EDISON

Seneca Global Income & Growth Trust

Finding opportunities in a polarised market

Investment trusts

Multi-asset

Seneca Global Income & Growth Trust (SIGT) has a multi-asset investment strategy, with an overriding focus on value. The team at Seneca Investment Managers aims to generate average total returns of at least CPI +6% pa over the course of a typical investment cycle. It believes that there is significant latent value within SIGT's portfolio, and due to wide disparities in the market, there are opportunities to recycle capital. The managers are reducing exposure to positions that have done relatively well, while adding to long-term opportunities that are trading on very attractive valuations. The fund has a structural bias towards the UK and sterling, which should be beneficial for its performance if there is increased clarity surrounding the UK's departure from the European Union.

12 months ending	Total share price return (%)	Total NAV return (%)	Blended benchmark* (%)	FTSE All-Share (%)	FTSE All-World (%)
31/10/15	11.8	7.4	3.6	3.0	4.2
31/10/16	15.7	12.9	3.5	12.2	30.0
31/10/17	16.7	15.1	5.1	13.4	13.9
31/10/18	(6.4)	(4.0)	8.7	(1.5)	3.8
31/10/19	11.8	10.4	8.0	6.8	11.8

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

The market opportunity

Across the global market, the preference for perceived growth stocks over more cyclical value stocks has continued, which has led to wide valuation disparities. This is very evident in the UK stock market, where companies with overseas earnings are favoured, while smaller companies with domestic operations are particularly unloved. The polarised market may well be providing significant opportunities for value managers with a longer-term view.

Why consider investing in SIGT?

- Team-based approach, seeking value across multiple asset classes.
- Given the longevity of the current bull market, managers have been de-risking the portfolio ahead of an anticipated stock market pullback in 2020.
- Medium- and long-term NAV and share price outperformance versus the blended benchmark, with lower volatility of total returns versus its peers and the UK stock market.
- Diversified and growing revenue stream; dividend yield of 3.8%.
- Active discount control mechanism provides adequate liquidity and ensures that its shares regularly trade close to NAV.

Effective use of discount control mechanism (DCM)

SIGT's board introduced a DCM in August 2016; since then, the trust's shares have regularly traded close to NAV. The current 0.7% premium to cum-income NAV compares with the range of a 3.6% premium to a 2.8% discount over the last 12 months. Over the last one, three and five years, SIGT has traded at an average 0.4% premium, 0.8% premium and 0.4% discount respectively.

26 November 2019

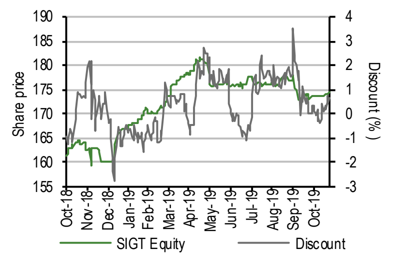
Price	**174.5p**
Market cap	**£85.9m**
AUM	**£92.4m**

NAV*	171.1p
Premium to NAV	2.0%
NAV**	173.3p
Premium to NAV	0.7%

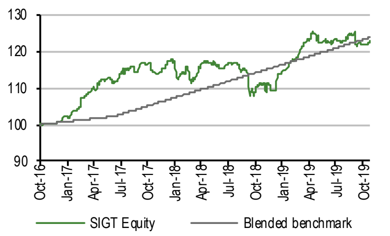
*Excluding income. **Including income. As at 22 November 2019.

Dividend yield	3.8%
Ordinary shares in issue	49.3m
Code	SIGT
Primary exchange	LSE
AIC sector	Flexible Investment

Share price/discount performance



Three-year share price perf.



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

*Including income.

Gearing

Gross*	8.3%
Net liquid*	0.9%

*At 31 October 2019.

Sources for this column: Refinitiv, SIGT

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Edison profile page

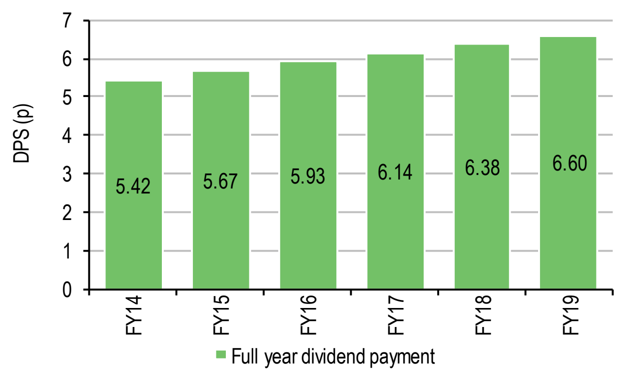
Seneca Global Income & Growth Trust is a research client of Edison Investment Research Limited

