TB Saracen Global Income and Growth Fund

Quarterly Review – December 2019

Signatory of: PRI Principles for Responsible Investment

FOR PROFESSIONAL INVESTORS ONLY-

Retail investors should consult their financial advisers

David Keir
Chief Executive Officer

Graham Campbell
Executive Director

	TB SGIG	Sector Avarge	Quartile
Q4 2019	+2.1%	+1.2%	2

Source: Saracen Fund Managers as of 31 December 2019

A game of two halves – Almost!

"Whenever you find yourself on the side of the majority, it is time to pause and reflect": Mark Twain

2019 can be simply characterised as 8 months of the same expensive and over-owned bond proxies and growth shares outperforming, with the final 4 months encompassing a value rebound; the suddenness and extent of this trend reversal caught many off-guard.

Bull markets climb a wall of worry, but at least some of the major UK uncertainties, Brexit and political stagnation appear to have been washed away with a commanding Conservative majority. From a global perspective, a US-China trade deal appears to be edging slowly to a conclusion and many economic indicators remain in positive territory. There is potential, of course, for progress to be derailed by an escalation of the conflict with Iran in the Middle East, but overall, we are in a better position as we enter 2020 than we were a year earlier.

The quote by Mark Twain at the head of this article has relevance to many situations in life. However, at this time of year and given the equity market backdrop it is especially poignant. In particular, markets as with politics, appear to have little in the middle ground.

We have always aimed to build high conviction portfolios with a capital preservation focus. Style Analysis has always indicated we carry a Value bias, but rarely as extreme as the current portfolio. This is not a reflection on any change in process (It has not changed!) but a reflection of the overvaluation of several parts of the equity market. It is not just the Aberdonian in the office who has an aversion to overpaying for uncertain growth!

We remain convinced that shares should be valued on their long-term cash earnings and we spend the vast majority of our time constructing detailed financial models to estimate this value and re-assessing through a worst-case to better understand company specific risk, with the aim of preserving capital. Share prices fluctuate much more than business values, hence we are typically more active in times of market volatility.

There is no disguising that a Value style has been very difficult in recent years (see later charts). The middle ground, often referred to as GARP has eroded significantly: valuations are at extremes at both ends of the scale. Rarely has Value been at such a discount to the wider market and rarely has Quality and Growth stood at such a premium. We appreciate that premiums can be earned and justified by higher earnings, or the expectation of higher earnings. However, this has not been the case this time around: Value has under-performed despite better earnings and we see many incidences of re-ratings in Quality and Growth without any appreciable improvement in earnings growth at all. It is hard to explain many share price movements in terms of earnings. However, it is clear that investors have been prepared to pay higher premiums for growth in certain parts of the market.

This happens from time-to-time, but it’s a question of “when”, not “if” fundamentals reassert themselves again. It feels as if the mood is changing. The snap back on September 10th (where value outperformed growth by over 2%, which represented the biggest one day move in over 10 years) reminded investors that a change can be sharp and painful. As regular readers will know, we are not in the camp that believes that it is possible to time these changes in sentiment. As a result of following our process, we are sometimes too early to Sell and too early to Buy. The duration of these trends this time around have been surprisingly long. Nevertheless, we would always rather be owning undervalued shares and trying to be patient, than owning expensive shares hoping to sell them when they are even more overvalued.

Following the Swedish Central Bank raising interest rates to zero in December, and previous comments from Draghi, evidence is gathering that we have reached the end of the monetary experiment and additional stimuli will come from traditional fiscal means. Clearly, this undermines any future support to the bond-proxies. Whether it’s tax cuts or government spending, fiscal loosening is much more likely to benefit consumer and more cyclical sectors in the economy, where valuations are around historic lows.

In this Quarterly, we will review performance, with both positive and negative attributions, provide more information on portfolio activity over the period and consider investments in the context of the portfolio.

Overview

Our fund's composition and our message has not changed. The significant valuation disparity between lowly valued cyclicals, expensive defensives and highly rated growth stocks means that we continue to run with a "Value" and cyclical bias in our portfolio.

Many use this time of year as a period of reflection. Looking back, we can certainly say it was an unusual decade. We experienced the longest bull market ever. However, it's not just the length that was abnormal but also the composition. Emerging from the financial crisis markets were led by Staples and Technology stocks for the best part of a decade, rather than the usual cyclicals and financials.

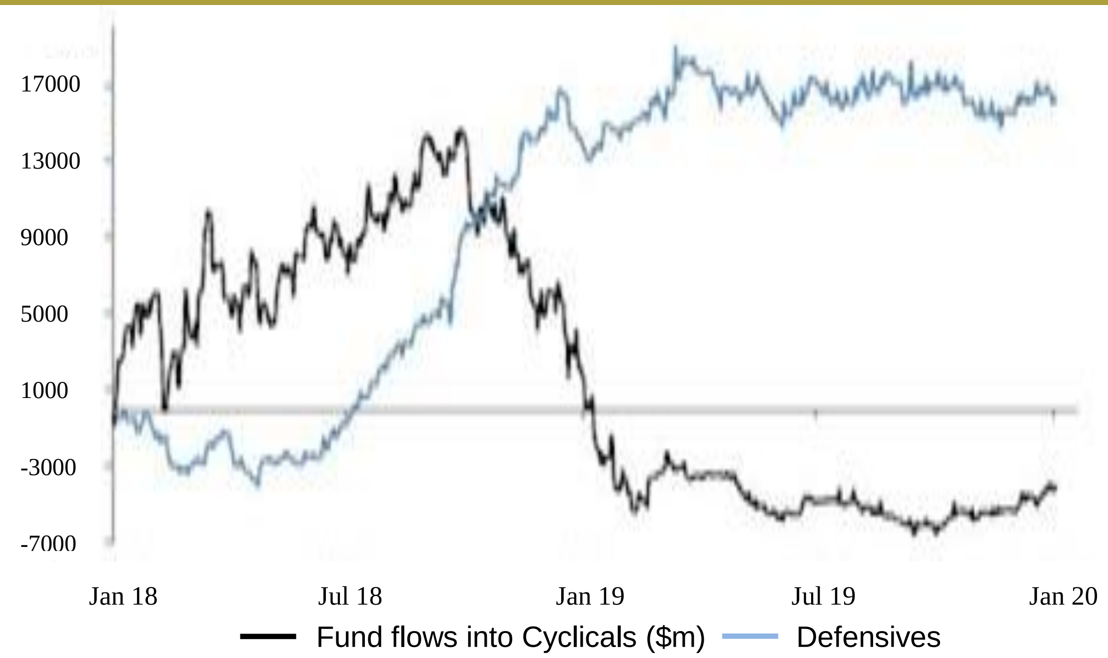
It was also a decade in which Value made hardly any progress while Growth and Quality stormed ahead. This is in stark contrast to long term history, where it's shown that Value typically outperforms 2 out of every 3 years.

Having said all this, Value began to perform better from the end of August. Given the massive valuation extremities between the different styles, we believe that mean reversion has a long way to go.

Talking to our existing and prospective clients and other market participants we see a very clear shift over the last quarter. Investors are more aware of the valuation anomalies and are reversing their positions.

However, as the chart below highlights this has yet to translate into meaningful flows! Given the weight of money in the growth and quality areas combined with the lack of liquidity in the market, this rotation could have significant impact on share prices.

