EDISON

Seneca Global Income & Growth Trust

More than five years since mandate change

Investment trusts

Seneca Global Income & Growth Trust (SIGT) aims to generate income and long-term capital growth across multiple asset classes with low volatility. The trust adopts a long-term strategic asset allocation to equities (60%, split 35% to UK and 25% to overseas – with modest US exposure), fixed income (15%) and specialist assets (25%, generally yielding 5-8%). Shorter-term tactical asset allocations are made with a view to enhancing portfolio returns. For UK equity exposure, SIGT focuses on mid-cap companies, which over time tend to outperform the broader market. SIGT retains zero exposure to developed market government bonds, which the manager considers expensive. Following the change in mandate in 2012, SIGT's NAV total return has outperformed the FTSE All-Share index, with significantly lower volatility; while dividends and reserves have grown every year.

12 months ending	Total share price return (%)	Total NAV return (%)	Benchmark (%)	FTSE All-Share (%)	FTSE All-World (%)
28/02/13	21.3	17.6	3.7	14.1	15.7
28/02/14	13.1	9.4	3.5	13.3	7.4
28/02/15	11.1	7.4	3.5	5.6	17.5
29/02/16	2.7	(1.3)	3.6	(7.3)	(2.1)
28/02/17	22.3	20.8	3.5	22.8	37.7

Source: Thomson Datastream. Note: 12-month discrete total returns. Benchmark is an absolute return of 8% per year until January 2012 and three-month Libor +3% thereafter.

Investment strategy: Multiple income streams

SIGT employs a clearly-defined, research-driven process aiming to find value across a range of asset classes – investment in UK equities is direct, while investment in other areas is primarily via funds. At Seneca Investment Managers (SIM) there is a team of five managers, who all contribute investment ideas; each is assigned responsibility for one of the five areas in which SIM makes active decisions: tactical asset allocation, UK equities, overseas equities, fixed income and specialist assets. Gearing of up to 25% of net assets is permitted.

Market outlook: Equity yields relatively attractive

Despite equities positively rerating during 2016 in both developed and emerging markets as investors shook off macro concerns and focused on the potential for higher economic growth, going forward, share prices could be supported by higher corporate earnings. Investor sentiment is bullish and overall equity dividend yields remain attractive versus developed market government bond yields. For investors seeking income and long-term capital growth, a fund with global exposure, predominantly in equities, may hold some appeal.

Valuation: Trading at a small premium to NAV

SIGT's shares are currently trading at a 0.7% premium to cum-income NAV, this compares to the 0.4% average discount of the last 12 months (range of a 3.3% premium to a 5.6% discount), and the discounts of the last three, five and 10 years (range of 2.5% to 6.9%). Since the change in mandate in 2012, SIGT has regularly increased its annual dividend; its prospective yield is 3.6%, which compares favourably to its peers in the AIC Flexible Investment sector.

23 March 2017

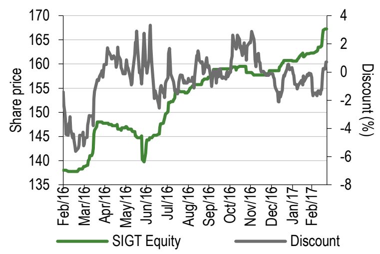
Price	**167.3p**
Market cap	**£67m**
AUM	**£72.5m**

NAV*	164.9p
Premium to NAV	1.4%
NAV**	166.1p
Premium to NAV	0.7%

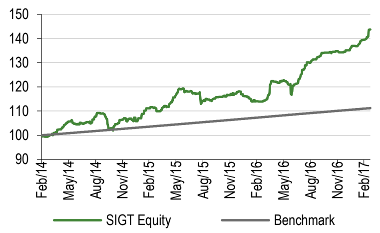
*Excluding income. **Including income. As at 21 March 2017.

Prospective yield	3.6%
Ordinary shares in issue	39.9m
Code	SIGT
Primary exchange	LSE
AIC sector	Flexible Investment

Share price/discount performance



Three-year cumulative perf. graph



52-week high/low	167.3p	138.3p
NAV* high/low	166.9p	136.0p

*Including income.

Gearing

Gross*	10.8%
Net*	6.8%

*At 28 February 2017.