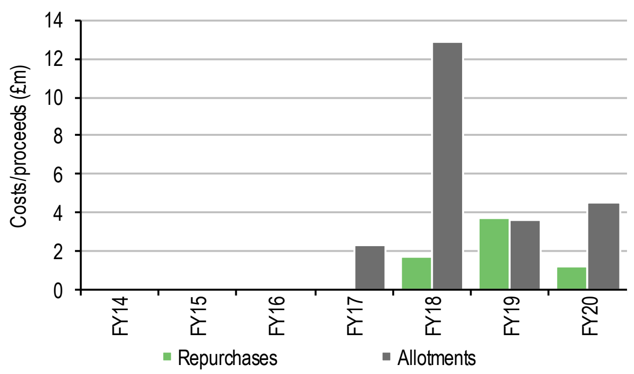
Exhibit 1: Trust at a glance

Investment objective and fund background	Recent developments
SIGT's objective is to achieve net returns in excess of CPI +6% pa 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).	■ 18 November 2019: Second interim dividend of 1.68p announced (+2.4% year-on-year). ■ 11 October 2019: Announcement that investment manager Peter Elston has resigned from Seneca Investment Managers (SIML) for personal reasons. ■ 16 August 2019: First interim dividend of 1.68p announced (+2.4% year-on-year).

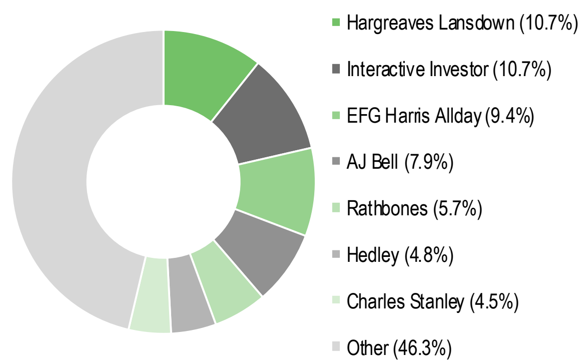
Forthcoming		Capital structure		Fund details	
AGM	July 2020	Ongoing charges	1.47%	Group	Seneca Investment Managers
Interim results	December 2019	Net liquid	0.9%	Managers	Seneca team
Year-end	30 April	Annual mgmt fee	0.90% of market cap up to £50m, 0.65% above £50m	Address	10th Floor, Horton House, Exchange Flags, Liverpool, L2 3YL
Dividend paid	Sep, Dec, Mar, Jun	Performance fee	None		
Launch date	August 2005	Trust life	Indefinite	Phone	+44 (0)151 906 2450
Continuation vote	None	Loan facilities	£14m three-year rolling (£7m drawn)	Website	www.senecaim.com/sigt

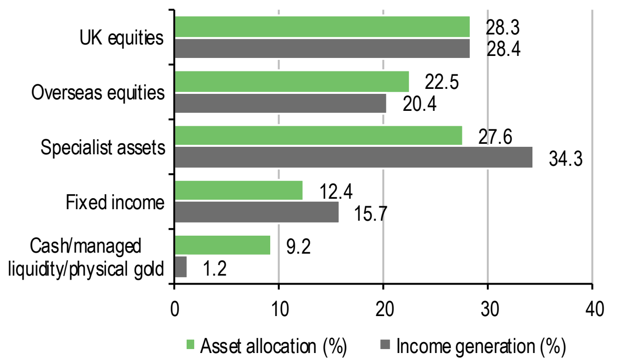
Dividend policy and history (financial years)	Share buyback policy and history (financial years)
SIGT aims to grow annual dividends at least in line with the rate of CPI.	A discount control mechanism was introduced at the July 2016 AGM, effective 1 August 2016.





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





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

	Portfolio weight %		Portfolio weight %
UK direct equities		**Fixed income**	
iShares Core FTSE 100	3.0	Royal London Short Duration Global HY Bond Fund	7.9
BT Group	1.9	TwentyFour Select Monthly Income Fund	1.9
Babcock International	1.8	Templeton Emerging Markets Bond Fund	1.8
Arrow Global Group	1.7	Royal London Sterling Extra Yield Bond Fund	1.1
Legal & General Group	1.6	N/A	
Overseas equities		**Specialist assets**	
CIM Dividend Income Fund	4.0	International Public Partnerships	2.4
Samarang Asian Prosperity Fund	3.2	Merian Chrysalis Investment Company	2.2
HMG Global Emerging Markets Equity Fund	3.0	Doric Nimrod Air Two	2.1
Morant Wright Fuji Yield Fund	2.6	Sequoia Economic Infrastructure Income Fund	2.0
Liontrust European Enhanced Income Fund	2.2	Fair Oaks Income Fund	2.0

