MARTEN & CO

Update | Investment companies

18 September 2018

Seneca Global Income & Growth

Mind the (inflation) gap!

Seneca Global Income & Growth Trust's (SIGT's) manager, is gradually reducing the trust's equity weighting over the next couple of years, in advance of a global recession it expects in 2020. Consistent with its view, the recent trend in developed economies has been one of falling unemployment, labour markets tightening, wage rates edging up and nascent signs that consumer prices are also on the rise. SIGT's manager expects inflation to continue to rise, triggering further monetary tightening and ultimately recession. SIGT has recently underperformed its benchmark and global equity markets (see page 10), but its manager expects its multi-asset strategy to strongly outperform these in the downturn.

Multi-asset, low volatility, with yield focus

Over a typical investment cycle, SIGT seeks to achieve a total return of at least the Consumer Price Index (CPI) plus 6% per annum, after costs, with low volatility, and with the aim of growing aggregate annual dividends at least in line with inflation. To achieve this, SIGT invests in a multi-asset portfolio that includes both direct investments (mainly UK equities) and commitments to open-and-closed-end funds (overseas equities, fixed income and specialist assets). SIGT's manager uses yield as the principal determinant of value when deciding on its tactical asset allocation and holding selection.

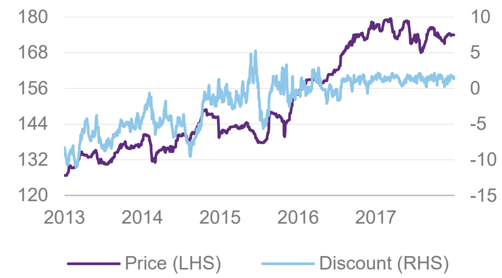
Year ended	Share price total return (%)	NAV total return (%)	Bench-mark* (%)	MSCI World total return (%)	MSCI UK total return (%)
31/08/14	13.8	8.5	3.5	13.4	10.1
31/08/15	6.0	3.0	3.6	4.1	(5.8)
31/08/16	14.0	12.5	3.6	26.0	12.8
31/08/17	19.2	17.8	4.2	18.8	14.0
31/08/18	0.5	(1.0)	8.7	12.7	3.6

Source: Morningstar, Marten & Co *Note: SIGT's benchmark became CPI + 6% with effect from 7 July 2017, having previously been Libor + 3% with effect from 18 January 2012.

Sector	Flexible investment
Ticker	SIGT LN
Base currency	GBP
Price	169.50p
NAV	167.52p
Premium/(discount)	1.2%
Yield	3.8%

Share price and discount

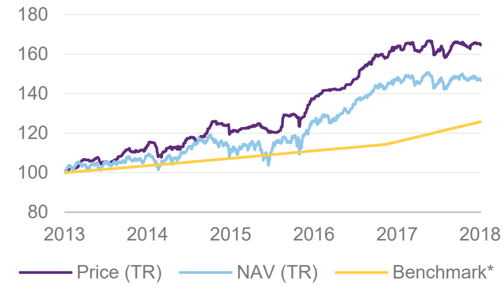
Time period 31/08/2013 to 14/09/2018



Source: Morningstar, Marten & Co

Performance over five years

Time period 31/08/2013 to 31/08/2018



Source: Morningstar, Marten & Co

Domicile	United Kingdom
Inception date	19 August 2005
Manager	Team managed
Market cap	83.5m
Shares outstanding	49.2m
Daily vol. (1-yr. avg.)	87.5k shares
Net gearing	3.7%

Click here for our annual overview note

Manager's view

Reducing equity exposure in anticipation of a global recession in 2020

Equity exposure is reducing by 1% every couple of months.

As discussed in all of our notes since June 2017, Seneca Investment Managers (Seneca IM) has set out a clear 'road map' for SIGT's equity weighting and how this will be reduced over the next couple of years. Specifically, SIGT's equity exposure is being decreased by 1% every couple of months (give or take, depending on market conditions) in advance of a global recession that Peter Elston (the research specialist for asset allocation) anticipates in 2020. He expects to see a global equity bear market commencing in advance of this, starting at some point in 2019, and aims for SIGT to be meaningfully underweight equities at this time, as it is during the peak phase that equities provide the worst performance. As discussed in the asset allocation section (see page 5), since setting out its intentions, Seneca IM has been sticking to its plan.

Read Peter Elston's investment letters at: senecaim.com.

For professional investors, a detailed discussion is provided in Peter Elston's investment letters of July 2017 (Issue 26: *Preparing for the next downturn*), November 2017 (Issue 30: *Keeping it simple – how to add value effectively through tactical asset allocation*) and August 2018 (Issue 39: *Inflation*). We recommend reading them.

Recent economic data reinforces the manager's view

The manager believes that the global economy is approaching the end of its expansionary phase.

Peter Elston tell us that, since we last published in June of this year, Seneca IM's strategy remains unchanged. Furthermore, his analysis of macroeconomic developments since, has served to reinforce this view that the global economy is approaching the end of its expansionary phase.

The 'mechanics' underlying Peter's strategy have been covered in detail in our previous notes (for example, please see pages 5 and 6 of our **June 2018** note for a more in-depth discussion) but, to summarise, developed markets and economies are in an expansion phase. Inflation is picking up which will lead to monetary tightening and economic contraction. Looking at Figure 3, there is evidence that inflation is picking up.

