% to 25%) and 10% property (range 0% to 25%).

Figure 1: Strategic asset allocation and ranges



Source: Seneca IM

Peter recommends tactical asset allocation based on his assessment of the relative value attractions of different asset classes. These decisions are approved by an Investment Committee comprising Peter, Alan, Simon and David Thomas (Seneca IM's CEO). The individual managers have some discretion to deviate from the target asset allocation where they have identified particularly strong investment ideas. These decisions and indeed all investment decisions are discussed, challenged and reviewed in weekly investment meetings. These are minuted and all investment decisions and the reasons for them are logged centrally so that they can be revisited at a later date.

Investment decisions are made on a three year time horizon. Seneca IM is keen that investment decisions have a real impact on performance and so has been increasing portfolio concentration.

Yield is a principal determinant of value

The emphasis on value manifests itself in different ways within the various elements of the portfolio. Given that it is relevant to all the asset classes they use in the fund and the fund's income targets, Seneca IM uses yield as a principal determinant of value when making asset allocation decisions.

With UK equities there is a bias towards mid-market capitalisation stocks. Analysis is focused on profitability and dividend paying capacity. Holdings are weighted equally.

When using funds to gain access to third-party managers' expertise in overseas equities, discounts can be an indication of value but the manager also takes a view on the value present within the fund's underlying holdings and may often take a contrarian stance (going against the herd).

In the case of funds investing in fixed interest, Peter's asset allocation will inform which areas should be targeted. Funds are selected that offer the prospect of attractive yields and capital preservation. The latter consideration leads them to favour actively managed funds.

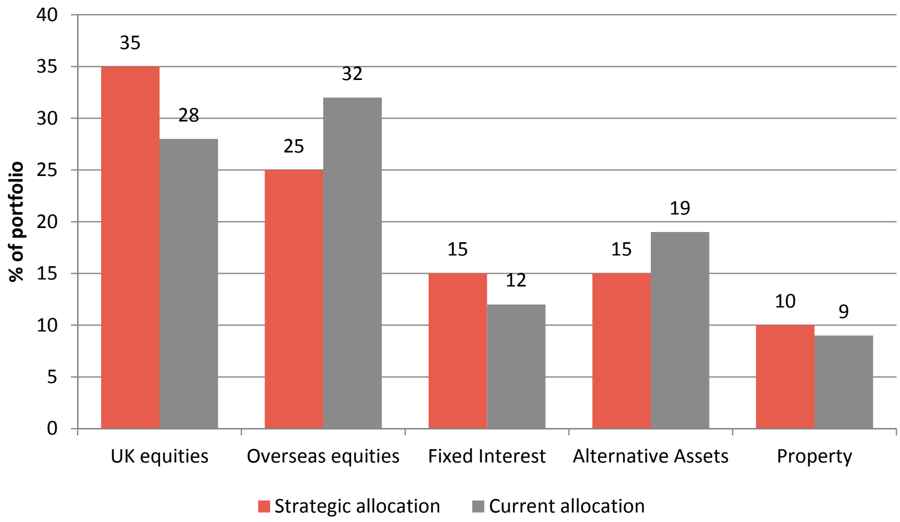
The use of alternative assets is aimed at getting access to uncorrelated assets (investments that won't necessarily move up and down in-line with stock markets) throwing off attractive yields. Evaluating these opportunities means weighing up the likely return over the life of the investment relative to the current price.

No plans to add to unquoted exposure

The team has powers to invest in unquoted securities but, although it has been successful with their current allocation to the area, this isn't a part of the market that they are looking to add to for now.

