SARACEN GLOBAL INCOME & GROWTH FUND QUARTERLY REVIEW 30 SEPTEMBER 2016

FOR PROFESSIONAL INVESTORS ONLY- retail investors should consult their financial advisers

SARACEN
share success

Graham Campbell

David Keir

Fund Performance & Market Overview

	SGIG	Sector Average	Quartile
Q3 2016	**+10.1%**	**+6.9%**	**1**
Since 8/6/11 launch	**+71.7%**	**+61.7%**	**2**

Background

Global Markets performed surprisingly strongly in Q3 as increased liquidity provided by central banks offset global economic concerns and more specifically the impact of Brexit on UK and European economies.

At the end of the quarter the FTSE All-World (Sterling) delivered a positive 9% total return, which was helped by continued weakness in Sterling. During Q3 GBP fell to its lowest level against the USD in three decades, losing 3.0%. GBP was down 3.5% against the Euro and 4.5% against the Yen.

A developing theme in the market place is that central bankers have now exhausted monetary policy and that the agenda needs to move quickly towards a meaningful fiscal stimulus. As a result, bond yields have stopped falling and in some countries such as Japan have been showing signs of backing up. This has led to significant changes in market leadership which has benefitted our portfolio's performance. It is interesting to note that the expensive defensive bond proxies are also now beginning to underperform and some of the more cyclical sectors and financials, where we continue to find significant value, are beginning to outperform. We expect this trend to continue.

During Q2, SGIG delivered a return of +10.1%, which was ahead of the Global Equity Income Sector Average of 6.9%. The fund's long-term track record remains strong having delivered a total return of +71.7% since launch in June 2011 versus the Global Equity Income sector's total return of 61.7%.

Positive Contributors

Covestro (+32%) continued its very strong run and was an important contributor to the quarter's performance. With the shares up 89% since our purchase in January, we locked in some profits during the quarter.

Financial shares, which had borne the brunt of the Brexit fall-out bounced back strongly in Q3. Our holdings in **HSBC** (+23%), **Invesco** (+23%), **Mizuho Financial Group** (+19%) and **Ashmore** (+18%) all outperformed the market. We continue to find significant value in this sector and have reached our self-imposed sector limit of 20%.

It was also pleasing to see all the purchases from the "portfolio upgrade" that we made during the market volatility in February performing strongly. **Apple** (+21%), **Harley Davidson** (+20%), **LVMH** (+14%) and **JP Morgan** (+5%) all had a good quarter.

It is also worth noting that both **BMW** (+14%) and **SES** (+16%) bounced back strongly after a difficult Q2.

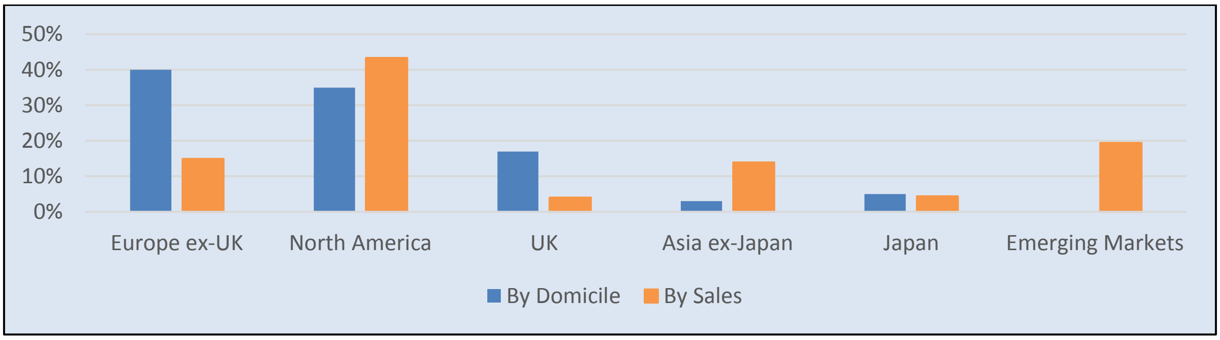
Negative Contributors

Given the strength of markets in Q3, there were very few shares that contributed negatively to performance.