Sources for this column: Thomson Datastream, SIGT

Analysts

Mel Jenner	+44 (0)20 3077 5720
Gavin Wood	+44 (0)20 3681 2503

investmenttrusts@edisongroup.com

Edison profile page

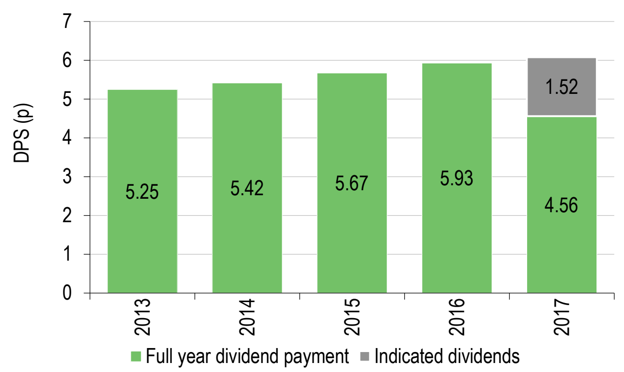
Seneca Global Income & Growth Trust is a research client of Edison Investment Research Limited

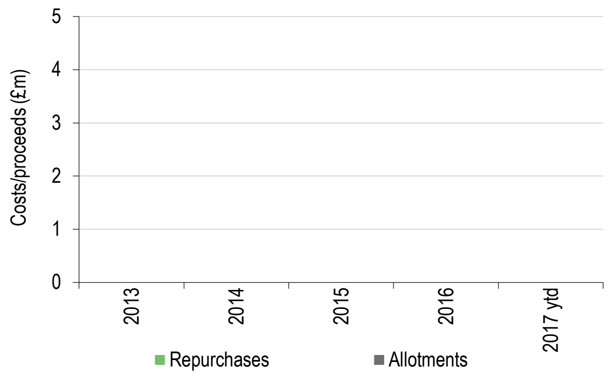
Exhibit 1: Trust at a glance

Investment objective and fund background	Recent developments
SIGT's objective is to outperform three-month Libor plus 3.0% over the longer term, with low volatility and the prospect of income and capital growth, through investment in a multi-asset portfolio including UK and overseas equities, fixed-income securities, property and specialist assets. The trust changed its name from Midas Income & Growth in October 2014.	■ 8 February 2017: Third interim dividend 1.52p announced (+3.4% y-o-y). ■ 2 December 2016: Six months report to 31 October 2016. NAV TR +10.1% versus benchmark TR +1.8%. Share price TR +9.8%. ■ 16 November 2016: Second interim dividend 1.52p announced (+3.4% y-o-y).

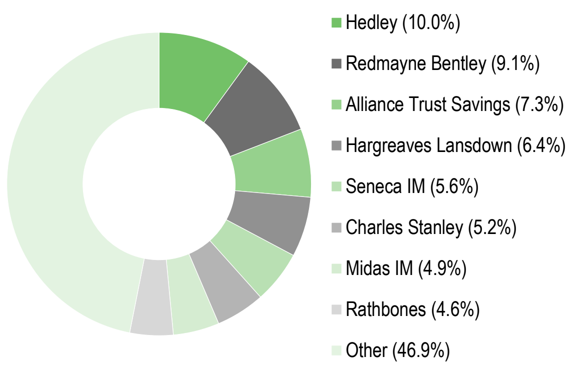
Forthcoming		Capital structure		Fund details	
AGM	July 2017	Ongoing charges	1.60%	Group	Seneca Investment Managers
Final results	June 2017	Net gearing	6.8%	Managers	Seneca team
Year end	30 April	Annual mgmt fee	0.90% of market cap up to £50m, 0.65% above £50m	Address	10th Floor Horton House, Exchange 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 2461/2475
Continuation vote	Annual	Loan facilities	£11m two-year rolling (£7m drawn)	Website	www.senecaim.com/sigt