Asset allocation

Figure 2: SIGT asset allocation vs. strategic allocation as at 05/10/15



Source: Seneca IM and Marten & Co

Overweight overseas equities and alternatives

As Figure 2 illustrates, the portfolio is currently overweight overseas equities and alternative assets relative to its strategic asset allocation. The overseas overweight reflects in part a decision Peter made last year to allocate more to European equities (while, where possible, avoiding Euro exposure), a decision that has benefited the fund and one the manager feels comfortable sticking with for now. The portfolio is underweight US equities on valuation grounds. The universe of alternative asset funds has been expanding in recent years. Seneca IM has built meaningful positions in leasing and renewable energy. This part of the portfolio includes the fund's one private equity investment in AJ Bell which is also the fund's largest holding (see p7 below). Figure 2 separates out property as a distinct asset class for the sake of interest but, increasingly, property, which is focused on REITs, is classified within the alternatives space.

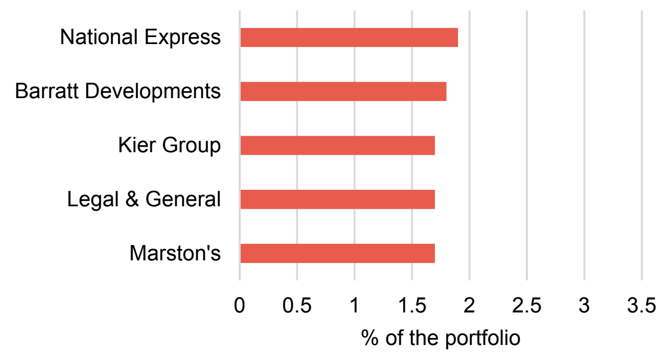
Peter feels equities are currently about fair value on a yield basis and so is happy with a neutral position in this area. Within fixed interest, developed market government bonds are not represented in the portfolio given the extreme valuations that these have attained and the unattractive to negative real yields that they offer. Provided that default rates do not rise sharply, Seneca IM is happy with the spread of high yield corporate bond yields relative to those of government bonds and therefore happy with its allocations to this area of the fixed interest market.

Largest investments

Figures 3, 4, 5 and 6 show the largest positions in each part of the portfolio as at the end of September 2015.

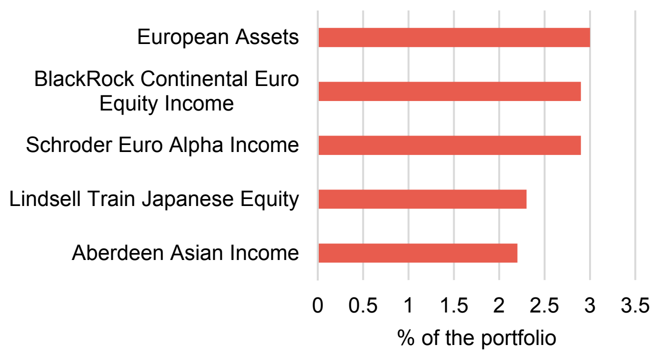
Looking first at Figure 3 which shows the largest UK equity positions, SIGT has held National Express for more than two years. Seneca IM invested on the back of a management turnaround story and this has worked out well. Barratt Developments was a holding the manager acquired some time ago in anticipation of a recovery in the fortunes of UK housebuilders. Seneca IM now thinks, for Barratt's, this story is fully reflected in its valuation (at 1.8x the book value of its assets and a yield close to 3%) and, since the end of September, the position has been switched into Bovis Homes. Seneca IM believes the valuation of this stock is depressed as investors have unfairly punished it for investing in its business. Kier was bought as a follow on position to WS Atkins, which was an early beneficiary, as a consultancy, of the higher spend by Governments on infrastructure. Kier, however, is a contractor who Seneca IM felt would be a beneficiary of the actual construction of these infrastructure projects. The manager thinks the valuation still looks attractive and is retaining it as a core holding.