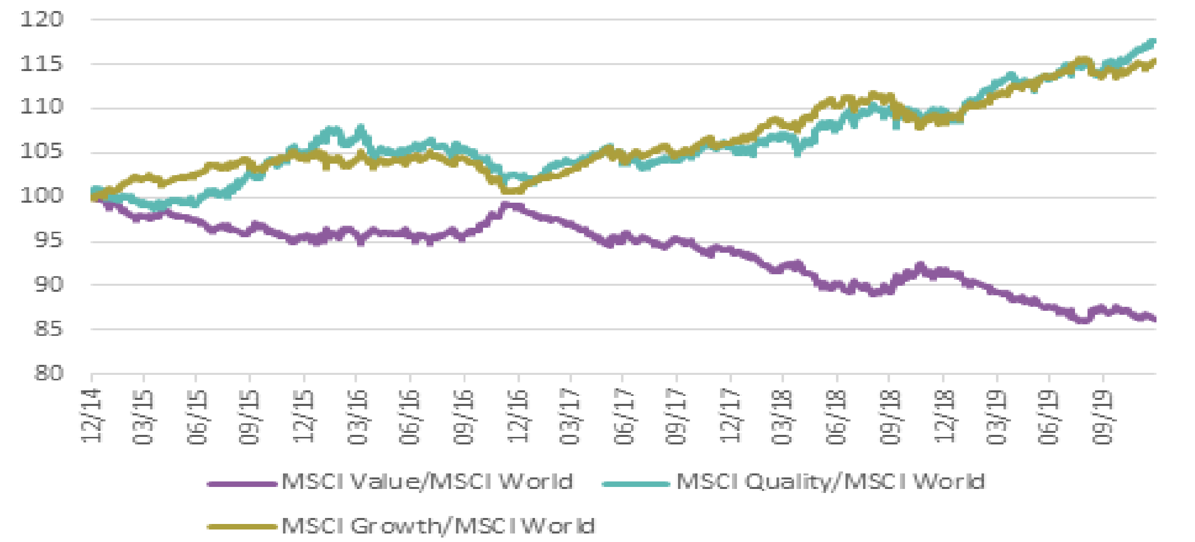
Flows into US Cyclicals and Defensives



Source: Bloomberg

As the chart below highlights, there is considerable upside if Value made up lost ground.

Global Value / Quality / Growth relative to the market

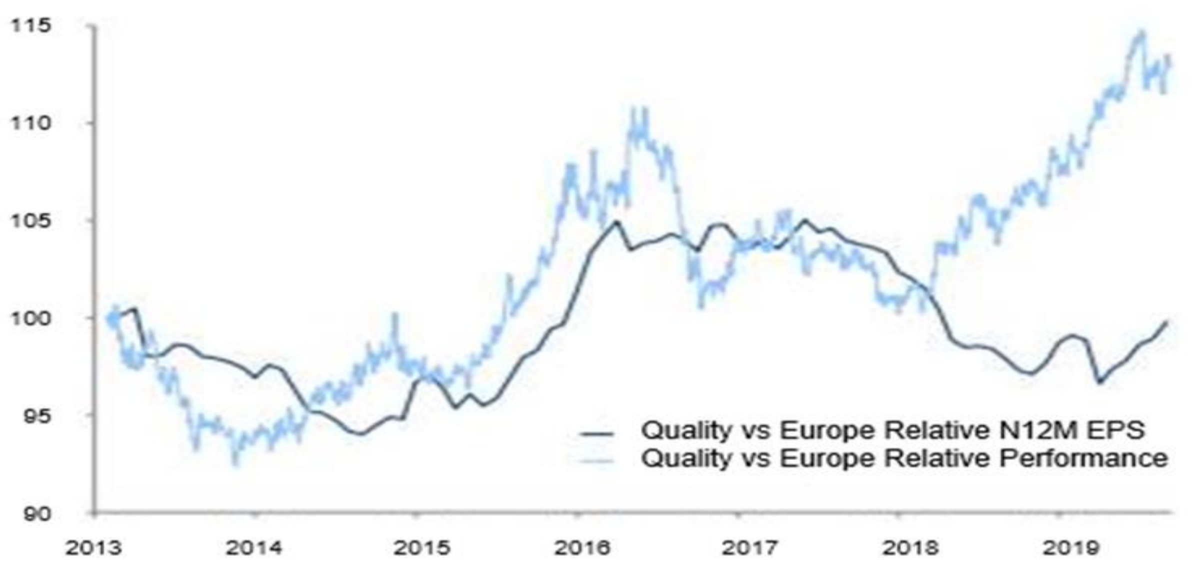


Source: Bloomberg

We have been saying for some time that the stronger performance of Growth and Quality does not appear to be about their earnings!

The chart below shows the relative performance of Quality stocks and the relative performance of their earnings. This highlights a big disconnect. We noted with interest the poor Q3 results from numerous global staples companies including Anheuser Busch, Danone, Heineken, Kimberley Clark and Reckitt Benckiser and the warnings from both Henkel and Unilever in December. These results suggest that there is there is a risk of a significant de-rating of these shares.

"Quality" valuation at odds with fundamentals



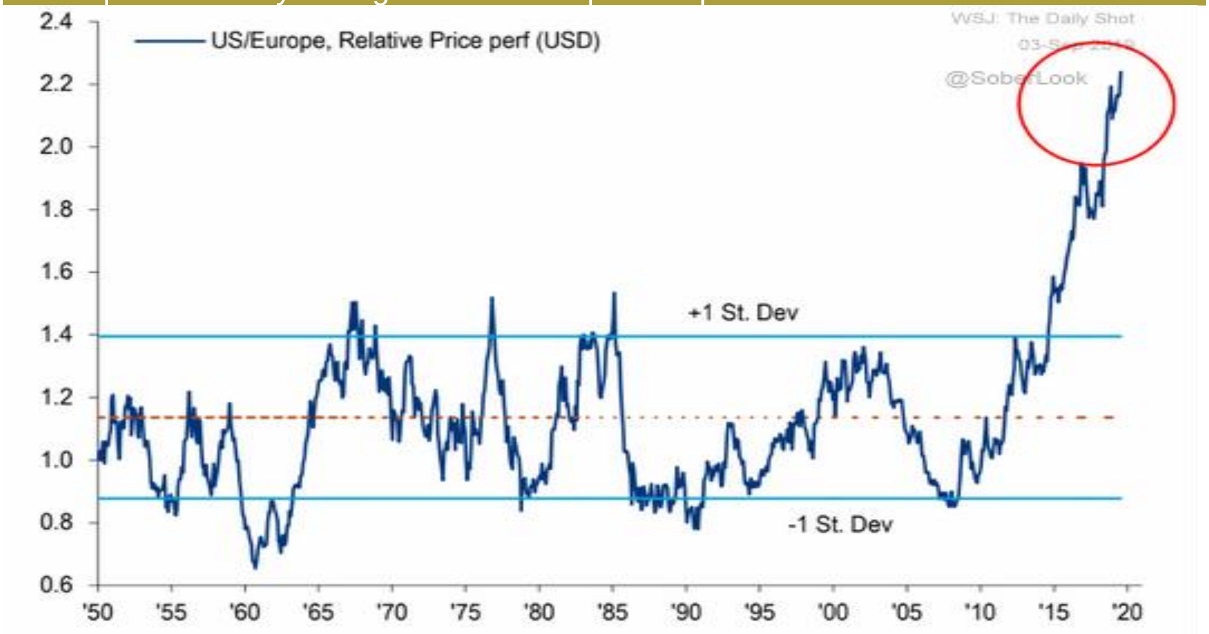
Source: MSCI, Morgan Stanley

Perhaps surprisingly growth in earnings from Value stocks is superior to that of Growth companies. We continue to believe that both Quality and Growth shares are over owned and expensive.

The outperformance of the US market continues despite the well documented concerns about valuations, the US-China trade war and a slowing economy. The S&P 500 rose by a remarkable 29% in 2019, its best year since 2013, significantly outperforming the FTSE All-World index again.

The chart below looks at the performance of the US market versus European markets since 1950 and highlights its outsized outperformance over the last 10 years. The outperformance is now well over a 2 standard deviation event which is incredibly rare (<5% probability). The chart looks similar for the US against most other global indices.

