TB Saracen Global Income and Growth Fund

Quarterly Review – June 2019

FOR PROFESSIONAL INVESTORS ONLY-

Retail investors should consult their financial advisers

David Keir
Executive Director

Graham Campbell
Chief Executive Officer

VALUE(ation) opportunity

Fund Performance

	TB SGIG	Sector Avarge	Quartile
Q2 2019	+4.7%	+5.7%	3

Source: Saracen Fund Managers as of 28 June 2019

Overview

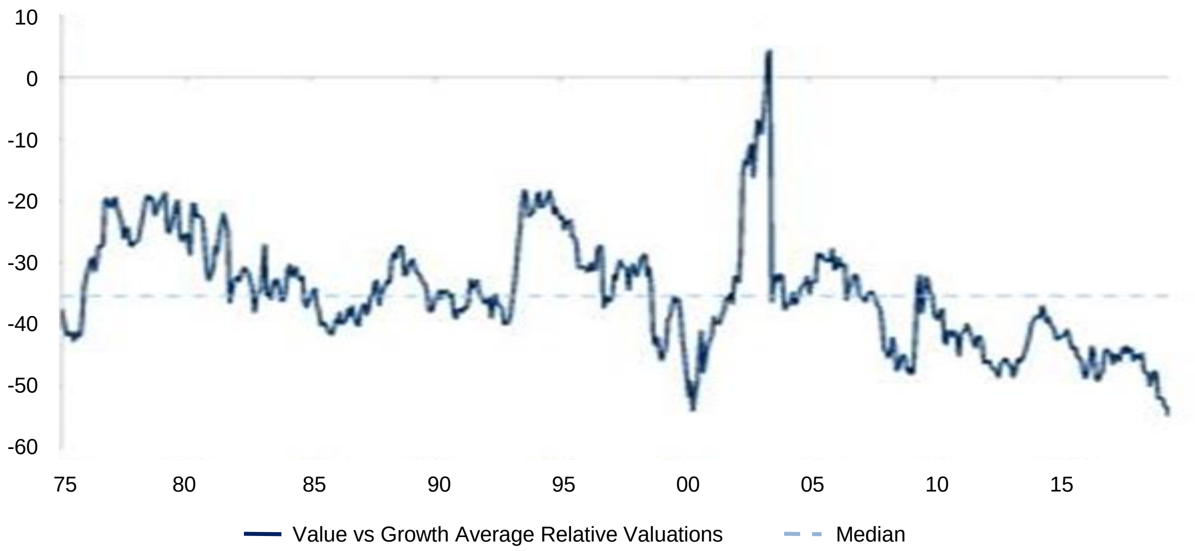
Markets at a headline level enjoyed a strong first six months of 2019, with the MSCI World (£) up over 16%. However, as the chart below highlights, the real story within markets is the continued outperformance of the so called "quality" stocks aka the "bond proxies" and the growth/momentum names at the expense of "value" stocks.

Performance of main European factors

Source: Bloomberg

Companies categorised within the "Value" style appear friendless as the chart below highlights. The performance differential between value and growth stocks is currently more extreme than it was at the height of the TMT bubble. Given how extreme things were back in 2000 – we find this remarkable!!

