TB Saracen Global Income and Growth Fund

Quarterly Review – March 2019

SARACEN
share success

FOR PROFESSIONAL INVESTORS ONLY-

Retail investors should consult their financial advisers

David Keir
Executive Director

Graham Campbell
Chief Executive Officer

VALUE(ation) still favours equities

Fund Performance

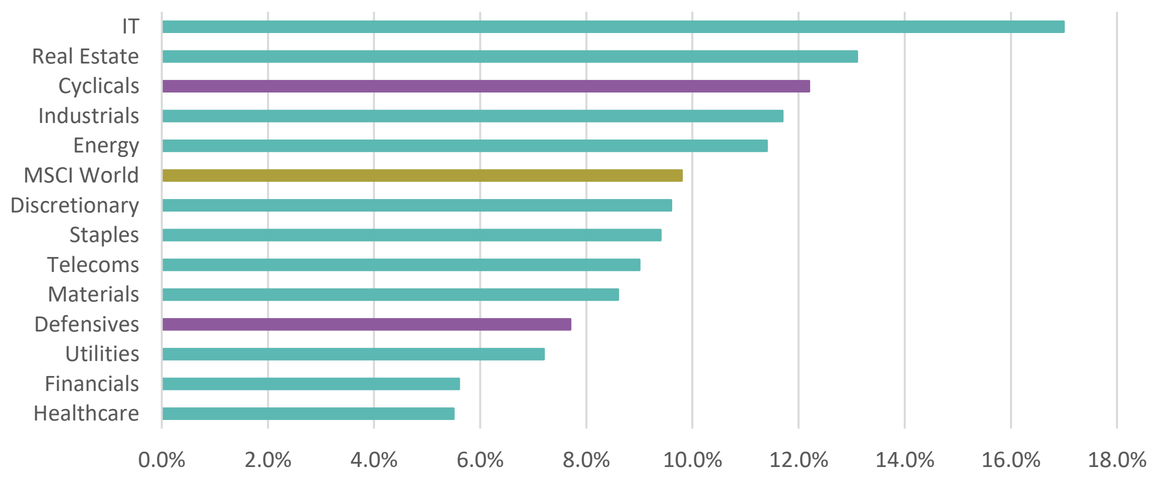
	TB SGIG	Sector Avarge	Quartile
Q1 2019	+8.7%	8.0%	2

Source: Saracen Fund Managers as of 31 December 2018

Overview

Q1 2019 saw a strong recovery from the lows reached in Q4 2018. All sectors contributed to the strong performance YTD for the MSCI World (£), although Cyclicals outperformed Defensives by 4.5%.

MSCI World Sector Performance YTD



Source: Bloomberg

The fund's composition and our message has not changed over the quarter. 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.

We continue to anticipate positive global growth, albeit at lower levels. In our view, the recent economic data has been depressed by one-off factors, some of which should reverse over the next couple of quarters. In the quarter, the US government shut-down was resolved, the Fed paused rate increases and encouragingly, US-China trade talks continued. Some issues were more intractable, such as the Brexit impasse in Parliament. In addition, we have met, or had conference calls with managements of most of our holdings and many non-holdings in the past three months and there has been a reassuring message from our cyclical businesses as can be seen in the following examples:

Evonik IR – *"China is not as bad as everyone feared in October and November. We have made a good start to 2019".*

Saint Gobain CEO – *"Now, on the outlook, first of all and it's no surprise to me given the good exit rate we are starting the year well. And I would say that we'll continue to see, globally, good trends for Saint-Gobain in 2019".*

Heidelberg Cement CEO – *"We would expect that we will see result improvement and margin improvement in 2019. We would expect that I – what I understand is that the consensus is on an EBITDA of 5.5% – that's the number which we feel for the moment pretty comfortable".*

Schneider CEO – *"So, all in all, we target in 2019 an EBITA growth in absolute value between 4% and 7%. This would be achieved with a combination of a growth between 3% to 5% and an adjusted EBITA margin between 20 bps to 50 bps in terms of organic improvement".*

TB SGIG still offers a differentiated and concentrated portfolio, comprising well-managed, lowly valued global leading businesses. While shares have recovered so far in 2019 the valuation differential between TB SGIG and FTSE All World has actually widened.

SGIG value characteristics versus FTSE All World index			
Characteristic	TB SGIG	FTSE All World	+/-
P/E	14.3	17.1	-2.8
Best P/E 1Y FWD	12.1	14.7	-2.6
Dividend Yield	4.2	2.6	1.6
Best Dividend Yield 1Y FWD	4.3	2.8	1.5
Best P/CF 1Y FWD	8.2	9.7	-1.5
Best P/B 1Y FWD	1.7	2.0	-0.3
Best P/S 1Y FWD	1.3	1.5	-0.2
Beta	0.94	1.00	

Source: Bloomberg 29/03/19

Market Background

Global markets rebounded strongly in Q1 with the IMA Global Equity Income sector up 8.0%. The result season was not as bad as feared and sentiment improved from Q4 lows. The US shutdown was finally resolved at the end of January and the Fed decided to pause with its interest rate increases for the time being. Also, China implemented a new stimulus programme. However, there are still outstanding issues that depress sentiment where we hope to see a (positive) solution in the coming quarter, mainly US – China trade negotiations and Brexit.

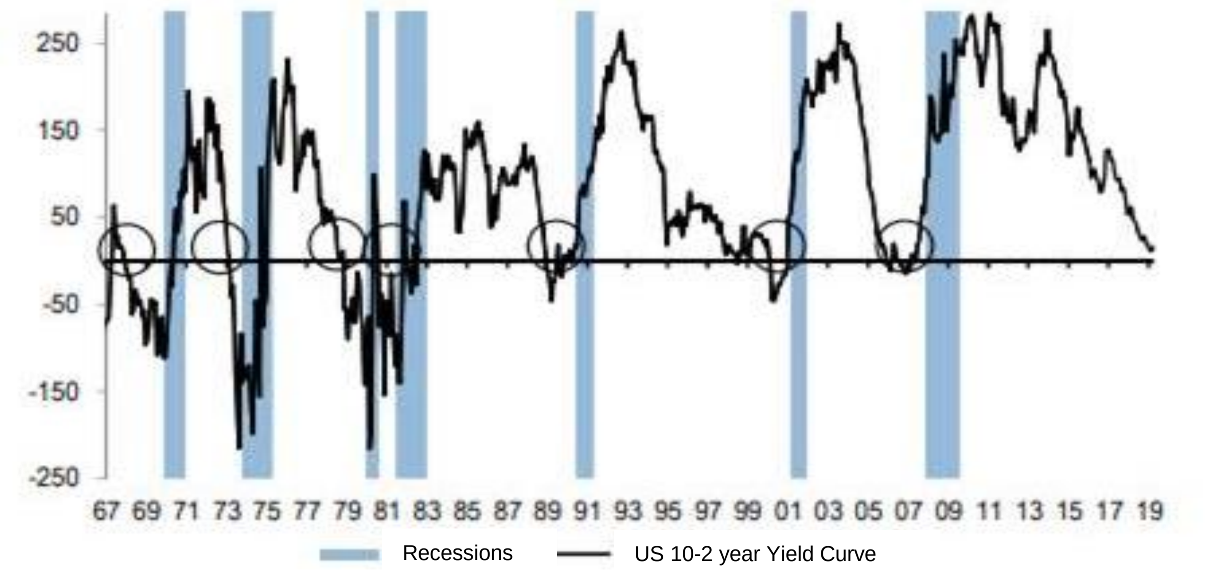
All sectors contributed to the positive performance, although Cyclicals (+12.2%) outperformed Defensives (+7.7%) by 4.5%. On a sector basis, IT (+17.0%) was the leader and Industrials (+11.7%) and Energy (+11.4%) outperformed. Staples (+9.4%), Utilities (+7.2%), Financials (+5.6%) and Healthcare (+5.5%) lagged the market.

On a geographical basis, the US (+10.4%) was the best performing market followed by the FTSE (+8.3%), Europe (+7.2%) and Emerging markets (+6.9%). Japan was the laggard (+2.9%).

Sterling continued to be volatile and moved sharply in either direction on any Brexit related news flow, but over the period rose by 2.7%, 4.6% and 4.2% against the USD, EUR and CHF respectively.

A major theme in the quarter was the sharp fall in Bond yields, where they are almost inverted. Yield inversion (long yields above short yields) is traditionally perceived as a warning of an approaching recession. We believe that the bond market is overly-pessimistic about global growth prospects and the manipulation by Central Banks has reduced their predictive capacity as a barometer to future inflation.