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

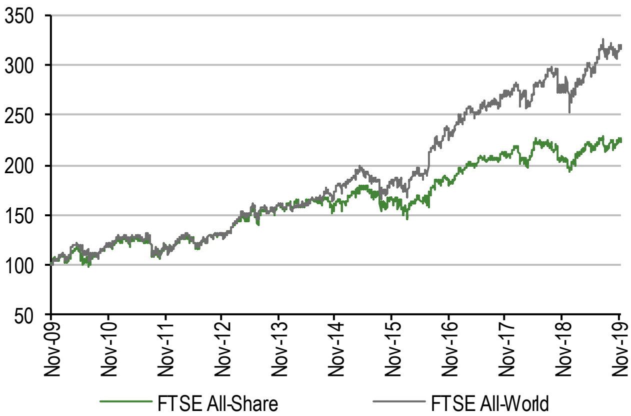
Market outlook: Valuation opportunities

UK equities have failed to keep pace with the global market over the last five years; this is particularly apparent following the Brexit vote in mid-2016, since when sterling weakness has benefited UK holders of overseas equities (Exhibit 2, LHS). In keeping with the rest of the world, the UK market has remained polarised in 2019, as investors have favoured growth over value strategies. The valuations of companies with steady growth profiles and perceived 'safe-haven' status have become more and more extended, while firms with more cyclical businesses have de-rated meaningfully.

In terms of the UK market, there have been significant outflows from global investors, with smaller-cap companies with domestic operations particularly out of favour. UK shares trade at a meaningful discount to developed markets, and while they are trading at a modest premium to their 10-year average, this is considerably lower compared to other regions such as the US and Europe (Exhibit 2, RHS). Valuation anomalies may be providing opportunities for the longer-term investor, particularly taking into account the potential for improved investor sentiment towards UK equities once there is more certainty on the UK political situation and Brexit outcome.

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	12.7	15.7	8.5	12.6	101
US	18.2	19.0	11.2	15.4	118
Europe	14.4	15.5	7.6	12.3	117
Japan	14.6	19.2	10.5	13.8	105
Developed markets	16.2	16.9	9.9	14.1	115
Emerging markets	13.1	13.6	9.2	11.5	114

Source: Refinitiv, Edison Investment Research. Note: Data at 25 November 2019.

Fund profile: Multi-asset value investing

Founded as the Taverners Trust and initially 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. The fund management business was renamed Seneca Investment Managers (SIML) and the trust itself was renamed Seneca Global Income & Growth Trust (SIGT), highlighting its diverse mandate. SIML is a multi-asset specialist, with a focus on value, with c £700m of assets under management. The investment process is transparent and team-based, and the portfolio holdings are straightforward. One of the benefits of the multi-asset strategy is that it should provide lower volatility of returns compared with an equity-only portfolio, while it offers the potential for reasonable returns over the medium to long term. Prior to July 2017, SIGT's benchmark was Libor +3% pa. Since then it has aimed to generate a total annual return of at least CPI +6% after costs, with low volatility, over the course of a typical investment cycle. This is defined as a five- to 10-year period, in which returns from various asset classes are generally in line with their very long-term averages. SIGT also aims to grow its annual dividend at least in line with UK inflation. SIML believes that SIGT's investment objective can be achieved using a combination of strategic asset allocation (SAA), tactical asset allocation (TAA) and investing in undervalued assets, while employing a modest level of gearing. Inevitably, there will be periods when SIGT's performance underperforms the benchmark; however, the manager believes it can achieve the trust's investment objective over the course of a typical investment cycle.

Within SIGT's multi-asset portfolio are UK (primarily direct investments, or funds with the board's approval) and overseas equities (funds), fixed income securities (direct or funds), specialist assets (infrastructure, specialist financial, property and private equity funds), and cash/managed liquidity/physical gold. There is a series of investment guidelines in order to mitigate risk: at the time of purchase, a maximum 7.5% of gross assets may be held in any individual direct equity or fixed income investment, and up to 10% in any collective vehicle; unquoted securities are limited to 7.5% of gross assets; a maximum 25% of gross assets may be in cash and equivalents; and gearing up to 25% of NAV is permitted at the time of drawdown.