Developed markets and economies are in an expansion phase

Peter believes that developed economies are, on average, in an expansion phase. History suggests that it is during this phase that inflation starts to take hold and inflation rates rise above central-bank targets, which causes central banks to shift into tightening mode. The US has been tightening for over two years and, while US inflation reduced in the early part of 2017, it is now on the rise again and so the US Federal Reserve will continue to tighten.

The US has been tightening monetary policy for two years and the UK has now seen its second rate rise since the financial crisis.

August 2018 saw the Bank of England raise UK interest rates for the second time since the financial crisis. This second rise follows quite quickly on the heels of the first in November 2017 (the previous move, In August 2016 was a 25bp reduction in the aftermath of the EU referendum). These rises have taken place on the back of rising inflation (partly driven by the 'cost push' effects of sterling weakness in the aftermath of the Brexit vote); nonetheless, the economy is close to full employment and continues to grow. There are concerns that this inflation is becoming entrenched, which has led to the recent rises, with the potential for further adjustments in due course.

A simple yet effective way to keep track of the cycle, and therefore add value through tactical asset allocation, is to keep a close eye on monetary policy.

An inverted yield curve means that monetary policy is tight and so there is likely to be some sort of decline in economic activity.

Tightening monetary policy is a warning sign

It is during the expansion phase that returns from equity markets start to fall (equity returns tend to be best in recession phase, second best in recovery phase, then slightly lower, but still positive in the expansion phase). Peter says that a simple yet effective way to keep track of the cycle, and therefore add value through tactical asset allocation, is to keep a close eye on monetary policy. Specifically, a key warning sign for equity markets is when monetary policy has been tightening for a prolonged period, and the yield curve inverts. This arguably signifies the end of the expansion phase.

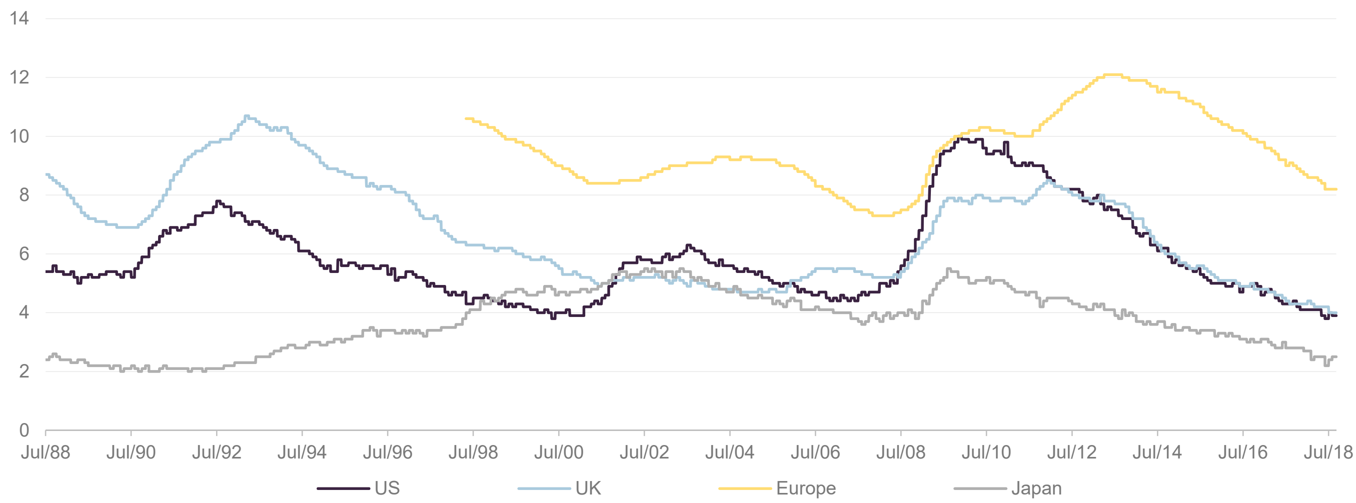
An inverted yield curve means that monetary policy is tight and so there is likely to be some sort of decline in economic activity. Peter says that, in the US, the last five recessions have been presaged by an inverted yield curve and that an inverted yield curve (in the US) has always led to a recession. Peter therefore values this as a strong leading indicator. He wants SIGT to be heavily underweight equities by the time we move to the peak phase, which he thinks will be in about two years from now.

Unemployment continues to fall leading to wage pressure

As illustrated in Figure 1, the broad trend across developed markets is one of unemployment continuing to fall (a similar pattern is seen in emerging markets although Brazil has been a marked exception). Peter believes that, with unemployment now close to 50-year lows, tight labour markets are leading to increasing pressure on wages to rise. This should manifest itself as wage inflation (see Figure 2 where Japan is already showing signs of wage inflation).

Peter cautions that he is not expecting to see a massive spike in inflation this year but observes that, as illustrated in Figure 3, for much of the developed world, inflation is much higher than it was three years ago (Japan with its pernicious low inflation is the obvious exception, despite the significant stimulus applied by Abenomics).

