EDISON

Seneca Global Income & Growth Trust

Income, growth and low volatility

Investment trusts

Seneca Global Income & Growth Trust (SIGT) is differentiated from its global equity income peers by its top-down multi-asset approach and absolute benchmark. The NAV return has been ahead of the benchmark since the mandate was changed in January 2012 and volatility has been significantly below the peer average over one and three years. The yield of over 4% is above the peer average.

12 months ending	Total share price return (%)	Total NAV return (%)	Benchmark (%)	FTSE All-Share (%)	FTSE 350 High Yield (%)
30/11/11	(4.7)	1.8	8.0	2.6	9.0
30/11/12	9.3	11.9	4.4	12.1	10.6
30/11/13	27.8	19.3	3.5	19.8	18.4
30/11/14	5.6	4.1	3.5	4.7	4.9

Note: Twelve-month rolling discrete total return performance. Benchmark is an absolute return of 8% per year until 18 January 2012 and three-month Libor +3% thereafter.

Strategy: Top-down multi-asset portfolio

SIGT's investment objective is to outperform three-month Libor plus 3% by investing in a global portfolio comprising UK and overseas equities, fixed-interest securities, property and alternative assets. The managers, Alan Borrows and Simon Callow, use a mainly top-down approach to construct a balanced portfolio with an emphasis on income growth and minimising volatility. They look to generate income across the portfolio. Asset allocations are varied around core long-term positions with tactical asset allocation within ranges, as approved by shareholders in 2012. Individual investments are selected as the manager's best ideas within the top-down framework. Exposure to UK equities is gained through direct investment while exposure to overseas equities, fixed-income securities, property and alternative assets is primarily achieved through investing in funds.

Outlook: Favouring equities, alternatives

After a correction in September/October, equity markets staged a strong recovery leaving many markets on high earnings multiples relative to long-term averages. In fixed-income markets fluctuating expectations on monetary policy globally have produced unexpected strength. This, and the potential for geopolitical concerns to reassert themselves in market thinking, makes the environment a difficult one for investors to navigate. While there are uncertainties, global economic growth still appears to be on an improving trend, suggesting a helpful background for equities and similar assets. In the light of this, and the low yields prevailing in parts of the fixed-income market SIGT managers favour equities and alternatives.

Valuation: Discount has narrowed significantly

While the discount has narrowed significantly over three years, the combination of SIGT's yield and record of below-average volatility of NAV returns suggests there is still scope for a further reduction from the current level of c 4.5%.

4 December 2014

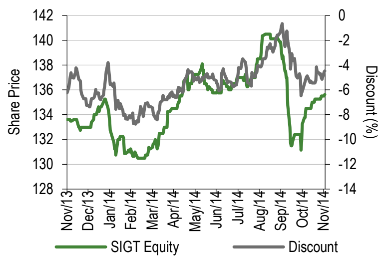
Price	**135.6p**
Market cap	**£54m**
AUM	**£64m**

NAV*	141.48p
Discount to NAV	4.2%
NAV**	141.96p
Discount to NAV	4.5%
Yield	4.1%

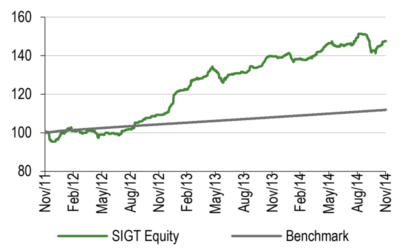
*Adjusted for debt at market value and excluding income.
**Adjusted for debt at market value, including income.

Ordinary shares in issue	39.9m
Code	SIGT
Primary exchange	LSE
AIC sector	Global Equity Income

Share price/discount performance



Three-year cumulative perf. graph



52-week high/low	140.5p	130.5p
NAV* high/low	145.2p	134.5p

*Adjusted for debt at market value, excluding income.

Gearing

Gross*	12.4%
Net*	11.0%

*As at 31 October 2014.