US Equities at 70-year high versus European Equities



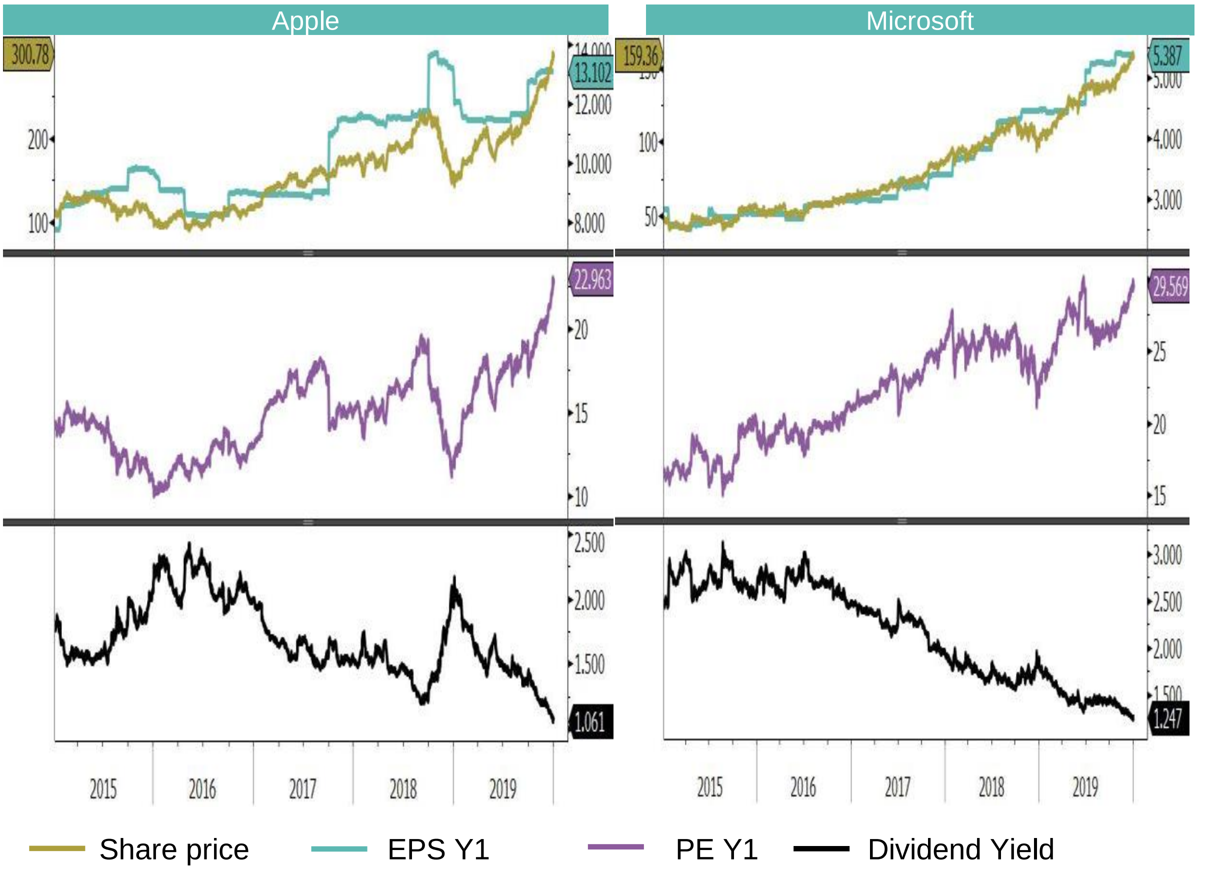
Source: BofA Merrill Lynch Global Investment Strategy, Global Financial Data

Clearly a massive driver of the US's outperformance has been the growth of technology stocks. We have seen the emergence of the FANG stocks over the last decade, but the recent surge was led by two of the "older" technology companies namely Apple and Microsoft. We were amazed to discover that both stocks drove 15% of the S&P's gains last year between them. They provided a bigger contribution than the eight next largest stocks combined!!

What is most unusual is that both Apple, whose share price rose by 85% in 2019 and Microsoft, whose share price rose by 54%, are two of the largest companies in the world (both are now valued at more than $1 trillion). We struggle to understand how the two largest companies in the world could be mis-valued by the market by such a large amount in such a short period of time. There may well be other factors at play here such as the relentless increase in passive investing. However, we are clear in our minds that such share price rises are not sustainable and that these shares are discounting a lot of good news.

The charts below highlight the significant re-rating that both Apple and Microsoft have enjoyed over the last 12 months and now trade on ratings that we have not seen since the TMT bubble in 2000 – Apple is trading on 23X Year 1 PER and Microsoft on 30X year 1 PER. What is also noteworthy is that there is no dividend yield support for either share with yields now close to 1%.

Growth stocks appear expensive



Source: Bloomberg

The dynamics of outsized US market performance and the extreme valuation of some of the largest stocks in the index ties in with our research and portfolio positioning which suggest that there are better opportunities for investors in other global markets.

Where could we be wrong?

The big risk to our thesis remains that the yield curve inversion (which happened briefly in August and has since reversed) and disappointing economic data does indeed herald a global recession.

However, a key change in the last quarter has been the improvement in economic data points.

In November, for the first time in seven months the global manufacturing PMIs showed signs of improvement. In December, Korea's export volumes, which is a closely watched indicator for global trade, delivered growth of 6.9% after contracting for the previous seven months.

As the chart below highlights, inventory levels are low and the new orders to inventory ratio for the global manufacturing PMIs has rebounded sharply over the last four months.

Global Trade on a recovery Path

Source: Markit, Haver Analytics, CEIC, IMF, natural sources, Morgan Stanley

With trade tensions easing and given the substantial amount of monetary and (hopefully) fiscal stimulus, we are hopeful that this improvement in manufacturing and trade can be sustained.

Market Background

Global markets had a strong finish to the year as some longstanding overhangs dissipated. The US and China finally agreed a Phase 1 trade deal, which will hopefully be signed on 15 January. Closer to home the decisive win by the Conservative Party meant clarity on Brexit and raised expectations for a substantial investment plan going forward. This also led to a strong rally in Sterling over the last three months. Liquidity remains abundant with the Fed keeping interest rates on hold and growing its Balance Sheet again (although they are adamant that this is not QE4!). Also, economic data continues to show modest improvement and fears of an imminent global recession diminished.

The IMA Global Equity Income sector rose by 1.2% in Q4 and was up 19% in 2019.

On a geographical basis (and in £ terms), the UK (+4.2%), which benefitted from the decisive general election results, was the strongest performer shortly followed by the Nasdaq (+3.9%) and Emerging Markets (+3.6%). Japan (+1.3%), the S&P (+1.1%) and Europe (+0.9%) were all laggards.

The global sector split was remarkable with the market being driven by the Technology (+5.4%) and Healthcare (+5.1%) sectors. The Oil (-3.5%), Consumer Staples (-5.4%), Utility (-5.9%) and Real Estate (-6.8%) sectors all struggled in sterling terms.

Bond prices retreated during the quarter as yield curves steepened after the inversion in Q3 (inverse relationship). US and UK 10 Years bonds fell 2.2% and 3.1% during the quarter.

Unsurprisingly, Sterling had a strong run into the election and ended the quarter up 8% against the Yen, 7.4% against the USD, 4.5% against the EUR and 4.3%% against the CHF.