Figure 3: Largest UK equity positions



Source: Seneca IM

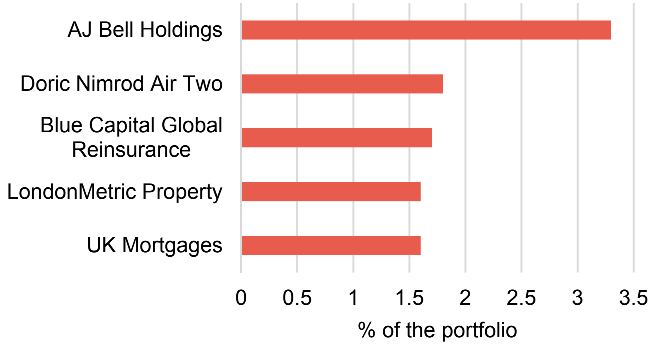
Figure 4: Largest overseas equity positions



Source: Seneca IM

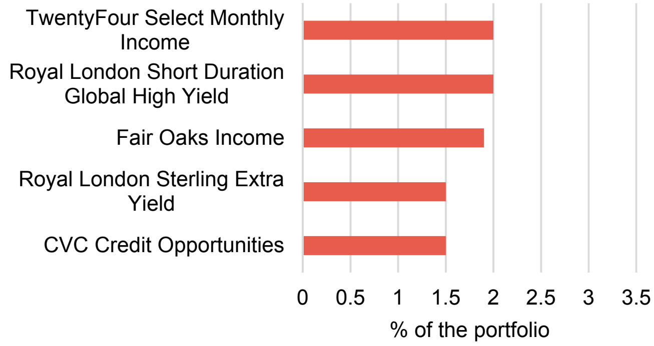
The overweight to European equities is visible in the top three positions. European Assets is primarily a play on smaller European companies, which Seneca IM sees as attractive in a more expansive economic environment. The positions in the two open-ended funds from BlackRock and Schroders gave the manager exposure to managers they believed could deliver attractive returns and came with the added attraction of having share classes hedged back into Sterling. This suited Seneca IM's view that European equities would do well but the currency would be weak. The manager wanted to have some Japanese exposure but found it difficult to find a fund with an attractive yield in this area. The Lindsell Train fund, which is managed with a high conviction style, has produced decent returns. Seneca IM found Aberdeen Asian Income attractive because they feel Aberdeen's investing style, which has struggled in the easy money environment of the past few years, might return to favour (an idea we wrote about in our recent note on Edinburgh Dragon).

Figure 5: Largest alternatives and property positions



Source: Seneca IM

Figure 6: Largest fixed interest positions



Source: Seneca IM

The fixed interest portfolio has exposure to structured credit – portfolios of loans packaged together in a vehicle and then sold off in tranches where the highest ranking tranche has the first right to get its money back when the vehicle is wound up and the first right to get paid interest and so on down the line down to the lowest ranking tranche. The highest ranking tranche earns the lowest rate of interest. TwentyFour Select, Fair Oaks and the CVC fund all invest in lower ranking tranches that earn higher rates of interest but carry more risk. The two Royal London funds invest in short duration high yield investments.

One unquoted investment made them 6x their money

AJ Bell is the fund's largest investment and the only unquoted equity in the portfolio. It has grown dramatically, to become one of the leading SIPP and major platform providers in the UK, has the potential to be a major beneficiary of reforms to annuity rules in the UK and throws off a good yield. In recent times it has suffered as one traditional source of revenue, capturing interest on cash deposits, hasn't been available to it. The current carried value is 6x original investment, however sales have been made at lower levels with more than 2.5x original investment already received. Seneca IM took the decision recently to sell a slice of their holding to clients of Woodford Investment Management. The price was struck at a premium to the last valuation and it helps diversify AJ Bell's share register. The valuation equates to 19x earnings and a yield in excess of 4% (which compares favourably to Hargreaves Lansdown which trades on an historic p/e of 43x).