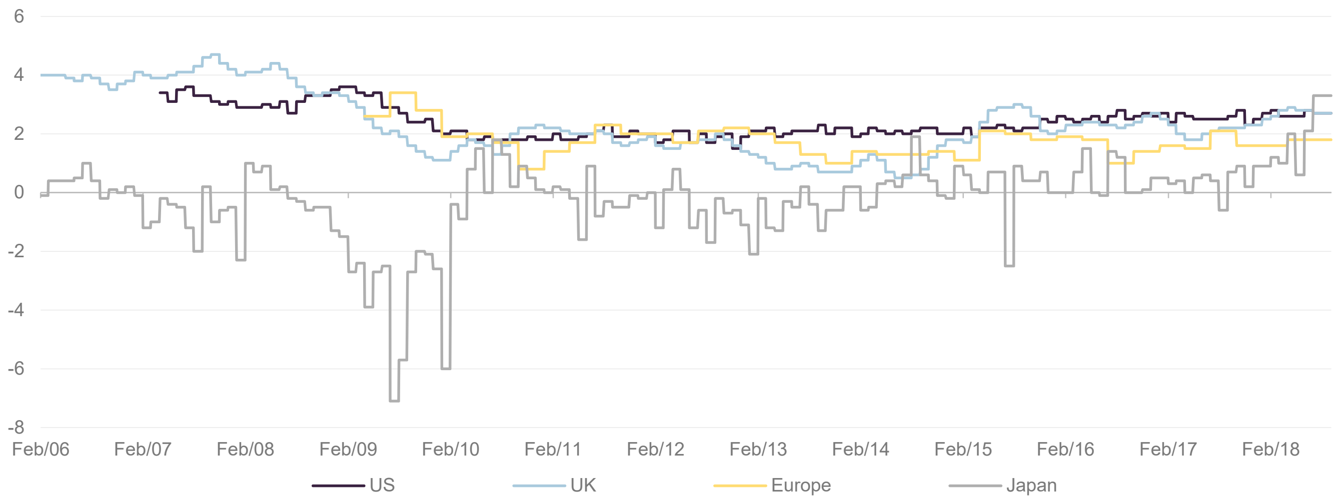
Figure 1: Unemployment rate (%)



Source: Bloomberg

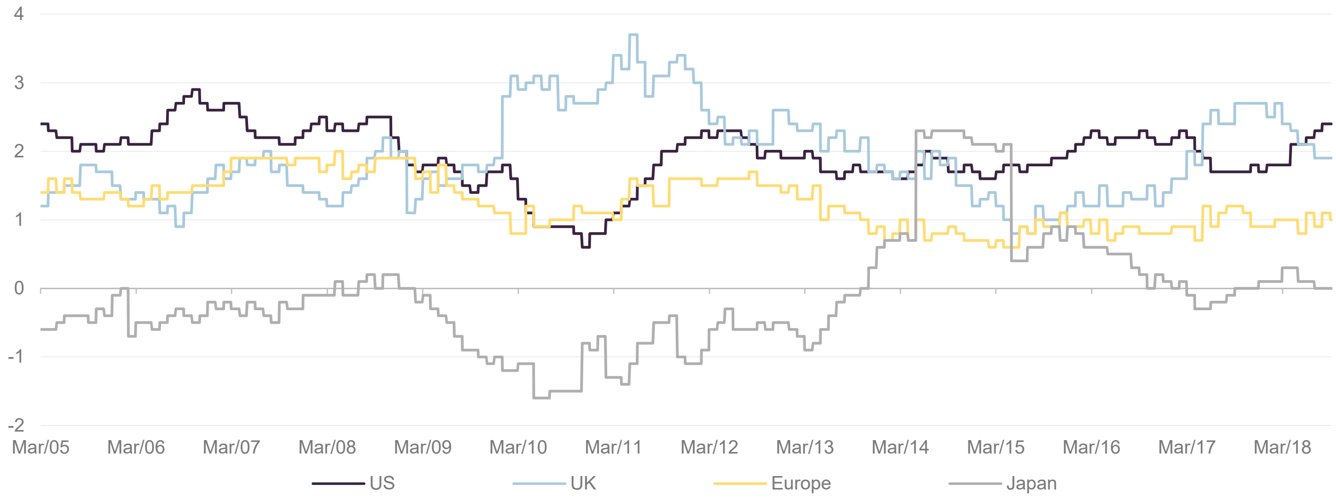
Peter says, and we would agree, that inflation management is similar to ‘turning an oil tanker’. He believes that if the authorities are to stop inflation pressures building up in the system, they need to be acting now. The counter argument that some commentators have put forward is that the developed world, with its ageing population, stretched government finances and limited negotiating power of labour could be stuck in a Japan-style deflationary spiral.

Figure 2: Wage rates indices year-on-year change (%)



Source: Bloomberg

Figure 3: Consumer price index year-on-year change (%)



Source: Bloomberg

Figure 4: US yield differential (10-year government bond yield less two-year government bond yield)

Source: Bloomberg

Figure 5: UK yield differential (10-year government bond yield less two-year government bond yield)

Source: Bloomberg

Looking at Figures 4 and 5, which illustrate the yield differential between 10-year and two-year government bonds, for the US and UK respectively, Peter says that while the yield curve remains steep, it is flattening (this appears to be more apparent for the US) and both markets curves have moved closer to inversion.