US 10-2 year yield curve and recessions



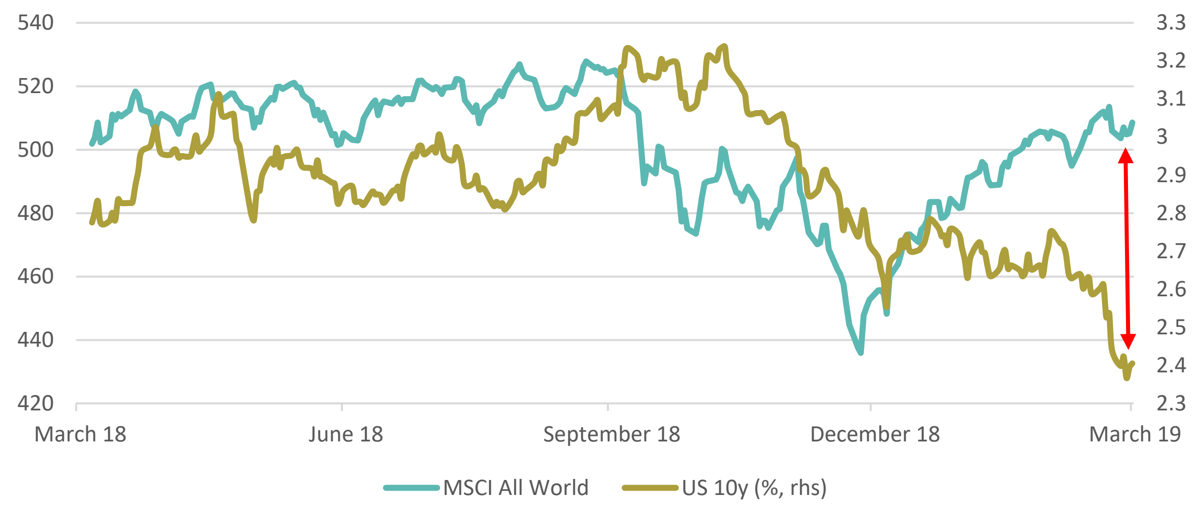
Source: Datastream, NBER, JP Morgan

Fund Background

While bond yields continued to fall at the start of 2019, global equity markets staged a strong rebound, posting the best start to the year since 1998. The fund also reversed its losses from Q4 last year. As we mentioned in our last commentary, TB SGIG had never been cheaper nor as high yielding than at the end of 2018.

The performance in bond markets vs equity markets could not be more contrasting. The US 10y Treasury yield has fallen 30bps since the start of the year and is 84bps off its recent high in November 2018. It is unusual for gaps of this magnitude to persist.

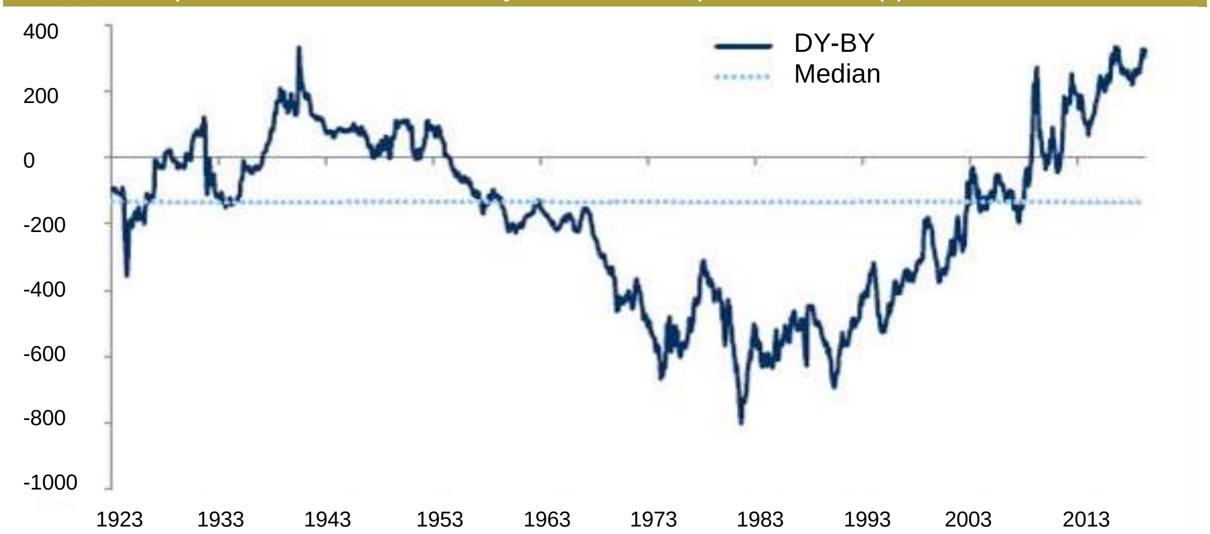
Equities and bond yields have moved in opposite directions



Source: Bloomberg

The yield gap of equities to bonds is still near all-time highs. We continue to find selective value in equity markets.

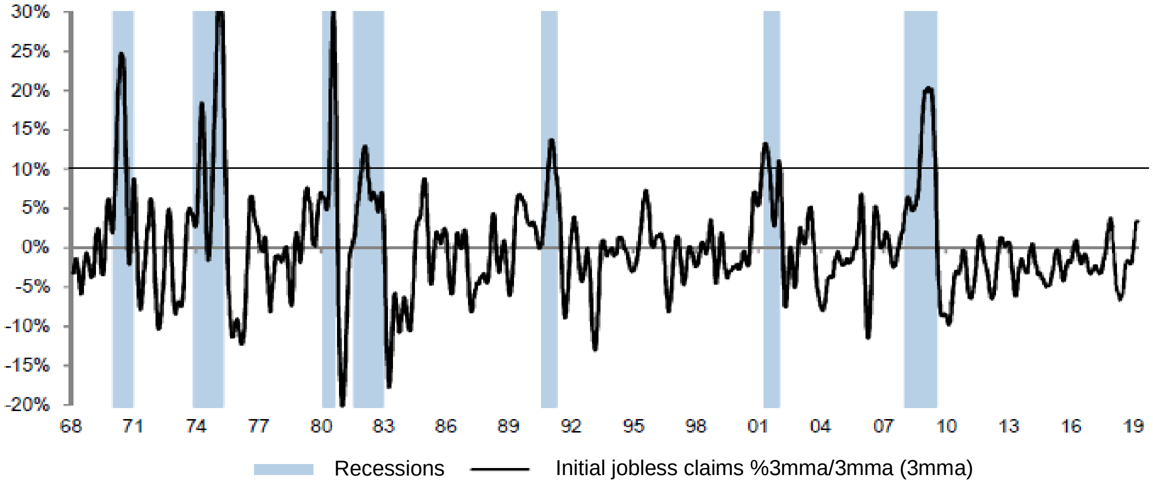
MSCI Europe: Dividend Yield – 10y Bond Yield (Latest: 327bp)



Source: MSCI, iBoxx, Global Financial Data, Datastream, Morgan Stanley

So, while the bond market is painting a very pessimistic picture, equity markets are more upbeat. Many signals are still pointing towards growth persisting: unemployment remains low, nominal wage growth is rising, stimulus should benefit the Chinese economy and tax rebates should help the US consumer.

US jobless claims and recession



Source: Bloomberg, JP Morgan

The March Chinese PMI reading of 50.5, was the first expansionary number for six months highlighting the impact of the recent stimulus.