The Doric Nimrod fund leases A380s to Emirates. It throws off a high yield and will do well if the second hand value of its planes is buoyant at the end of its planned life in 2024. Blue Capital Global Reinsurance targets distributions of LIBOR plus 6% per annum and total returns of LIBOR plus 10%. It invests in global catastrophe reinsurance – picking up the bill if a major disaster triggers losses for insurers above a pre-determined level but getting paid to take on this risk. Seneca IM likes the team behind LondonMetric Property and the approach they take to adding value to their property portfolio. Other property stocks in the portfolio include Tritax Big Box REIT (investing in large scale distribution warehouses), health property company, Assura and GCP Student Living which is building a portfolio of student accommodation primarily in and around London.

Performance

Ahead of comparative indices and its peer group over almost every time period with lower volatility

SIGT has beaten the average fund in its AIC peer group over every time period. It has also beaten the FTSE All-Share and the FTSE WMA (Wealth Management Association) Stock Market Balanced indices over every time period. Figure 7 shows cumulative performance figures over 5, 3 and 1 year, six months and three months to the end of September 2015, The FTSE World Index may have better long-term performance but, as Figure 8 shows, this comes at a cost of greater volatility.

Figure 7: Cumulative Performance to 30/09/15

	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
Seneca Global Inc & Growth (NAV)	(3.8)	(3.6)	3.8	29.5	45.5
Seneca Global Inc & Growth (price)	(3.1)	3.9	5.0	49.6	56.6
AIC Peer Group average (NAV)	(5.7)	(9.8)	(2.0)	25.5	35.0
AIC Peer Group average (price)	(4.6)	(6.5)	(0.5)	31.5	40.3
FTSE All Share	(5.7)	(7.2)	(2.3)	23.3	38.2
FTSE WMA Stock Market Balanced	(3.1)	(5.7)	1.9	23.7	39.4
FTSE World	(5.4)	(10.3)	0.8	34.3	51.7

Source: Morningstar and Marten & Co

Figure 8 shows the annualised standard deviation of NAV returns for SIGT, its AIC peer group and three indices. SIGT's standard deviation is lower over every time period and against every comparator with the sole exception of the three and six month figures where the standard deviation of the FTSE WMA Stock Market Balanced Index is marginally lower.

Figure 8: Annualised standard deviation of NAV returns to 30/09/15

	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
Seneca Global Income & Growth	15.2	12.4	10.8	8.8	9.3
AIC Peer Group average	23.2	19.3	17.4	14.2	16.2
FTSE All Share	26.6	21.7	19.5	15.4	18.1
FTSE WMA Stock Market Balanced	14.2	12.0	11.0	9.1	10.5
FTSE World	22.8	18.9	16.9	13.6	15.5

Source: Morningstar and Marten & Co

As a comparison with equivalent open-ended funds, Figure 9 shows how SIGT stacks up against the IA Mixed Investment 40-85% Equities sector. This is probably the closest Investment Association sector to SIGT's remit and SIGT ranks highly over every time period.

Figure 9: Comparing SIGT with the IA Mixed Investment 40-85% Equities sector

	3 months	6 months	1 year	3 years	5 years
Seneca Global Inc & Growth (%)	(3.8)	(3.6)	3.8	29.5	45.5
IA Mixed Inv 40-85% Equities (%)	(5.1)	(7.4)	0.6	20.5	29.9
Rank with peer group	30/141	7/139	15/137	14/121	11/107

Source: Seneca Global Income & Growth Trust

Peer group

In Figure 10 we compare SIGT with the other funds in its AIC peer group of listed Global Equity Income funds. They are a diverse bunch and no other fund has the same investment objective and approach as SIGT. BlackRock Income Strategies and F&C Managed Portfolio Income are possibly SIGT's closest competitors, both being multi-asset funds.

SIGT is not the smallest fund in its peer group but, if it could grow, that should help lower its ongoing charges ratio which is toward the top end of the peer group. Its yield is about middle of the pack. What we thought was particularly interesting however is that, over the year to the end of September 2015, SIGT has delivered the highest NAV performance whilst exhibiting the lowest volatility of returns. You can perhaps see this more clearly in the chart in Figure 11.