Asset allocation

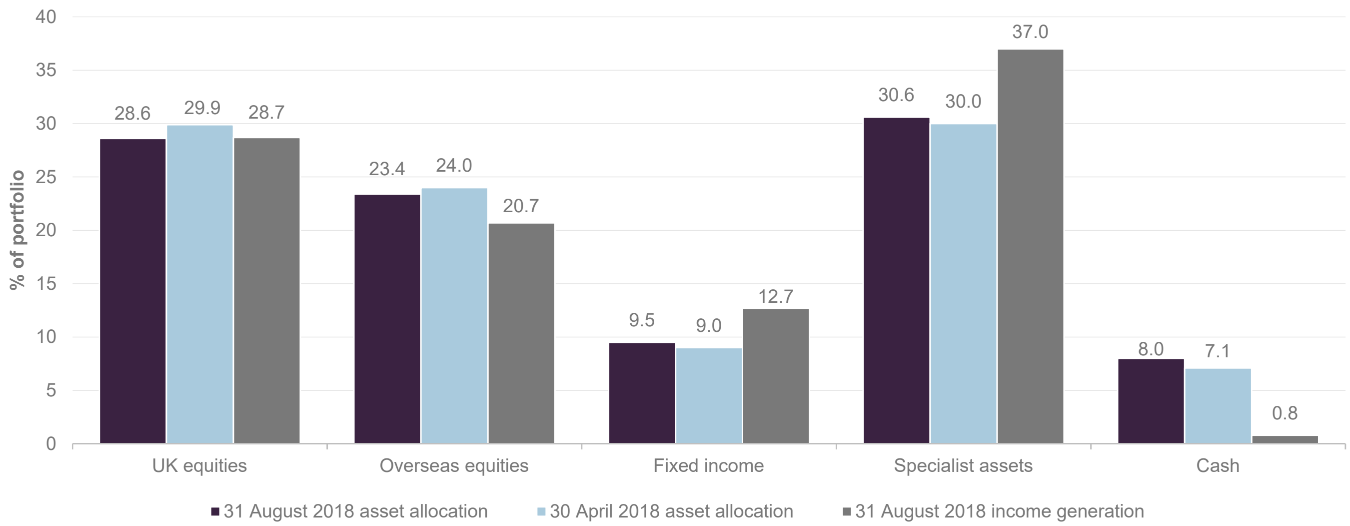
One per cent reduction in equity exposure every couple of months

The manager is aiming for SIGT to be significantly underweight equities by 2020.

The team at Seneca IM set out its intention, in mid-2017, to reduce SIGT's allocation to equities during the next few years with the aim of being significantly underweight by 2020. (We first commented on this in our **update note of 13 June 2017** and have commented on the progress made in every note since.) This process has continued since we published our **annual overview note in June 2018**. The key changes are as follows:

- A 1% reduction in SIGT's equity weighting at the end of May. This comprised a 1% reduction in SIGT's allocation to UK equities; a 1% reduction in the allocation to overseas equities (taken entirely from SIGT's allocation to Europe); a 1% increase in the allocation to the Insight Equity Income Booster Fund; and cash also increased by 1%.
- A 1% reduction in SIGT's direct UK equity holdings at the end of July. The proceeds of this were split between the Insight fund and corporate bonds.

Figure 6: Comparison end July 2018 asset allocation, end April 2018 asset allocation and end August 2018 income generation



Source: Seneca IM

May's 1% reduction in the UK equity allocation was largely achieved by exiting SIGT's holding in Victrex (discussed overleaf). The manager also made small trims to a couple of other positions to complete the reduction. The decision to also take 1% out of Europe and reallocate this to the Insight fund to maintain the overall equity allocation reduction at 1% was slightly unusual. However, SIGT's manager says that the European Central Bank has been increasingly making reference to ending its quantitative easing programme and the manager felt that it should build this into its asset allocation framework. One half of a per cent was taken from the holding in European Asset Trust and one half of a per cent was taken from the Liontrust European Enhanced Income Fund. SIGT's third European holding, the Invesco Perpetual European Equity Income Fund, was held constant.

July's 1% reduction in the UK equity allocation was achieved by exiting SIGT's holding in Diploma (discussed overleaf). Beyond this, portfolio activity has been limited as would be expected. The biggest change has been the exiting of Custodian REIT, which broadly has funded a 1% allocation to the Hipgnosis Songs Fund (see overleaf).

Victrex - sold in its entirety

Figure 7: Victrex share price

Source: Bloomberg

Victex (**www.victrex.co.uk**) is a global supplier of high-performance polymer products for the automotive, aerospace, energy (including manufacturing and engineering), electronics and medical markets. It has been a constituent of SIGT's portfolio since January 2016 (we discussed it in our **May 2016 note** – see pages 6 and 7 of that note) and has returned over 93% since that time. When SIGT initiated its position, Mark Wright, the research specialist for UK equities, took a particularly positive view on the outlook for Victrex's main product PEEK (polyether ether ketone - a semi-crystalline thermoplastic with very good mechanical and chemical resistance properties that are retained at high temperatures, allowing it to be used in a range of demanding environments).

Since SIGT initiated its position, Victrex's share price has undergone a rerating.

Mark said that Victrex had proven to be very successful in finding new applications for PEEK and had invested heavily in operating capacity, which both reduced the need for significant capital expenditure near term and acted as a significant barrier to entry. Mark's thesis appears to have been correct. Since SIGT initiated its position, Victrex's share price has undergone a rerating and it is now more expensive (its EV/EBITDA multiple has moved up from 11x to 17x while its P/E has risen to over 22x from 16x).

Mark believes the market is currently pricing in growth of 15-16% per annum for the next 10 years.

Mark believes that the company continues to have strong growth prospects, but he thinks the market is currently pricing in growth of 15-16% per annum for the next 10 years. While not impossible, his view is that this assumption is aggressive - particularly as David Hummel, Victrex's CEO for 30 years has recently retired and the company has recently seen a change of finance director. These changes, combined with Victrex's plans to move further up the value chain by manufacturing semi-finished and finished parts, (rather than more basic components such as tubes and films), introduce an element of execution risk that is not reflected in current market pricing, in Mark's view. However, SIGT's manager continues to like the company and would consider building a position again should the stock become cheaper.