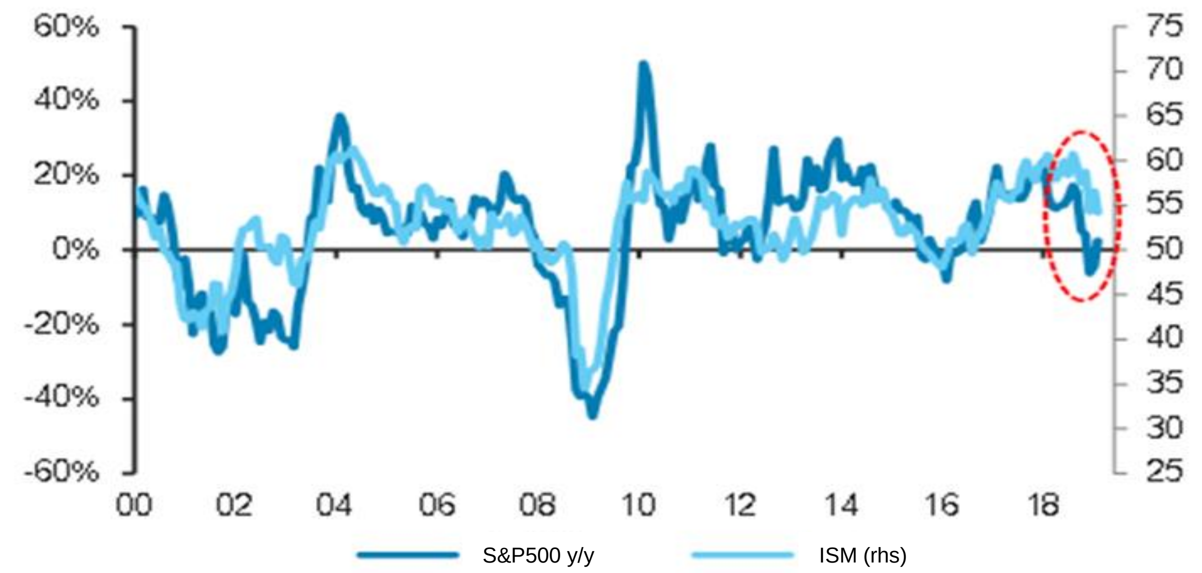
As the chart below highlights, global growth remains above the level required to deliver positive earnings per share growth.

Global GDP Growth versus EPS Growth

Source: Bloomberg, Datastream, Barclays

Our central view remains that equities are selectively attractive, and that global economic growth will persist.

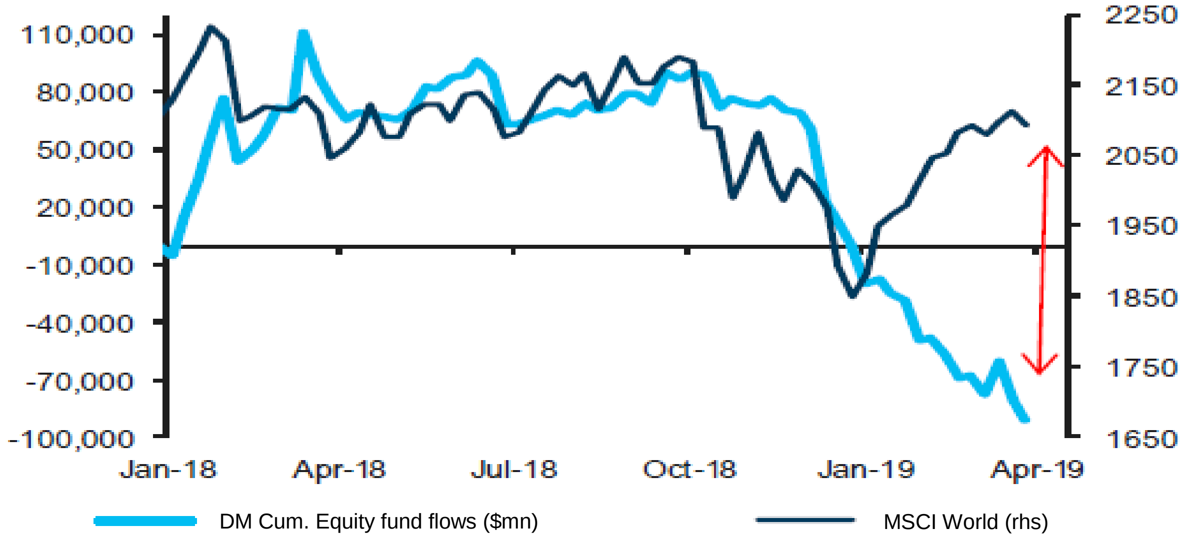
Markets too cautious on economic growth



Source: Bloomberg, Barclays

Unusually, equity flows have been negative YTD despite the positive direction of indices. Volumes remain thin and small trades can move share prices quite dramatically.

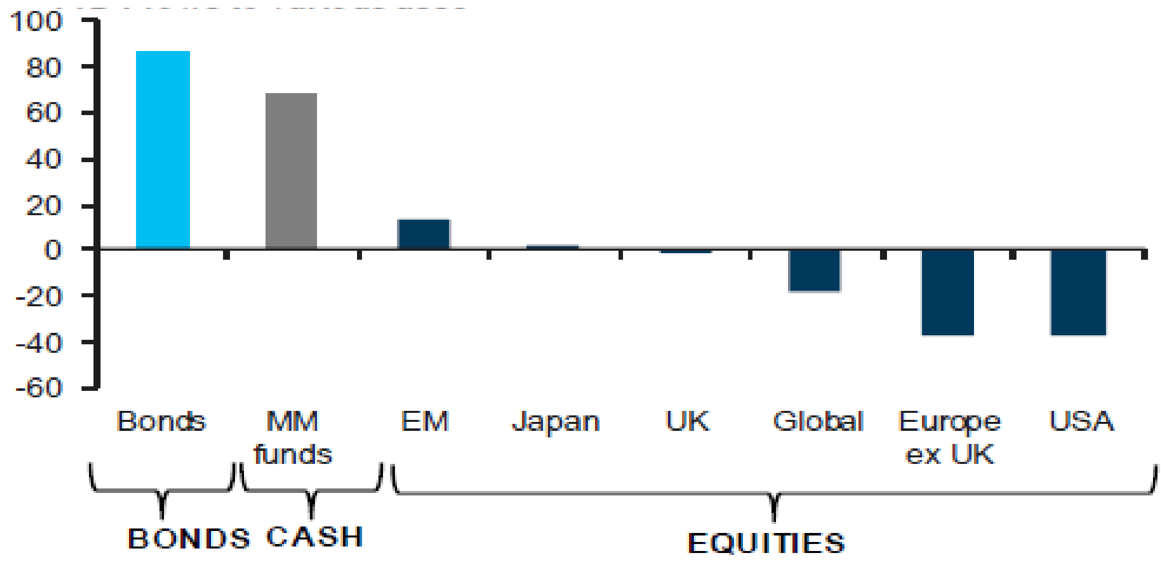
Equity flows, and performance have decoupled YTD



Source: EPFR, Barclays

As can be seen below, flows were directed mostly into bonds and money market funds. As economic indicators improve from their current malaise and companies look beyond what might be a difficult first couple of quarters, we expect to see sentiment towards equity markets improve.

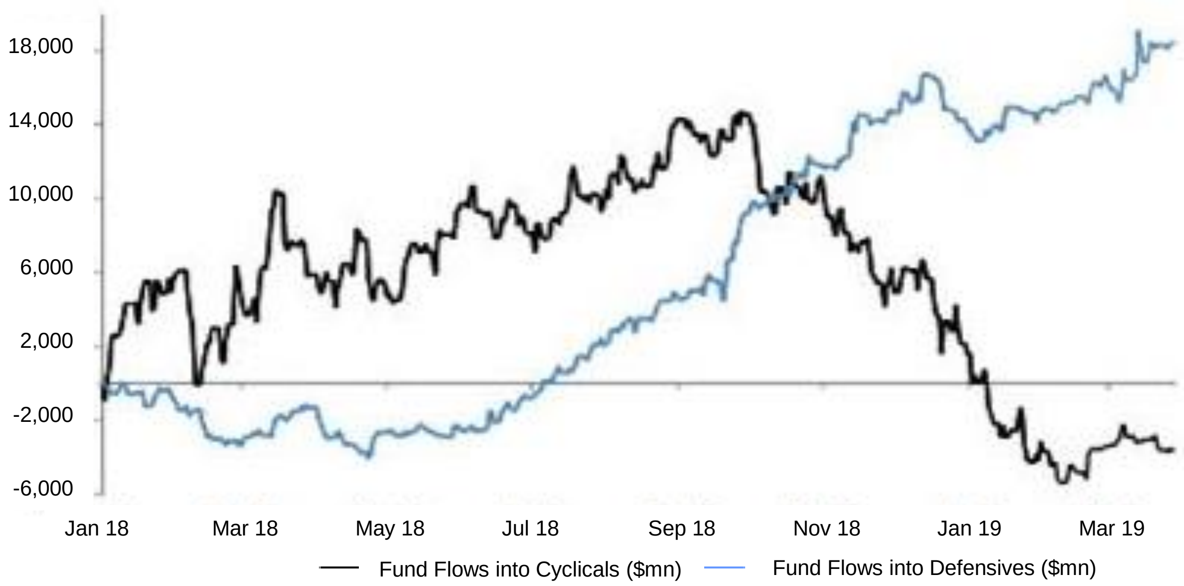
YTD Flows to various asset classes ($bn)



Source: EPFR, Barclays

On a sectorial basis, what little flows did come into equities has gone into Defensive shares. While the actual movements in share prices appears counterintuitive to the flows, this can perhaps be explained by the removal of short-trading positions or the impact of even modest flows to an undervalued and unloved segment of the market.