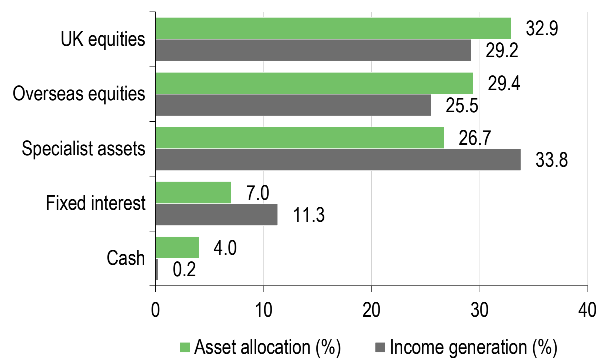
Dividend policy and history	Share buyback policy and history
Dividends are paid quarterly in September, December, March and June.	Note: Discount control mechanism was introduced at July 2016 AGM. There have been no share repurchases or allotments in the last five years.





Shareholder base (at 31 January 2017)	Portfolio distribution by capital and income generation (at 28 Feb 2017)





Top five holdings by asset category (at 28 February 2017)

	Portfolio weight %		Portfolio weight %
UK direct equities		**Fixed income**	
Essentra	1.8	TwentyFour Select Monthly Income	1.9
Phoenix Group	1.7	Royal London Short Duration Global High Yield	1.9
OneSavings Bank	1.7	Templeton Emerging Markets Bond	1.6
Britvic	1.7	Royal London Extra Yield Bond	1.2
National Express Group	1.6	Maya Gold & Silver Convertible Debentures	0.4
Overseas equities		**Specialist assets**	
Aberdeen Asian Income	4.1	AJ Bell Holdings (unquoted)	2.9
European Assets Trust	3.1	Doric Nimrod Air Two	1.7
Schroder Asian Income Maximiser	2.9	Fair Oaks Income Fund	1.7
Cullen North American High Dividend	2.6	Aberdeen Private Equity	1.6
Coupland Cardiff Japan Income & Growth	2.5	International Public Partnership	1.5

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

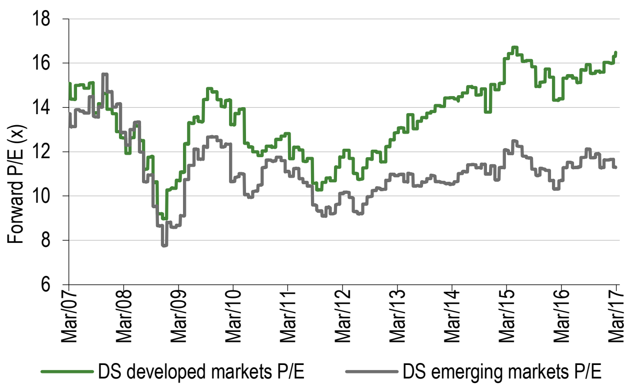
Market outlook: Relative yield still favours equities

Following a period of stock market weakness early in the year, 2016 proved to be a year of meaningful total returns for shareholders, and positive share price momentum has continued in 2017. In the UK, initial concerns about the outcome of the European referendum were replaced by a focus on the positive effect for companies with overseas earnings as a result of sterling weakness. In the US, investors are bullish on the potential for higher economic growth following the election of Trump as president. Emerging market equities also rallied in 2016 – in China, stimulative government policies assuaged fears of a sharp economic slowdown and higher commodity prices have proved beneficial for emerging economy producers. Exhibit 2 (left-hand side), shows the forward P/E valuations of both developed and emerging markets. Developed markets are currently trading at 16.5x (15% higher than early-2016 lows) and emerging markets are trading at 11.3x (10% higher). While current global equity valuations are higher than the averages of the last 10 years, there is potential for equities to be supported by higher earnings growth. Also, in terms of investor sentiment, the market for merger and acquisitions and initial public offerings is buoyant.

Although interest rates are starting to rise on the back of higher inflation, equity yields remain considerably higher than bond yields (Exhibit 2, right-hand side). For investors seeking exposure to a global portfolio of multi-assets, with a majority exposure to equities, a fund with a clearly defined investment strategy with a diverse income stream and low volatility, may be of interest.