Custodian REIT - sold in its entirety

Figure 8: Custodian REIT share price

Source: Bloomberg

Custodian REIT (**www.custodianreit.com**) is a London-listed real estate investment trust that invests in UK commercial property let to institutional-grade tenants on long leases. It has been a constituent of SIGT's portfolio since November 2015 and has provided a total return in the region of 35% since this time. SIGT's manager says that it likes Custodian's defensive characteristics (it considers Custodian's portfolio to be highly diversified with underlying tenants that are low risk) and thinks that the company is a high-quality, through-cycle property holding that is well supported by ongoing demand from clients of Mattioli Woods (the company was established in 2014 with a £95m seed portfolio held by clients of Mattioli Woods and managed by Custodian Capital for the previous 12 years).

However, the company has seen its premium expand over the last six months and so is not as good value as it has previously been (Custodian's premium has expanded from around 5% at the beginning of April 2018 to around 14% today). In addition, when compared to some of its peers, SIGT's manager feels that it not as active in managing its property portfolio. Seneca IM thinks that this will be very important in the late part of the property cycle. (This was an important consideration behind the decision to reintroduce Ediston Property to SIGT's portfolio, towards the end of 2017.) The sale of Custodian largely funded the purchase of Hipgnosis Songs Fund (also a specialist asset within SIGT's asset allocation) which is discussed below.

Diploma - sold in its entirety

Figure 9: Diploma share price

Source: Bloomberg

Diploma (**www.diplomaplc.com**) operates in three business segments – life sciences, seals and controls. The company has a good track record of growing its sales, around 77% of which are outside the UK, and it has performed well post Brexit, benefitting from sterling's depreciation. SIGT's manager considers it to be a very high-quality business.

The company's March 2018 trading statement was well received by the market and its share price has risen 24.3% since the announcement. The company has also re-rated significantly since SIGT first invested in September 2015 (a return in the region of 125%) and it has become more expensive (EV/EBITDA has increased from 11x to 17x).

> The company has grown very strongly and was an obvious candidate when the team were looking to reduce SIGT's UK equities allocation.

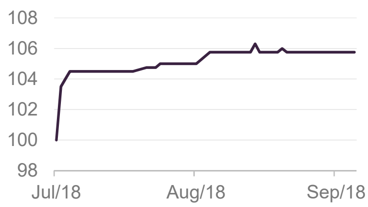
Mark Wright, the research specialist for UK equities, thinks that a strong rerating is certainly justified. The company has grown very strongly. Mark believes that, when it announces full-year results for the year ending 30 September 2018, Diploma will have had its strongest two years of organic growth, with the prospect of more to come. However, as a value investor, Mark considered Diploma to be the obvious candidate for a sale when the team were looking to reduce SIGT's UK equities allocation by 1% at the end of July 2018. Mark was also conscious that, with the departure of Bruce Thomas, Diploma's previous CEO of 20 years, there is the potential for increased execution risk, particularly if Nigel Lingwood, the current finance director also decides to retire. Mark believes that both have been key to Diploma's success over the last 10 years.

> SIGT's manager would consider building a position again should Diploma become cheaper.

Despite exiting the position in full, SIGT's manager continues to like Diploma, which has been very profitable for SIGT. It would consider building a position again should the stock become cheaper.

Hipgnosis Songs Fund – SIGT invested at IPO to initiate a position

Figure 10: Hipgnosis Songs Fund share price



Source: Bloomberg

In an IPO that raised gross proceeds of £200.2m, Hipgnosis Songs Fund (**www.hipgnosissongs.com**) listed on the specialist fund segment of the London Stock Exchange on 11 July 2018 (ticker: SONG). It is a Guernsey-domiciled investment company established to offer a pure-play exposure to songs and associated musical intellectual property rights. Once substantially invested, Hipgnosis aims to pay a dividend of 5% per annum (3.5% during the first year), which it also intends to grow, and it is targeting a total NAV return of 10% over the medium term (Hipgnosis' manager earns a performance fee if this hurdle is reached).

SIGT's manager says that, while music revenues have previously been in decline for some 15 years, due to piracy and illegal downloading, these are once again rising strongly. Global music-consumption revenues totalled some $54bn in 2015, but are expected to be in excess of US$100bn by 2030 (source: Goldman Sachs, Stairway to Heaven Report October 2016). Seneca IM says that new technology, which allows the expansion of mass consumption, streaming and improved ease of revenue capture, have made this possible.

Music streaming services provide a cheap and cost-effective solution for users driving piracy and illegal downloading into terminal decline. Global music-consumption revenues are growing strongly.

Specifically, the advent of music-streaming services (such as Spotify, Deezer, Amazon Music, Apple Music and Youtube Music to name a few), have provided a cheap and cost-effective solution for music fans. This, coupled with an effective crack down, has meant that users' interest in 'pirated' music has fallen into terminal decline.

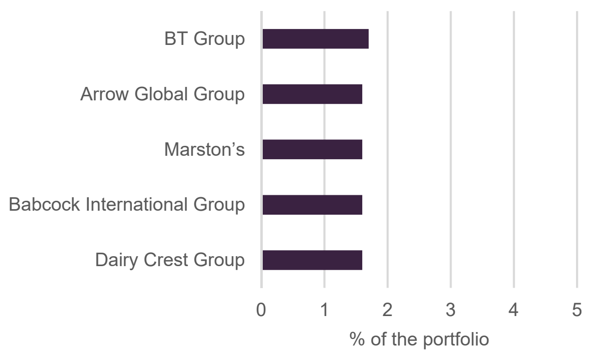
Revenue collection, which was previously an archaic and messy process (leakages were extensive and it took considerable time for royalties to accrue to the writer) has been improved dramatically with new technology that scans the globe for music usage and then collects the royalties. Hipgnosis outsources this to Kobalt (**www.kobaltmusic.com**), a specialist music-royalty-collection and portfolio administration service. Kobalt, which has been operating since 2000, has a platform that monitors nearly every radio station, if not all, in the world. As the largest 'neighbouring rights' administrator in the world, Kobalt has long-established relationships with collection societies, allowing it to collect directly and minimise society commissions.