Analysts

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Edison profile page

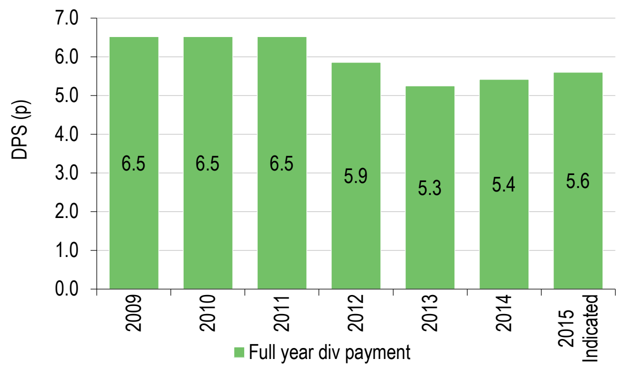
Seneca Global Income & Growth Trust is a research client of Edison Investment Research Limited

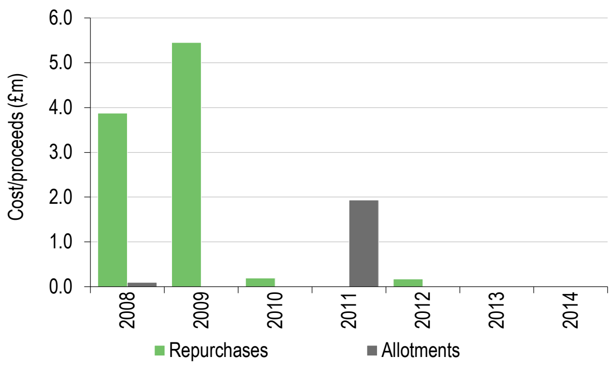
Exhibit 1: Trust at a glance

Investment objective and fund background	Recent developments
Seneca Global Income & Growth Trust's (SIGT) investment 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. The asset classes included in the company's portfolio are UK and overseas equities, fixed-interest securities, property and alternative assets. The trust changed its name from Midas Income & Growth in October 2014.	■ 13 October 2014: Second interim dividend of 1.4p declared. ■ 1 October 2014: Name changed from Midas Income & Growth Trust to Seneca Global Income & Growth Trust. ■ 31 March 2014: Sale of SIGT's investment manager to Seneca Investment Managers completed.

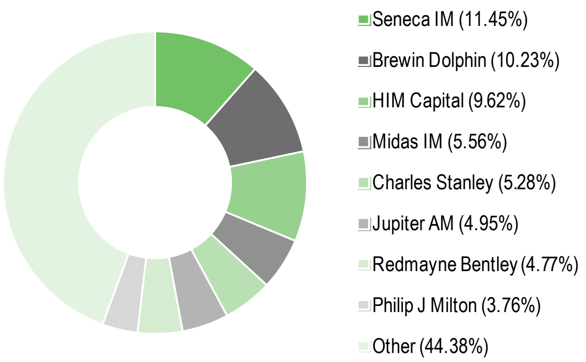
Forthcoming		Capital structure		Fund details	
AGM	September 2015	Ongoing charges	1.53%	Group	Seneca Investment Managers
Interim results	December 2014	Net gearing	11.0%	Manager	Alan Borrows, Simon Callow
Year end	30 April	Annual mgmt fee	0.90% of market cap up to £50m, 0.65% above £50m	Address	10th floor Horton House, Exchange Flags, Liverpool L2 3YL
Dividend paid	Quarterly	Performance fee	None		
Launch date	August 2005	Trust life	Indefinite	Phone	+44 (0)151 906 2461/2475
Continuation Vote	Annual – see page 7	Loan facilities	£7m rolling	Website	www.senecaim.com/sigt

Dividend policy and history	Share buyback policy and history
Dividends paid in September, December, March and June. Dividend rebased to 1.30p in January 2012. The board intends to at least maintain a 1.40p quarterly dividend rate for FY15.	Renewed annually, the trust has authority to purchase up to 14.99%, and allot up to 10% of issued share capital.