Exhibit 2: Datastream developed and emerging markets valuation metrics over 10 years

DS developed and emerging markets forward P/E ratios



Ratio of UK equity to 10-year government bond yields (DS indices)

Source: Thomson Datastream, Edison Investment Research

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 trust's investment manager was purchased by Seneca Asset Managers Limited with the fund management business being renamed Seneca Investment Managers Limited (SIML); the trust itself was renamed Seneca Global Income & Growth Trust, highlighting its diverse mandate. SIGT aims to generate income and capital growth with low volatility by investing in a multi-asset portfolio of equities, fixed income and specialist assets.

It is now more than five years since SIGT's mandate change in January 2012, which the board undertook aiming to improve the trust's future total returns. The dividend was rebased to what was considered a sustainable level, the fee structure was simplified and an annual continuation vote was introduced. Strategic asset allocation to overseas equities was increased by 10pp to 25% and was reduced by 10pp to 15% for fixed income. The benchmark was changed from a nominal return of 8% per year to three-month Libor +3%.

SIGT has been managed by Alan Borrows since inception in 2005, while Seneca's chief investment officer, Peter Elston, was appointed co-manager in March 2016. SIM adopts a team approach to fund management with all investment professionals contributing to the management of the portfolio, each with specific research responsibilities: Peter Elston – tactical asset allocation; Mark Wright – direct investment in UK equites; Tom Delic – overseas equities fund selection; Alan Borrows – fixed income fund selection; and Richard Parfect – specialist assets. Over the past two years, the research function has been the principal focus of the Seneca team, with named managers having only limited discretion to move away from the target portfolio, which has been agreed by the team. Alan Borrows has announced his intention to retire at the end of 2017. Given the team-based approach, SIM will not be directly replacing Borrows, but will supplement the investment team in due course.

The managers consider that SIGT's investment strategy is highly scalable. At the time of investment, up to 5% may be invested in a single security, up to 10% in any one company and up to 7.5% in unquoted securities (currently c 3%). Up to 25% may be held in cash (currently 4.0%) and gearing of up to 25% of net assets is permitted; at end-February 2017, gross gearing was 10.8%.

The fund managers: Seneca team

The managers' view: Seeking value in multiple asset classes

The managers comment that they are confident that the current expansionary phase of the business cycle will be extended – the US and UK economies are more advanced in their economic recovery, while European and Japanese economies are trailing. In the US, following the election of president Trump, there appears to be more expansive policy, with talks of tax reform, less regulation and higher infrastructure spending, which should contribute to a prolonged period of economic growth. In the UK, the managers suggest that although Brexit is a risk over the next two-to-three years, since the vote to leave the European Union, economic data has been stronger than expected, with sterling weakness providing a major boost to the economy, and there is potential for higher infrastructure spending and lower austerity, which would be positive for equities.

Commenting on Q416 UK corporate earnings releases, the managers suggest that companies with overseas earnings are benefiting from sterling weakness and earnings news has been broadly positive such as from portfolio holdings Morgan Advanced Materials and National Express, which both had positive trading and outlook statements.

SIGT seeks value in multiple asset classes; its portfolio is currently overweight equities as a whole, but underweight US equities, due to valuation; the managers are concerned that Trump's expansionary measures may already be reflected in US equity prices. Exposure to European equities has been reduced as they have benefitted meaningfully from sterling weakness and the managers are more cautious ahead of the upcoming European elections. SIGT has modest exposure to fixed income and most of the positions are quasi-equity, such as high yield bonds and emerging market debt, where although there is a risk from increasing protectionism in the US the managers comment that some countries are well financed and inflation is moderating. SIGT continues to have zero exposure to developed market government bonds as the managers consider their valuations are still unattractive.

Asset allocation

Investment process: Multiple income streams

SIM's investment style is 'Multi-Asset Value Investing'. The managers assess the likely long-term real returns from individual asset classes to determine a long-term strategic asset allocation (SAA).

The SAA is designed to meet SIGT's income and capital growth objectives with low volatility; the managers suggest that over time the SAA should generate average annual real returns of 4.8%. Coupled with a potential 2.8% annual contribution from active management, a modest benefit from gearing, less 1.5% in costs equates to c 6.0% annual shareholder real returns over time. SIGT adopts a tactical asset allocation (TAA) approach, aiming to enhance investment returns by taking advantage of the shorter-term relative attractiveness of different asset classes. Valuation considerations are primarily based on yield, in absolute and relative terms versus history.