SIML's investment team has five 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 has announced that, for personal reasons, he will be leaving SIML by the end of the year; he is a supportive, significant SIML shareholder and will remain so. His duties will be undertaken by the rest of the team – Moglione already has portfolio oversight responsibilities, involving decision implementation and cash and cash flow management; however, he only has limited discretion to deviate from the target portfolio that is agreed by the team. There will be no change to the well-defined investment process, as the team shares a value philosophy. There is healthy debate about investment ideas, and at times, further research is required before action is taken in the portfolio.

The fund managers: Seneca team

The manager's view: Positioned for higher interest rates

We met with manager Moglione, who says that there has been no real change in the macro environment over the last few months. He believes that we are coming towards the end of a prolonged bull market and valuations are extended in most asset classes. The manager suggests that unemployment may be reaching a trough, having declined over a number of years, and notes that purchasing managers indices are weakening across the board. Against this economic backdrop, he stresses the importance of de-risking SIGT's portfolio. The fund's equity exposure has been reduced steadily since mid-2017 at a rate of around 1pp per quarter. While there was no reduction in SIGT's equity TAA in Q319, there is room to further reduce the trust's equity exposure in the future if deemed appropriate. The last equity asset allocation change was at the end of June 2019, when European and Japanese equity exposures were each reduced by 0.5pp, with 1.0pp added to SIGT's physical gold position.

Moglione explains that over the long term, there is a high correlation between equity markets and bond yields, and as bond yields rise over time from their current very low levels, he would expect the stock market to come under pressure. His expectation is for market weakness ahead of a global recession in late 2020/early 2021. The manager argues that an environment of rising rates should favour SIGT's value style. The trust's relative performance has suffered in 2019 as the growth style has continued to outperform value strategies; this was particularly evident between April and September. A turnaround in US monetary policy, with the Federal Reserve becoming more dovish, has been unhelpful for SIGT's value focus; however, while markets undergo short-term periods of volatility in response to changing interest rate expectations, Moglione says the broad structure of the trust's portfolio will remain unchanged.

The manager notes with interest that in the UK, the Brexit overhang is presenting opportunities. He says there is a very wide disparity in company valuations between those with overseas earnings (in aggregate, trading on a forward P/E multiple of c 21x) and those with domestic earnings (forward P/E of c 8x). Within the portfolio, exposure to more expensive names has been reduced, with capital redeployed into low-valued companies with domestic operations. Moglione explains that historically, within the UK, SIGT's exposure was typically 60:40 between domestic and overseas earners; there is now a higher percentage allocated to domestic earners given compelling valuations. He notes that some of these attractively valued companies are offering well-covered dividend yields of 5–8%.

Asset allocation

Investment process: Overriding focus on value

SIML's managers have an overriding focus on value. They select high-quality investments across a range of asset classes, aiming to generate aggregate returns in excess of CPI +6% pa over the course of a typical investment cycle. The investment team utilises a long-term strategic asset allocation (SAA), with a shorter-term tactical asset allocation (TAA). The SAA is based on the assumption that future long-term returns of individual asset classes will be comparable to their historical long-term returns, while the TAA takes account of how different asset classes typically perform at each stage of the business cycle (expansion, peak, recession and recovery). In order to determine the stage of the business cycle, the managers assess economic indicators such as yield curves, inflation and unemployment. SIML has a team-based investment approach and all portfolio changes are agreed before implementation, which acts as an effective risk control. Each asset class and portfolio holding has a target weighting, and while actual portfolio exposures may vary modestly from these targets, all variances are closely monitored.

SIGT's largest exposure is to UK equities, where holdings tend to be direct, chosen with a focus on profit and dividend capacity; the majority are mid-cap companies. The manager explains that smaller companies have outperformed large-cap firms in recent decades due to their superior growth potential; they can be under-researched and provide opportunities to invest in mispriced securities. Overseas equity exposure is via collective investments, focusing on benchmark-agnostic, niche managers with high active shares. Fixed income investments (direct and funds) focus on capital preservation and yield, while specialist assets (funds) offer exposure to real assets, and the potential to lower portfolio volatility while enhancing returns.

SIGT has a diverse income stream from UK equities (yielding c 5.0%), overseas equities (yielding c 4.5%), fixed income (yielding c 6.5%), specialist assets (yielding c 6.0%), and cash and managed liquidity (yielding c 1.0%).