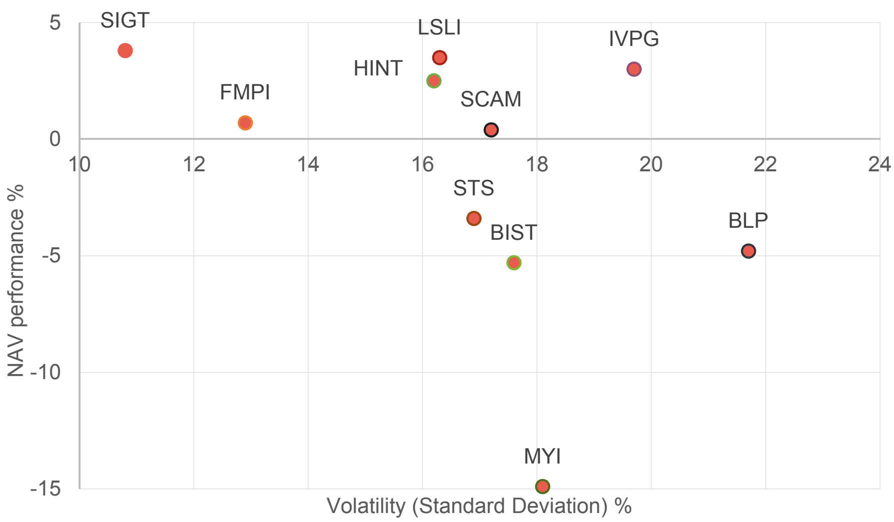
Figure 10: SIGT's AIC peer group

Heading	Market Cap £m	Yield %	Ongoing Charge %	1 year NAV perf. to 30/09/15 (%)	1 year NAV Std Deviation (%)
Seneca Global Income & Growth	57.1	4.0	1.5	3.8	10.8
BlackRock Income Strategies	375.3	5.1	0.6	(5.3)	17.6
Blue Planet	17.1	6.3	4.2	(4.8)	21.7
F&C Managed Portfolio Income	42.6	4.5	1.2	0.7	12.9
Henderson International Income	96.0	4.0	1.2	2.5	16.2
Inv Perp Select Global Eq Income	50.2	3.1	1.1	3.3	19.7
London & St Lawrence	100.0	4.0	0.9	3.5	16.3
Murray International	1,101.9	5.7	0.7	(14.9)	18.1
Scottish American	332.3	4.3	0.9	0.4	17.2
Securities Trust of Scotland	154.3	3.9	0.9	(3.4)	16.9

Source: Morningstar and Marten & Co

You can access up to date performance information on the peer group on our website here.