As shown in Exhibit 3, the SAA has 60% exposure to equities (35% UK and 25% overseas), 15% to fixed income, 15% to specialist assets and 10% to property. Within UK equities, SIGT invests directly, primarily in mid-cap companies – this area of the stock market generally has higher long-term capital growth and dividend growth than the broader market and is less efficient, thus providing opportunities for active stock picking. However, the managers do hold a few larger-cap holdings; SIM took advantage of the recent share price weakness in BT to add to its position. They believe that BT's problems in its Italian division are isolated and not indicative of wider issues at the company and that the negative share price move was an overreaction. Overseas equity exposure is via third-party funds, which are actively managed and have a value approach. Fixed income exposure is also primarily via third-party funds. Specialist assets are mainly closed-end vehicles invested in sectors such as infrastructure, private equity and specialist financials. Property exposure is via REITs; they all have differentiating features and on average, offer higher yields than mainstream REITs.

Potential new holdings are subject to a peer review and changes to the portfolio have to be agreed by a majority, which acts as a risk control. Actual portfolio weights can vary modestly from the TAA, as successful positions are allowed to run or when the managers wait for income to be captured; however, any variances are limited and closely monitored.

Exhibit 3: Asset allocation ranges, long-term core and tactical asset allocations (TAA)

%	Asset allocation range	Core asset allocation (SAA)	TAA end-February 2017
UK equities	15-60	35	33.0
Overseas equities	10-40	25	29.0
Total equities	**25-85**	**60**	**62.0**
Fixed income	0-40	15	7.0
Specialist (ex-property)	0-25	15	21.0
Property	0-25	10	5.8
Cash	0-10	0	4.2
	100	**100**	**100**

Source: Seneca Global Income & Growth Trust

Current portfolio positioning

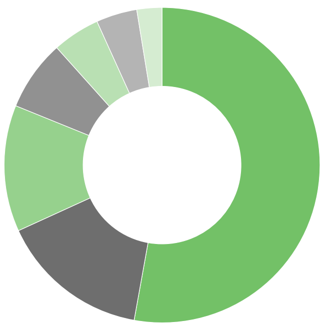
At end-February 2017, there were 61 holdings spread across the four major asset classes (22 UK positions, 12 overseas equity funds, five fixed income investments, and 22 specialist/property investments). UK equity exposure is mainly in mid-cap equities, selected for their above-average yield and profitability, with below-average valuation. Over the last two years, SIGT has been consolidating the number of overseas equities funds that it holds from 21 to 12, with the average weighting increasing from 1.5% to 2.5%. When selecting funds for overseas exposure, SIGT selects funds holding 'above-average businesses at below-average prices' – versus the MSCI World index, investments have above-average yield and return on equity with a below-average price-to-book ratio.

Exhibit 3 shows SIGT's current TAA versus SAA by asset class. It is currently 2% overweight equities; 2% underweight in UK equities versus a 4% overweight in overseas equities. Within overseas, SIGT is overweight Europe, Japan, Asia Pacific ex-Japan and global funds and underweight North America and emerging markets. It should be noted that unlike a lot of global funds, SIGT has a modest exposure to US equities. SIGT is underweight fixed income exposure, including a zero weighting in developed markets government debt. It remains underweight property and overweight other specialist assets.

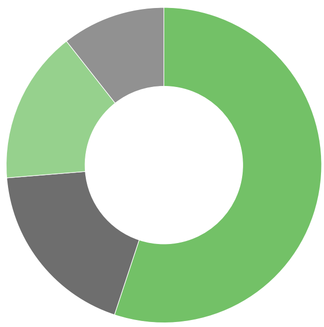
Exhibit 4 breaks the portfolio down between equity and non-equity exposure. At end-February, 62% was held in equities, with 38% in non-equity positions. Specialist asset exposure includes a c 3% portfolio holding in unquoted UK pension administration services provider AJ Bell. This position may be undervalued within SIGT's portfolio as AJ Bell is growing profits at 10-15% pa and has not been revalued since the last transaction in the shares, which occurred in May 2015.

