EDISON

Seneca Global Income & Growth Trust

Further reductions in equity exposure

Investment trusts

Seneca Global Income & Growth Trust (SIGT) is a multi-asset, value investor, aiming to generate an average total return of at least CPI +6% pa (with low volatility) over the course of a typical investment cycle, while growing its dividend in real terms. In anticipation of a global recession in 2021, preceded in 2020 by pronounced stock market weakness, SIGT's managers are continuing to reduce the trust's equity exposure. Two new investments have recently been in specialist assets, a heterogeneous asset class, which diversifies the trust's revenue stream and offers the potential for enhanced total returns and lower portfolio volatility. SIGT has a progressive dividend policy; its annual distribution has compounded by c 4% pa over the last five years, and the trust currently offers a prospective dividend yield of 3.9%.

12 months ending	Total share price return (%)	Total NAV return (%)	Blended benchmark* (%)	FTSE All-Share (%)	FTSE All-World (%)
31/01/15	7.1	7.9	3.5	7.1	17.6
31/01/16	8.1	0.1	3.6	(4.6)	(0.7)
31/01/17	18.2	19.2	3.5	20.1	33.9
31/01/18	14.0	12.5	6.5	11.3	13.4
31/01/19	(1.4)	0.8	8.4	(3.8)	0.3

Source: Refinitiv. Note: 12-month discrete total returns. *Blended benchmark is three-month Libor +3% to 6 July 2017 and CPI +6% thereafter. Past performance is not necessarily a guide to future performance.

Investment strategy: Multiple asset classes

In order to generate average annual returns ahead of the benchmark over the course of a typical investment cycle, SIGT's managers seek high-quality, undervalued securities across a range of asset classes: UK and overseas equities, fixed income and specialist assets. The investment team employs a long-term strategic asset allocation (SAA), combined with a shorter-term tactical asset allocation (TAA) to take advantage of relative value opportunities between individual asset classes, as well as actively managing portfolio holdings. Gearing of up to 25% of NAV is permitted; at end-January 2019, net gearing was 4.0%.

Market outlook: More volatile equity markets

Global stock markets experienced higher levels of volatility in the last quarter of 2018 as the Federal Reserve continued its hawkish stance despite evidence of slowing economic growth. Markets could continue to be rocky as investors have other concerns, such as the ongoing US/China trade dispute, and the uncertain outcome of Brexit negotiations. However, periods of volatility can lead to securities being mispriced, providing opportunities for investors with a longer-term view.

Valuation: Trading close to NAV

SIGT's discount control mechanism, which was introduced in August 2016, has been effective in ensuring that the trust regularly trades close to NAV. Its current 0.6% share price discount to cum-income NAV compares to average premiums of 0.7% and 0.5% over the past one and three years respectively. SIGT aims to grow its annual distribution at a rate higher than UK inflation, and the trust currently offers a prospective dividend yield of 3.9%.

21 February 2019

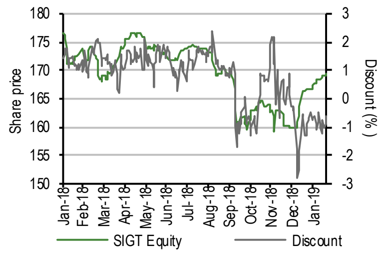
Price	**169.5p**
Market cap	**£80.0m**
AUM	**£86.6m**

NAV*	167.5p
Premium to NAV	1.2%
NAV**	170.6p
Discount to NAV	0.6%

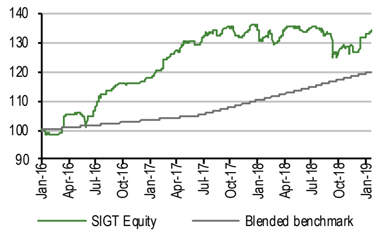
*Excluding income. **Including income. As at 19 February 2019.

Prospective yield	3.9%
Ordinary shares in issue	46.9m
Code	SIGT
Primary exchange	LSE
AIC sector	Flexible Investment

Share price/discount performance



Three-year share price perf.



52-week high/low	176.5p	159.3p
NAV* high/low	174.2p	155.9p

*Including income.

Gearing

Gross*	9.0%
Net*	4.0%

*At 31 January 2019.
Sources for this column: Refinitiv, SIGT

Analysts

Mel Jenner +44 (0)20 3077 5720

Gavin Wood +44 (0)20 3681 2503

investmenttrusts@edisongroup.com

Edison profile page

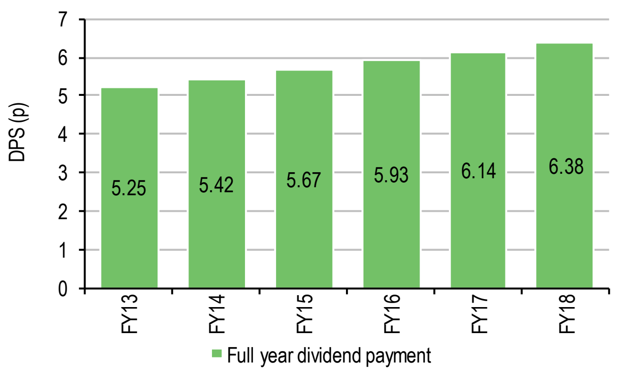
Seneca Global Income & Growth Trust is a research client of Edison Investment Research Limited