Current portfolio positioning

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

%	Asset allocation range	Core asset allocation (SAA)	TAA end-October 2019
UK equities	15–60	35	29.5
Overseas equities	10–40	25	22.0
Total equities	**25–85**	**60**	**51.5**
Fixed income	0–40	15	12.7
Specialist assets	0–50	25	27.8
Cash/managed liquidity/physical gold	0–10	0	8.0
Total	**100**	**100**	**100.0**

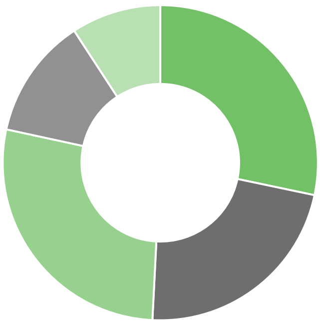
Source: Seneca Global Income & Growth Trust

SIGT's tactical positioning is shown in Exhibit 3 and reflects where the manager sees relative value. As at the end of October, the positioning was similar to end-April 2019, as highlighted in our last note. The equity TAA was 8.5pp below the SAA (-5.5pp in the UK and -3.0pp overseas). SIGT has no US equity exposure; the last American holding was sold in August 2017. The trust is underweight fixed income (-2.3pp), with no exposure to safe-haven government debt; overweight specialist assets (+2.8pp); and has a +8.0pp TAA to cash, managed liquidity and physical gold.

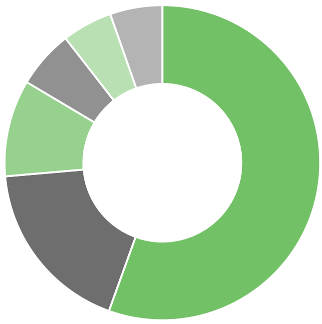
SIGT's actual portfolio breakdown at end-October 2019 is shown in Exhibit 4; it is split c 51:49 between equity and non-equity investments. Specialist assets exposure is made up of c 10% infrastructure, c 8% specialist financial, c 7% property, and c 3% private equity. Around 2% of the fund is held in physical gold.

Exhibit 4: Portfolio distribution as at 31 October 2019

Portfolio distribution by asset class



Breakdown of equity exposure



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

SIGT's position in AJ Bell increased dramatically following the firm's December 2018 initial public offering, when it rose to an outsized c 8.5% of the portfolio; the manager has since been taking significant profits. Part of the proceeds have been recycled into the iShares Core FTSE 100 UCITS ETF, which seeks to track the performance of the 100 largest UK companies. This maintains SIGT's UK equity exposure while the team decides in which individual UK names to invest.

There is a new position in online estate agent Purplebricks, a name the team had been monitoring for a while. Launched in 2012 and listed on AIM in 2015, it is an industry disruptor, and as such would normally trade on a high valuation. Moglione says that following the launch of property search sites such as Rightmove, branches are no longer a necessity for estate agents. Purplebricks' founders had spent a considerable amount of money on marketing, and as a result, the firm has a very high brand recognition in the UK. However, the founders did not advance the company's technology as fast as they should have, and aggressively expanded into the US and Australia. These two countries have very different property markets from the UK and Purplebricks' business model was unsuccessful. The company now has a new management team (the founders sold their stakes to German media company Axel Springer) – its CEO worked for Moneysupermarket.com and its CFO for Just Eat, so both of the new team have technology experience. They aspire towards a 10% market share in the UK versus the current 4%. Purplebricks has retreated from the US and Australia and is focusing on its two profitable markets – the UK and Canada. It is trading on a very low valuation, operating in an industry that the manager says is ripe for disruption, with high regional UK market shares offering the potential for a higher national percentage. Moglione believes that investors are looking back, rather than forwards at the company, which affords an interesting investment opportunity; however, he acknowledges that progress will take time.

Within overseas equities, there is a new holding in the Morant Wright Fuji Yield Fund. The asset manager was founded in 1999 and has a strong long-term track record and c £6bn of assets under management. There are six portfolio managers with at least 25 years' investment experience. They have a value style, but initially screen for quality companies based on balance sheet strength and business franchise. The Morant Wright managers look lower down the market cap spectrum at non-index stocks, seeking firms whose quality attributes are not being priced in. At the time of SIGT's purchase, the Morant Wright Fuji Yield Fund portfolio was trading on an average price-to-book multiple of less than 1x, and it is also one of the highest-yielding Japanese funds available. The position was funded by the sale of the trust's holding in CC Japan Income & Growth Fund.