Europe Value is now at an all-time low

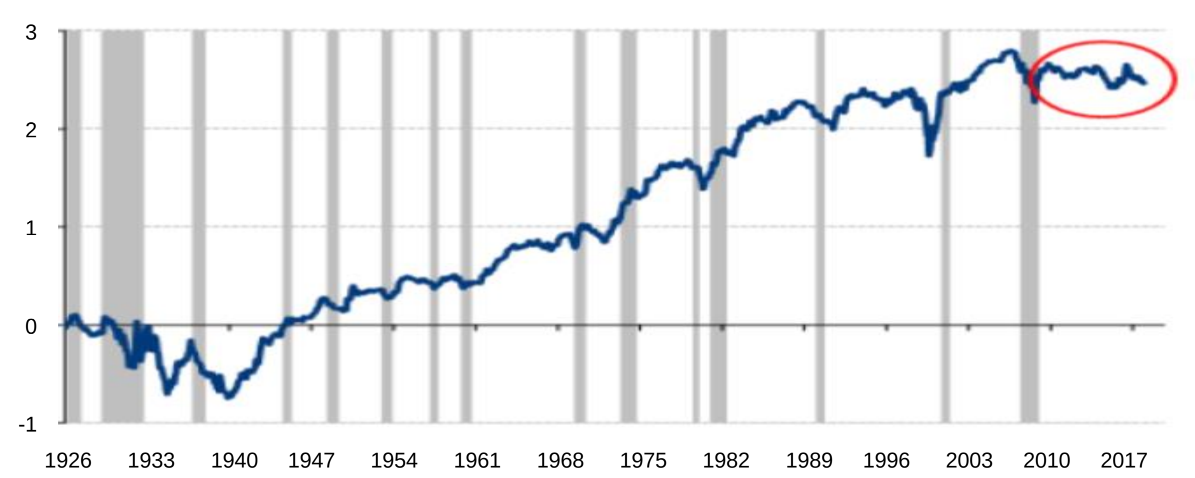


Source: MSCI IBES, Morgan Stanley

Whilst these extremities can go on for some time and catalysts for change in market conditions are only obvious in hindsight, we believe that over the long-run valuation must matter and at some stage, this will reverse.

At times like these, it is worth reminding readers that "Value" is actually a winning strategy! It has outperformed growth consistently since 1926. However, we acknowledge that it has struggled over the last 10 years. As a result, many novice market participants haven't needed to apply more fundamental valuation measures.

Value versus Growth since 1926



Source: BofA Merrill Lynch, Ibbotson, Fama French

Our 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.

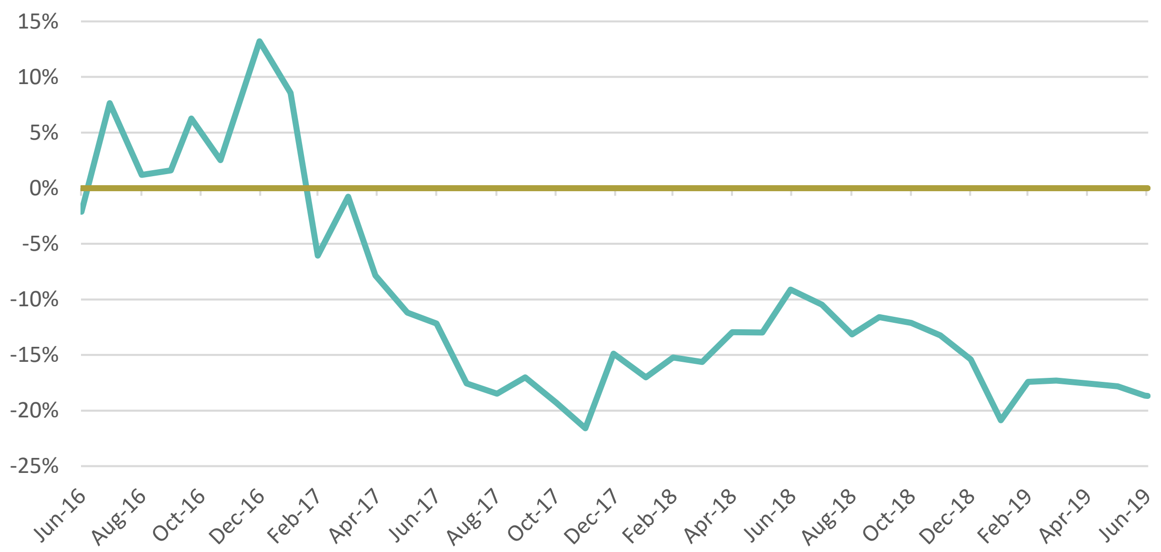
As the table below highlights, the underlying portfolio is trading on 11.5X year 1 PER and is yielding 4.4%, which we believe represents very good value for a portfolio of global leading businesses which are well managed and have strong Balance Sheets.