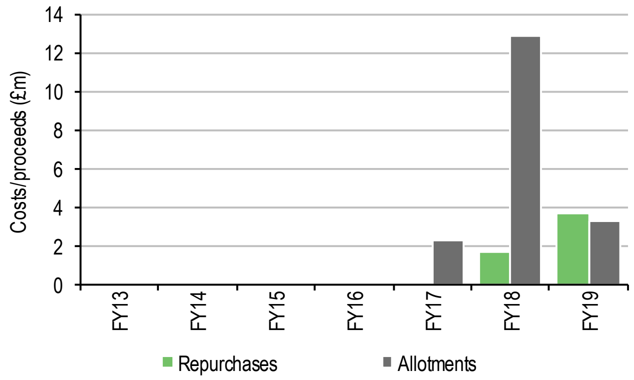
Exhibit 1: Trust at a glance

Investment objective and fund background	Recent developments
SIGT's objective is to achieve net returns in excess of CPI +6% per annum over the course of a typical investment cycle, with low volatility. It also aims to grow aggregate annual dividends at least in line with CPI, through investment in a multi-asset portfolio including UK and overseas equities, fixed-income securities and specialist assets (including property).	■ 21 February 2019: Third interim dividend of 1.64p announced (+3.8% year-on-year). ■ 4 December 2018: Six-month results to 31 October 2018. NAV TR -3.6% versus benchmark +4.3%. Share price TR -6.0%. Appointment of Peel Hunt as the company's sole broker.

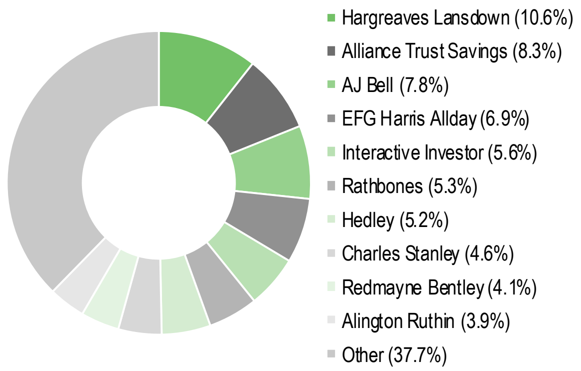
Forthcoming		Capital structure		Fund details	
AGM	July 2019	Ongoing charges	1.45%	Group	Seneca Investment Managers
Final results	June 2019	Net gearing	4.0%	Managers	Seneca team
Year-end	30 April	Annual mgmt fee	0.90% of market cap up to £50m, 0.65% above £50m	Address	10th Floor Horton House, Exchange Flags, Liverpool L2 3YL
Dividend paid	Sep, Dec, Mar, Jun	Performance fee	None		
Launch date	August 2005	Trust life	Indefinite	Phone	+44 (0)151 906 2450
Continuation vote	None	Loan facilities	£14m three-year rolling (£7m drawn)	Website	www.senecaim.com/sigt

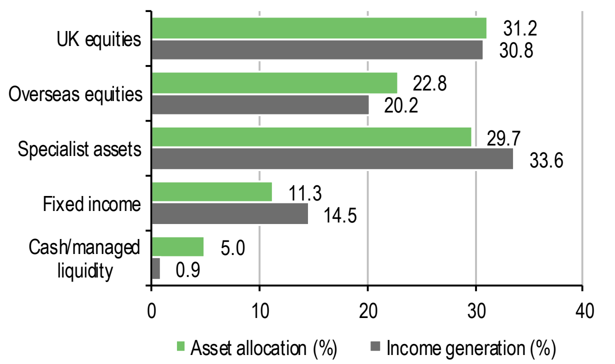
Dividend policy and history (financial years)	Share buyback policy and history (financial years)
SIGT aims to grow annual dividends at least in line with the rate of CPI.	A DCM was introduced at the July 2016 AGM, effective 1 August 2016.





Shareholder base (at 31 January 2019)	Portfolio distribution by capital and income generation (at 31 January 2019)





Top five holdings by asset category (at 31 January 2019)

	Portfolio weight %		Portfolio weight %
UK direct equities		**Fixed income**	
AJ Bell Holdings	5.2	Royal London Short Duration Global High Yield Bond	6.4
Kier Group	1.9	TwentyFour Select Monthly Income Fund	2.0
Dairy Crest Group	1.6	Templeton Emerging Markets Bond Fund	1.9
Marston's	1.5	Royal London Sterling Extra Yield Bond Fund	1.1
OneSavings Bank	1.5	N/A	
Overseas equities		**Specialist assets**	
CIM Dividend Income Fund	4.0	International Public Partnerships	2.6
HMG Global Emerging Markets Equity Fund	3.1	Doric Nimrod Air Two	2.3
Samarang Asian Prosperity Fund	3.0	Sequoia Economic Infrastructure	2.0
CC Japan Income & Growth Trust	2.6	Fair Oaks Income Fund	1.9
Prusik Asian Equity Income Fund	2.2	Merian Chrysalis Investment Company	1.9