Merck Mercuriadis is very well connected in the music industry and has a strong sense of which catalogues to buy – both in terms of income generation and future growth potential.

The fund's investment adviser is The Family (Music) Limited, which was founded by Merck Mercuriadis, a music-industry veteran and former CEO of Sanctuary Records. Seneca IM says that Merck is very well connected in the music industry and has a strong sense of which catalogues to buy – both in terms of income generation and future growth potential. Seneca IM says that Sanctuary had a reputation for signing artists with long-term appeal - usually artists that would now be considered 'heritage' acts that have had a long career and a steady fan base.

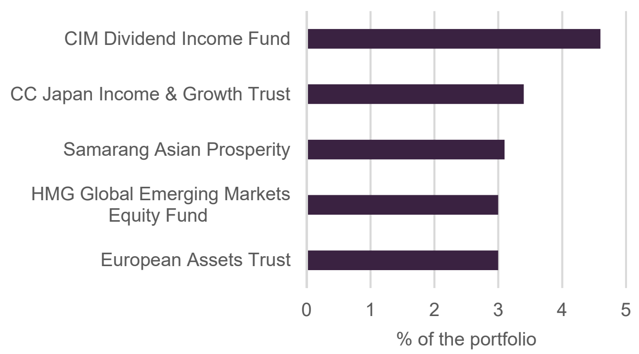
Largest investments

Figure 11: Top UK equity positions as at 31 August 2018



Source: Seneca IM

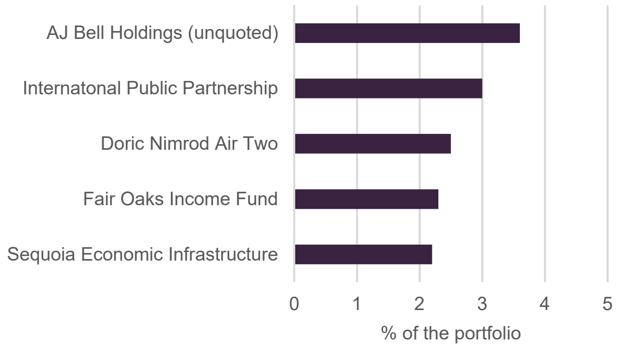
Figure 12: Top five overseas equity positions as at 31 August 2018



Source: Seneca IM

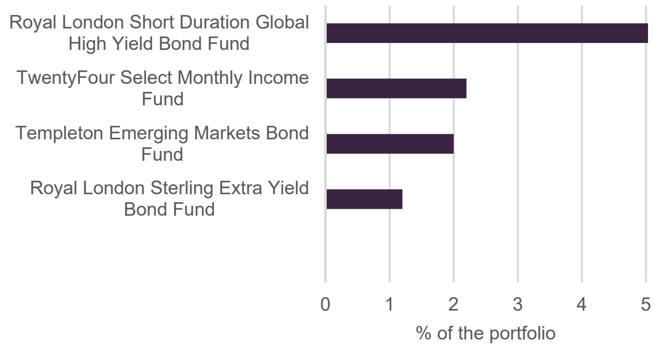
Figures 11, 12, 13 and 14 show the largest positions in each part of the portfolio as at 31 August 2018. Details of the rationale underlying some of these and other positions can be found in our previous notes (see page 12 of this note). Many of the names will be familiar to readers of our previous notes on SIGT, particularly for the specialist asset and fixed income positions. Some of the more interesting changes are seen within the overseas equities allocation and these are discussed overleaf. Readers should see page 10 of our **June 2018 annual overview note** for more information on the HMG Global Emerging Markets Equity Fund. However, both the HMG fund and the other two Asian funds discussed overleaf, have a value approach, good levels of distribution to contribute to the SIGT's revenue income, high active share portfolios, a small and mid-cap bias to gain exposure to less well-researched areas of the market and stated AUM limits.

Figure 13: Top five specialist asset positions as at 31 August 2018



Source: Seneca IM

Figure 14: All fixed income positions as at 31 August 2018



Source: Seneca IM

Samarang Asian Prosperity Fund

The manager applies traditional value investing techniques, to the very small-cap regions of the Asian markets.

The fund is closed to new investment to ensure that the opportunity set remains as wide as possible.

This is an open-ended small-cap pan Asian fund, managed by Greg Fisher at Samarang Capital (**www.samarangcapital.com**), that invests in listed equities using a long only strategy. Greg uses traditional value investing techniques, which he applies to the very small-cap regions of the Asian markets. These companies typically have no analyst coverage, and very little buy-side interest can be found, increasing the opportunity for the manager to find mispriced securities. The fund is around $400m in size and is hard closed to new investment. This has been done to ensure that the opportunity set remains as wide as possible.

The fund's two largest country exposures are Japan and Vietnam. Tom Delic, Seneca IM's research specialist for 'third-party funds – Asia/emerging', says that Vietnam is interesting because a number of the companies owned within the Samarang portfolio have written down their long-term economic assets to effectively zero (for example, a power plant), yet the equities still trade at or below tangible book value. Tom says that these are not distressed businesses and that they often have minimal or no debt and deliver healthy yields (10%+ in some cases).