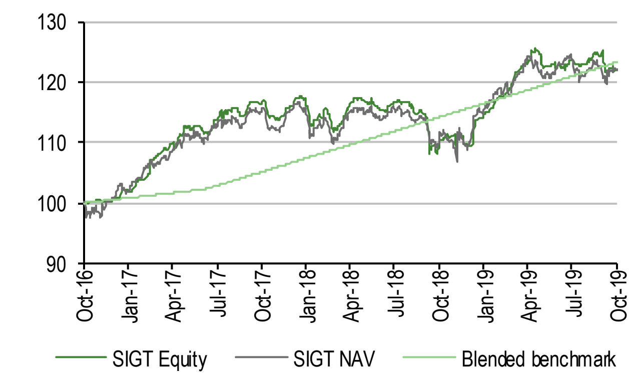
Within SIGT's specialist assets portfolio, its property assets are niche rather than mainstream; it has no exposure to London offices for example. The manager has been recycling the trust's capital based on relative value opportunities, such as reducing the position in LondonMetric Property. This company's portfolio includes large distribution centres used by Amazon, which have contributed to a strong operating performance. LondonMetric's NAV rallied and its share price moved to a 30% premium. Proceeds from the sale were redeployed into the position in Ediston Property Investment Company. It has a retail and office property portfolio and was trading on a 20% discount at the time of purchase. The company's retail exposure is out of town, rather than in struggling city centres or high streets, and is focused on towns that are hubs for the local community. Moglione highlights one of Ediston's tenants, New Look, which under its company voluntary arrangement (CVA) managed to reduce its rent on a unit from £150k to £120k pa. However, under a CVA, the property owner is entitled to break the lease if it finds a new tenant. Ediston found a new tenant, but New Look wanted to stay put, so the company relented and is now paying a higher rent of £185k pa. Ediston is also achieving rental uplifts from stronger retailers, such as Next and Card Factory.

Performance: Long-term outperformance

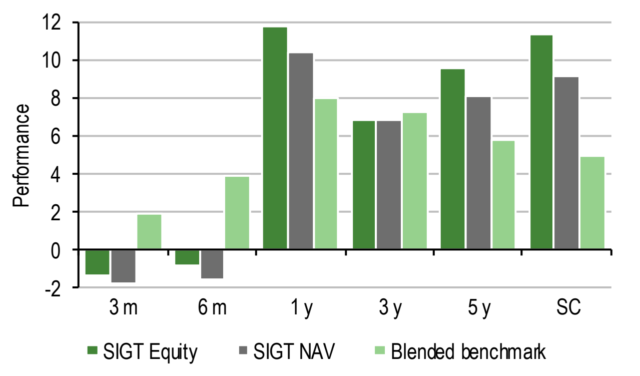
In FY19 (ending 30 April), SIGT's NAV and share price total returns of +7.6% and +6.0% trailed the benchmark's +8.2% total return. FY19 NAV performance was significantly boosted by the IPO of former private company AJ Bell. Detractors from performance were an overweight exposure to UK equities, along with no exposure to US equities and safe-haven government bonds. The manager considers these two asset classes to be particularly overvalued, hence they are not represented in the fund. In terms of holding-specific attribution, AJ Bell contributed 8.6pp, while Kier Group was the largest detractor (-1.1pp).

Exhibit 5: Investment trust performance to end-October 2019

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



Price, NAV and benchmark total return performance (%)



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

Exhibit 6 shows SIGT's relative returns. It has outperformed its benchmark over one and five years and since the change in mandate in January 2012, while lagging over three years. The trust has outperformed the FTSE All-Share index over one, three and five years and since the change of mandate. Moglione explains that over the last six months, SIGT has struggled versus its benchmark and peers as growth stocks have significantly outperformed value names. There have also been stock-specific issues such as Kier Group and Woodford Patient Capital Trust (both of which remain in the portfolio). Kier is seeking to sell its house building arm, Kier Living, in order to reduce debt, the levels of which have been a concern to investors. Moglione believes that Kier Living is a saleable asset, and a transaction could occur by the end of 2019, which could lead to a material uplift in Kier's share price. The manager believes that the appointment of Schroders as the manager of Woodford Patient Capital Trust is a welcome development, and he is encouraged by its new fee structure. Given the trust's deep discount, Moglione believes there is significant upside potential if the fund is managed well.