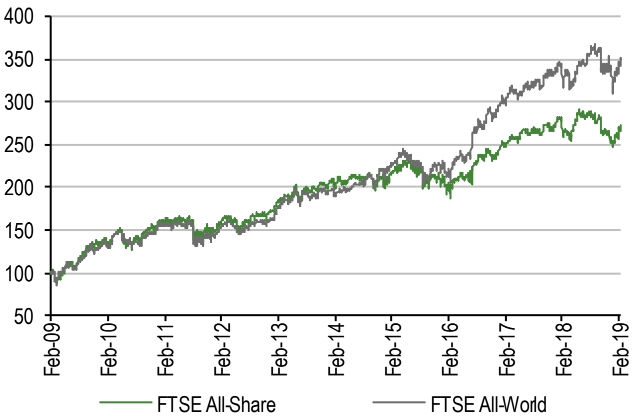
Source for charts and tables above: SIGT, Edison Investment Research, Morningstar

Market outlook: Continued share price volatility likely

Exhibit 2 (LHS) shows the performance of UK and global shares (in sterling terms) over the past 10 years. UK equities have lagged considerably since early 2016, a period during which the globally dominant US market has performed relatively well and sterling weakness has boosted returns for UK investors in overseas securities. Stock market volatility increased in 2018 versus a particularly benign period in the prior year. This environment could well continue as investors grapple with the effects of slowing global growth, higher US interest rates, the US/China trade dispute and lack of progress in Brexit negotiations. So far, corporate earnings have remained robust, so the Q418 pullback in share prices has led to more attractive valuations. As shown in Exhibit 2 (RHS), UK equities look particularly attractive on a forward P/E multiple basis, in both absolute and relative terms; they are trading at a 16.4% discount to developed markets, which is broadly twice the average 8.3% discount over the last 10 years. While the backdrop remains uncertain, investors with a longer-term view may consider the Q418 market pullback as an opportunity to purchase reasonably priced securities.

Exhibit 2: Equity performance and valuations

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



Datastream indices forward P/E valuations (x)

	Last	High	Low	10-year average	Last as % of average
UK	12.3	15.7	8.5	12.5	98
US	16.5	19.0	11.1	15.2	109
Europe	12.5	15.6	7.6	12.2	102
Japan	12.7	23.6	10.5	14.4	88
Developed markets	14.7	16.9	9.9	14.0	105
Emerging markets	11.9	13.6	8.7	11.4	104

Source: Refinitiv, Edison Investment Research. Note: Data as at 19 February 2019.

Fund profile: 'Multi-asset value investing'

Founded as the Taverners Trust and managed by Aberdeen Asset Management, the trust became the Midas Income & Growth Trust in August 2005. In March 2014, the fund's investment manager was purchased by Seneca Asset Managers Limited. The fund management business was renamed Seneca Investment Managers Limited (SIML) and the trust itself was renamed Seneca Global Income & Growth Trust, highlighting its diverse mandate. SIML is a multi-asset specialist, with a focus on value. The investment process is transparent and team-based, and the portfolio holdings are straightforward. SIML has recently been adding additional marketing resources in order to raise SIGT's profile.

The trust aims to generate low-volatility average annual total returns of at least CPI +6% (after costs) over the course of a typical investment cycle. This performance metric was introduced in July 2017; the previous benchmark was Libor +3% pa. In terms of distributions, the board aims to grow the trust's annual dividend in real terms (above the level of UK inflation). SIGT's multi-asset portfolio is made up of UK and overseas equities, fixed income, specialist assets (infrastructure, specialist financial, property and private equity) and cash/managed liquidity. SIML believes it can achieve the trust's objective via an appropriate combination of SAA, TAA, investing in undervalued assets, and the use of gearing. There are likely to be periods when SIGT's performance trails the benchmark's total return, but the managers are confident that they can achieve the trust's investment objective over the course of a typical investment cycle. A 'typical cycle' is defined as one during which total real returns from equities/bonds are in line with long-term expected averages.

SIGT's investment guidelines dictate (at the time of purchase) a maximum 7.5% of gross assets in any individual direct equity or fixed income investment, and up to 10% in any collective vehicle. Aggregate holdings in unquoted securities up to 7.5% of gross assets and up to 25% cash and equivalents are permitted. The managers may employ gearing up to 25% of NAV – at end-January 2019, gross gearing was 9.0% (net gearing of 4.0%).

SIML's investment team comprises a chief investment officer and four fund managers, all of whom have individual research responsibilities:

- Peter Elston (chief investment officer – asset allocation);
- Mark Wright (fund manager – UK equities);
- Gary Moglione (fund manager – developed markets overseas equities/fixed income and specialist financial assets);
- Tom Delic (fund manager – emerging markets overseas equities/fixed income); and
- Richard Parfect (fund manager – specialist assets, excluding specialist financials).