SGIG value characteristics versus FTSE All World index			
Characteristic	TB SGIG	FTSE All World	+/-
P/E	14.0	17.9	-3.9
Best P/E 1Y FWD	11.5	14.8	-3.3
Dividend Yield	4.4	2.5	1.9
Best Dividend Yield 1Y FWD	4.6	2.8	1.8
Best P/CF 1Y FWD	7.6	9.8	-2.2
Best P/B 1Y FWD	1.7	2.0	-0.3
Best P/S 1Y FWD	1.2	1.5	-0.3
Beta	0.93	1.00	

Source: Bloomberg 28/06/19

In addition, as the chart below highlights, the fund continues to trade at a significant discount to the market.

TB SGIG PE discount to FTSE All World PE



Source: Bloomberg 28/06/19

We believe that the 4.4% dividend yield is incredibly attractive versus the peer group, the equity market, cash and bonds. 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 grow the dividend from this level in the years ahead.

Market Background

Global markets were volatile during the quarter, but a strong June ensured that they continued their recovery from their 2018 sell-off with the IMA Global Equity Income sector up 5.7% in Q2. The sector is now up 14.1% in H1 2019.

Markets were dominated by the seismic shift in the Fed's policy towards interest rates and the continuing trade dispute between the US and China.

The Fed has gone from raising rates in Dec 2018, to "pausing and being patient" about future rate movements in Q1 2019. In Q2 they completely changed tact by announcing that they would "act as appropriate to sustain the expansion" given the increased "uncertainties" to the outlook and the "muted inflation pressures". Ten-year US Treasury yields fell to below 2.0%. Market participants appear to be discounting one or two rate cuts in the remainder of 2019. In addition, the ECB signalled further stimulus to boost economic growth.

After the collapse in talks between the US and China in May, the quarter ended with a breakthrough in the US/China trade dispute at the G20 meeting in Japan.

The uncertainty caused by the trade talks and imposition of tariffs and a softening of economic indicators across the globe meant that there was a much more defensive feel to markets. Defensive sectors outperformed Cyclicals by 5% with the Beverage sector (+8.3%) being one of the best performing sectors in the quarter!

On a geographical basis, Europe (+6.9%) was the best performing market followed by the US (+6.5%) and Japan (+5.6%). Emerging Markets (+2.4%) and the FTSE All Share (+2.0%) were laggards.

Sterling continued to be volatile largely due to Brexit related news flow. However, with both Conservative candidates to replace Therea May appearing to harden the rhetoric regarding a no-deal Brexit, Sterling declined by 2.7%, 4.0% and 4.7% against the USD, EUR and CHF respectively over the period.

Performance Review

During Q2 2019, TB SGIG delivered a return of +4.7% compared to the IA Global Sector return of +5.7%.

The fund is ranked second quartile from launch in June 2011, delivering a total return of +113% versus the sector average of +103%.

	3 years	5 years	Since launch*
TB SGIG B Acc	+36.5%	+48.8%	+112.9%
Sector Average	+33.9%	+53.3%	+102.6%
Quartile Ranking	2	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. We announced an interim dividend of 3.95p which represents a 20% year on year growth. The significant increase is in part reflective of the change in charging policy which took place in March 2018. We target mid-single growth in dividend over the long-term.