Figure 11: NAV performance and NAV volatility over the year to 30/09/15



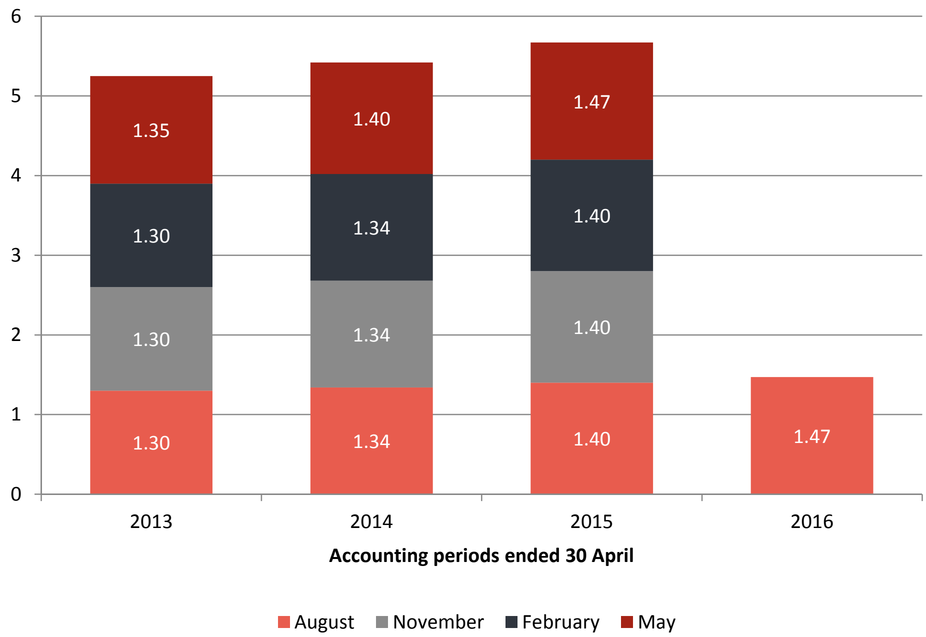
Source: Morningstar and Marten & Co

Dividend

The dividend was rebased in 2012 to a level from which the Board believed it could grow and be covered in normal circumstances, following a period where the dividend was not covered by earnings.

SIGT paid two interim dividends of 1.4p each in November and February and two of 1.47p each in May and August. August was the first payment in the new accounting year which finishes on 30 April 2016. The Board has said that, barring unforeseen circumstances, it intends to pay at least 1.47p per quarter for the rest of the period. Figure 12 shows how the dividend has moved in recent years.

Figure 12: Quarterly dividend history



Source: Seneca Global Income & Growth Trust and Marten & Co

SIGT's dividends have been on a rising trend over the past few years. Last year's dividend was covered 1.04x by earnings. The revenue reserve at 30 April 2015 stood at £965,000 or 2.4p per share.

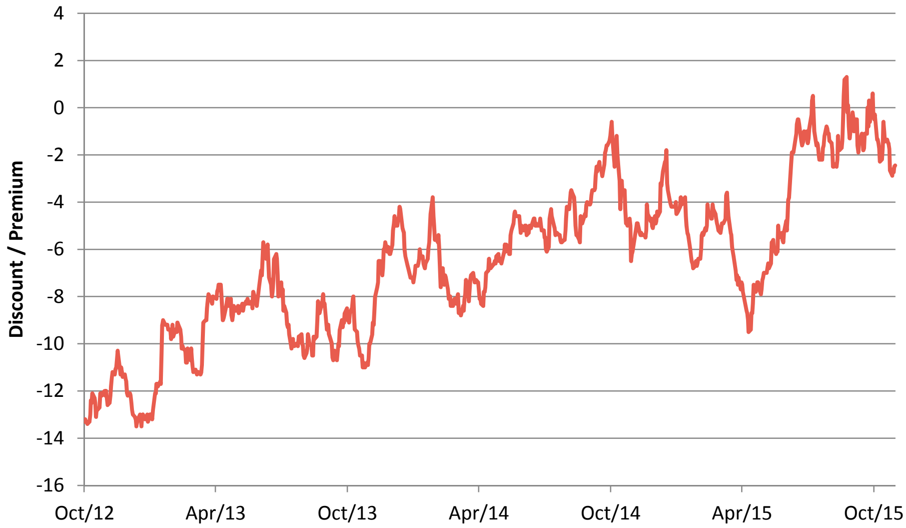
Discount / premium

As Figure 13 shows, SIGT's discount has been on a narrowing trend over the past three years and, for the last three months, the fund has been trading close to asset value.

Plans to adopt a discount control mechanism

The Board has said that it is putting more resource behind increasing awareness of the trust and is minded to introduce a discount control mechanism that would hold the discount close to asset value.

Figure 13: Discount / premium over past three years



Source: Morningstar and Marten & Co

Ahead of the introduction of a discount control mechanism, currently the Board sees the fund's annual continuation vote as the principal control over the discount (see Capital Structure section below).