Elston and Moglione are responsible for SIGT's portfolio oversight, which involves decision implementation and cash/cash flow management. However, given SIML's team-based investment approach, Elston and Moglione have only limited discretion to deviate from the target portfolio, which has been agreed by the whole team.

Prior to the July 2018 AGM, SIGT was subject to an annual continuation vote. However, the board believes that the trust's active discount control mechanism provides sufficient share liquidity, so following shareholder approval, the continuation vote has been removed.

The fund managers: Seneca team

The managers' view: Following the roadmap

Elston, SIGT's asset allocation specialist, was not surprised by equity market weakness in Q418 and expects further volatility in 2019. However, he believes that it is more likely to have been a short-term correction rather than the start of a protracted bear market. He suggests that the weakness was a 'reversion to the mean' in response to market behaviour in the US, where there was significant outperformance by the FAANG stocks (Facebook, Amazon, Apple, Netflix and Google's parent Alphabet) between April and September 2018. The manager believes that investors woke up to the fact that trade frictions between the US and China are more serious than originally thought, and there were also some negative headlines from high-profile US technology companies, such as below-consensus subscriber growth at Netflix.

In terms of the global growth outlook, Elston notes that inflation and economic activity have both moderated somewhat, but given wage growth is still rising across the developed markets, he suggests inflation is likely to tick up. US and UK unemployment rates are at 50-year lows (along with low levels in the rest of Europe and Japan); the manager is confident that the historical relationship between unemployment and wage growth still holds true. However, Elston says that the world still has quite a few deflationary pressures, and in the US, Federal Reserve governor Powell has softened his stance on higher rates, having previously been quite hawkish (this change may have been a result of equity market weakness). As a result, the manager believes that the global economy is still some way from overheating and reaching the end of the cycle.

Elston is expecting a recession in 2021, preceded by a 2020 stock market sell-off. These timings have been pushed out a little on the basis that inflation seems to have moderated, leading to a more extended business cycle. While the pace of US interest rate hikes has slowed, the manager is sticking with his view that further interest rate moves in developed markets will be up rather than down. However, global monetary conditions are still very loose, so global economic growth should be reasonably well supported, although disruption is possible due to trade frictions.

SIGT is sticking with the roadmap of reducing its equity exposure in anticipation of the end of the investment cycle. Elston explains that portfolio asset allocation shifts have moved from a bi-monthly to a broadly quarterly basis, as he suggests this approach is more appropriate. Due to a lack of market liquidity around the end of 2018, the latest change to the TAA was implemented in mid-January 2019, with 2pp and 1pp reductions in the UK and Europe ex-UK exposures respectively, the majority of which was reallocated to cash/managed liquidity.

Asset allocation

Investment process: Value-based, multi-asset approach

The managers seek high-quality, undervalued securities using a 'multi-asset value investing' approach. The investment team employs a long-term SAA, with a shorter-term TAA, and active portfolio management, aiming to generate average returns in excess of the benchmark (CPI +6% pa) over the course of a typical investment cycle.

- SAA – the assumption is that future long-term returns of individual asset classes will be comparable to their historical long-term returns.
- TAA – takes account of how different asset classes typically perform at each stage of the business cycle (expansion, peak, recession and recovery). The managers assess economic indicators, such as unemployment, inflation and yield curves to determine the stage of the business cycle.

SIML employs a team-based investment approach; portfolio changes must be agreed by a majority, which acts as a risk control. Each asset class and portfolio holding has a target weighting, and while actual portfolio exposures may vary modestly from the targets, all variances are closely monitored. Moglione explains that SIGT benefits from having a relatively low level of assets under management, so does not usually encounter liquidity constraints. For investment in UK equities, the managers can access the full spectrum of opportunities, and they have a bias to mid-cap companies, which have the potential to generate higher outperformance compared with much larger companies, and may be purchased on reasonable valuations. The manager says that when selecting third-party funds, SIGT can invest in boutique products, along with more mainstream investments, and in specialist assets it can hold meaningful positions across a wide range of opportunities. Moglione says that income generation is an important consideration for SIGT's shareholders; the managers focus on sustainable yields across the varied asset classes. He explains that the trust's revenue generation is broadly split equally between UK equities, overseas equities/fixed income and specialist assets (Exhibit 1).