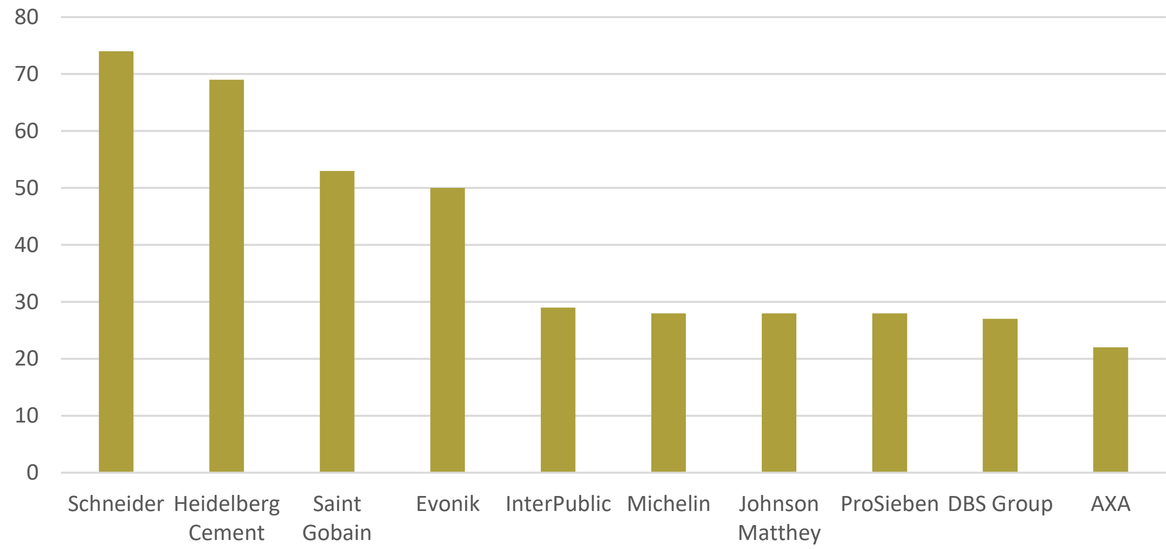
In local currency terms, our estimates for growth in dividends for the portfolio are as follows:

2019 TB SGIG Forecast Dividend Growth

0% - 3%	**4% - 7%**	**8% - 12%**	**> 12%**
33% of Portfolio	**44% of Portfolio**	**11% of Portfolio**	**12% of Portfolio**
AstraZeneca	ABB	AXA	Allied Irish Bank
BMW	Asahi	Corning	Barclays
BP	Handelsbanken	Heidelberg Cement	Cisco
Carnival Corp	IBM	UBS Group	Interpublic
Chevron	Imperial Brands		Merck
DBS	Intel		
Dow Inc	Johnson and Johnson		
DuPont de Nemours	Johnson Matthey		
Evonik	Michelin		
HSBC	Novo Nordisk		
Pandora	Pfizer		
ProSieben	Philip Morris Intl		
Rio Tinto	Roche		
Sabre	Saint Gobain		
Schlumberger	Schneider		
Valeo			

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

Positive Contributors



Source: Saracen Fund Managers

In a good quarter for markets, there were many stocks that contributed positively to performance.