CIM Dividend Income Fund

The CIM Dividend Income Fund is an open-ended fund with a focus on small-and-mid-cap equities with a value approach.

Like the Samarang Asian Prosperity Fund, this open-ended fund also has a focus on small-and-mid-cap equities and its AUM is similarly limited (currently to around $180m). The fund is managed by James Morton at CIM Investment Management (**www.ciminvest.com**), and his team in Singapore/Indonesia, who look for fundamentally sound businesses that have had some sort of temporary dislocation to the share price, causing the dividend yield to rise. The team then analyses whether the dividend is sustainable, with the aim of providing a bond like return in the form of a 6% yield, along with capital returns when valuations mean revert. This income strategy has been effective – the long-term track record is one of providing a 16% per annum total return including delivering a 6%+ yield to investors since 2001.

The fund's largest exposure is to China, through Hong Kong listings, with real estate an area of interest in recent years.

Performance

Figure 15: Cumulative total return performance to 31 August 2018

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)	Strategy change*
SIGT NAV	(1.5)	(1.3)	0.3	(1.0)	31.2	46.6	85.1
SIGT share price	(0.4)	(0.4)	1.4	0.5	36.5	64.7	119.2
Flexible Investment NAV	0.1	1.3	2.2	2.9	31.3	40.0	63.2
Flexible Investment share price	0.1	1.0	1.7	4.0	35.9	46.2	67.2
Blended benchmark**	0.7	2.1	4.2	8.7	17.3	25.8	30.8
MSCI UK	(3.3)	(2.0)	5.1	3.6	33.3	38.3	66.6
MSCI World	2.2	6.9	10.5	12.7	68.7	99.2	150.7

Source: Morningstar, Marten & Co. *Note: strategy change was approved by shareholders on 18 January 2012. Please see our November 2015 initiation note for more details. **Note: SIGT's benchmark is Libor + 3% from 18 January 2012 changing to CPI + 6% with effect from 7 July 2017.

Peer group and benchmark-beating returns with lower volatility – **click here** to see the QuotedData website for up-to-date figures.

Looking at Figure 15, it can be seen that SIGT's recent performance has been somewhat muted. While this is consistent with the manager's view and strategy (we are increasingly late cycle and the manager is shifting away from equities as they peak), this has eaten modestly into SIGT's long-term performance record (further discussion is provided in the performance attribution section below). SIGT's NAV and share-price returns are generally behind those of its peer group, the indices and blended benchmark for the periods up to one year.

It remains our view that, for a strategy such as SIGT's, it is the longer-term horizons over which performance is best assessed. In fact, the manager considers poor short-term performance to be inevitable from time to time and it should be regarded simply as the cost of good long term performance.

It should also be noted that SIGT has achieved these returns, with lower volatility than the average of its peer group, over all of the time periods provided. Its return volatility has also been lower than that of both the MSCI UK and MSCI World indices (see Figure 16).

Figure 16: Annualised standard deviation of NAV returns to 31 August 2018

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)	Strategy change*
SIGT NAV	4.85	5.71	6.58	6.59	10.18	9.60	9.30
SIGT share price	2.44	4.30	5.17	5.26	5.51	5.88	6.12
Flexible Investment NAV	6.24	6.58	8.50	8.83	9.92	11.03	11.29
Flexible Investment share price	8.40	10.12	10.73	11.02	11.95	12.28	12.85
MSCI UK	13.79	14.27	14.24	13.12	16.68	16.22	16.20
MSCI World	8.14	9.12	12.84	13.63	14.85	14.36	14.14

Source: Morningstar, Marten & Co. *Note: strategy change was approved by shareholders on 18 January 2012. Please see our November 2015 initiation note for more details.

Performance attribution

SIGT's equities underweight exposure has acted as a drag as equity markets have moved up. The underweight exposure should be performance enhancing if equity markets turn.

The manager has provided us with some attribution data, which is summarised in Figure 17. The recent trend has been one of modest underperformance against the benchmark and, looking at the attribution, the bulk of this (for all three time horizons provided) has come from the equities portfolio, and generally from overseas equities. The asset-allocation effect has consistently been minor, but reflects SIGT's ongoing equities underweight and the fact that we are increasingly late cycle. Assuming that the manager's investment thesis is correct, the equities underweight will be performance enhancing once markets have turned. Looking within overseas equities, the underweight to North America has been a mild drag on performance as this market has continued to move up, while Europe ex-UK has tended to drag for more stock-specific reasons. SIGT's underweight to fixed income has aided performance (both in terms of asset allocation and stock selection), while SIGT's allocation to specialist assets has seen good stock selection. This is particularly apparent over the three-year horizon.