Current portfolio positioning

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

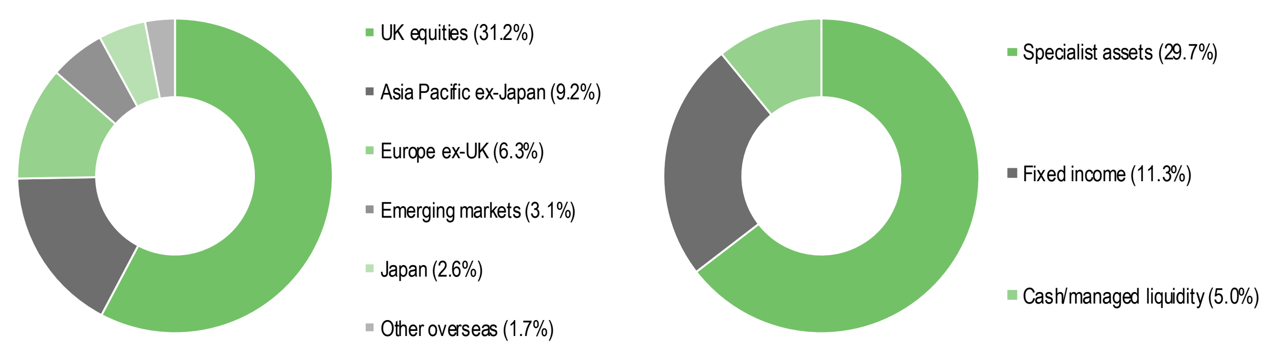
%	Asset allocation range	Core asset allocation (SAA)	TAA end-January 2019
UK equities	15–60	35	30.0
Overseas equities	10–40	25	22.0
Total equities	**25–85**	**60**	**52.0**
Fixed income	0–40	15	11.7
Specialist assets	0–50	25	28.0
Cash/managed liquidity	0–10	0	8.3
Total	**100**	**100**	**100.0**

Source: Seneca Global Income & Growth Trust

At end-January 2018, SIGT's equity TAA was 8.0pp underweight compared with the SAA (-5.0pp in the UK and -3.0pp overseas – Exhibit 3). Looking at the overseas equity allocation, SIGT favours Asia Pacific ex-Japan and global (a mining fund; both +1.5pp overweight), with underweight positions in the US (-3.5pp, zero allocation since August 2017), Europe ex-UK (-1.5pp), Japan and emerging markets (both -0.5pp). The trust is underweight fixed income, having no exposure to developed market government debt, which the managers believe remains unattractively valued. In specialist assets, SIGT favours infrastructure exposure over property, specialist financial and private equity. The trust also has an 8.3pp TAA cash/managed liquidity position (zero-weighting in the SAA).

Exhibit 4: Portfolio distribution of equity and non-equity investments at 31 January 2019

Geographic distribution of equity investments (54% of portfolio) | **Analysis of non-equity investments (46% of portfolio)**



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

SIGT's UK equity exposure is primarily direct; overseas exposure is via collective investments; fixed income and cash investments focus on capital preservation; and specialist assets offer the potential to lower volatility while enhancing returns (primarily via UK investment trusts). Exhibit 4 shows SIGT's actual portfolio breakdown at end-January 2019, split between 54% in equities and 46% in non-equity investments. Within specialist assets, 10.9% of the fund was invested in infrastructure, 8.4% in specialist financial, 7.0% in property and 3.4% in private equity. It should be noted that, following its initial public offering (IPO) in December 2018, AJ Bell is now classified within UK equities rather than specialist assets. As a private equity position, the holding was considered very low risk as it was only repriced infrequently when there was a capital injection; it is now viewed as much higher risk in both overall equity market and stock-specific terms. SIGT sold half of its AJ Bell position in the offering. It is c 5% of the trust's portfolio; the managers say that, ideally, this position size should be more in line with SIGT's other UK equity holdings.

Moglione highlights the trust's holding in UK construction company Kier Group. The firm announced a rights issue at the end of November 2018, which was a surprise to investors, as was the very low take-up. Kier's share price nearly halved on plans to issue shares at around a one-third discount to the pre-announcement stock price. Moglione explains that the managers monitor SIGT's holdings very closely, so when a company's stock price falls, its portfolio exposure is highlighted as being below target, which focuses attention. In this instance, Mark Wright, the UK equity manager, revisited his Kier investment thesis and discussed the position thoroughly with the rest of the investment team. The company has very narrow margins, and the initiative to pay government project invoices within 30 days (versus an average 58 days) would require £60–80m. However, Wright believes that, on the positive side, if these terms are applied, then margins on government contracts will need to be higher. He says that the rights issue improves Kier's financing, and believes its balance sheet is now not under threat, while the additional financing essentially future-proofs the company. Wright highlights that Kier survived the global financial crisis, has a conservative management team. SIGT partially participated in the rights issue, and the manager increased its Kier position at around 362p. This compares to the 410p issue price and the latest market close of c 500p. Moglione suggests that this holding highlights SIGT's value-based investment approach: aiming to 'buy low and sell high'.

Two relatively recent new additions to SIGT's portfolio are specialist funds Merian Chrysalis Investment Company and Woodford Patient Capital Trust. The managers are familiar with the

Merian Chrysalis team that formerly worked at Old Mutual and has a good long-term record of investing in UK small-caps. The Merian Chrysalis Investment Company launched in November 2018 and currently invests in unlisted companies, although some are late-stage and already profitable. Its portfolio is punchy, made up of around 10 holdings, and in the future, the company may retain its investment in a company after it has completed an IPO.