Flows into US Cyclicals and Defensives



Source: Bloomberg, JP Morgan

Given our long-term investment horizon, we have not altered the fund's positioning. The current portfolio continues to have a significant 'value' bias and is consequently invested in more cyclical and European listed businesses.

Portfolio Strategy & Themes

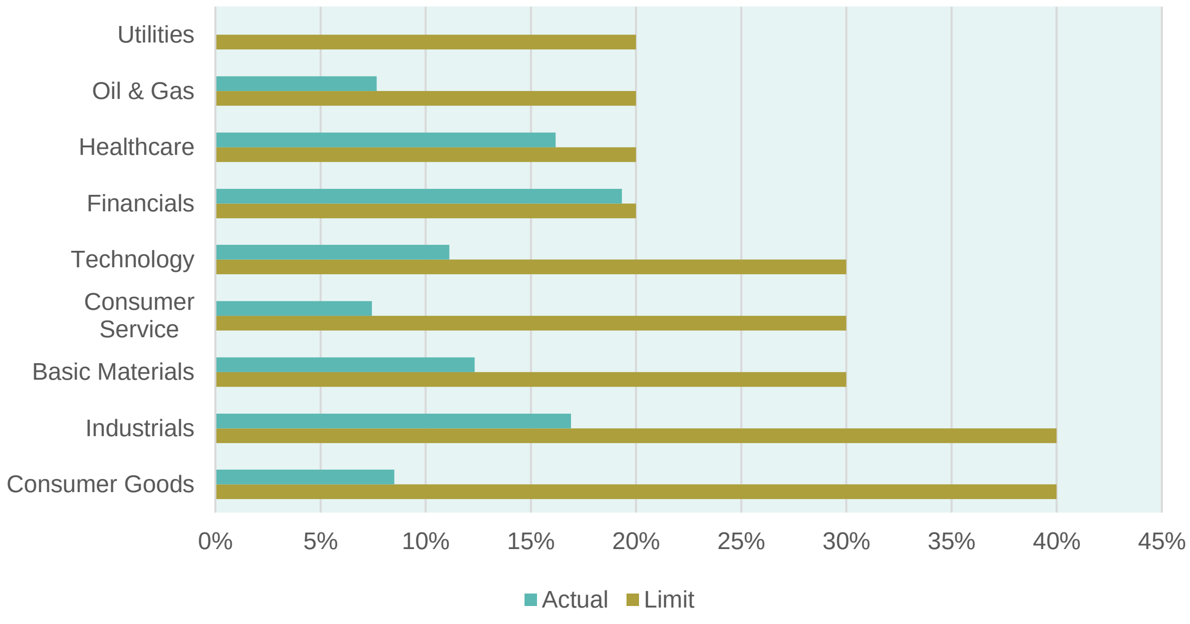
We retain large weightings in companies that are classified in the following sectors:

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

Our research still finds limited value in bond proxies like:

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

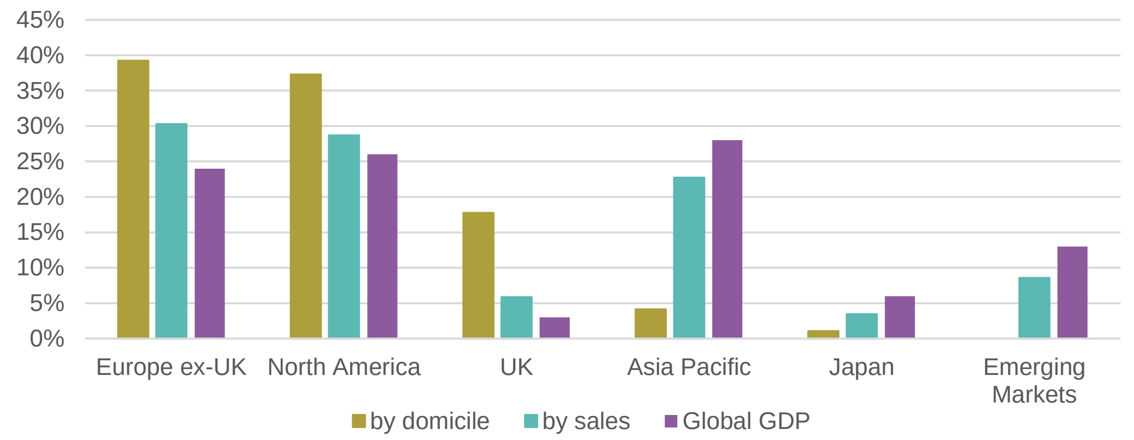
TB SGIG sector split



Source: Saracen Fund Managers as at 29/03/19

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

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

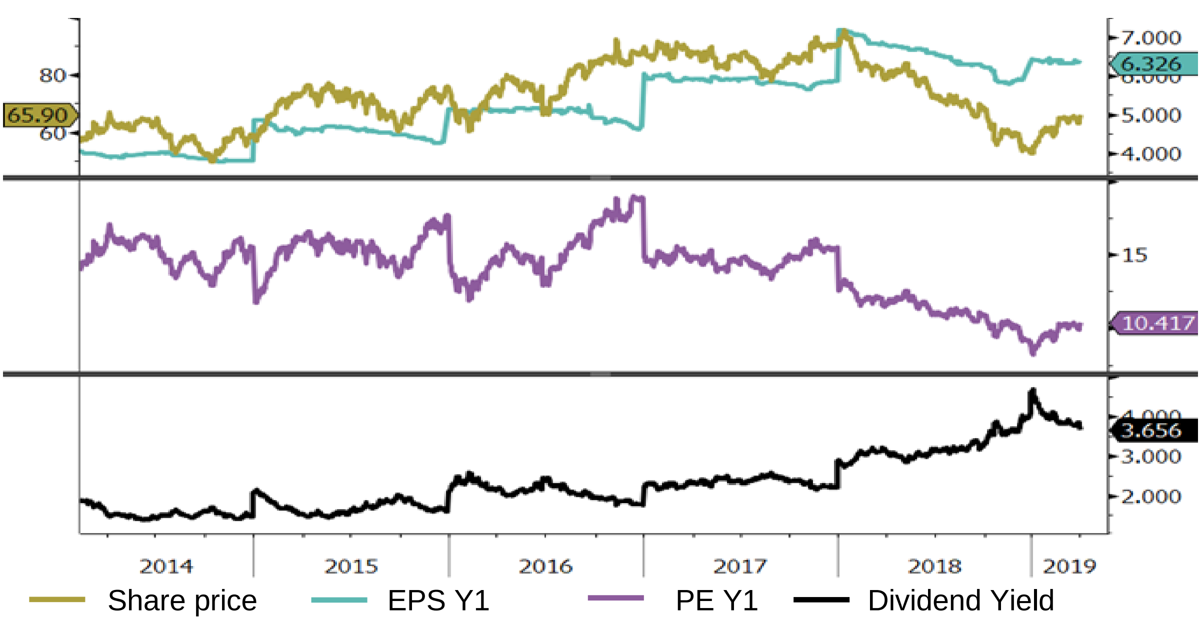


Source: Saracen Fund Managers as at 29/03/19

Whilst many of our cyclical holdings have bounced sharply in Q1 2019, we still consider them to be cheap with supportive dividend yields. As the charts below highlight, both Heidelberg Cement and Saint Gobain which are two of the bigger positions in the portfolio remain on 10X Year 1 PERs and yield around 4%. We continue to find these businesses attractive and expect these shares to continue to re-rate as global growth persists. As a reminder, we are averse to combining earnings cyclicality with high leverage, so all our cyclicals typically have strong balance sheets.