Figure 17: Performance attribution (versus benchmark) to 31 July 2018

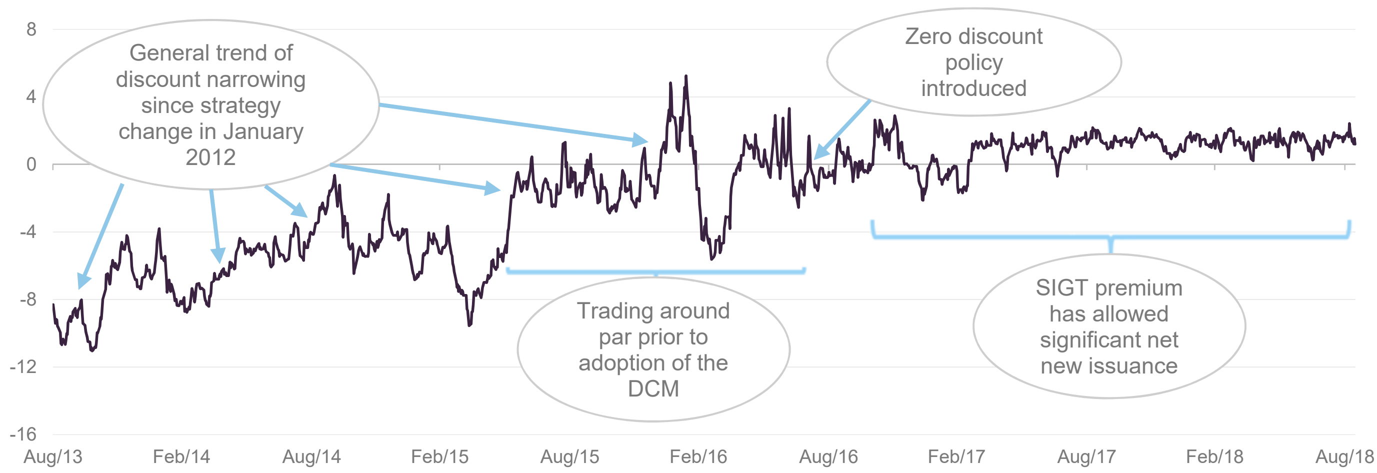
	Asset allocation 6 months (%)	Stock selection 6 months (%)	Asset allocation 1 year (%)	Stock selection 1 year (%)	Asset allocation 3 years (%)	Stock selection 3 years (%)
UK equities	(0.1)	(0.9)	(0.1)	(1.8)	(0.1)	0.3
Overseas equities	0.3	(1.8)	(0.2)	(2.1)	0.7	(5.1)
Fixed income	0.1	0.1	0.3	0.2	0.7	0.4
Specialist assets	(0.5)	1.5	(0.5)	0.8	0.6	3.9
Cash	(0.3)	0.0	(0.4)	0.0	(1.2)	0.0
Total (Gross asset value)	(1.0)	(1.1)	(0.9)	(2.9)	0.7	(0.5)

Source: Seneca IM, StatPro

SIGT's DCM continues to facilitate stock issuance

As illustrated in Figure 18, SIGT's discount control mechanism (DCM), which went live on 1 August 2016, continues to keep the trust trading close to asset value. We have previously said that, by giving investors confidence that they can enter and exit SIGT at close to NAV, the DCM should allow SIGT to attract new shareholders and grow its asset base over time, if it continues to provide low-volatility returns that are attractive to investors. Figure 18 illustrates that SIGT's DCM has been successful in this regard.

Figure 18: Premium/(discount) over five years



Source: Morningstar, Marten & Co.

> SIGT's number of shares in issue has grown by 9.4% YTD, raising £7.33m for the trust.

SIGT's number of shares in issue has grown by 9.5% year to date and 5.6% during the last six months, raising £7.44m and £4.55m respectively for the trust. Net issuance of this scale illustrates that there is demand for SIGT's strategy. The asset growth it has led to is positive in our view as, all things being equal, it should serve to lower its ongoing charges ratio and further support liquidity, for the benefit of all shareholders.

It should also be noted that, while the overwhelming trend since the introduction of SIGT's DCM has been one of share issuance, the DCM is proven for both issuance and repurchases (see page 8 of our **January 2018 update note** for more details).

Fund profile

Further information regarding SIGT can be found at Seneca IM's website: senecaim.com

SIGT's aim is to grow both income and capital through investment in a multi-asset portfolio and to have low volatility of returns. Its portfolio includes allocations to UK equities, overseas equities, fixed income and specialist assets.

SIGT is designed for investors who are looking for income, want that income to grow, want the capital of the investment to grow and are seeking consistency or lower volatility in total returns. A pure bond fund could meet the first of those needs and 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 objectives.

Seneca Investment Managers – a multi-asset value investor

Seneca IM is a multi-asset value investor. It takes a team approach

SIGT's portfolio has been managed by Seneca Investment Managers (Seneca IM), and its forerunners, since 2005. Seneca IM describes itself as a multi-asset value investor. We think the combination of multi-asset investing with an explicit value-oriented approach may be unique to Seneca IM. The idea is that Seneca IM can allocate between different asset classes and investments, emphasising those that offer the most attractive opportunities and yields, making asset allocation, direct UK equity and fund selection (for access to other overseas equities and other asset classes) following a value-based approach.

Previous publications

Readers interested in further information about SIGT, such as investment process, fees, capital structure, trust life and the board, may wish to read our annual overview note ***Cutting back on equities***, published on 21 June 2018, as well as our previous update notes and our initiation note (details are provided in Figure 19 below). You can read the notes by clicking on them in Figure 19 or by visiting our website.

Figure 19: Marten & Co. previously published notes on SIGT

Title	Note type	Date
Low volatility and growing income	Initiation	2 November 2015
On track for zero discount policy	Update	11 May 2016
In demand and no discount	Update	16 September 2016
Celebrating five years since strategy change	Annual overview	10 March 2017
Changing tack	Update	13 June 2017
Steady reduction in equity exposure	Update	13 September 2017
Walking the walk	Update	16 January 2018
Cutting back on equities	Annual overview	21 June 2018

Source: Marten & Co.

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IMPORTANT INFORMATION