Pharmaceutical shares had a slightly soft quarter with **Novartis** (-2%), **Pfizer** (-2%) and **Roche** (-4%) all underperforming. We continue to view Pharmaceutical shares as materially undervalued and think concerns over drug pricing are overdone should Hilary Clinton be elected President. Our quarter end position of 17% remains close to our sector limit.

Portfolio Activity

The fund has 43 investments which are spread across the globe with an average market capitalisation of £78.8bn. As at 30 September 2016, the breakdown of the portfolio by sales was 43% US, 34% Emerging Markets (incl. Asia ex-Japan), 15% Europe, 4% UK and 4% Japan.



During the course of the quarter we bought **Asahi Group** and **Prosieben.**

Asahi Group is a Japanese holding company of various subsidiaries operating in the domestic alcoholic beverages (Asahi Super Dry, Nikka Whiskey), soft drinks, food and international segments. Asahi can trace its roots back to 1889 as the Osaka Beer Brewing Company which merged with Sapporo Beer in 1906 to form Dai-Nippon Breweries. Asahi as we know it today was founded in 1949 when Dai-Nippon Breweries was split into what is now Sapporo and Asahi.

Asahi ticks most of the boxes that we look for in SGIG. It completely dominates the Japanese beer market with its Asahi beer and is looking to turn this into a global premium product alongside its recently acquired Peroni and Grolsch brands. It is also a market leader in its soft drinks and foods division. Whilst the domestic business is not exciting, it should offer steady growth. The real opportunity is the overseas division. The valuation looks incredibly cheap and whilst the 2.0% yield is on the low side for SGIG, the pay-out ratio is only 30% today and there will be scope for additional return towards the end of the 5 year forecast period.

ProSiebenSat1 (Pro7) is one of the main private broadcasters in Germany, Austria and Switzerland. Its audience share in Germany is close to 30% in an almost duopolistic market. The main division is the German speaking TV business which is driven by German ad spend. Pro7 is uniquely placed in that it has the highest exposure to digital in Germany with its offering in digital commerce (e.g. travel, comparison and online dating websites) and digital entertainment (Pro7's Maxdome is the German competitor to Netflix and Amazon Prime). It acquires digital assets and pays for them with air time for advertising. This offers an unusual cross selling opportunity from TV to digital and is an inexpensive way in building out its digital commerce offerings. On top of this Pro7 owns a strongly growing production company.

We like Pro7 as it offers exposure to German GDP growth, yet it's less cyclical than other broadcasters due to its diversification. Pro7 has a very strong balance sheet and capex needs are fairly static. This means the company pays out most of its earnings in dividends with the occasional special dividend. The shares underperformed the market this year due to macro concerns. However, we see good long term value at these levels. In addition, the shares offer a 5.4% yield and double digit dividend growth.

We sold **BHP Billiton** and used the proceeds to increase our holding in Rio Tinto. BHP shares have rallied nearly 100% from its lows at the end of January this year and no longer yield enough for us to hold in the fund. Rio Tinto has a lower valuation, a higher yield and stronger Balance Sheet. Given the strength of commodity prices this year, Rio now finds itself in the enviable position of having excess capital on its Balance Sheet.

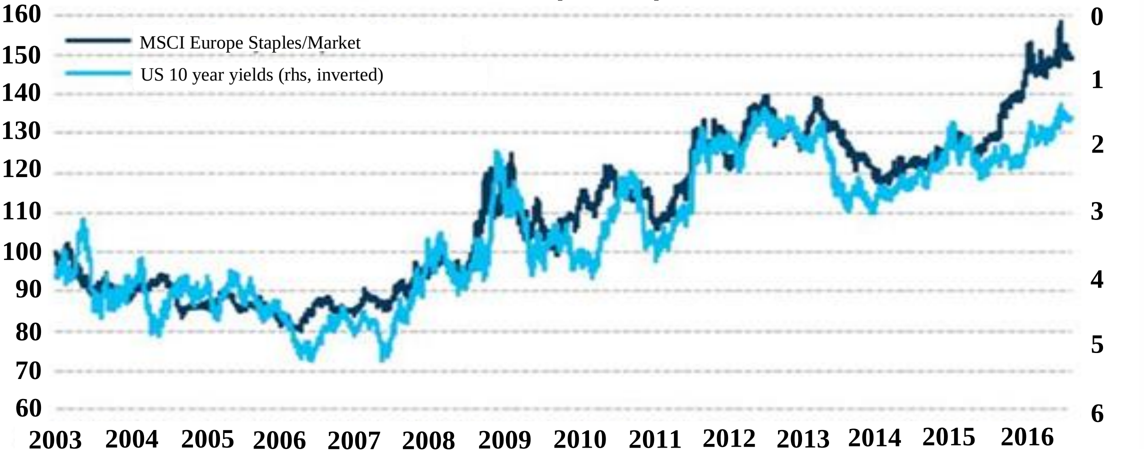
We also sold **Royal Dutch Shell** and redeployed the proceeds into BP and Chevron. Given the volatility in the Oil price, we decided to consolidate our holdings into two of the lowest cost oil producers globally, who both have incredibly strong Balance Sheets and firm commitments to their dividends.