Exhibit 4: Distribution of equity and non-equity investments at 28 February 2017

Geographic distribution of equity investments (62% of portfolio)



Analysis of non-equity investments (38% of portfolio)



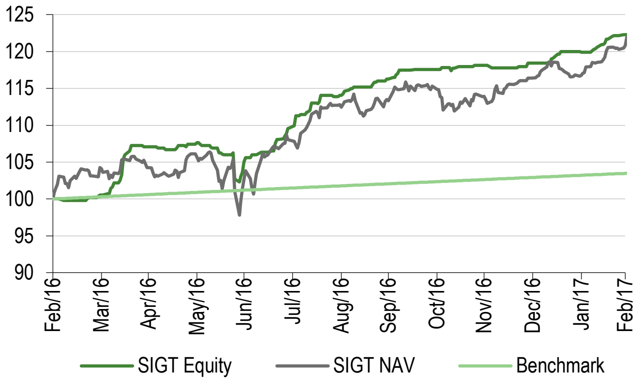
Source: Seneca Global Income & Growth Trust, Edison Investment Research

A recent addition to SIGT's UK equity exposure is OneSavings Bank (OSB); it is SIGT's first bank holding since the global financial crisis in 2007-09. OSB is a specialist lender, primarily providing buy-to-let mortgages in south-east England, along with mortgages to high net worth and borrowers with a high credit score. It has been actively acquiring assets, such as first charge residential mortgages to high net worth and complex income customers, to build out its product offering. OSB has the lowest cost/income ratio in the industry as a result of back office operations being based in India. The manager considers that the company has a strong balance sheet and is attractively valued; it has a policy to distribute at least 25% of earnings to shareholders.

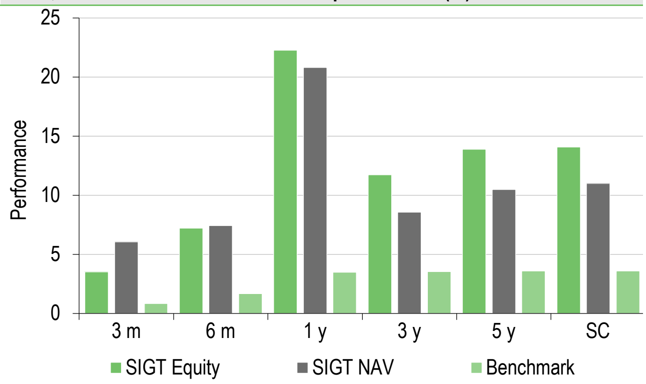
Performance: Very strong one-year performance

Exhibit 5: Investment trust performance to end-February 2017

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



Price, NAV and benchmark total return performance (%)



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

SIGT's absolute returns are shown in Exhibit 5 (right-hand side); over one year, its share price and NAV total returns of 22.3% and 20.8% respectively are significantly higher than the benchmark (3.5%). Over this period, the value of SIGT's overseas assets has been boosted by the weakness of sterling. The greatest contributor to performance over the last 12 months has come from overseas equity fund, BlackRock World Mining.

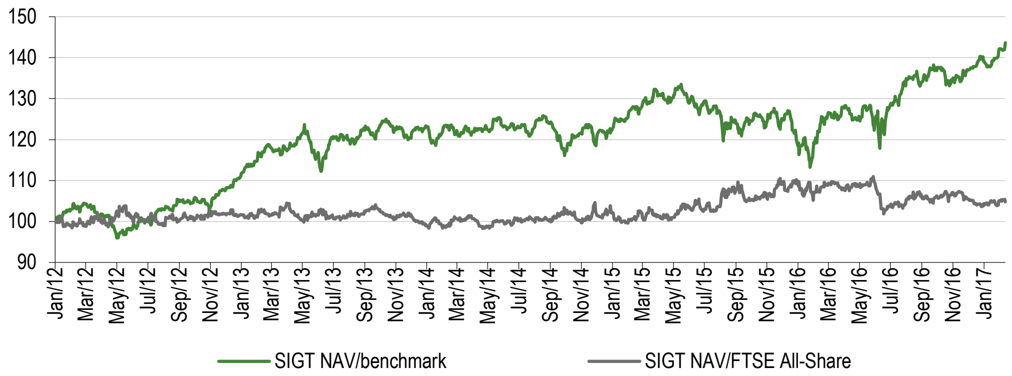
Exhibit 6: Share price and NAV total return relative performance