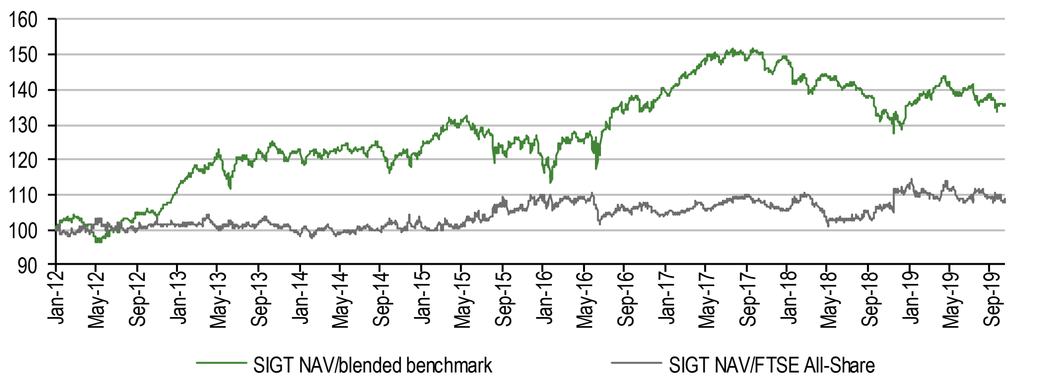
The manager notes how well SIGT performed in September, when there were increased hopes of a Brexit resolution and value stocks rallied significantly as sterling strengthened. He argues that the valuation disparity between growth and value strategies had become too wide, and there are signs of a change in investor mentality. Moglione views September as an early warning sign for growth investors, and believes that market leadership in the future will switch in favour of value stocks.

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	(3.2)	(4.6)	3.6	(1.0)	19.5	57.7
NAV relative to blended benchmark	(3.6)	(5.2)	2.2	(1.2)	11.8	35.6
Price relative to FTSE All-Share	0.8	(1.2)	4.7	2.4	14.6	26.7
NAV relative to FTSE All-Share	0.3	(1.9)	3.3	2.2	7.2	9.0
Price relative to FTSE All-World	1.6	(4.7)	0.1	(7.6)	(11.7)	(8.4)
NAV relative to FTSE All-World	1.1	(5.4)	(1.2)	(7.7)	(17.4)	(21.2)

Source: Refinitiv, Edison Investment Research. Note: Data to end-October 2019. Geometric calculation. Since change of mandate is from 18 January 2012. Blended benchmark is an absolute return of 8% per year until 18 January 2012, three-month Libor +3% to 6 July 2017, and CPI +6% thereafter.

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



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

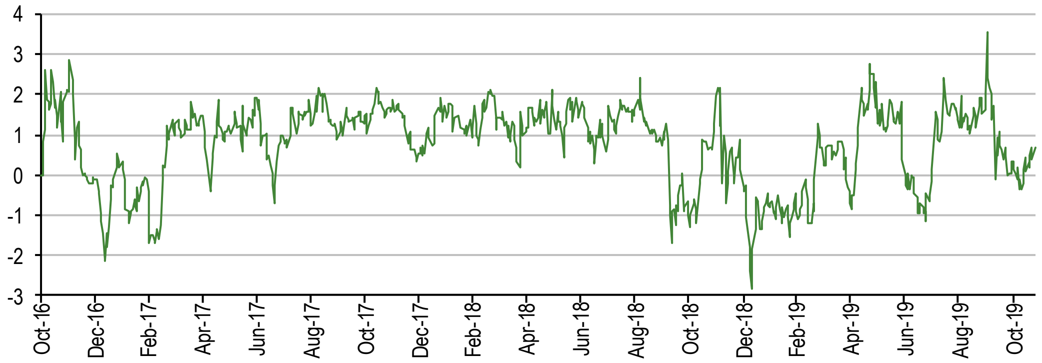
SIGT aims to generate relatively low-volatility returns. Data from SIML show that since the change in mandate to end-October 2019, the trust's annualised volatility of returns is 8.3%, versus an average 11.3% for the AIC Flexible Investment sector and 13.1% for the FTSE All-Share index.

Valuation: Active use of the DCM

SIGT's discount control mechanism (DCM) was introduced on 1 August 2016. Since then, 4.0m shares have been repurchased at a small discount, costing c £6.7m, while 13.4m shares have been issued at a small premium, raising c £23.4m. In aggregate, the share base has increased by c 23%. The board is encouraged by the active use of the DCM, providing liquidity in SIGT's shares and ensuring they trade close to NAV.

Renewed annually, SIGT has authority to buy back up to 14.99% and issue up to 30% of its outstanding shares. The trust is currently trading at a 0.7% premium to cum-income NAV, which compares to a range of a 3.6% premium to a 2.8% discount over the last 12 months. Over the last one, three and five years, SIGT has traded at an average 0.4% premium, 0.8% premium, and 0.4% discount respectively.

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



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

Capital structure and fees

SIGT is a conventional investment trust with one class of share. There are currently 49.3m ordinary shares outstanding, with a further 0.4m held in treasury. The trust has a £14m three-year rolling credit facility with the Royal Bank of Scotland, at a cost of Libor +1.1% (£7m is drawn, with the balance available to assist with the DCM if required). Gearing of up to 25% of NAV is permitted; at end-October 2019, gross gearing was 8.3%, with a net liquid position of 0.9%.