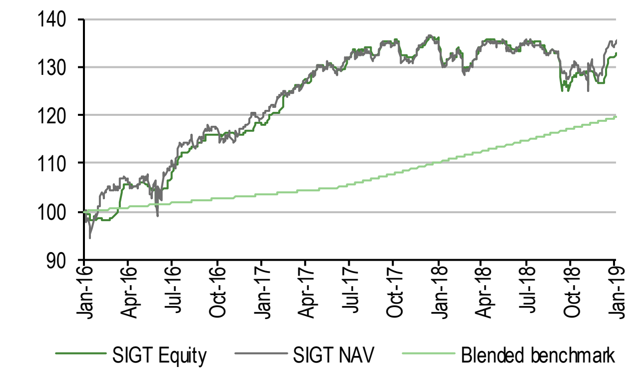
Elston explains that extended due diligence was required to initiate a position in Woodford Patient Capital Trust, as the managers needed to feel comfortable that the fund's very early-stage investments in healthcare and technology would fit in with SIGT's investment style. Manager Neil Woodford has had well documented problems, including a high level of assets under management causing liquidity issues (difficulty in exiting an underperforming position). In Q418, Woodford Patient Capital shares traded down to a meaningful discount to its NAV, which provided an attractive entry point for SIGT. The trust has a c 70-stock portfolio, and most companies have now passed the bottom of their J-curves when they require substantial cash injections. Having spent significant time researching the trust and meeting with its management team, SIGT's managers are confident that Woodford Patient Capital's portfolio is maturing and there is a better spread of companies than historically.

Performance: Outperformance since mandate change

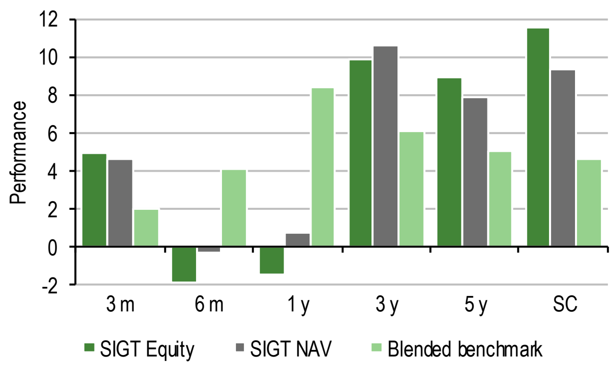
Commenting on SIGT's performance in January 2019 (Exhibit 5, LHS), Elston says that with regard to Brexit, sterling has held up as there appears to be less chance of a no deal, and mid-cap companies have outperformed the broader UK equity market. He believes that the trust continues to be well positioned for a softer Brexit outcome.

Exhibit 5: Investment trust performance to end-January 2019

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



Price, NAV and benchmark total return performance (%)



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

SIGT's recent performance was boosted considerably by the IPO of the trust's longstanding private equity holding, in financial services company AJ Bell, on 3 December 2018; SIGT was one of two outside investors in the company prior to the IPO. The IPO price was 160p (versus the trust's all-in book cost of c 86p) and AJ Bell's share price has subsequently rallied significantly (closing price of 283.5p on 19 February 2018).

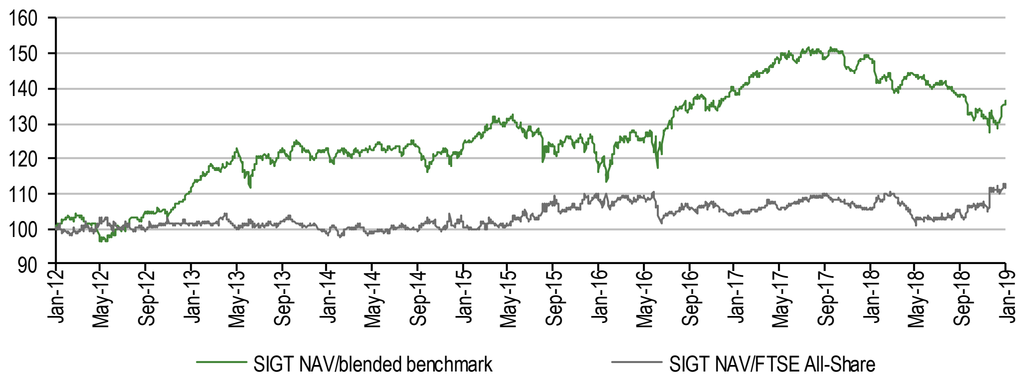
Exhibit 6 shows SIGT's relative returns; it has outperformed its blended benchmark in both NAV and share price terms over three and five years and since the change in investment mandate on 18 January 2012, while lagging over the last 12 months. It is also interesting to note the trust's outperformance versus the FTSE All-Share index over all periods shown. SIGT aims to generate low volatility investment returns; data from SIML show that, from the change in mandate in 2012 to end-January 2019, SIGT's annualised volatility was 8.3%, versus the 10.2% average for the AIC Flexible Investment sector and 13.1% for the FTSE All-Share index.