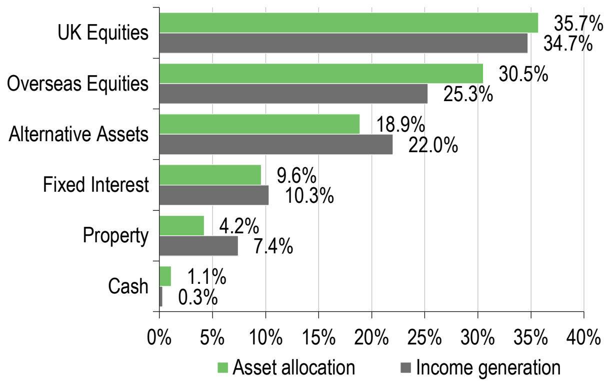




Shareholder base (as at 31 October 2014)



Portfolio distribution by income generation and capital (as at 31 Oct 2014)



Top 10 holdings (as at 31 October 2014)

Company	Country	Sector	Portfolio weight % 31 October 2014	Portfolio weight % 31 October 2013
AJ Bell Holdings (Unquoted)	UK	Financial Services	3.8	3.6
Lindsell Train Japanese Equity	Japan	OEIC / Japan equity	2.3	2.3
Somerset EM's Dividend Growth	Emerging Markets	OEIC / Emerging Mkt equity	2.2	2.2
Newton Asian Income	Asia Pac ex-Japan	OEIC / Asia Pac ex-Japan equity	2.2	2.3
GCP Student Living	UK	Property	2.2	N/A
Phoenix Group	UK	Financial Services	2.1	2.0
Magna Emerging Markets Dividend	Emerging Markets	OEIC / Emerging Mkt equity	2.1	2.2
Royal London Short Duration Global HY	Global	OEIC / Global Fixed Income	2.0	2.0
BlackRock World Mining Trust	UK	ITS / Global Mining equity	1.9	N/A
National Express Group	UK	Travel & Leisure	1.9	1.9
Top 10			**22.7**	**N/A**
Cash			**1.1**	**1.5**

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

Outlook: Risks but growth and yield favour equities

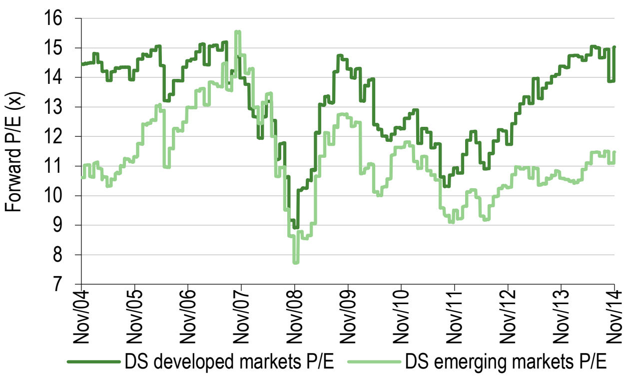
Looking at world markets there is no shortage of things to worry about, including the weak economic environment in Europe, the rerating of equity markets, relatively low yields available in many bond markets and a number of significant geopolitical risks. While the bounce back from the September/October correction in equity markets was rapid, many commentators continue to highlight the potential for further bumpiness as newsflow prompts periods of risk aversion.

Having said this, the global economy, led by the US, appears to be sustaining an improving trend. Also, while Europe and Japan are lagging, there is a willingness to continue monetary easing in the hope of providing the necessary stimulus (subject in the case of Japan to the outcome of the general election). As the left hand chart in Exhibit 2 demonstrates, equity market valuations have been on an upward trend and for developed markets, for example, the forward P/E of 15.2x is 15% above its 10-year average and at the upper end of its range. This does not suggest a value opportunity for investors, but within markets and globally there are areas that are much more cautiously rated, including Asian and emerging markets.

The main government bond markets have surprised positively this year as the tempering of economic growth and interest rate expectations fed into prices. The right hand chart in Exhibit 2 shows the outcome in the UK market with the equity market yield c 1.5x that of the 10-year bond. Given this, and the expectation that the next move in rates in the US and UK will be upwards, the relative case for equities seems strong. For investors looking to moderate market volatility and seeking managed exposure to equities and, to a lesser extent, other asset classes, a fund such as SIGT could fit the bill.