Our global cyclical businesses, which happen to be listed in Europe, continued their recovery from December 2018 lows. **Schneider Electric** (+22%), **Heidelberg Cement** (+19%), **Saint Gobain** (+15%) and **Evonik** (+15%) all performed strongly after reporting solid Q1 results. Saint Gobain reported +5.7% LFL growth in Q1 and remained upbeat about their prospects for the rest of the year. Schneider delivered +5.9% organic growth and Heidelberg Cement reported 15% like for like revenue growth – although admittedly that was against an easy comparator!

Despite the share price recoveries, we still believe these shares continue to offer significant upside.

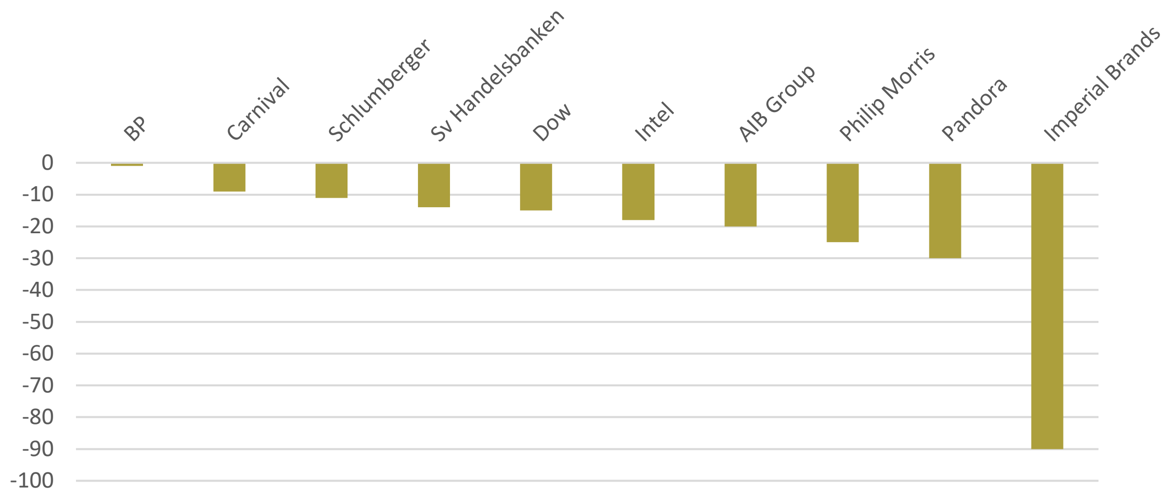
Our Auto related names had a better quarter despite the difficult market backdrop. **Johnson Matthey** (+8%) reported very solid full year results with both sales and earnings up 10% year on year; they also increased the dividend by 7%. **Michelin** (+14%) increased sales by 9.3% in the quarter led by a positive price-mix and a strong contribution from newly acquired businesses. **Valeo** (+21%) beat expectations after outperforming the auto-market by 400bps in the quarter.