Exhibit 6: Share price and NAV total return relative performance

	Three months	Six months	One year	Three years	Five years	Since change of mandate
Price relative to blended benchmark	2.9	(5.7)	(9.1)	11.0	19.9	56.6
NAV relative to blended benchmark	2.6	(4.2)	(7.1)	13.1	14.0	36.0
Price relative to FTSE All-Share	6.4	7.2	2.5	3.3	17.2	28.7
NAV relative to FTSE All-Share	6.1	8.9	4.8	5.2	11.4	11.9
Price relative to FTSE All-World	6.1	3.2	(1.7)	(12.8)	(13.5)	(2.9)
NAV relative to FTSE All-World	5.8	4.8	0.5	(11.2)	(17.8)	(15.6)

Source: Refinitiv, Edison Investment Research. Note: Data to end-December 2018. Geometric calculation. Since change of mandate is from 18 January 2012. Blended benchmark is an absolute return of 8% per year until 18 January 2012, three-month Libor +3% to 6 July 2017 and CPI +6% thereafter.

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

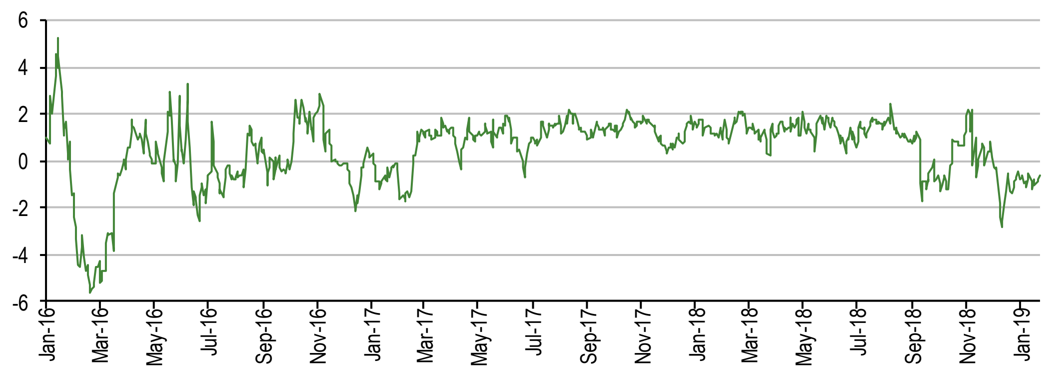


Source: Refinitiv, Edison Investment Research. Note: Change of mandate on 18 January 2012.

Valuation: Continuing to trade close to NAV

SIGT is currently trading at a 0.6% discount to cum-income NAV (range of a 2.4% premium to a 2.8% discount over the past 12 months). Over the last one, three and five years, the trust has traded at an average 0.7% premium, 0.5% premium, and 1.3% discount respectively. The board introduced a discount control mechanism (DCM) on 1 August 2016. It has since repurchased shares at a small discount (3.3m shares costing c £5.4m), while allotting shares at a small premium (10.3m shares raising c £18.6m) ensuring that the trust trades close to NAV. Renewed annually, SIGT has authority to buy back up to 14.99% and issue up to 30% of its outstanding shares in order to facilitate the DCM.

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



Source: Refinitiv, Edison Investment Research. Note: Negative values indicate a discount, positive values a premium.

Capital structure and fees

SIGT is a conventional investment trust with one class of share. There are currently 46.9m ordinary shares outstanding, with a further 2.3m held in treasury. The trust has a £14m three-year rolling credit facility at Libor +1.1% (£7m drawn). Gearing of up to 25% of NAV is permitted (4.0% net gearing at end-January 2019). SIML is paid an annual management fee of 0.90% of SIGT's market cap up to £50m, and 0.65% above this level, allocated 50:50 between the capital and income accounts. FY18 ongoing charges were 1.45% of net assets (16bp lower than 1.61% in FY17 – helped by spreading fixed costs over SIGT's larger asset base). The trust is now large enough to have an alternative investment fund manager under the Alternative Investment Fund Managers directive. PATAC, the trust's company secretary and administrator, was appointed in April 2018.

Dividend policy and record

SIGT makes quarterly distributions in September, December, March and June. The first three interim dividends are equal, with the fourth acting as an indicator for the first three in the following year. The 6.38p per share FY18 dividend (+3.9% year-on-year) was fully covered by income, and revenue reserves have grown in the last six consecutive financial years. Total dividends have increased in each of the last five financial years (Exhibit 1), compounding at a rate of c 4% pa, which is higher than the annualised rate of UK inflation.

Based on the fourth FY18 interim dividend of 1.64p per share, the FY19 distribution should be at least 6.56p per share (prospective yield of 3.9%).

Peer group comparison

Exhibit 9 shows the 12 trusts in the AIC Flexible investment sector with a market cap greater than £75m and which have been trading for more than a year. The selected peer group is made up of funds that have a variety of investment mandates. SIGT's NAV total returns are below average over one and five years and broadly in line over three years; however, its returns have been less volatile than the peer group average and those of the All-Share index (see page 7). The trust ranks ninth, sixth and fifth out of 12 funds over one, three and five years respectively. Due to its active discount control mechanism, SIGT regularly trades close to its NAV (Exhibit 8), unlike many of the peers. It has a higher than average ongoing charge, a lower than average level of gearing (where the average is skewed by UIL's high structural debt), and a dividend yield that is 1.4pp above the mean.