Exhibit 2: Datastream developed and emerging markets valuation metrics

DS developed and emerging markets forward P/E ratios over 10 years



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

Source: Thomson Datastream, Edison Investment Research

Fund profile: Low volatility multi-asset portfolio

Launched in August 2005, the trust's objective is to outperform an absolute return benchmark through investment in a multi-asset portfolio. The trust aims to generate capital and income growth with low volatility by investing in a balanced global portfolio comprising UK and overseas equities, fixed-interest securities, property and alternative assets. In January 2012, the benchmark was changed from 8% pa to three-month Libor +3% and performance is measured based on rolling three-year periods. There is no formal income target but, following the rebasing of the dividend in January 2012, the board aims to pursue a progressive dividend policy. The board indicated in July this year that it would review the suitability of the benchmark, but is not reviewing the investment approach.

SIGT has been managed since August 2005 by Alan Borrows (co-founder of Midas Capital Partners) joined by co-manager Simon Callow in 2008. The management company was purchased by Seneca Investment Managers on 31 March 2014. The trust was renamed from Midas Income and Growth to Seneca Global Income & Growth in recognition of the global mandate and the new parent's commitment to providing additional resources, particularly in terms of marketing. All members of the investment management team have bought equity in Seneca Investment Management, which has recently been augmented by the appointment of Peter Elston (previously at Aberdeen Asset Management) as global investment strategist.

The fund managers: Alan Borrows and Simon Callow

Managers' view: Favouring equities and alternatives

The managers remain of the view that many asset class valuations are full in historical terms and that returns from here are therefore likely to be more constrained than in the immediate post-financial crisis phase. The managers see assets that can provide both income and capital growth as likely to do better and therefore favour equities and other non-monetary assets over bonds.

This is evident in the main changes in the portfolio weightings over the last 12 months, which have been a decrease in fixed-income exposure (13.6% to 9.6%) and an increase in alternatives (12.6% to 18.9%). Within the reduced fixed-income exposure, the managers have limited interest rate sensitivity by selecting floating rate and short-duration funds. Additions to the alternatives exposure have included renewable energy funds that have the prospect of providing a good yield (6-7%), inflation linking and uncorrelated returns; investments in Doric Nimrod aircraft leasing funds are seen as another source of strong uncorrelated returns, albeit with exposure to moves in residual values.

Within the overseas equity portfolio, the managers have employed a US market intelligent-beta ETF to replace a fund that has wound up. This has an income bias with an above index yield and is more market sensitive than the previous investment. The managers note that this investment is not hedged, so performance in sterling terms will benefit from any further strength in the dollar.

Among the UK direct equity holdings, additions have included pub group Marston's, where the managers hope to benefit from improving employment and consumption in the UK, and National Express, which they felt had suffered unduly from an indiscriminate mid-cap sell off and was trading on a modest P/E multiple and attractive yield (forward consensus P/E currently 11.8x, yield 4.4%). In the financial sector, SIGT has recently swapped its holding in Standard Chartered into HSBC as the managers were disappointed by a further unsettling trading statement at the interim stage. HSBC allows the fund to retain the Asian exposure, which was an important part of the case for Standard Chartered.

On a contrarian note, while not suggesting commodities prices are about to bounce, the managers are holding onto the BlackRock Global Mining Fund (recently hurt by a specific investment) and have added to BHP Billiton on the basis that mining company managements are responding to market conditions and investor pressure by focusing more closely on cash flow and shareholder returns.