Performance Review

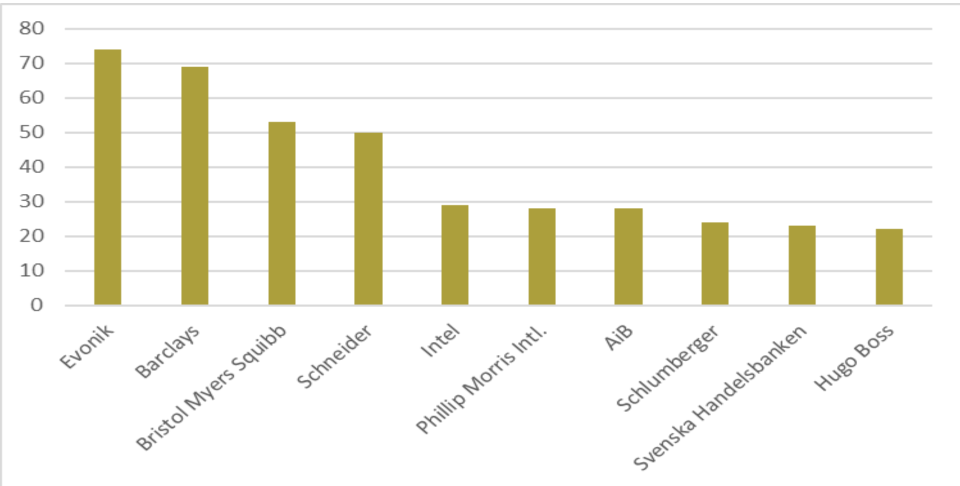
During Q4 2019, TB SGIG delivered a return of +2.1% compared to the IA Global Sector return of +1.2%.

The fund is ranked second quartile from launch in June 2011, delivering a total return of +114% versus the sector average of +110%.

	1 month	3 months	1 year	3 years	5 years	Since launch*
TB SGIG B Acc	+1.4%	+2.1%	+14.2%	+13.1%	+48.8%	+114%
Sector Average	+1.2%	+1.2%	+18.6%	+23.3%	+54.2%	+110%
Quartile Ranking	2	2	4	4	3	2

*Source: Financial Express; *launch date 07 June 2011* *Sector: IA Sector (Global Equity Income)*

Positive Contributors



Source: Saracen Fund Managers

It was a much better quarter for SGIG with some of our financials and Industrials leading the charge.

It was pleasing to see the financial sector near the top of the leader board, especially in Europe. **AIB** (+11%) and **Barclays** (+20%) certainly had a Brexit uplift. In addition, Barclays posted very solid Q3 results. **Svenska Handelsbanken** (+7%) performed strongly after the Swedish central bank, the pioneers of negative interest rates, raised interest rates to zero.

Evonik (+16%) had multiple tailwinds. The company reported a strong Q3 beating expectations and reiterated its full year guidance. Cost control and cash conversion were both strong. Like many other industrials in our portfolio it also benefitted from the decreased recession risk, a potential solution to the US China trade war and a potential bottoming of German manufacturing PMIs.

Schneider (10%) finished the year strongly after reporting over 3% organic growth for Q3, outperforming most peers, and reiterating its 200bps margin improvement target by 2021.

PMI (+6%) showed solid momentum in its Heat not Burn product and maintained full year guidance of “at least 6% organic growth”. During the quarter it became even clearer how large PMI’s advantage is over competitors as Japan Tobacco warned about a delay in its products and market share losses.

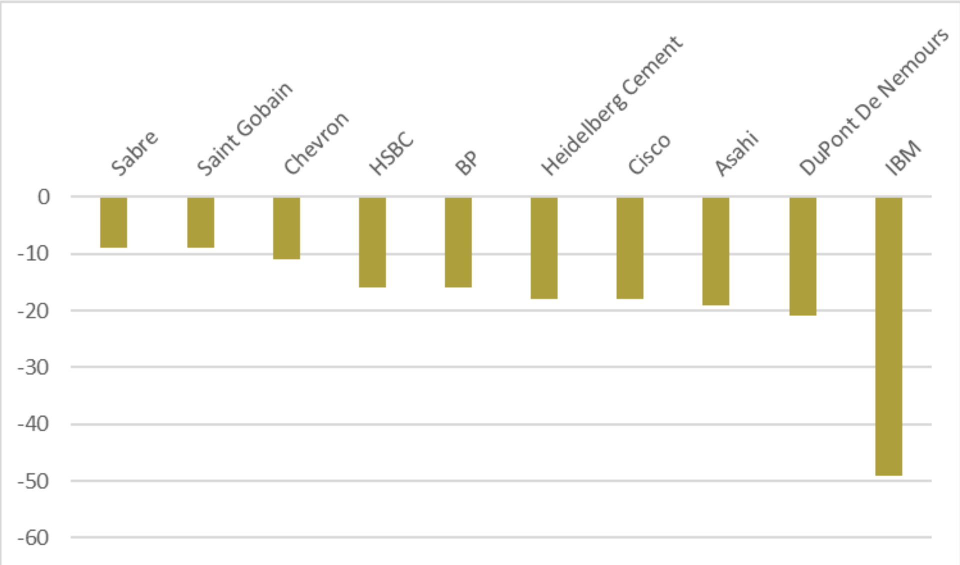
Bristol Myers Squibb (+18%), which we bought in August this year, continued to recover from a very low base. It beat Q3 expectations and raised full year guidance, which in turn led to analysts upgrading the shares. Bristol is entering 2020 with the acquisition of Celgene being closed and an increasingly robust looking pipeline after a strong showing at the ASH conference in December.

Intel (+9%) delivered a record profit for the quarter and also upgraded its 2019 guidance due to the strength in its data center business and improved demand for semiconductors. The truce between China and the US also lifted a cloud over the tech sector.

Schlumberger (10%) shares continued to recover from their lows as the CEO’s focus on costs, cash generations and returns went down well with investors.

Hugo Boss (+15%), bounced strongly after we bought the shares at the end of October.

Negative Contributors



Source: Saracen Fund Managers

There were very few negative contributors in local currency. The strength of sterling during the quarter had a significant negative impact on the contribution from companies listed overseas.

IBM (-14%) shares fell after revenue for Q3 came in below expectations. Although the company reiterated guidance and the newly acquired Red Hat beat expectations by delivering 20% revenue growth this was not enough to offset the negative sales growth in the legacy business. Weakness in the core business came from soft markets in the UK and Germany as well as pull backs in China as a result of the trade war.

DuPont (-17%) suffered from resurfacing concerns about legacy environmental liabilities after the film “Dark Waters” launched in US cinemas in November. The company has stated in the past that the majority of these liabilities (PFAS liabilities) were transferred to Corteva at the spin off earlier in 2019 and are likely to be sub $1bn.

Asahi (-14%) fell after it had to lower full year guidance on the back of currency fluctuations and domestic headwinds. Profits of Japanese alcohol and soft drinks were declining in Q3. With high expectations before the result announcement there was some profit taking in November.

Cisco (-9%) shares were slightly weak after highlighting a slowdown in Enterprise spending due to weakening global economic growth. China softness and Brexit-related uncertainty were cited as reasons for order declines and the company therefore guided revenues lower than expected for 2020. We had reduced our position significantly in Cisco earlier this year due to a stretched valuation. However, with the shares now trading on 14x year 1 PER and yielding over 3%, we used the weakness to rebuild our position.

HeidelbergCement (-6%) shares were subject to some profit taking late in the year after having risen strongly in 2019. However, the shares remain cheap!