SIGT pays a tiered annual management fee of 0.90% of its market cap up to £50m, and 0.65% above £50m (allocated 50:50 between the capital and revenue accounts). In FY19, the trust's ongoing charges of 1.47% were a modest 2bp higher year-on-year. Historically, SIGT was subject to an annual continuation vote; however, this feature was removed at the July 2018 AGM, with significant support from shareholders.

Dividend policy and record

SIGT pays quarterly dividends in September, December, March and June. The first three are equal, while the fourth acts as an indicator for the first three in the following year. In FY19, the annual dividend of 6.60p per share was 3.4% higher than 6.38p per share in FY18; it was 1.1x covered by revenue income. The 3.4% growth compares favourably with UK CPI of 2.1% over the period, and is the sixth consecutive year of above-inflation dividend growth. SIGT has c £2.0m of revenue reserves, which is around 0.6x the last annual dividend payment. Barring unforeseen circumstances, the board intends to at least maintain the Q419 quarterly dividend of 1.68p per share throughout FY20; this would equate to an annual dividend of 6.72p per share (+1.8% year-on-year), and a prospective yield of 3.9%. So far, one quarterly dividend of 1.68p per share has been paid in respect of FY20, and a second quarterly dividend of 1.68p per share has been declared.

Peer group comparison

In Exhibit 9, we highlight the 13 funds in the AIC Flexible Investment sector with a market cap greater than £80m that have been trading for more than three years. When comparing the funds, it should be borne in mind that they follow a wide variety of investment mandates. SIGT's NAV total returns are above average over the last one and three years, ranking third and fourth respectively, while it is modestly below average over five years. As noted on page 8, its returns are less volatile than both the average of its peers and the UK stock market. SIGT is one of only four funds trading at a premium, it has a higher than average ongoing charge and currently has no net gearing. The trust offers a 3.8% dividend yield, which ranks third, and is 1.8pp higher than the selected peer group average.

Exhibit 9: Selected AIC Flexible Investment sector peer group at 25 November 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	85.9	11.4	23.7	45.7	0.4	1.5	100	3.8
Aberdeen Diversified Income & Growth	350.8	6.9	16.4	8.6	(9.1)	0.6	109	4.9
Caledonia Investments	1,680.6	8.7	28.8	50.7	(16.7)	0.9	100	1.9
Capital Gearing	459.5	7.8	17.6	36.4	2.2	0.7	100	0.5
Hansa Investment Co 'A'	216.0	0.5	18.4	26.8	(34.9)	0.6	100	1.3
Henderson Alternative Strategies Trust	100.8	1.8	11.2	23.5	(20.8)	0.9	100	1.9
JZ Capital Partners	263.4	5.6	(4.9)	37.5	(58.1)	3.2	102	0.0
New Star Investment Trust	84.9	5.7	16.1	52.0	(25.1)	0.9	100	1.2
Personal Assets	1,123.6	7.5	12.7	28.1	0.9	0.9	100	1.3
RIT Capital Partners	3,378.9	10.6	19.9	46.5	11.7	0.7	114	0.0
Ruffer Investment Company	388.7	4.6	2.6	13.9	(4.8)	1.1	100	0.8
Tetragon Financial	878.6	13.5	28.2	102.3	(47.4)	1.9	100	5.9
UIL	215.1	26.0	27.2	150.6	(27.2)	2.1	172	3.0
Simple average	**709.7**	**8.5**	**16.8**	**47.9**	**(17.6)**	**1.2**	**108**	**2.0**
SIGT rank in peer group (13 funds)	**12**	**3**	**4**	**6**	**4**	**4**	**6=**	**3**

Source: Morningstar, Edison Investment Research. Note: *Performance to 22 November 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

There are four directors on SIGT's board, all of whom are non-executive and independent of the manager. The chairman is Richard Ramsay, who was appointed as a director on 2 April 2013, and assumed his current role on 3 September 2013. Ian Davis was appointed on 1 November 2004, James McCulloch on 2 January 2015, and Sue Inglis on 1 March 2019. Collectively, the directors have backgrounds in investment banking, corporate finance, law, portfolio management and private client investment. Davis has announced his intention to retire later in 2019, at which time Inglis will become chairman of the audit committee. A new director will be appointed in due course.

To better reflect market rates, the directors' fees have increased by 20% to £24k pa. There are supplements of £8k for the board chairman, £3k for the chair of the audit committee, and £1k for the chair of the nominations committee. Directors' fees were last increased in January 2015, and this was the first rise in more than 10 years.

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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