Asset allocation

Investment process: Top-down strategic asset allocation

SIGT seeks to achieve its investment objective through investing in a diversified portfolio of equities, fixed interest securities, alternative assets and property. The broad multi-asset, global mandate helps in diversifying the portfolio and delivering relatively low volatility. The manager uses a predominantly top-down approach, assessing the risk/return characteristics of the main asset classes taking into account current valuations, expected returns and major long-term themes driving investment markets. Alternative assets are intended to provide an absolute return element to the portfolio, while property and fixed income are included to contribute a degree of income security and capital preservation. Asset allocations are varied around a core long-term position (see Exhibit 3) with a view to adding value through tactical asset allocation within a range for each asset class. Individual investments are selected as the manager's best ideas within the top-down framework. Exposure to UK equities is gained through direct investment, principally focused on FTSE 350 companies, while investment in overseas equities, fixed-income securities, property and alternative assets is primarily through specialist funds.

Exhibit 3: Asset allocation ranges, long-term core allocation and recent position

%	Asset allocation range	Core asset allocation	Allocation end October 2014
UK equities	15-60	35	35.7
Overseas equities	10-40	25	30.5
Total equities	25-85	60	66.2
Fixed interest	0-40	15	9.6
Alternative assets	0-25	15	18.9
Property	0-25	10	4.2
Cash			1.1
	100	100	100.0

Source: Seneca Global Income & Growth Trust

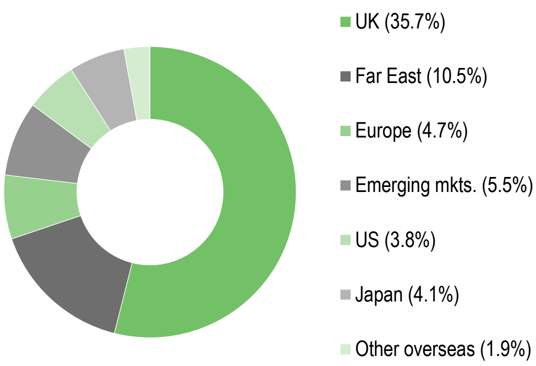
Current portfolio positioning

The portfolio is relatively diversified, with the top 10 holdings accounting for 22.7% of the total compared with a sector average of 33% and, while the 63 holdings at the trust's April year end is below an average of 90 (the average is skewed by British Assets count of approaching 400), the underlying exposure through fund holdings is much higher. Income generation is also well diversified between asset classes, demonstrating that the manager believes it is important to generate income across the portfolio (see Exhibit 1).

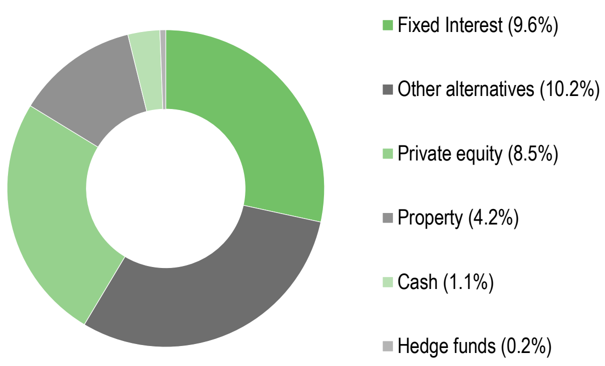
The asset class positions compared with the long-term core allocations are shown in Exhibit 3. This shows that the two-thirds allocated to equities is modestly above the central value as is the alternatives assignment; fixed interest and property are correspondingly below core levels. In the case of property, the manager notes that the underlying exposure is actually higher than appears because REITs are counted within equities; adding these in would give an exposure of 9-10%.

Exhibit 4: Distribution of equity and non-equity investments at 31 October 2014

Geographic distribution of equity investments (66.2% of portfolio)



Analysis of non-equity investments (33.8% of portfolio)