	Three months	Six months	One year	Three years	Five years	Since change of mandate
Price relative to benchmark	2.7	5.4	18.2	25.7	60.6	63.8
NAV relative to benchmark	5.2	5.7	16.7	15.3	38.1	42.3
Price relative to FTSE All-Share	(4.1)	(1.3)	(0.4)	16.1	23.3	21.3
NAV relative to FTSE All-Share	(1.7)	(1.1)	(1.6)	6.5	6.0	5.4
Price relative to FTSE All-World	(4.7)	(5.6)	(11.2)	(11.9)	(2.8)	(3.6)
NAV relative to FTSE All-World	(2.3)	(5.4)	(12.3)	(19.2)	(16.4)	(16.2)

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-February 2017. Geometric calculation. Benchmark is an absolute return of 8% per year until 18 January 2012 and three-month Libor +3% thereafter.

Relative returns are shown in Exhibit 6 – SIGT's share price and NAV total returns have outperformed the benchmark over all periods shown. Of interest to UK investors, we also show SIGT's performance versus the FTSE All-Share index. While outperforming over three and five years and since inception, SIGT modestly lagged over one year given its UK equity focus on mid-cap rather than large-cap companies. Mid-caps typically perform well versus the broader UK stock market over the long term, but have underperformed over the last 12 months as investors gravitated to larger companies with overseas earnings, who can benefit from sterling weakness. SIGT's management indicates that annualised NAV volatility since the mandate change in January 2012 to the end of February 2017 is significantly lower than the FTSE All-Share index (8.2% versus 13.5%). It also calculates that it is meaningfully lower than the average annualised volatility of its peers in the AIC Flexible Investment sector (10.5%).

Exhibit 7: SIGT NAV total return vs benchmark and FTSE All-Share total return since change of mandate, rebased



Source: Thomson Datastream, Edison Investment Research

Discount: So far, no utilisation of DCM

SIGT's board introduced a discount control mechanism (DCM), effective from 1 August 2016, with the aim of ensuring that its share price trades close to NAV. The board appointed PATAC to purchase shares when they trade at a small discount to NAV and issue shares when they trade at a small premium. However, to date, the board has not utilised the DCM. Renewed annually, SIGT is able to issue up to 20% of new shares, with the authority to buy back up to 14.99% – issuance above the prevailing NAV is non-dilutive. A higher number of shares would likely improve liquidity and would spread costs over a larger base.

Exhibit 8 shows SIGT's share price premium/discount to cum-income NAV over the last three years. The current 0.7% premium compares to the average 0.4% discount over the last 12 months (ranging from a 3.3% premium to a 5.6% discount), and compares to the average discounts of the last three, five and 10 years of 2.5%, 5.6% and 6.9%, respectively.

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

Source: Thomson Datastream, 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 39.9m ordinary shares outstanding. SIGT has a £11m debt facility, ending in October 2017, of which £7m is drawn; interest costs are 0.7% over Libor. The debt facility was increased by £4m in July 2016 ahead of the adoption of the DCM, but so far has not been utilised. The manager currently has no appetite to increase gearing as he suggests there is not enough value in the markets to warrant this. Gross gearing at end-February was 10.8%.

Following the change in mandate in January 2012, SIGT's annual management fee was reduced from 1.0% per year and the performance fee was removed. Seneca Investment Managers is now paid 0.90% of SIGT's market cap per year up to £50m and 0.65% per year above £50m. The management fee is allocated 50:50 to capital and income. Ongoing charges for FY16 were 1.60%, modestly higher than 1.51% in the prior year.

Dividend policy and record

Dividends are paid quarterly in September, December, March and June. Since the dividend was rebased in January 2012, the interim dividend has been the same for the first three quarters of the financial year, with an increase in the fourth interim dividend serving as an indicator of the quarterly dividends to be paid in the following year.

While there is no formal income target, the board states that it wants to pursue a progressive dividend policy. In FY16, the annual dividend of 5.93p was 4.6% higher than in FY15; it was more than covered by income, leading to a small increase in revenue reserves. The board has indicated that barring unforeseen circumstances, quarterly dividends paid for FY17 will be at least 1.52p; this would give a total annual dividend of 6.08p, which equates to a prospective yield of 3.6%.