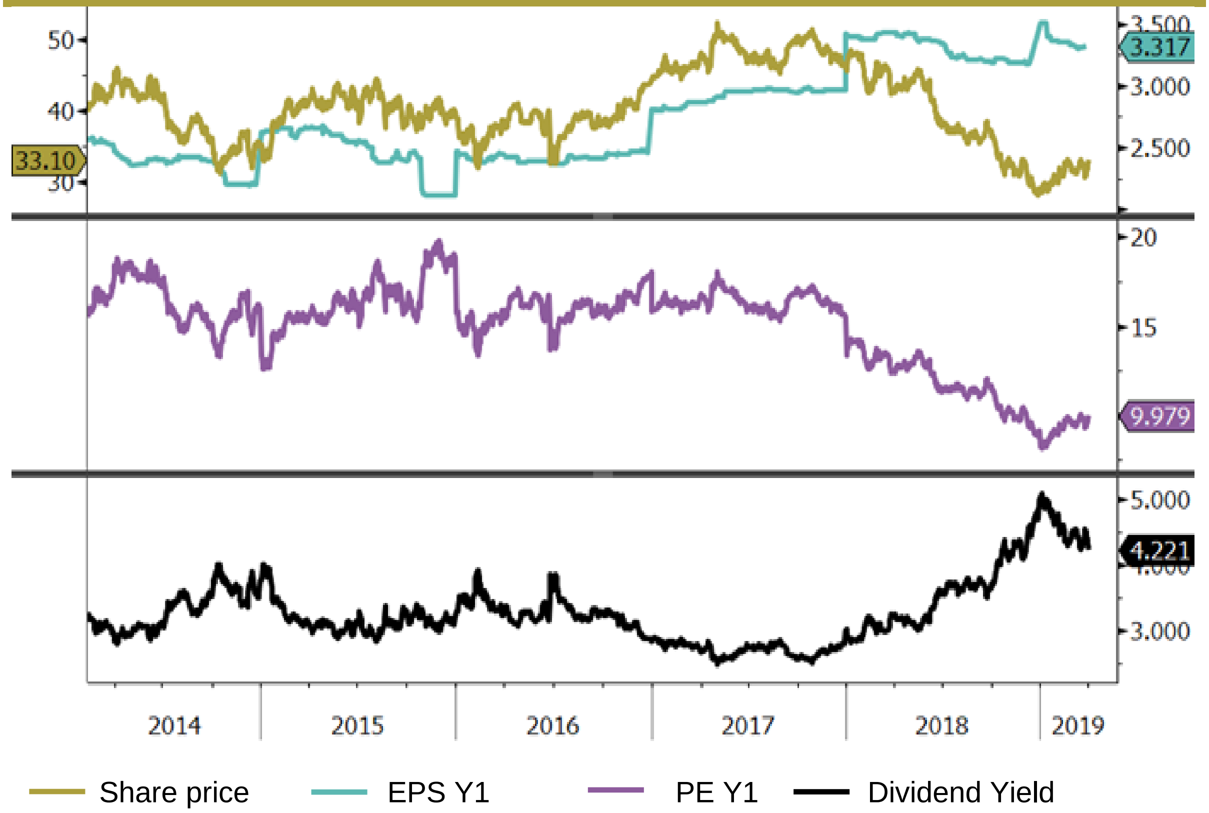
The following company examples comprise 3 layered charts, which cover the share price against consensus Y1 earnings, historic PER and dividend yield.

Heidelberg Cement



Source: Bloomberg

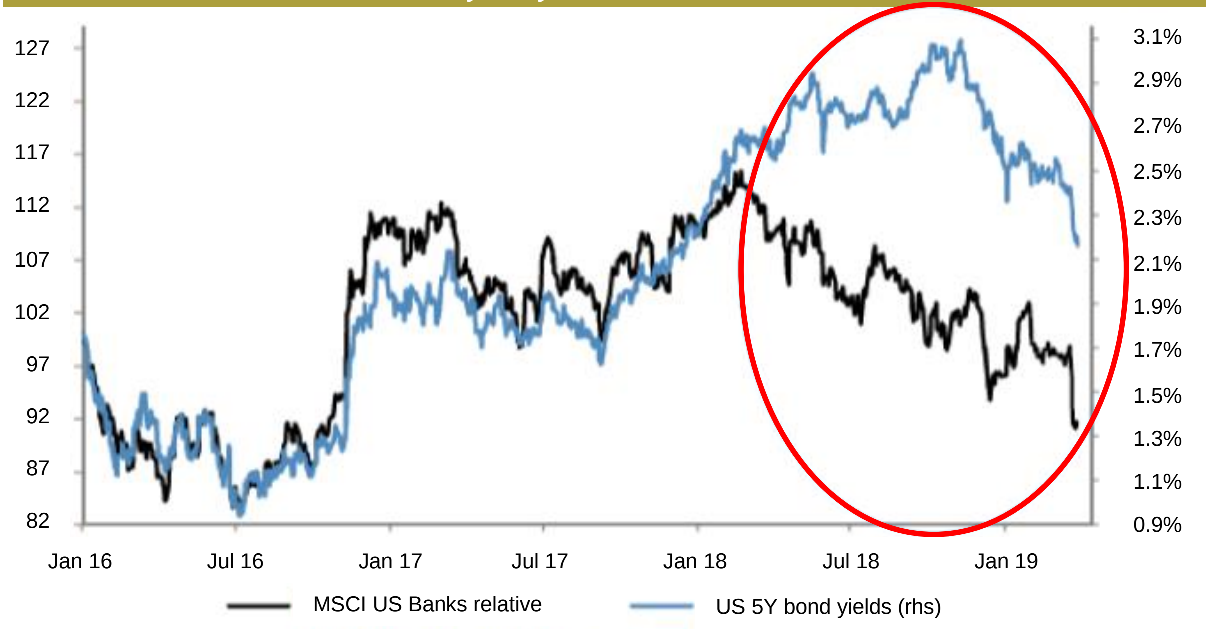
Saint Gobain



Source: Bloomberg

We retain our exposure to the financial sector. Whilst our holdings in Ashmore, AXA and Invesco had a strong quarter, the decline in bond yields provided a difficult backdrop for banks. Nevertheless, the disconnect to share prices appears excessive.

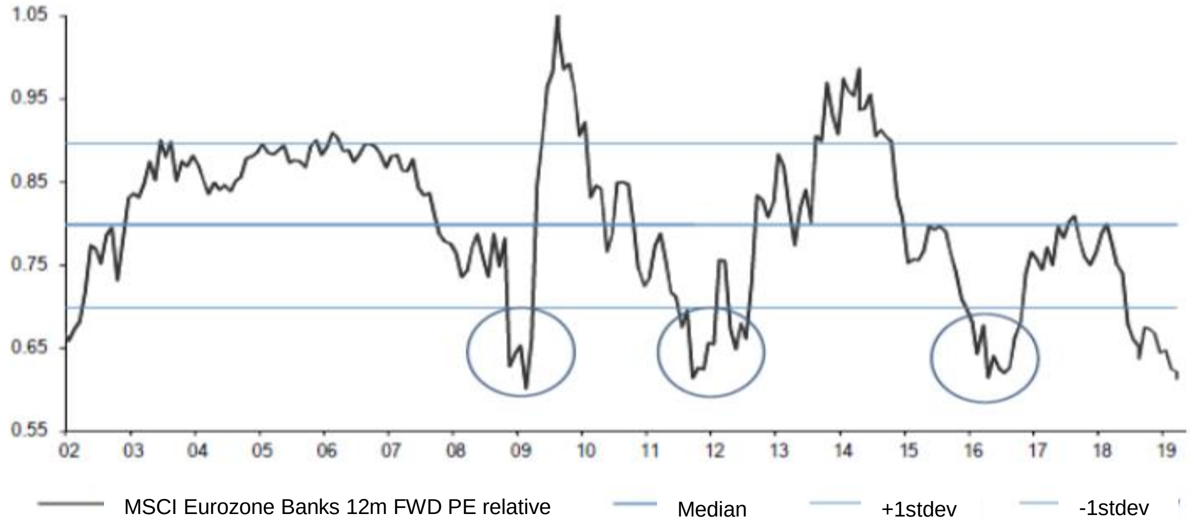
US Banks relative versus US 5-year yields



Source: DataStream, JPMorgan

Given the very low valuation, but inherent leverage of the sector, our strategy is to invest in the highest quality banks. Typically, they have been able to write off underperforming loans, changed management and shrunk their balance sheet since the great financial crisis. We look for surplus Tier 1 Capital, which allows banks to fund lending when conditions improve, but also provides a buffer against adverse events. We prefer to invest in banks such as AiB, DBS, HSBC, Svenska Handelsbanken and UBS. We continue to believe that with valuations supported by shares trading often around tangible book and yields close to PER's, the sector is an obvious winner as confidence returns.