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

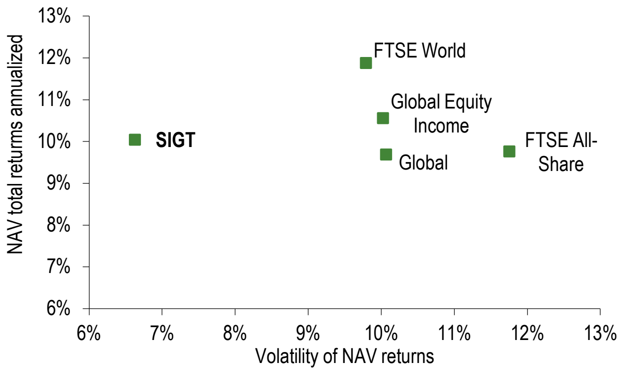
Further detail on the allocation within equities and other investments is shown in the two charts in Exhibit 4. Points to draw out here are that the portfolio has a relatively low exposure to the US at 3.8% compared with, for example, the FTSE World Index weighting of just over 50%, while the UK exposure (in line with the trust's core allocations shown earlier) is well above its World Index weighting of c 7%. Reflecting the managers' views on the fixed income market, the fixed interest weighting at sub-10% is below the core weighting of 15% while alternatives are above, including renewable energy within the "other alternatives" category. Private equity includes both funds and the stake in unquoted SIPP provider A J Bell (3.8% weighting).

Performance: Ahead of absolute benchmark

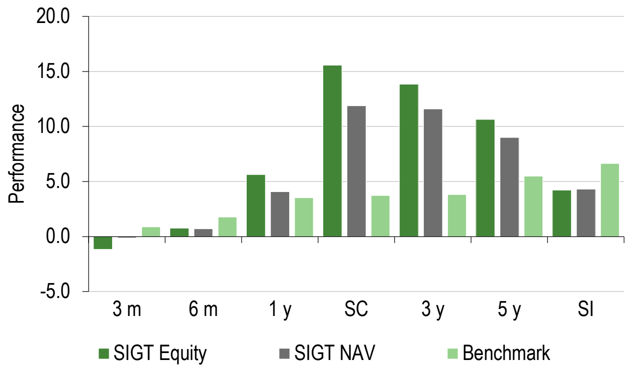
The trust has outperformed its absolute benchmark since its change in mandate in January 2012 and over three and five years. As Exhibit 6 shows, the relative performance has been quite close to or ahead of both the FTSE All-Share and 350 High Yield indices in periods up to three years. Volatility has been noticeably lower than both the averages for global investment company sectors and the FTSE and All-Share and world indices (18 January 2012 to end November 2014, see Exhibit 5). This relatively low volatility reflects the multi-asset nature of the portfolio and contributes to the above peer group average Sharpe ratio (measure of risk-adjusted return) over three and five years (1.4 and 1.1 compared with averages of 1.0 and 0.8).

Exhibit 5: Investment trust performance to 30 November 2014

Volatility and total returns compared 18 Jan 2012 to end Nov 2014



Price, NAV and benchmark total return performance (%)



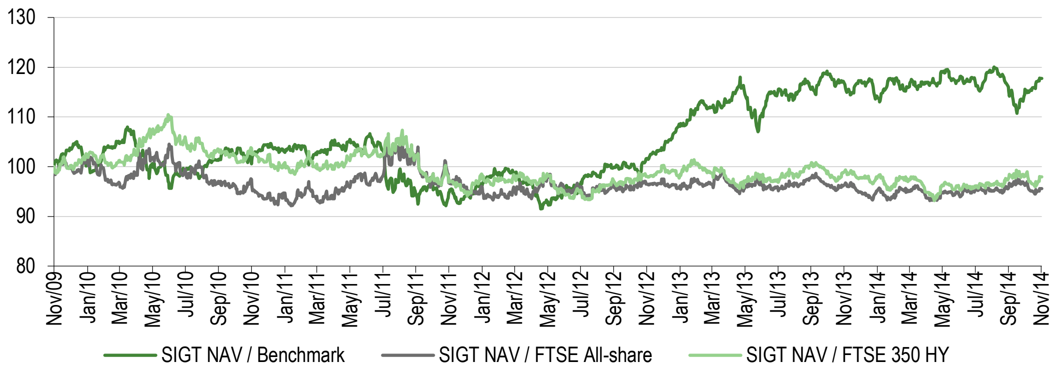
Source: Thomson Datastream, Morningstar, Edison Investment Research. Note: Since change of mandate (SC) is from 18 January 2012. Since inception (SI) is from 19 August 2005 when the company changed its name from The Taverners Trust to Midas Income & Growth Trust. Benchmark is an absolute return of 8% per year until 18 January 2012 and three-month Libor +3% thereafter.