Peer group comparison

Prior to 1 January 2017, SIGT was a member of the AIC Global Equity Income sector, it is now classified under the AIC Flexible Investment sector; a relatively new sector launched in January 2016. SIGT's managers suggest that this new classification better reflects their multi-asset approach, with a focus on income and capital growth, rather than a sole focus on income.

Exhibit 9: Selected peer group at 21 March 2017

% unless stated	Market cap £m	NAV TR 1 Year	NAV TR 3 Year	NAV TR 5 Year	Discount (ex-par)	Ongoing charge	Net gearing	Dividend yield (%)
Seneca Global Inc & Growth Trust	66.7	18.3	32.8	65.9	2.0	1.6	107	3.6
Aberdeen Diversified Inc & Growth	306.4	4.4	4.1	23.8	(11.1)	0.6	110	5.7
Capital Gearing	170.9	13.8	23.8	34.7	2.2	1.0	100	0.5
Establishment Investment Trust	39.6	29.3	38.6	41.7	(22.6)	1.3	100	2.6
Henderson Alternative Strategies	109.5	25.8	17.3	1.0	(12.7)	1.0	100	1.4
Invesco Perp Select Balanced	9.3	13.1	18.6	27.1	(1.3)	1.2	100	0.0
Miton Global Opportunities	59.5	38.5	46.2	69.6	(3.7)	1.2	100	0.0
New Star Investment Trust	74.6	21.7	35.1	40.6	(26.6)	0.9	100	0.3
Personal Assets	787.9	11.5	26.9	29.2	1.0	1.0	100	1.4
RIT Capital Partners	2,929.9	17.4	37.9	62.3	4.7	1.3	113	0.0
Ruffer Investment Company	378.7	13.3	17.8	25.4	3.2	1.2	100	1.1
Syncona	967.8	9.7	21.8		11.8	1.3	100	1.5
Tetragon Financial	1,179.1	24.8	78.2	133.8	(38.5)	1.7	100	5.4
Simple average	**544.6**	**18.6**	**30.7**	**46.2**	**(7.0)**	**1.2**	**102**	**1.8**

Source: Morningstar, Edison Investment Research. Note: TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

SIGT's NAV total return has performed broadly in line with the peer group average over one year, has outperformed over three years and has significantly outperformed over five years; SIGT highlights that its annualised volatility is lower than the peer group average. There is a broad range of discounts and premiums within the peer group; SIGT is currently one of the six trusts trading at a premium. Its ongoing charge is one of the highest and its net gearing is above average. SIGT has one of the highest dividend yields in the group, ranking third out of 13 funds.

The board

There are three directors on SIGT's board; all are non-executive and independent of the investment manager. Chairman Richard Ramsay was appointed in April 2013 and assumed his current position in September 2013; he has a background in investment banking and fund management. Ian Davis was appointed in November 2004 and became chairman of the audit committee in December 2004; he has a background in corporate finance and is a qualified chartered accountant. James McCulloch was appointed in January 2015; he was previously executive chairman of private client investment management company Speirs & Jeffrey.

Glossary

Discount control mechanism

A discount control mechanism (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.

Ongoing charge

This is a measure of the regular, recurring costs of running an investment company expressed as a percentage of the NAV.

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

Strategic asset allocation can be thought of as the broad allocation to each asset class that would be expected to achieve the investment performance objective over time. For example, a simple multi-asset fund might have a strategic asset allocation 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

Tactical asset allocation is generally used in conjunction with strategic asset allocation. Tactical asset allocation refers to decisions to deviate from time to time from strategic asset allocation. 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.

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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Frankfurt	London	New York	Sydney
+49 (0)69 78 8076 960	+44 (0)20 3077 5700	+1 646 653 7026	+61 (0)2 8249 8342
Schumannstrasse 34b	280 High Holborn	245 Park Avenue, 39th Floor	Level 12, Office 1205, 95 Pitt Street, Sydney
60325 Frankfurt	London, WC1V 7EE	10167, New York	NSW 2000, Australia
Germany	United Kingdom	US	