ProSieben (+22%) rebounded strongly in the quarter as the new CEO continued to reposition the business towards digital and MediaSet, the Italian Media company, bought a 10% stake in the business. We were encouraged to see a corporate step up to recognise value in a very cheap share. We expect to see more of this in the value part of the market given the extremity of the valuations.

InterPublic Group (+11%) continued to deliver, reporting strong organic revenue growth of 6.4% in the quarter, outperforming the peer group.

Financials and Banks, in particular, continue to struggle. However, our holdings in **AXA** (+13%) and **DBS** (+9%) had a good quarter. AXA reported 3% sales growth driven by its new focus areas of commercial, health and protection. It also continues to de-gear the Balance Sheet successfully. DBS's net income rose by 9% in Q1 2019, ahead of analyst forecasts and a quarterly record. The ROE also increased to an impressive 14%.

Negative Contributors



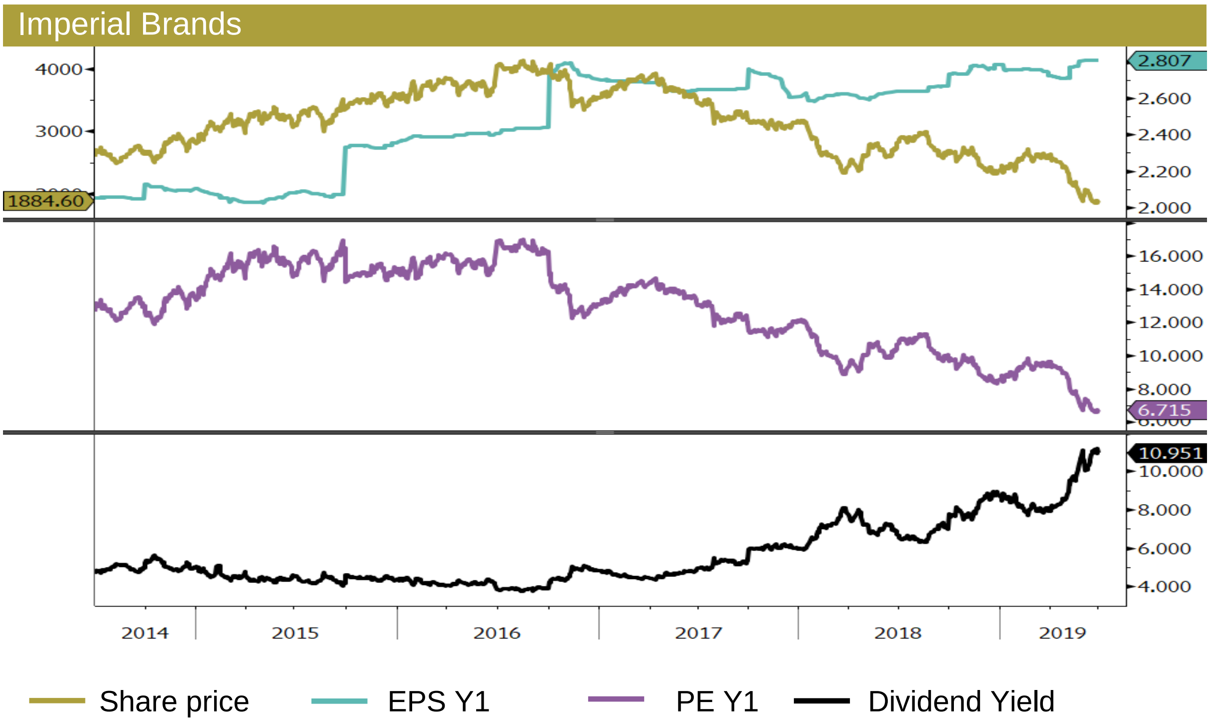
Source: Saracen Fund Managers

There were only a small number of detractors from performance in the quarter.

Imperial Brands (-29%) was the biggest drag on fund performance despite no change in consensus earnings expectations! Imperial delivered sales growth of 2.5% in the first six months of the year and re-iterated their full year guidance of delivering constant currency revenue growth at, or above, the upper end of its 1-4% range. They also re-iterated their medium-term guidance for constant currency EPS growth. In addition, they increased the dividend by 10% - an increase we view as unnecessary given the current yield on the shares. We would prefer to see a Share Buy Back to take advantage of the depressed share price.

Despite this, as the chart below highlights, the shares de-rated materially over the month to now trade on 6.4X PER year 1 and a yield of 11.9%.

(NB All our company examples comprise 3 layered charts, which cover the share price against consensus Y1 earnings, historic PER and dividend yield.)



Source: Bloomberg

The reasons for the de-rating are numerous including continued regulatory concerns regarding nicotine level in tobacco, the future profit pools of the industry and ESG considerations. In addition, there was a very large seller of stock in the quarter who we would class as a "motivated seller" for liquidity reasons.

However, we view the valuation as ludicrous and if the equity market won't recognise the value then we believe that another Corporate, Private Equity, or an activist will……..

Pandora (-22%) gave up its Q1 gains despite beating Q1 numbers and re-iterating full year guidance. We had a very positive conference call with the new Management team and are encouraged by the plan to turn the business around. It may take a few quarters to bear fruit and trading in the short-term will be tough but the current valuation of 6X Year 1 PER and 8% dividend yield appears to suggest many investors have given up on this share!

Banks continue to be impacted by falling bond yields and a subdued trading environment. **AIB Group** (-7%) shares fell on concerns about the impact of a no-deal Brexit. However, the company reported a good start to Q1 with solid profitability, strong new lending and continued performing loan book growth. Asset quality continued to improve with significant reduction in non-performing exposures putting them firmly on track to reach the milestone of c. 5% by end 2019. We expect the company to be able to return a significant amount of capital to shareholders at this point.

Svenska Handelsbanken (-4%) continued to be 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.

Dow (-14%) fell after de-merging from DowDuPont in the quarter. Dow is a Material Science company. The new Management team are focused on cash flow improvement and on lower risk and faster payback projects with ROIC>13%. We find the 10X PER year 1 and yield of 5.8% attractive.