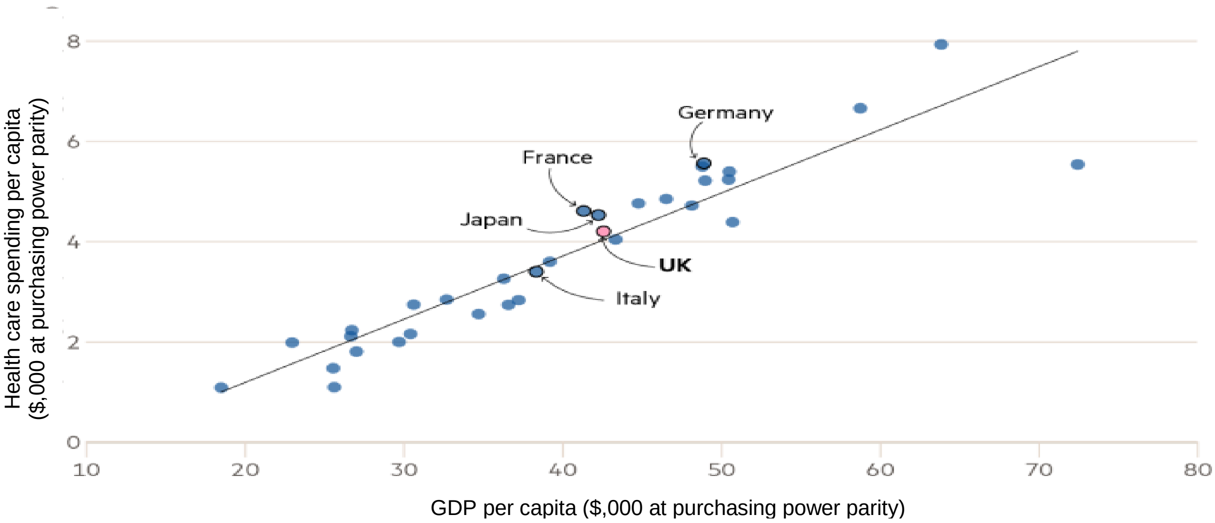
Eurozone Banks 12m FWD PE relative



Source: IBES, JPMorgan

We maintain a big exposure to the Healthcare sector. There is a strong relationship between GDP and healthcare spend: As prosperity increases, more people are able and willing to spend on their health. This is being exacerbated by ageing populations, in the US, China, Japan, Germany and the UK. Balance sheets are generally robust and valuations well within the historic range.

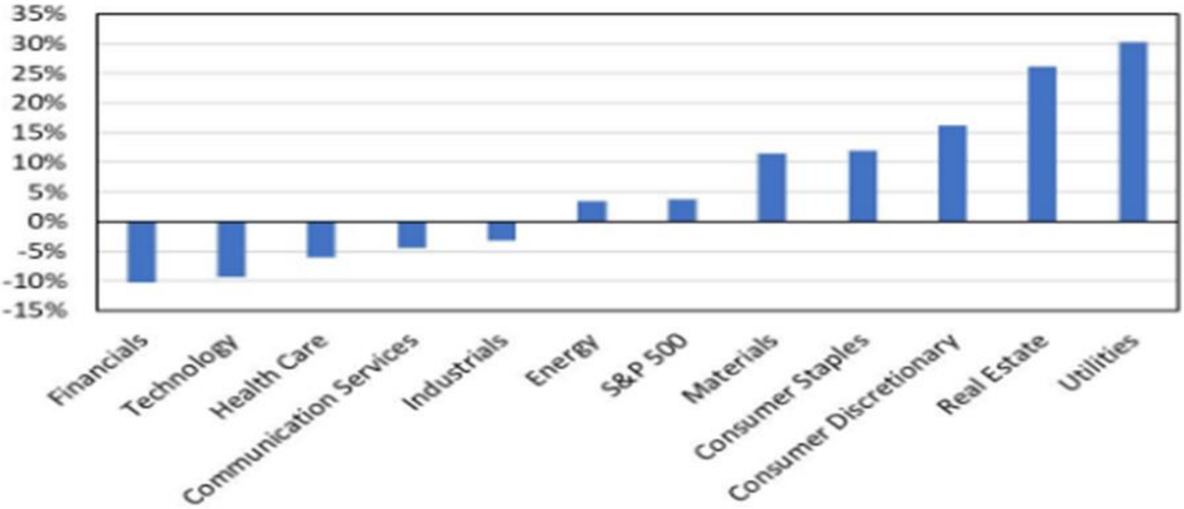
GDP relative to Health Care spend per capita



Source: King's Fund analysis of OECD data; (Advanced economies ex US and Luxemburg as of 2016)

We retain a very limited exposure to the bond proxy sectors. As the chart below highlights, Consumer Staples, Real Estate and Utilities trade at significant premiums to their 20-year average PER. We want to buy high quality business but only at the right price. The price that you pay will determine the return you achieve! We believe that many investors continue to overpay for the perceived "safety" of these businesses.

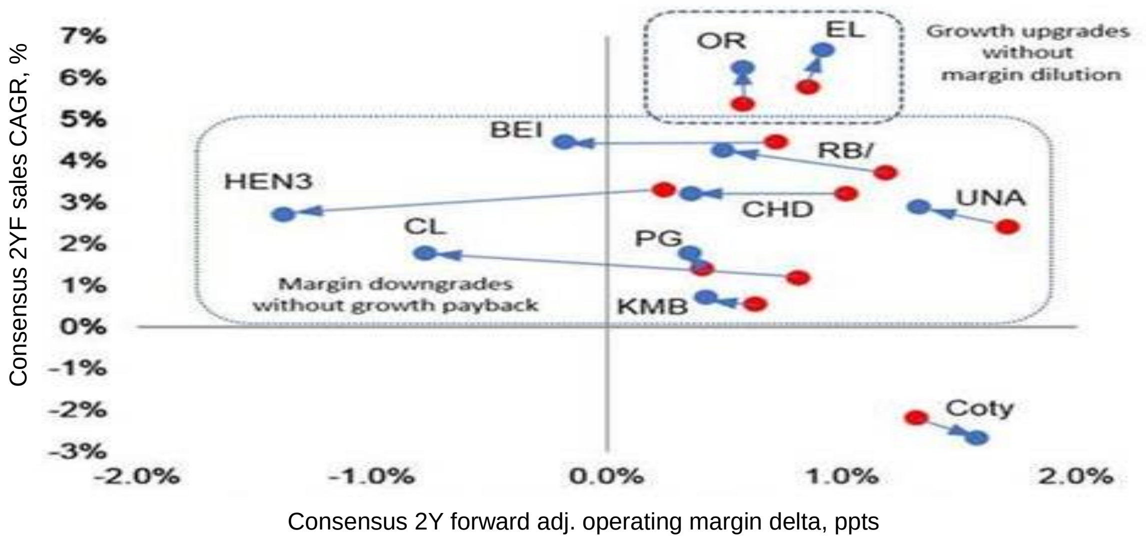
Forward PER versus 20-Year Average



Source: JP Morgan

We have noted with interest the margin resets from several companies in the consumer goods sector, including **Beiersdorf, Colgate, Henkel** and **Kraft Heinz**. We remain wary of the sector given the disparity between their high valuation and their anaemic growth outlook. We would expect to see more companies having to reinvest in their brands to try to reinvigorate top line growth.

Margin reset becoming a trend?



Source: Bloomberg, Société Générale, company data

Despite the rebound in equity markets, our portfolio of well managed global leading businesses continues to trade on an attractive PE ratio with a supportive dividend yield.