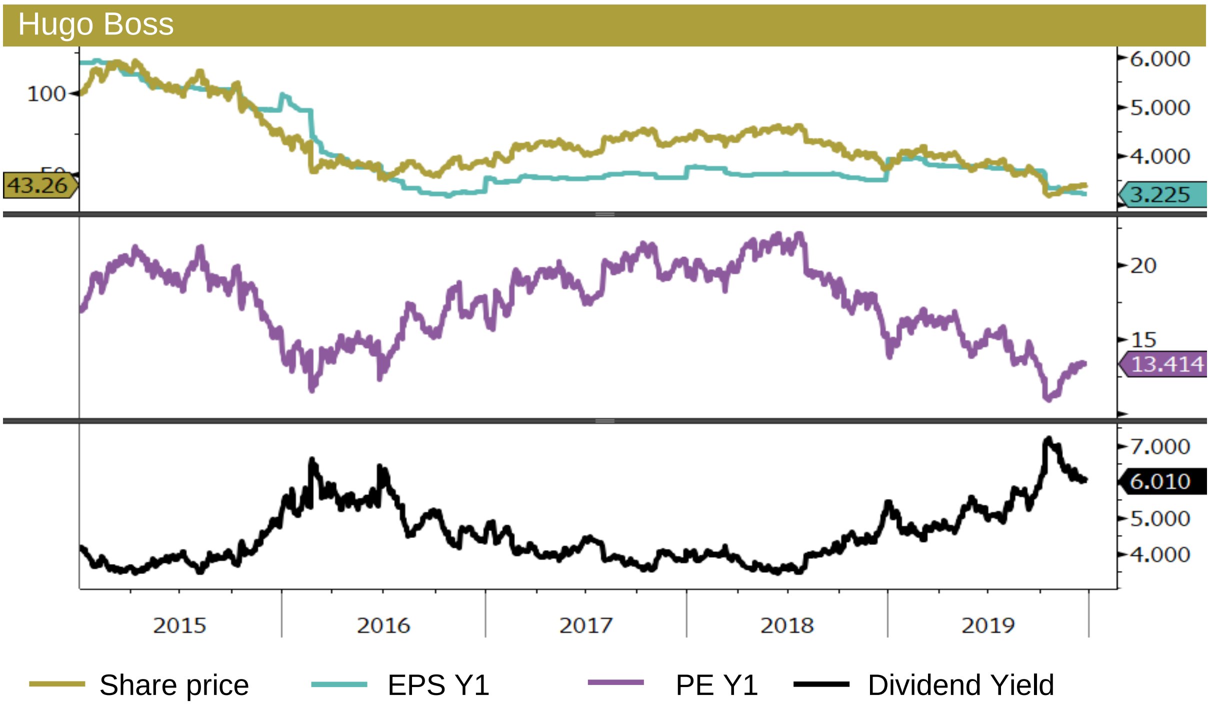
BP (-8%) and **Chevron** (-6%) both had a soft quarter despite the oil price rallying nearly 10%. Perhaps these shares are victims of the shift towards ESG investing? Both shares now look anomalously priced.

HSBC (-5.0%) was weak after a slightly soft Q3 and as it removed its 11% ROE by 2020 target. The new management team now plan to "remodel" large parts of the bank. Sentiment was also impacted by ongoing demonstrations in Hong Kong.

Portfolio Activity

At Saracen, we take a long-term view and tend to trade very rarely. However, our activity increases during periods of market volatility.

We added three new holdings in Q4: **Hugo Boss**, **eBay** and **Samsonite**. We part financed these acquisitions with the disposal of **BMW** based on our "worst case" scenario analysis.



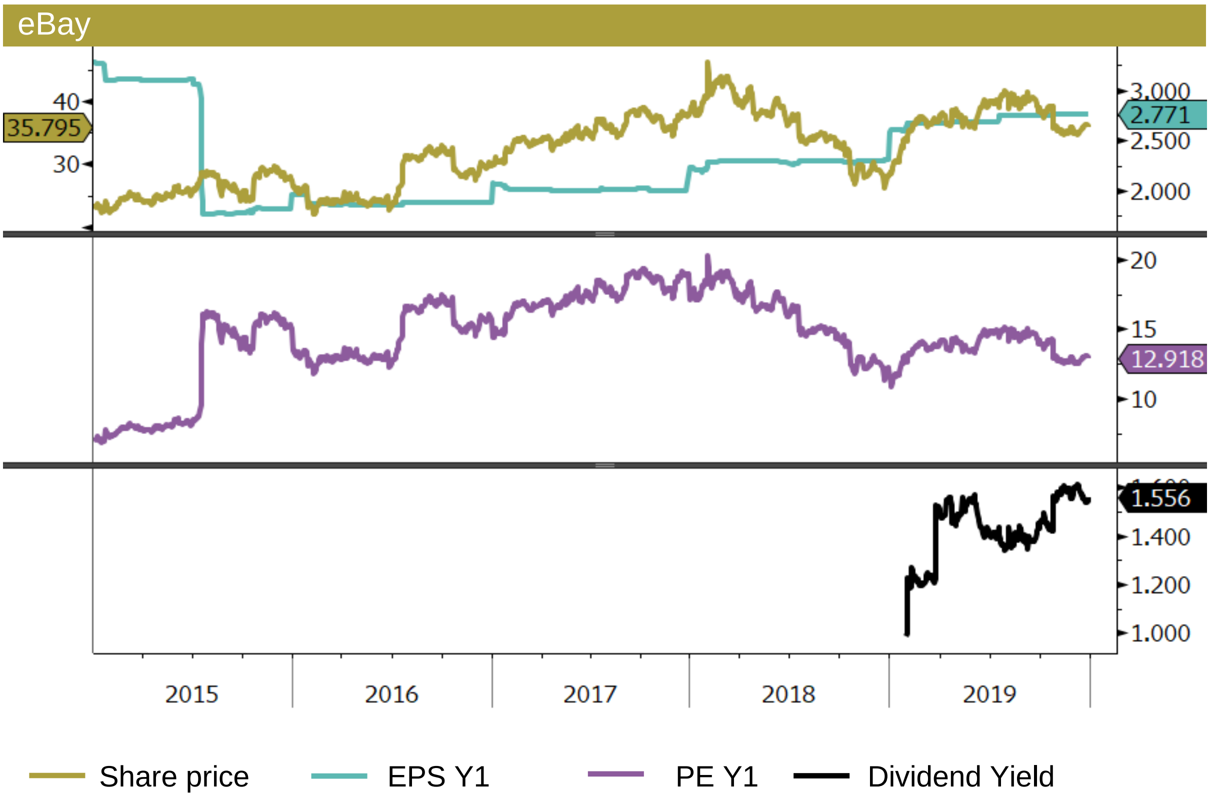
Source: Bloomberg

Hugo Boss is a familiar name to our clients. We owned the shares in the past but sold them in July 2018 after a 60% rally from their lows in 2016 resulted in a Year 1 PER of 22x and Year 5 PER above 15x.

Fast forward 15 months and things have changed. BOSS made some progress in rehabilitating its brand. As expected, it didn't all go as planned. In Q3 Boss lowered its 2019 guidance amidst continued weakness in North America, unrest in Hong Kong and deteriorating consumer confidence globally. The shares fell 30% in a month to a 10-year low valuation.

After the warning at the start of October, we felt that the market overreacted again, and a lot of the potential negative news was now reflected in the price. Even on lowered estimates and a deteriorating outlook the valuation has reached levels that we haven't seen since 2009/10, even lower than when the company first ran into problems in 2016.

The Year 1 PER was now 11x and the Year 5 PER 8.0x. Equally, the historic dividend yield of 7.4% was the highest since 2010. In addition, the Balance Sheet is ungeared. We consequently bought a position for our fund.



Source: Bloomberg

eBay appeared on our proprietary screen following its Board's decision to pay a maiden dividend earlier in 2019. eBay was the original online marketplace, starting more than 20 years ago as a simple place for buyers and sellers to connect. Over the following two decades, eBay evolved into one of the world's largest e-commerce platforms with #1 or #2 market positions in most geographies (ex-China) – a global marketplace facilitating nearly $90 billion of transactions between over 180 million users and 25m sellers across 190 countries.