Portfolio Activity

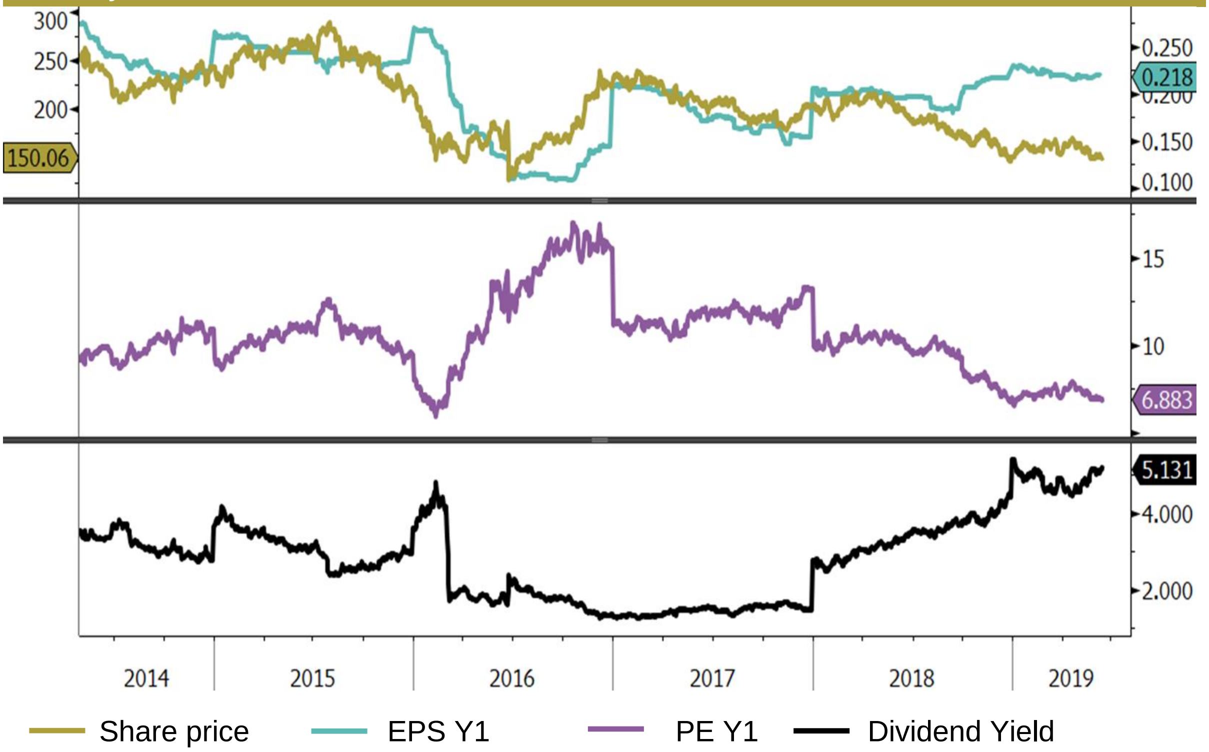
At Saracen, we take a long-term view and tend to trade very rarely. However, our activity increases during periods of market volatility.

During the quarter, we added two new holdings in businesses where the recent share price movements provided an attractive entry point, namely; **Barclays Plc** and **Sabre Inc.**

We funded these purchases by selling our holdings in **Anta Sports, Ashmore Group**, **Corteva** (spun out of DowDuPont)**,** and **Mondelez** on valuation grounds. We also sold **Invesco** based on our Worst-Case scenario analysis.

Barclays has all the attributes that we look for in a bank, in that it has shrunk the Balance Sheet since the Great Financial Crisis, focussed more on costs than growth, has surplus capital and has changed management. Indeed, management has changed from John Varley to John McFarlane and now Nigel Higgins as Chairman and from Bob Diamond to Jes Staley as CEO. The strategy is based on simplifying the group, building a robust capital base and shrinking non-core activities and management has deconsolidated Africa. The shares are trading significantly below the Tangible BV of 275p. While bad debts will modestly accelerate from here, Litigation and Conduct costs are now an historic feature. Barclays has taken the unpopular path of retaining the Investment Bank, but at least they appear to be making a success of it, while many European players continue to falter. This is an unloved business in an unloved sector. The rating assumes the worst, when the reality is that Barclays has many strong business franchises and the shares are very cheap.