Exhibit 6: Share price and NAV total return performance relative to benchmarks to 30 November 2014

	Three months	Six months	One year	Since change of mandate	Three years	Five years	Since August 2005
Price relative to benchmark	2.5	(2.0)	(1.0)	2.0	31.9	27.0	(19.2)
NAV relative to benchmark	1.9	(1.0)	(1.0)	0.5	24.2	17.8	(18.6)
Price relative to FTSE All-Share	(0.2)	(0.5)	0.8	0.9	4.9	3.0	(21.2)
NAV relative to FTSE All-Share	(0.7)	0.5	0.8	(0.6)	(1.2)	(4.4)	(20.6)
Price relative to FTSE 350 High Yield	0.4	0.8	1.8	0.7	7.4	5.6	(10.0)
NAV relative to FTSE 350 High Yield	(0.1)	1.8	1.7	(0.8)	1.1	(2.0)	(9.3)

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

Exhibit 7: SIGT NAV total return vs benchmark, FTSE All-Share and FTSE 350 High Yield total return, over five years rebased



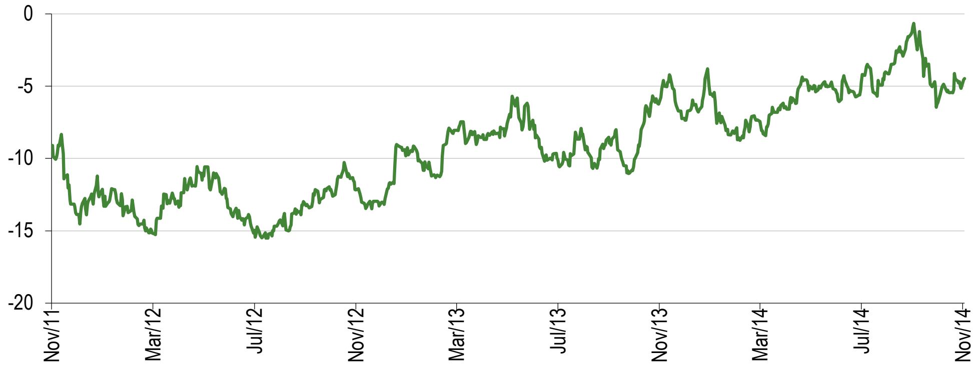
Source: Thomson Datastream, Edison Investment Research. Note: Benchmark is an absolute return of 8% per year until 18 January 2012 and three-month Libor +3% thereafter.

Discount: Significant narrowing over three years

In July the board indicated that both the company and investment manager, in addition to a primary focus on maintaining performance, intend to engage in more active marketing with the intention to "explore and pursue" the significant enlargement of the company. From a shareholder perspective, this would have the advantage of improving liquidity in the shares and spreading fixed costs over a larger base. New shares would only be issued if this did not result in dilution. If the envisaged enlargement were to take place then the board has committed itself to introduce a discount control mechanism. In the meantime it sees the annual continuation vote as the principal discount control mechanism.

As shown in Exhibit 8, the discount (cum-income) has narrowed significantly since the annual continuation vote was adopted in 2012 and currently stands below 5% compared with its three-year average of just over 9%.

Exhibit 8: Discount over three years



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

SIGT has 39.9m ordinary shares in issue and no shares have been issued or repurchased since May 2011. SIGT has a £7.0m short-term rolling credit facility and net gearing at end October stood at 11% of net assets, substantially below the 25% limit.

From the beginning of July 2014 a tiered management fee was introduced under which Seneca Investment Managers is entitled to a fee of 0.9% of SIGT's market capitalisation up to £50m and 0.65% above £50m; there is no performance fee. With the current market cap just above £50m incremental increases in the market value would attract the lower fee level. Historically, the ongoing charge for the last financial year was 1.5%, similar to the prior year.