Fees and other overheads

0.9% on first £50m of market cap. falling to 0.65% on balance

The management fee is 0.9% on market capitalisation up to £50m and 0.65% per annum on market capitalisation above this figure. The agreement is terminable by either party on twelve months' notice. The fee is chargeable 50% to capital and 50% to revenue. There is no performance fee. Calculating the fee on the market capitalisation rather than on net assets gives the manager an incentive to help eliminate SIGT's discount.

R&H Fund Services provide administration services to the fund. They charge £80,000 plus 0.075% of net assets above £50m. Their maximum fee is £130,000. Their agreement is terminable on three months' notice.

The ongoing charges ratio for the year ended 30 April 2015 was 1.51%, down from 1.54% for the previous year.

Capital structure and trust life

SIGT's capital structure is straightforward with 39.9m ordinary shares in issue and no other share classes.

At 30 September 2015 SIGT's gearing level was 9.9%. The Managers see the fund's fixed interest exposure as a natural hedge against its borrowings. The Company has permission to borrow up to 25% of net assets but this is very much an upper limit rather than a target. The trust renewed its £7 million two year short term rolling loan with RBS at the end of October. The new facility is at 70bps over LIBOR – down from 115 bps over on the expired facility.

Annual continuation vote

The fund has an unlimited life but a continuation vote is proposed at each Annual General Meeting. If the resolution is not passed, the Directors will be required to bring forward proposals to liquidate, open-end or otherwise reconstruct the Company. This adds pressure on the Board to ensure that the fund's investment objective is relevant to shareholders' needs and that the fund meets that investment objective.

Board

The Board has three non-executive directors and no executive directors. The Board members stand for re-election every three years.

Richard Ramsay was an investment banker. He had considerable experience of the investment trust sector gained as a managing director at Barclays de Zoete Wedd and a director at Intelli Corporate Finance. His experience also covers the fund management sector as a director with Ivory & Sime, the leisure sector as finance director at Aberdeen Football Club, the energy sector as a managing director at Ofgem and the public sector as a director at the Shareholder Executive. He is currently chairman of Northcourt and Castle Trust and a director of URICA, all recent start-ups in the financial services sector; and chairman of Wolsey Group, a provider of finance to house builders. Mr Ramsay is also a director of John Laing Environmental Assets Group Limited.

Ian Davis was a director of Corporate Finance with Hoare Govett Limited until 2002 having previously worked in Equity Capital Markets at De Zoete Bevan Limited and corporate finance at Baring Brothers & Co. Limited. Prior to this he qualified as a chartered accountant with Price Waterhouse. Mr Davis is also a non-executive director of the Robert Jones and St Agnes Orthopaedic Hospital NHS Foundation Trust.

James (Jimmy) McCulloch is currently executive chairman of Speirs & Jeffrey Ltd with over 30 years' experience in private client investment and portfolio management. He is a chartered FCSI having previously qualified as a chartered accountant with Coopers & Lybrand. Mr McCulloch is a non-executive director of the Wealth Management Association and a trustee of Foundation Scotland.

Figure 14: Board member - length of service and shareholdings

Director	Position	Appointed	Length of service (yrs)	Annual director's fee (GBP)	Share-holding*
Richard Ramsay	Chairman	02/04/2013	2.5	24,500	73,667
Ian Davis	Chairman – Audit Committee	01/11/2004	10.9	22,000	92,557
James McCulloch	Director	02/01/2015	0.8	20,000	65,000

Source: Seneca Global Income & Growth Trust and Marten & Co.

QuotedData

QuotedData is a trading name of Marten & Co, which is authorised and regulated by the Financial Conduct Authority
123a Kings Road, London SW3 4PL
0203 691 9430

www.quoteddata.com

Registered in England & Wales number 07981621,
135a Munster Road, London SW6 6DD

Edward Marten
(em@martenandco.com)

James Carthew
(jc@martenandco.com)

Matthew Read
(mr@martenandco.com)

IMPORTANT INFORMATION