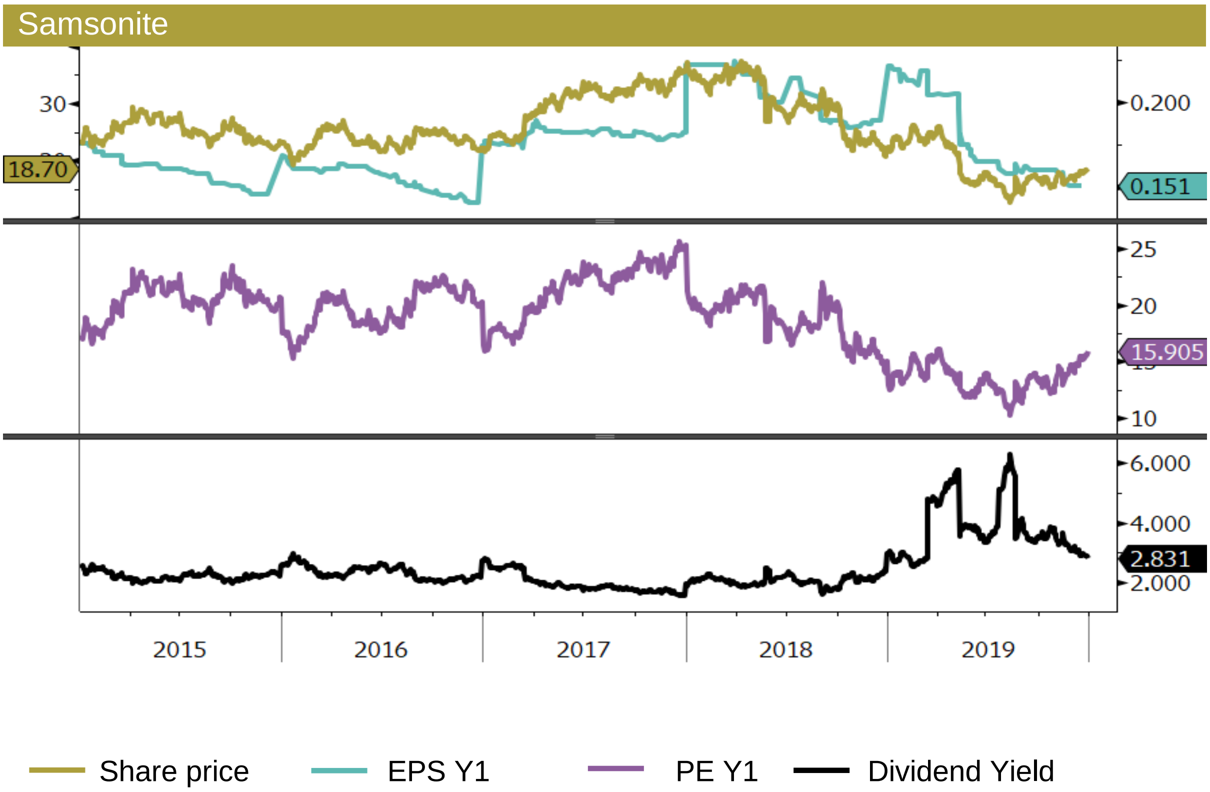
It may surprise readers that 90% of all products sold are not at auction (sold at fixed price), 80% of products sold are new and 70% ship within 3 days (mostly for free and no subscription required).

There is a lot going on at eBay now - activist investors Elliott Management (4%) and Starboard Value (1%) have built stakes in the company and made some recommendations to the board earlier this year. The main aspect is to streamline the business to concentrate on the core by selling Stubhub and classifieds thereby reducing the conglomerate discount.

The Board listened, and StubHub is being disposed of for a blow-out $4bn price to Viagogo (NB eBay bought StubHub for $310m in 2007). The great news for SGIG is that the activists also agitated for the payment of a dividend, which has now materialised. Income funds such as ours can now consider buying the stock for the first time!

eBay ticks all the boxes we look for in SGIG - it is a high-quality business that should be able to sustain attractive returns on invested capital, it is a global leading platform that offers long-term growth, the margins are strong, the Balance Sheet is robust, the valuation is attractive, and the business is very cash generative.

The starting dividend is on the low side for SGIG, but the dividend is currently 5X covered by cash. This dividend could be grown significantly over the 5-year forecast period. With the shares trading on 13X Dec 2020 and a year 5 PER of 7.6X, we think these shares are very cheap and have bought a position for the fund.



Source: Bloomberg

Samsonite is the largest luggage company globally with a very diversified geographical footprint (39% North America, 35% Asia, 21% Europe and 5% Latin America) and has diversified further in terms of brands through M&A (e.g. the acquisition of Tumi in 2016).

The shares have fallen by more than 50% since April 2018 as the business has been impacted by the US/China trade war and specifically the 25% tariff imposed on luggage which is made in China and sold in the US. In addition, the continued fears about a global recession and disruptions in Hong Kong and France have impacted investor sentiment. However, these factors should be resolved in the next couple of years!

The investment case hinges on continued growth in global travel & tourism, which tends to grow slightly above global GDP. Samsonite is well placed to participate in global growth rates of 3-5% and gain market share, which should result in 5%-7% top line growth. Operating margins are currently depressed predominantly due to the tariffs but will recover mainly as sourcing for the US market is moved outside of China.

We believe that Samsonite is a great fit for SGIG. It is emerging market listed, a global leader in luggage, very well diversified by geography and increasingly diversified in products. The shares trade on an attractive multiple of trough earnings (14X PER 2020) and a year 5 PER of 8.4X supported by an attractive dividend yield of 3.7%.

We raised cash by selling our position in **BMW**. We re-evaluated our worst-case scenario for the shares during the quarter. Although we remain convinced that BMW will be a long-term winner and has the design and technology investment to maintain brand leadership the next few years will be difficult. Our assumptions of longer and higher R&D and capex costs in order to compete in electric vehicles will be a drain on cash. The formulaic approach to dividends is likely to resort in another cut this year and it's likely the dividend will not be covered by cash. We, therefore, decided that there are better risk / reward opportunities for us to invest in.

During the quarter, we topped up our holdings in Cisco and Sabre. We took profits in select holdings which have performed very strongly, and the valuation is no longer as cheap – namely AstraZeneca, BP, Chevron, Heidelberg Cement, Interpublic Group, HSBC, Merck, Roche and Schneider.

Portfolio strategy and valuation

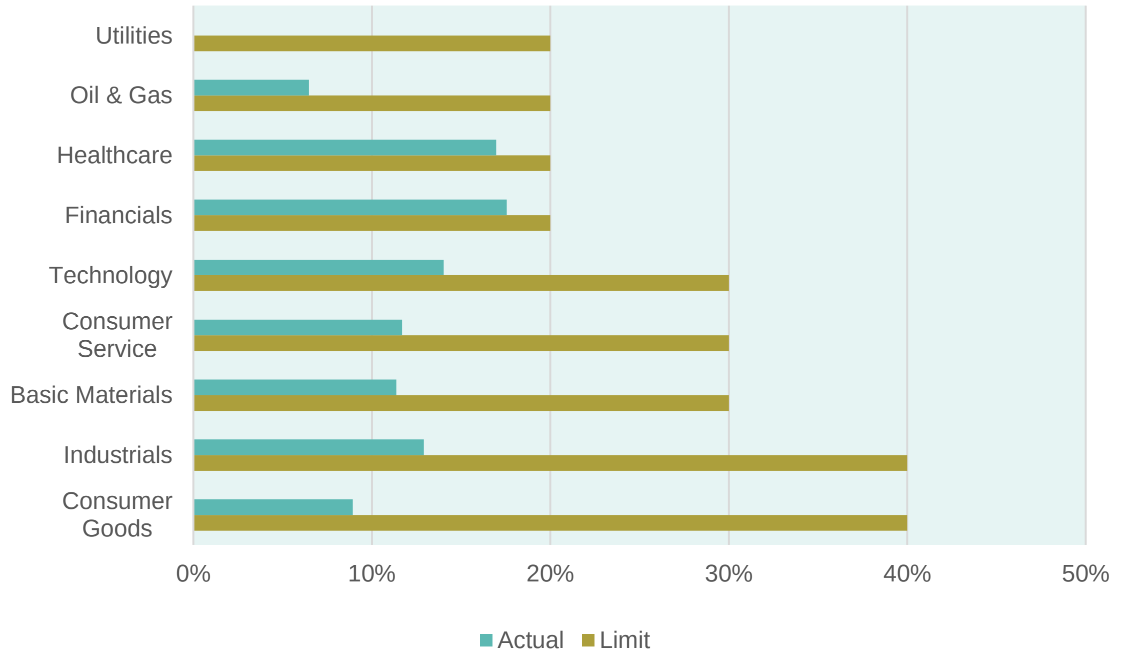
We retain large weightings in companies that are classified in the following sectors:

- **Industrials**
- **Basic Materials**
- **Financials**
- **Healthcare**

Our research still finds limited value in bond proxies like:

- **Consumer Staples**
- **Utilities**
- **Telecoms**

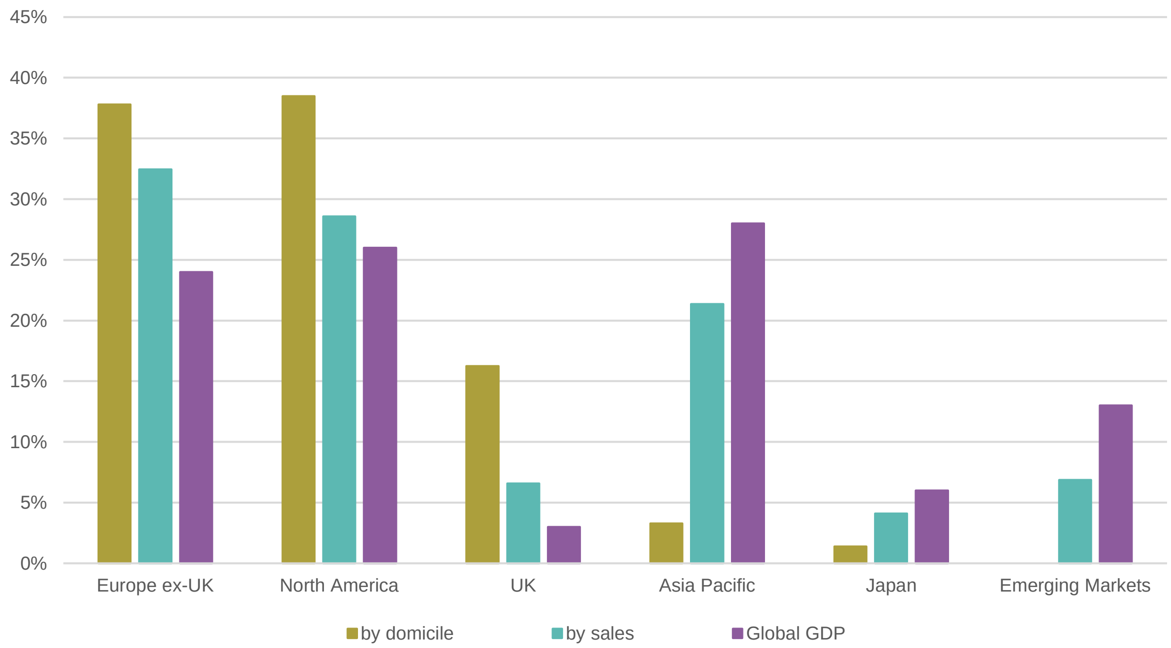
TB SGIG sector split



Source: Saracen Fund Managers as at 31/12/19

The fund's sales exposure is closely aligned with global GDP distribution:

TB SGIG geographical split by domicile and sales vs. Global GDP generation



Source: Saracen Fund Managers as at 31/12/19

We continue to find lowly valued more cyclical businesses attractive and expect these shares to continue to re-rate as global growth persists. The table below highlights the value characteristics of the SGIG portfolio. The underlying portfolio is trading on 11.9X year 1 PER and yields 4.6%, which we believe represents very good value for a portfolio of global leading businesses which are well managed and have strong Balance Sheets.

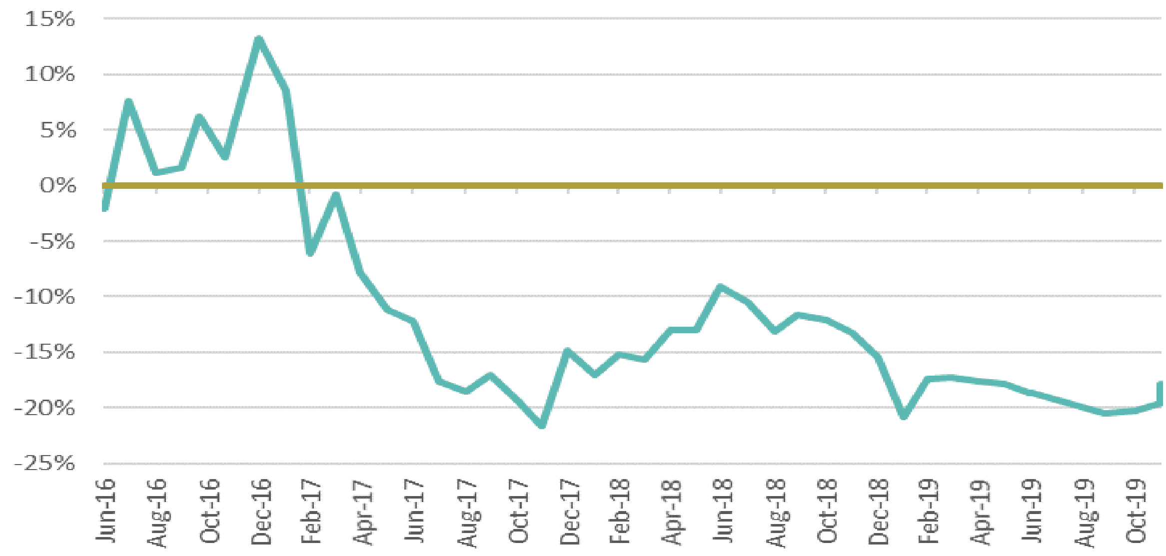
SGIG value characteristics versus FTSE All World index

Characteristic	TB SGIG	FTSE All World	+/-
P/E	15.6	19.0	-3.4
Best P/E 1Y FWD	11.9	16.0	-4.1
Dividend Yield	4.4%	2.4%	+2.2
Best Dividend Yield 1Y FWD	4.6%	2.6%	+2.0
Best P/CF 1Y FWD	7.7	10.5	-2.8
Best P/B 1Y FWD	1.8	2.2	-0.4
Best P/S 1Y FWD	1.4	1.6	-0.4
FCF Yield	5.3%	4.6%	+0.7
Beta	0.99	1.00	

Source: Bloomberg 31/12/19

In addition, as the chart below highlights, the fund continues to trade close at an all-time high discount to the market.

TB SGIG PE discount to FTSE All World PE



Source: Bloomberg 31/12/19

We would also remind readers that given our focus on investing in companies that can grow over the long-term, we expect to be able to increase the dividend from this level in the years ahead.

The table below details the current SGIG portfolio, ranked in descending order based on Bloomberg's Best Estimate Year 1 PER.

We consider many of our holdings to be materially undervalued.