Current Fund Themes

Our objective is to deliver growth in capital and dividends over the long-term from a diversified portfolio of global leading companies. We take a long-term investment horizon with holdings in companies such as Deutsche Post, Diageo, Johnson & Johnson, HSBC, Microsoft and Novartis held since launch in 2011.

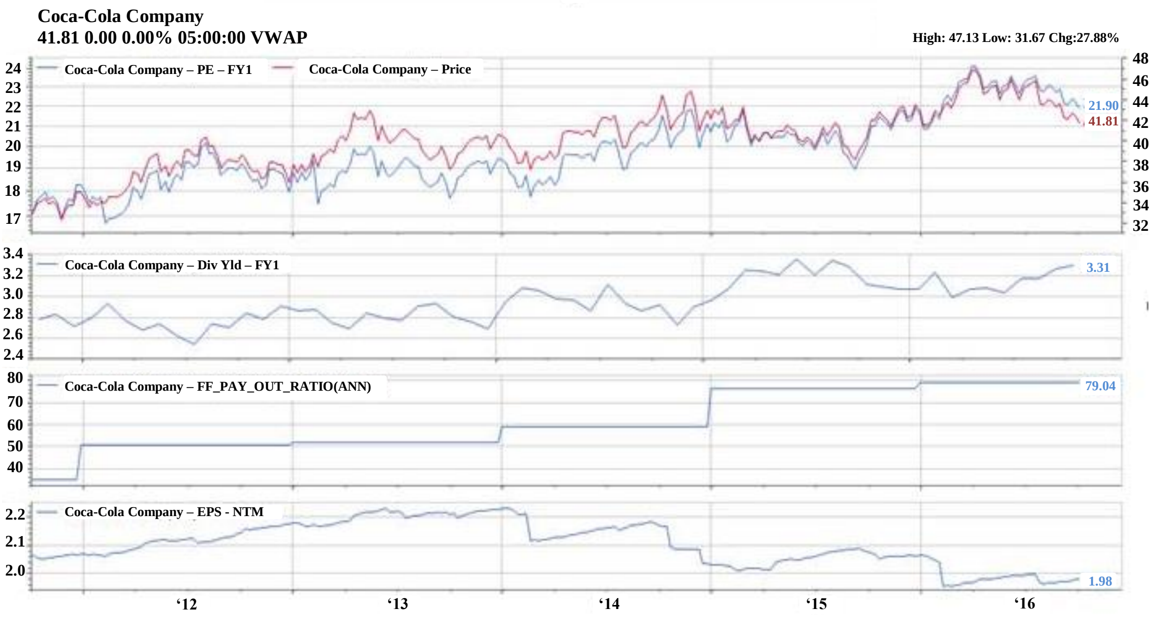
Despite the elevated market levels, we still believe there are plenty of opportunities for investors who are prepared to take a contrarian and value-orientated approach. There appear to be numerous valuation anomalies in markets today. Many equity investors continue to hide in some very expensive consumer shares, which we call the "bond-proxies". As the chart below highlights, the relative performance of the MSCI European Staples versus the market has now overshot the inverted 10 year bond yield.