Dividend policy

Dividends are paid in September, December, March and June. The board rebased the quarterly dividend in January 2012 to 1.30p per share and stated its intention to pursue a progressive dividend policy thereafter. For the year to April 2014, the total dividend was 5.42p (an increase of 3.2% comprising three payments of 1.34p and one of 1.40p). This compared with a revenue return per share of 5.71p (+5.7%). The company has indicated it expects to at least maintain the 1.40p rate of payment, implying a total dividend of at least 5.6p; it has so far declared two interim dividends at this rate.

At the financial year end the revenue reserve was up 19% from the previous year, equivalent to 2.1p or 0.7p after deducting the final quarterly dividend.

Peer group comparison

A comparison of SIGT with the global equity income sector peer group is shown in Exhibit 9. SIGT's multi-asset approach and use of an absolute benchmark differentiates it from many of its peers, which are predominantly focused on equities, but its current 66% equity exposure and income mandate do give the comparison some relevance.

While the trust's NAV returns over the periods shown are below the peer averages, this should be viewed in conjunction with the volatility of returns, which are significantly lower for SIGT than for the peer group average. As noted earlier, this has contributed to a Sharpe ratio that is noticeably above the average.

Exhibit 9: Global equity income sector, as at 3 December 2014

	Market cap £m	NAV TR 1 Year	NAV TR 3 Year	NAV TR 5 Year	NAV Vol 1 Year	NAV Vol 3 Year	Sharpe 5y (NAV)	Discount (ex-par)	Ongoing charge	Perf. Fee	Net gearing	Dividend yield (%)
Seneca Global Income & Growth	54.1	5.3	39.0	55.3	6.2	6.6	1.1	(5.2)	1.53	No	110	4.0
Blue Planet Investment Trust	18.1	7.7			12.7		(0.8)	(30.8)	4.20	No	144	6.3
British Assets	395.1	4.7	36.2	51.1	10.0	11.1	0.7	(6.1)	0.70	No	117	4.7
F&C Managed Portfolio Income	34.7	7.1	50.1	77.1	7.7	8.5	1.0	3.8	1.16	Yes	99	4.0
Henderson International Income	91.7	11.3	52.2		8.7	9.3		(2.2)	1.24	No	106	3.7
Invesco Perp Select Glo Eq Inc	48.2	10.4	57.3	65.7	10.2	10.0	0.8	(1.6)	1.06	Yes	115	2.3
London & St Lawrence	108.1	8.3	48.6	73.4	8.5	9.5	1.2	1.1	0.89	Yes	99	3.6
Murray International	1,376.9	5.4	29.4	63.9	9.9	11.0	0.8	9.0	0.67	Yes	115	4.1
Scottish American	331.0	7.4	32.1	60.9	8.3	9.7	0.8	(5.2)	0.90	No	123	4.2
Securities Trust of Scotland	173.1	8.4	45.9	80.2	8.9	10.1	1.0	(3.7)	0.89	No	107	3.4
Simple average	**263.1**	**7.6**	**43.4**	**65.9**	**9.1**	**9.5**	**0.7**	**(4.1)**	**1.32**		**114**	**4.0**
Weighted average		**6.2**	**34.4**	**63.1**	**9.5**	**10.5**	**0.8**	**2.6**	**0.80**		**115**	**4.1**

Source: Morningstar. Notes: TR=total return. Vol=volatility. The Sharpe ratio is a measure of risk-adjusted return. The ratios we show are calculated by Morningstar for the past 60-month period by dividing a fund's annualised excess returns over the risk-free rate by its annualised standard deviation. Net gearing is total assets less cash/cash equivalents as a percentage of shareholders' funds.

The board

The board consists of three directors, all of whom are non-executive and independent of the investment manager. Chairman Richard Ramsey was appointed as a director in April 2013 and as chairman in September 2013. Ian Davis became a director in 2004 and Adam Cooke in 2005. Adam Cooke has indicated that he wishes to step down as a director subject to a successor being appointed.

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