TB SGIG portfolio spread		
	BEst P/E	**BEst Div Yld**
SARACEN GLBL INC & GROW	12.1	4.3
SCHLUMBERGER LTD	24.8	4.6
ANTA SPORTS PRODUCTS LTD	22.9	1.7
ASTRAZENECA PLC	21.3	3.5
NOVO NORDISK A/S-B	20.5	2.5
MONDELEZ INTERNATIONAL INC-A	19.8	2.2
MERCK & CO. INC.	17.3	2.7
CHEVRON CORP	17.2	3.9
ASHMORE GROUP PLC	16.7	4.0
CISCO SYSTEMS INC	16.5	2.7
PHILIP MORRIS INTERNATIONAL	16.2	5.4
JOHNSON & JOHNSON	16.0	2.8
CORNING INC	15.9	2.5
ABB LTD-REG	15.4	4.5
ROCHE HOLDING AG-GENUSSCHEIN	14.6	3.3
ASAHI GROUP HOLDINGS LTD	14.5	2.2
PFIZER INC	14.5	3.4
SCHNEIDER ELECTRIC SE	14.3	3.6
JOHNSON MATTHEY PLC	13.1	2.8
DOWDUPONT INC	13.1	3.0
BP PLC	12.9	5.6
EVONIK INDUSTRIES AG	11.8	4.8
INTEL CORP	11.8	2.4
AIB GROUP PLC	11.7	5.8
INTERPUBLIC GROUP OF COS INC	11.3	4.6
HSBC HOLDINGS PLC	11.3	6.4
SVENSKA HANDELSBANKEN-A SHS	11.2	6.2
CARNIVAL CORP	10.7	4.2
RIO TINTO PLC	10.6	5.8
DBS GROUP HOLDINGS LTD	10.4	5.0
INTL BUSINESS MACHINES CORP	10.1	4.7
HEIDELBERGCEMENT AG	9.9	3.8
COMPAGNIE DE SAINT GOBAIN	9.5	4.4
IMPERIAL BRANDS PLC	9.4	8.2
MICHELIN (CGDE)	9.3	4.0
UBS GROUP AG-REG	8.9	6.3
VALEO SA	8.9	4.6
INVESCO LTD	8.5	6.5
AXA SA	8.1	6.6
PANDORA A/S	7.5	6.2
BAYERISCHE MOTOREN WERKE AG	6.8	5.3
PROSIEBENSAT.1 MEDIA SE	6.3	8.9

Source: Bloomberg, Saracen Fund Managers

Performance Review

During Q1 2019, TB SGIG delivered a return of +8.7% compared to the IA Global Sector return of 8.0%.

The fund is ranked second quartile from launch in June 2011, delivering a total return of +104% versus the sector average of +92%.

	3 years	5 years	Since launch*
TB SGIG B Acc	+39.5%	+44.7%	+103.5%
Sector Average	+34.2%	+48.3%	+91.6%
Quartile Ranking	1	3	2

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

Fund Dividend

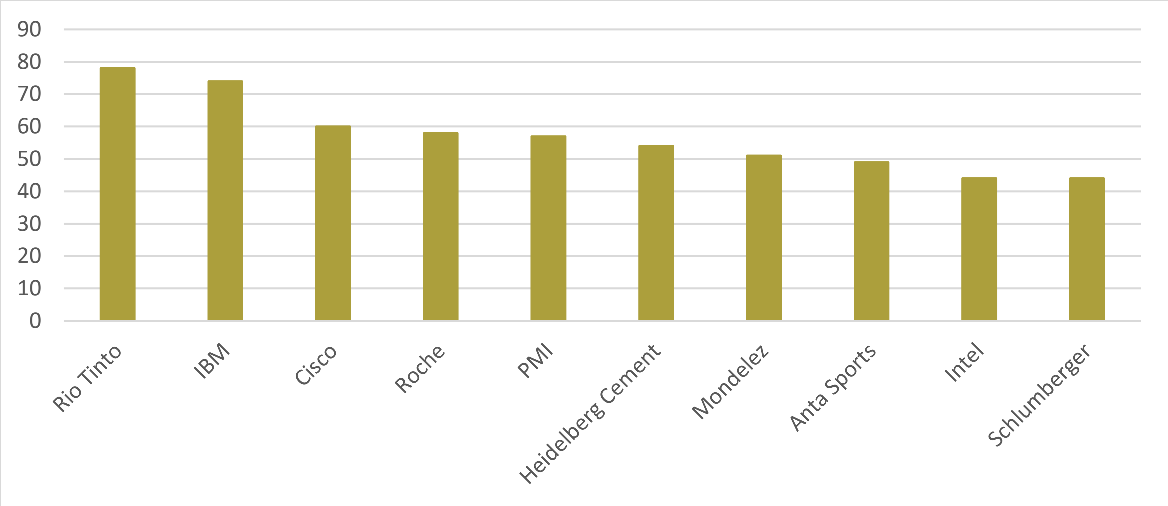
We target strong dividend growth over the long-term. In local currency terms, our estimates for growth in dividends for the portfolio are as follows:

2019 TB SGIG Forecast Dividend Growth

29% of Portfolio	43% of Portfolio	16% of Portfolio	11% of Portfolio
	ABB		
Anta Sports	Asahi		
Ashmore	Carnival Corp		
Astrazeneca	DowDuPont		
BMW	Handelsbanken		
BP	IBM		
Chevron	Intel		
DBS	Johnson and Johnson		
Evonik	Johnson Matthey		
HSBC	Michelin		
Invesco	Novo Nordisk	AXA	
Pandora	Pfizer	Corning	
ProSieben	Philip Morris Intl	Heidelberg Cement	Allied Irish Bank
Rio Tinto	Roche	Imperial Brands	Cisco
Schlumberger	Saint Gobain	Mondelez	Interpublic
Valeo	Schneider	UBS Group	Merck
0% - 3%	**4% - 7%**	**8% - 12%**	**> 12%**

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

<u>Positive Contributors</u>



Source: Saracen Fund Managers

Our funds top performers are a good reflection of the global sector outperformers during the quarter (IT, Industrials, Energy).

Within IT, our holding in **IBM** (+20.8%) bounced back strongly from its Q4 lows. Q4 results and the outlook for 2019 beat expectations with stronger than expected rebound for software. The company is slowly returning to revenue growth which should lead to a re-rating on a higher earnings number in time. **Cisco** (+21.6%) also beat estimates and guided to 5% growth for Q1 revenue as the business model continues to move to higher contribution from software and recurring sales. **Intel** (+10.7%) announced a new CEO who hopefully will be more focussed on capital discipline.

Roche (+7.1%) saw upgrades to its estimates after 2018 numbers beat and 2019 implied at least flat margins vs. consensus seeing a decline. Roche should also benefit from several drug approvals in 2019 given its strong pipeline.

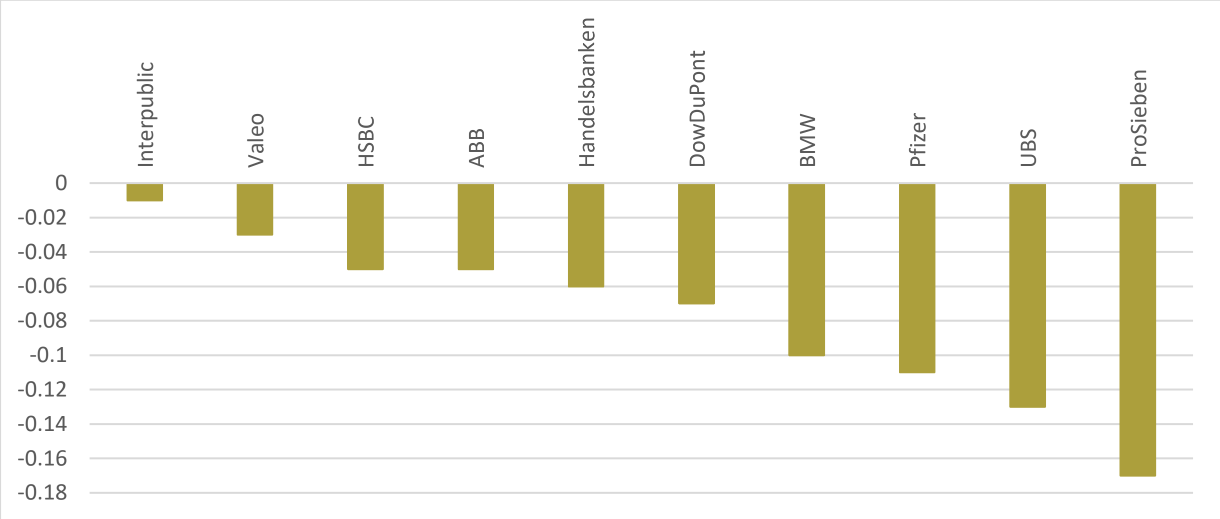
Within cyclicals, **Rio Tinto** (+18.4%) jumped after the Vale Dam burst and a cyclone in Australia led to a significant shortage and price rise in Iron Ore. Re-assuring comments from the CEO about the Chinese economy also helped the shares towards the end of the quarter. **Heidelberg Cement** (+14.6%) talked about greater demand in its key markets and the company's outlook was better than what analysts had expected. At the same time, cost cutting should contribute positively to earnings and cash flows in 2019.

Within our few staples stocks **PMI** (+26.5%) rebounded strongly after stellar results with market share of its new "heat not burn" product materially better than expected outside Japan. Sentiment towards the tobacco sector also improved with the change of head of the FDA and less concern about near term regulation change. **Mondelez's** (+11.9%) 2018 results beat expectations both on sales, profit and cash flow. The company is looking to offset raw material headwinds with selective price increases and productivity savings.