Performance of US 10 year yields vs relative performance of MSCI Europe Staples



Source – Morgan Stanley, MSCI, Factset, Bloomberg (06/09/16)

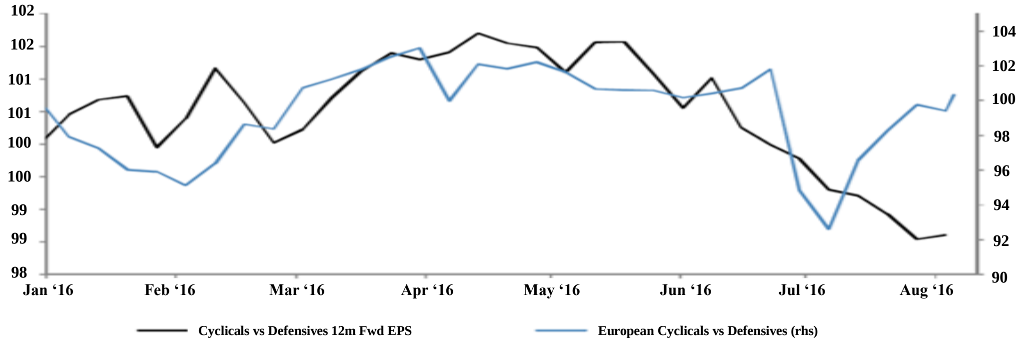
A great example of an expensive defensive is Coca-Cola which we sold in 2015. We think that the following chart is illuminating. It shows that over the last 5 years Coca Cola's PER has rerated from 17x to 22x. At the same time the earnings forecast has fallen almost every year and 2016 earnings of $1.98 are 11% below 2013 earnings forecast (i.e. the business has contracted during that period). In order to keep the dividend yield around 3% the pay-out ratio increased from 35% in 2011 to 79% in 2016 while net debt/EBITDA has more than doubled from 1x to 2.2x.



This is not a sustainable situation and whilst catalysts for change are only obvious in hindsight, a reversal in bond yields would cause significant underperformance.

Our research has identified some outstanding opportunities in more economically cyclical businesses. The chart below highlights that these cheap cyclicals began to outperform expensive defensives in Q3.

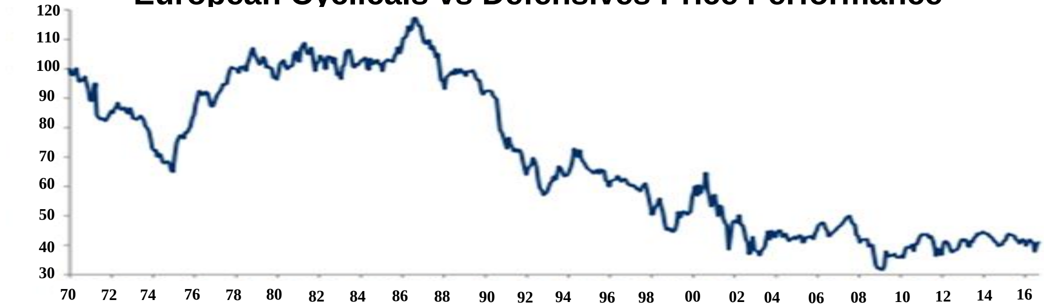
Cyclicals earnings and performance relative to Defensives ytd



Source – IBES (08/08/16)

Given the significant underperformance of cyclicals versus defensives since 1988, we believe that this is just the start and expect cyclicals to continue to outperform!