Exhibit 9: Selected AIC Flexible Investment sector peer group at 19 February 2019*

% unless stated	Market cap £m	NAV TR 1-year	NAV TR 3-year	NAV TR 5-year	Premium/ discount	Ongoing charge	Net gearing	Dividend yield
Seneca Global Income & Growth Trust	79.4	3.1	36.4	43.2	(0.3)	1.5	104	3.9
Aberdeen Diversified Income & Growth	382.0	(1.3)	9.7	3.2	(1.7)	0.6	109	4.5
Caledonia Investments	1,642.1	7.6	38.1	62.3	(14.2)	1.2	100	1.9
Capital Gearing	308.8	6.8	23.5	33.4	2.1	0.8	100	0.5
Hansa Trust 'A'	247.2	6.2	42.0	30.0	(26.9)	0.5	100	1.6
Henderson Alternative Strategies Trust	109.3	4.3	37.1	25.7	(16.9)	1.1	100	1.2
JZ Capital Partners	351.7	9.6	15.7	37.6	(42.1)	3.2	102	3.9
Personal Assets	945.1	1.6	15.5	29.6	1.5	0.9	100	1.4
RIT Capital Partners	3,192.5	7.6	34.1	51.2	8.1	1.0	119	0.3
Ruffer Investment Company	390.5	(1.8)	17.6	14.6	(2.3)	1.2	100	0.8
Tetragon Financial	866.7	22.5	47.4	114.7	(46.6)	2.0	100	5.8
UIL	156.6	30.1	122.0	165.0	(47.0)	1.2	173	4.3
Simple average	**722.7**	**8.0**	**36.6**	**50.9**	**(15.5)**	**1.3**	**109**	**2.5**
SIGT rank in peer group (12 funds)	**12**	**9**	**6**	**5**	**4**	**3**	**4**	**4**

Source: Morningstar, Edison Investment Research. Note: *Performance to 18 February 2019 based on ex-par NAVs. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

SIGT's board has three directors, all of whom are non-executive and independent of the manager: Richard Ramsay (appointed on 2 April 2013, chairman since 3 September 2013); Ian Davis (appointed on 1 November 2004, chairman of the audit committee since 15 December 2004); and James McCulloch (appointed on 2 January 2015). The directors have backgrounds in investment banking, corporate finance, private client investment and portfolio management.

Glossary

CPI

The Consumer Price Index, which is a measure of UK inflation.

Discount control mechanism (DCM)

A DCM will usually involve a trust buying back its own shares in the market and either cancelling them or holding them in treasury to be reissued when demand is stronger.

Gearing

Investment companies frequently employ a moderate level of borrowing to buy additional investments to increase returns when they appreciate. The risk is that gearing magnifies losses if the investments fall in value.

Libor

The London Interbank Offered Rate is a reference interest rate widely used in financial markets as a basis for lending rates or an indication of the return available on cash.

Multi-asset fund

Multi-asset funds have a mandate to invest across different asset classes such as equities, fixed income, property and other specialist areas. The fund manager will vary exposures according to market conditions, seeking to optimise the balance of risk and reward.

OECD

The Organisation for Economic Co-operation and Development. It is a group of 35 member countries that discuss and develop economic and social policy.

Ongoing charge

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

P/E ratio

A price-to-earnings ratio, which is a valuation measure of a company's share price relative to its annual net income per share.

Premium/discount to net asset value (NAV)

The net asset value of a company, including an investment company, is the value of its assets less liabilities. Depending on a range of factors, including the market's assessment of the prospects for a company or appetite for yield, its shares may trade at a price above the NAV, at a premium, or at a discount.

Strategic asset allocation (SAA)

SAA can be thought of as the broad allocation to each asset class that would be required to help achieve the investment performance objective over time. For example, a simple multi-asset fund might have an SAA of 60% global equities and 40% global bonds. Given an understanding of how global equities and global bonds would be expected to behave over the longer term, one would have an understanding of how the fund should behave over the longer term as a result of exposure to bonds and equities in the proportions mentioned.

Tactical asset allocation (TAA)

TAA is generally used in conjunction with SAA. TAA refers to decisions to deviate from time to time from SAA. Using the example cited, this might mean a decision to have only 50% in equities rather than the strategic allocation of 60% because one might have a slightly negative view on the outlook for equities.

Typical investment cycle

A typical investment cycle is defined as one in which various asset classes produce total real returns over the entire cycle that are broadly in line with their historic, and expected, long-term average real returns. The use of the term is in recognition of the likelihood there will be investment cycles, principally those during periods of higher inflation, when real returns from asset classes are lower than normal.

Volatility

This is a term used to describe the frequency and severity with which the price of an investment goes up and down.

Yield (income)

The amount of income you receive in monetary terms will be equivalent to the dividend per share multiplied by the number of shares you own. This is usually expressed annually as a percentage based on the investment's market value.

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Frankfurt
+49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London
+44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York
+1 646 653 7026
1,185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney
+61 (0)2 8249 8342
Level 12, Office 1205, 95 Pitt Street, Sydney
NSW 2000, Australia