Anta Sports (+38.2%) reported 44% sales growth, 7% above estimates. The company expects to continue its strong top line momentum whilst maintaining the current margin profile. Anta also closed its takeover of Amer Sports, which will help its expansion outside of China.

Schlumberger (+16.2%) had a strong rebound into Q1 after FY 2018 numbers were well received and management was cautiously optimistic about a recovery in activity.

Negative Contributors



Source: Saracen Fund Managers

There were a few small detractors from our positive performance.

ProSieben (-21.6%) remains friendless as analysts are concerned about advertising spending in 2019 and structural risks to the business. We believe the new management has a clear strategy for lessening the reliance on traditional TV advertising and at a valuation of 6.5x Y1 PE with an 8.7% yield the shares are anomalously priced. We have recently topped-up!

Financials suffered along with the continued collapse in bond yields and weak equity trading. **UBS's** (-4.6%) numbers were impacted by a subdued trading environment in Q4 18 that continued into Q1 19. Towards the end of the quarter UBS's CEO warned that investment banking revenue would be down materially in Q1. **Svenska Handelsbanken** (-4.5%) was tarnished by the money laundering scandal in Scandinavia despite not being involved. We believe the bank will use the current disruption as an opportunity to gain market share.

After very strong performance in 2018, **Pfizer** (-4.0%) had a slightly soft quarter after warning about the impact of the strong USD on revenue growth. However, underlying fundamentals are still positive.

BMW (-6.9%) announced a surprise dividend cut and cautious guidance for 2019. We believe that the muted share price reaction to the disappointing news highlights that there is a lot of bad news reflected in the share price.

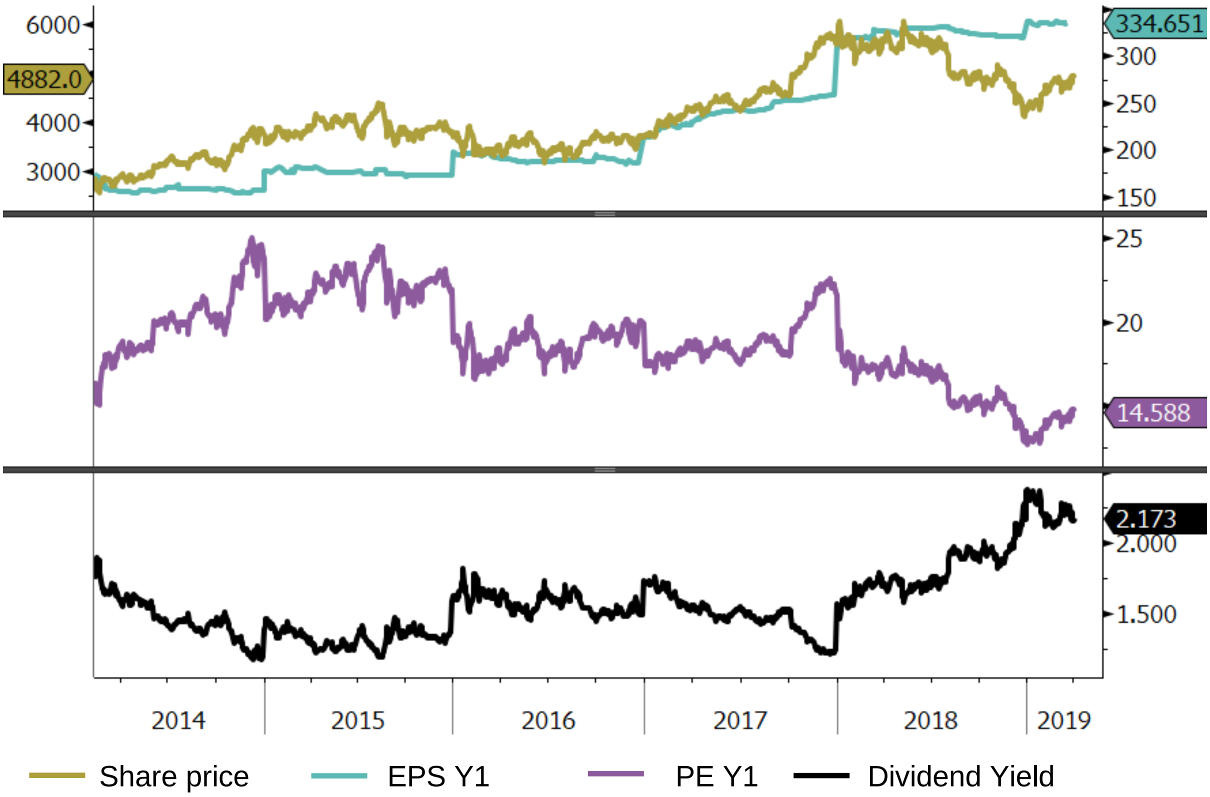
DowDuPont (-3.1%) issued weak guidance for Q1 both at FY results in January and at the end of the quarter again. There was also reluctance from investors to buy the shares before the spin off in Dow on 1 April.

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.

During the quarter, we added one new position in a business where the recent share price movement provided an attractive entry point, namely; **Asahi Group**.

Asahi Group (JPY46)



Source: Bloomberg

We previously owned Asahi in the fund but sold the shares based on our "worst case scenario" analysis as we were uncomfortable with the Balance Sheet leverage (over 4X net debt/EBITDA) post acquisition of both SAB's Western and Eastern European beer assets.

They have subsequently sold stakes in two businesses (20% stake in Tsingtao Brewery for $937m and a share in an Indonesian food business) and generated cash which has taken leverage down to a more manageable 3.0x (historic) and management expect it to fall below 2.0x by end 2020.

Asahi completely dominates the Japanese beer market with its Asahi beer and is turning this into a global premium brand 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 dull, it should offer steady growth. The real opportunity will be in the overseas division. The valuation looks incredibly cheap (on an absolute and relative basis) as the shares trade on 14X 2019 PER. Whilst the 2.2% yield is on the low side for SGIG, the pay-out ratio is only

30% today and will be increased from this level in the future which should lead to 9.4% dividend growth per annum over the 5-year forecast period.

We took advantage of the pull back in the shares (JPY 60 to JPY 46 over the last 12 months) to buy a position for the fund.

We have funded this purchase by taking profit in select holdings that held up better and where the valuation is not as extreme– namely Cisco, Anta Sports, Intel, Mondelez and Rio Tinto.

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 90%. 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 are able to 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 in excess of 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 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

- **Differentiated portfolio**
- **Bond yields overly pessimist**
- **Equity markets still offer opportunities: Valuation matters**
- **Global economic growth slowing but persisting**
- **Cyclicals and Financials to outperform**
- **Value in Healthcare**

Our belief that economic growth will persist and our rigorous focus on valuation means that SGIG currently has a very differentiated portfolio from its peer group.

There are signs that economic activity in key countries has started to stabilise or indeed recover and we believe the fund is well positioned if this continues.

We are finding much more value in businesses that are more exposed to the economic cycle. There appears little good news incorporated in their share prices. We remain surprised by the multiple that investors are willing to pay for the perceived "safety" of defensive sectors.

We retain our view that valuation is an important part of any investment decision.

We believe we have constructed a conviction portfolio of diversified of well-managed, global leading businesses with strong balance sheets that are well placed to grow revenues, profits and dividends for many years.

May we take this opportunity to thank our clients for your continued support and patience.

Graham Campbell
David Keir
Bettina Edmondston

March 2019

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

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Important information:
This information should not be construed as an invitation, offer or recommendation to buy or sell investments, shares or securities or to form the basis of a contract to be relied on in any way and is by way of information only. The historic yield reflects distribution payments declared by the fund over the previous year as a percentage of its share price. Taxation levels, benefits and reliefs may all vary depending on individual circumstances and are subject to change. Subscriptions will only be received and shares issued on the basis of the current Prospectus, Key Investor Information Document (KIID) and Supplementary Information Document (SID). These are available, in English, together with information on how to buy and sell shares, on-line at www.saracenfundmanagers.com. Issued by Saracen Fund Managers Ltd, 19 Rutland Square, Edinburgh, EH1 2BB, authorised and regulated by the Financial Conduct Authority. Registered in Scotland No. 180545.

Risk factors you should consider before investing:
Past performance is not a guide to future performance. The value of investments and the income from them may go down as well as up and you may get back less than the amount invested. A full list of the risks applicable to this Fund can be found in the Prospectus. All fund performance figures calculated on a single price basis.

This Factsheet is for professional Investors only.

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