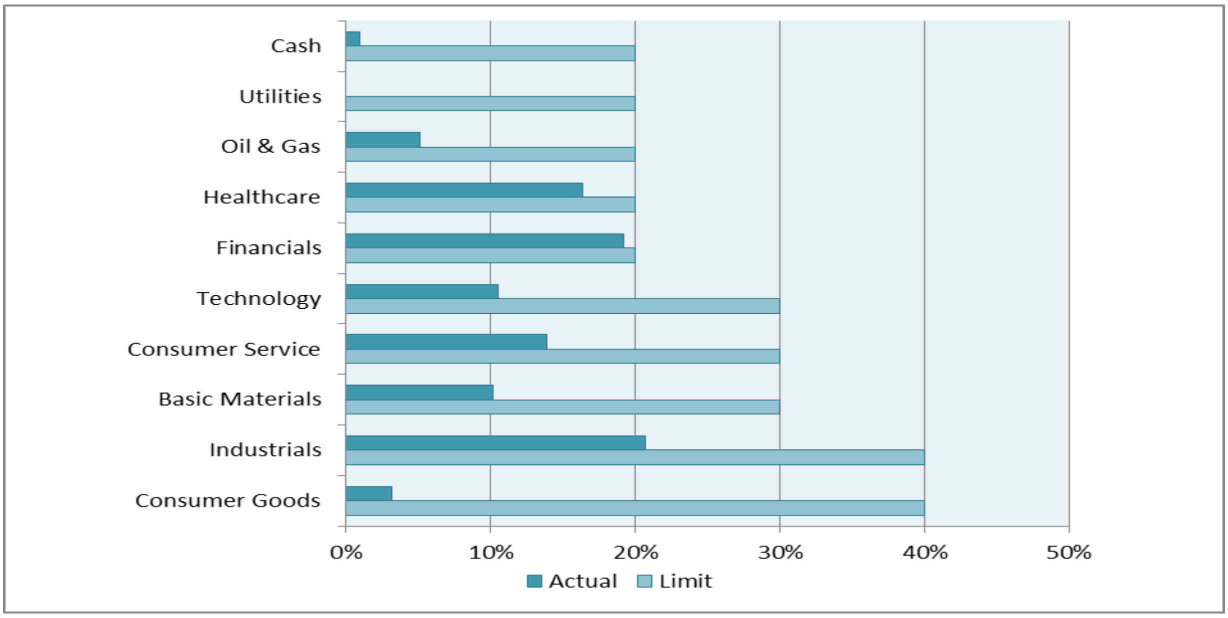
European Cyclicals vs Defensives Price Performance



Source – Morgan Stanley (12/08/16)

As a reminder, all our companies have strong balance sheets and attractive starting dividend yields. We are continually trying to take advantage of the extreme movements in share prices to enhance returns for the long-term. We have very high conviction in our holdings in the portfolio. We currently have 43 holdings which is at the bottom end of our 40-60 range.

Our portfolio is broadly spread across a variety of sectors. We do not own cash – we do not have an ability to time markets and we view any client allocation to the fund as an asset allocation to global equity income. We don't own utilities as they have little growth, if any, have geared Balance Sheets and tend to have rights issues every 5 years to pay for the dividend. We remain positive in Healthcare and are still finding value in some of the more cyclical areas of the market such as Basic Materials and Industrials. We are also finding significant value in Financials where valuations are at extreme levels and investors are fearful. We only have Diageo and our recently acquired position in Asahi Group in Consumer Staples as this is an area of the market which we find to be incredibly expensive.



These are unusual and volatile times and we have a portfolio which we believe can deliver attractive long term returns in capital and income.

Investment Approach

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 portfolio of 40-60 quoted global companies, a high conviction fund with a significant active share, which is currently 90%. There is no formal benchmark for the fund, although we do report performance against the FTSE All-World (Sterling) and the Global Equity Income Sector.

We aim to invest in global-leading businesses which are able to sustainably grow their top-lines, their profits and then, ultimately, their dividends. We are attracted to businesses that have high and sustainable margin profiles, create value by generating a return on investment above the weighted average cost of capital, are cheap, have a strong Balance Sheet and an attractive starting dividend yield. 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 easily be manipulated.

Our Wish List for Companies

- Global Leading Businesses
- Long-term revenue growth potential
- Positive return on equity spread
- Sustainable margins
- Strong Balance Sheet
- Attractive valuation and starting dividend yield in excess of 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.

Outlook

As we reach the limit of monetary policy across the globe and move towards fiscal stimulus, there is a good chance that bond yields have bottomed and may begin to reverse from current extreme levels. This will have significant implications for stock markets and in particular for sector performance, namely; expensive defensives will de-rate and the more cyclical sectors including financials, where we find significant value, will re-rate and outperform.

Our portfolio contains 43 high conviction holdings across a variety of sectors, which we believe offer attractive returns both in capital and income. The fund has delivered strong returns since launch and, as ever, Investors' interests remain aligned with our own given our significant investment in the fund.

Graham Campbell
David Keir

For further information on Saracen Global Income and Growth Fund please contact either Graham (graham@saracenfundmanagers.com) or David (david@saracenfundmangers.com) via email or by telephoning 0131 202 9100.