TB SGIG portfolio spread

	BEst P/E	BEst Div Yld
SARACEN GLBL INC & GROW	**11.9**	**4.6**
ASTRAZENECA PLC	23.6	2.7
SCHLUMBERGER LTD	23.3	5.0
ABB LTD-REG	21.5	3.4
NOVO NORDISK A/S-B	20.5	2.4
SABRE CORP	18.1	2.6
CHEVRON CORP	17.7	4.1
SCHNEIDER ELECTRIC SE	17.0	2.9
MERCK & CO. INC.	16.2	2.6
JOHNSON & JOHNSON	16.0	2.7
CORNING INC	15.8	3.2
EVONIK INDUSTRIES AG	15.3	4.3
ROCHE HOLDING AG-GENUSSCHEIN	15.2	3.0
DUPONT DE NEMOURS INC	15.2	1.9
PHILIP MORRIS INTERNATIONAL	15.2	5.7
CISCO SYSTEMS INC	14.5	3.1
PFIZER INC	14.1	3.7
SAMSONITE INTERNATIONAL SA	14.0	3.4
ASAHI GROUP HOLDINGS LTD	13.5	2.3
VALEO SA	13.3	3.5
DOW INC	13.2	5.3
INTEL CORP	12.8	2.2
JOHNSON MATTHEY PLC	12.5	3.0
EBAY INC	12.4	1.6
HUGO BOSS AG -ORD	12.1	6.5
INTERPUBLIC GROUP OF COS INC	11.8	4.3
SVENSKA HANDELSBANKEN-A SHS	11.8	5.9
BP PLC	11.5	6.7
HSBC HOLDINGS PLC	11.3	6.5
CARNIVAL CORP	11.2	4.0
AIB GROUP PLC	11.1	7.7
BRISTOL-MYERS SQUIBB CO	10.8	2.7
RIO TINTO PLC	10.6	6.2
DBS GROUP HOLDINGS LTD	10.5	4.9
COMPAGNIE DE SAINT GOBAIN	10.1	3.9
INTL BUSINESS MACHINES CORP	10.1	5.0
UBS GROUP AG-REG	9.9	6.2
MICHELIN (CGDE)	9.6	3.9
HEIDELBERGCEMENT AG	9.4	3.9
AXA SA	8.8	6.2
BARCLAYS PLC	7.6	5.4
PANDORA A/S	7.4	6.4
PROSIEBENSAT.1 MEDIA SE	7.3	6.9
IMPERIAL BRANDS PLC	6.8	11.5

Source: Bloomberg, Saracen Fund Managers

Investment Approach

TB Saracen Global Income & Growth Fund aims to provide a long-term return from investing in a portfolio of low risk, highly liquid global equity securities. There is an explicit recognition that income is an important factor for many investors and a significant contributor to long-term investment returns.

We have a focussed and highly differentiated portfolio of 40-60 quoted global companies, a high conviction fund with a significant active share, which is currently 93%. There is no formal benchmark for the fund, although we do report performance against the IA Global Equity Income Sector.

We aim to invest in global-leading businesses which can sustainably grow their revenues, their profits and ultimately, their dividends. We are attracted to businesses which have high and sustainable margin profiles, create value by generating a return on investment above the weighted average cost of capital and have a strong Balance Sheet. We also like to see directors owning shares in the business and being remunerated on total shareholder returns as opposed to an earnings-per-share measure, which can be easily manipulated. However, the most important things that we look for in an investment are an attractive valuation and a starting yield of more than 2%. We don't simply buy great businesses at any price - they must be demonstrably cheap!!

Our Wish List for Companies

- Global Leading Businesses
- Long-term revenue growth potential
- Positive return on equity spread
- Sustainable margins
- Strong Balance Sheet
- Acceptable Worst Case (extent and likelihood)
- **Attractive valuation and starting dividend yield more than 2%**
- Alignment of interest with directors

We have a long-term approach and the turnover in the fund has, on average, been less than 20% per annum since the fund was launched.

Fund Dividend

The fund declared a final dividend of 2.79p (+ 27% y-o-y growth). The total dividend for the year is 6.74p (+23% y-o-y growth) which means that the historic yield on the fund is 4.1%.

This level of dividend growth is clearly not sustainable. The 2019 dividend growth rate benefitted from both the weakness of sterling and the change in charging structure which took place in March 2018 (we now charge 100% of the Annual Management Fee against the capital account as opposed to the prior policy of charging 50% against capital and 50% against income).

We target mid-single digit dividend growth over the long-term.

In local currency terms, our estimates for growth in dividends for the portfolio are as follows:

2020 TB SGIG Forecast Dividend Growth

0% - 2%	3% - 5%	6% - 8%	> 8%
36% of Portfolio	**40% of Portfolio**	**18% of Portfolio**	**6% of Portfolio**
ABB	AXA	Barclays	Corning
Allied Irish Bank	Bristol Myers Squibb	Cisco	DuPont de Nemours
Asahi	Chevron	Interpublic	eBay
AstraZeneca	DBS	Merck	HeidelbergCement
BP	Handelsbanken	Michelin	
Carnival Corp	IBM	Novo Nordisk	
Dow Inc	Intel	Schneider	
Evonik	Johnson & Johnson	UBS Group	
HSBC	Johnson Matthey		
Hugo Boss	Pfizer		
Imperial Brands	Philip Morris Intl		
Pandora	Roche		
ProSieben	Saint Gobain		
Rio Tinto			
Sabre			
Samsonite			
Schlumberger			
Valeo			

Source: Saracen Fund Managers Research (figures are calculated in local currency)

Outlook

- **Maintaining strict valuation framework – no style drift**
- **Differentiated portfolio**
- **The fund is attractively valued versus both the market and peer group**
- **Extreme valuation anomalies within equity markets**
- **Global economic growth persisting**
- **Cyclicals and Financials to outperform, Value in Healthcare**

We have been talking about the extreme disparity in performance, valuation and investor positioning for some time.

After a difficult period of performance for the fund, we take great encouragement from the reversal which has seen the fund outperform meaningfully from the end of August.

There does appear to have been a significant shift in investor perceptions towards value strategies. Many of them are, at long last, beginning to review their exposure to "value" styled funds. Perhaps the rotation from "over-valued" defensive shares in September and October helped focus investors' minds.

With "Quality" valuations in the 96th percentile and the performance differential between value and growth more extreme than it was at the height of the TMT bubble, we suggest that this is just the start of the process and that there is much more to go!

The fund, which is made up of well-known global leading businesses with strong Balance Sheets that are well placed to grow revenues, profits and dividends for many years, remains very cheap – indeed we consider many of our holdings to be materially undervalued. The underlying portfolio trades on 11.9X Year 1 PER and yields 4.6%. The low valuation combined with underlying dividend growth on a high starting yield should deliver good performance over time.

May we take this opportunity to thank our clients for your patience and continued support. We wish you well in 2020.

Graham Campbell
David Keir
Bettina Edmondston

December 2019

For further information on TB Saracen Global Income and Growth Fund please contact:

Graham Campbell (graham@saracenfundmanagers.com) or
David Keir (david@saracenfundmangers.com)
0131 202 9100

Investment Manager - Saracen Fund Managers Ltd, 19 Rutland Square, Edinburgh, EH1 2BB Tel: 0131 202 9100/ Fax: 0131 221 1895

ACD & Fund Administrator – T Bailey Fund Services Limited (TBFS), 64 St James's Street, Nottingham, NG1 6FJ Tel: 0115 988 8274
Custodian – The Northern Trust Company, 50 Bank Street, Canary Wharf, London, E14 5NT

Depositary – NatWest Bank PLC, 135 Bishopsgate, London, EC2M 3UR

Regulatory Status:
FCA Recognised: Yes
Scheme Type: OEIC

Issue date – 9 January 2020