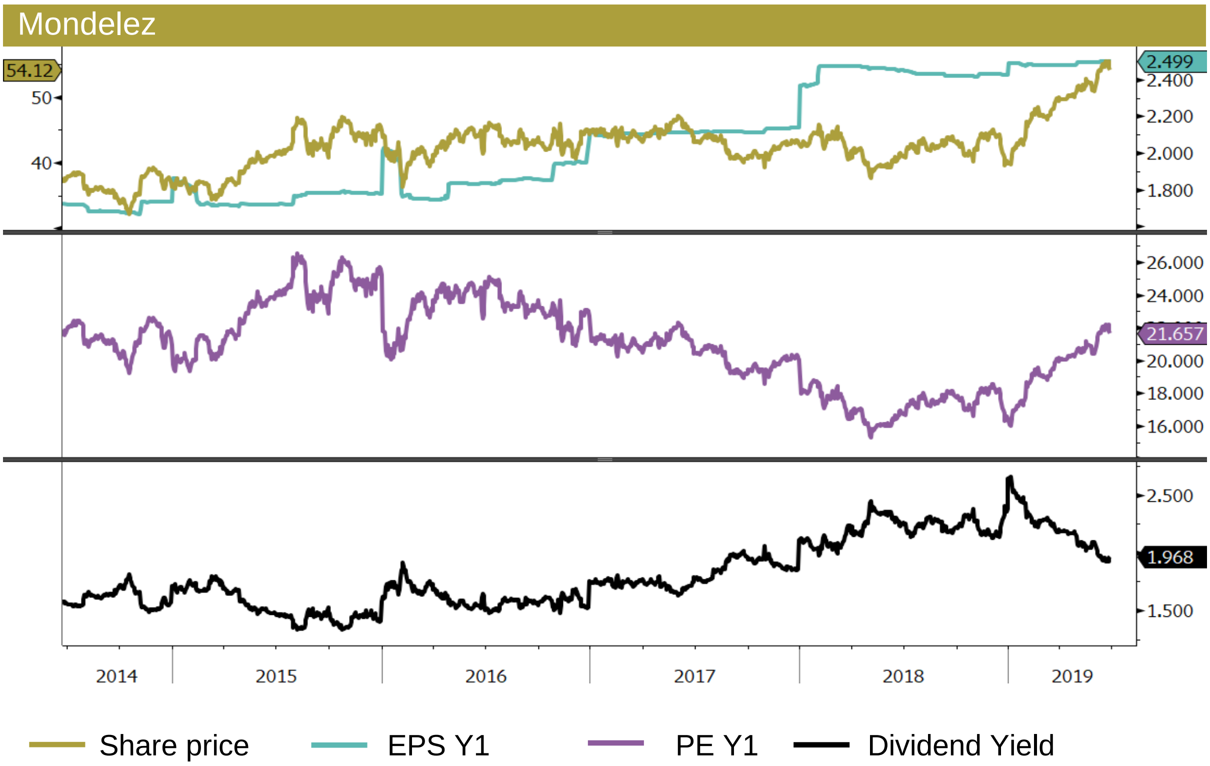
Barclays Plc



Source: Bloomberg

Post the sale of our holding in Amadeus IT, we have been patiently waiting for a buying opportunity in **Sabre**. We took advantage of the market's overreaction to the Q1 numbers which quantified the impact of the MAX 737 jet on a small percentage of its customer base to buy a position for the fund. Like Amadeus, Sabre has a strong recurring, transaction-based revenue model with long-term contracts and high retention rates. In addition, the pricing model (based on tickets sold or passengers boarded) means it is not heavily exposed to cyclicality in ticket pricing. Sabre is cheap on a standalone basis (14X 2018 PER, 2.7% dividend yield) and trades at a material discount to Amadeus despite benefitting from the same trends; namely the long-term growth in global travel, legacy airlines outsourcing IT, and potential in new business areas like Hotels.

Our sale of **Mondelez** in the quarter clearly highlights the "own quality shares at any price" mentality that currently exists in the market place. We purchased Mondelez shares at $40 in summer 2018. At that time the shares were trading on 16X PER Year 1 and yielded 2.5%. The company has reported solid earnings over the last 12 months but as the chart below highlights there were no changes to earnings expectations. The staggering re-rating of the shares to 22X Year 1 PER and fall in yield to less than 2% in the 12 month period is more reflective of market conditions than anything company specific. Given our rigorous focus on valuation, we sold the shares at $55.



Source: Bloomberg

During the quarter, we topped up our holdings in Asahi Group, Imperial Brands, InterPublic Group, Pandora, Philip Morris Intl, ProSieben and Schlumberger. We took profits in select holdings which have performed very strongly, and the valuation is no longer as cheap – namely Cisco, Intel and Rio Tinto.

Portfolio Strategy & Themes

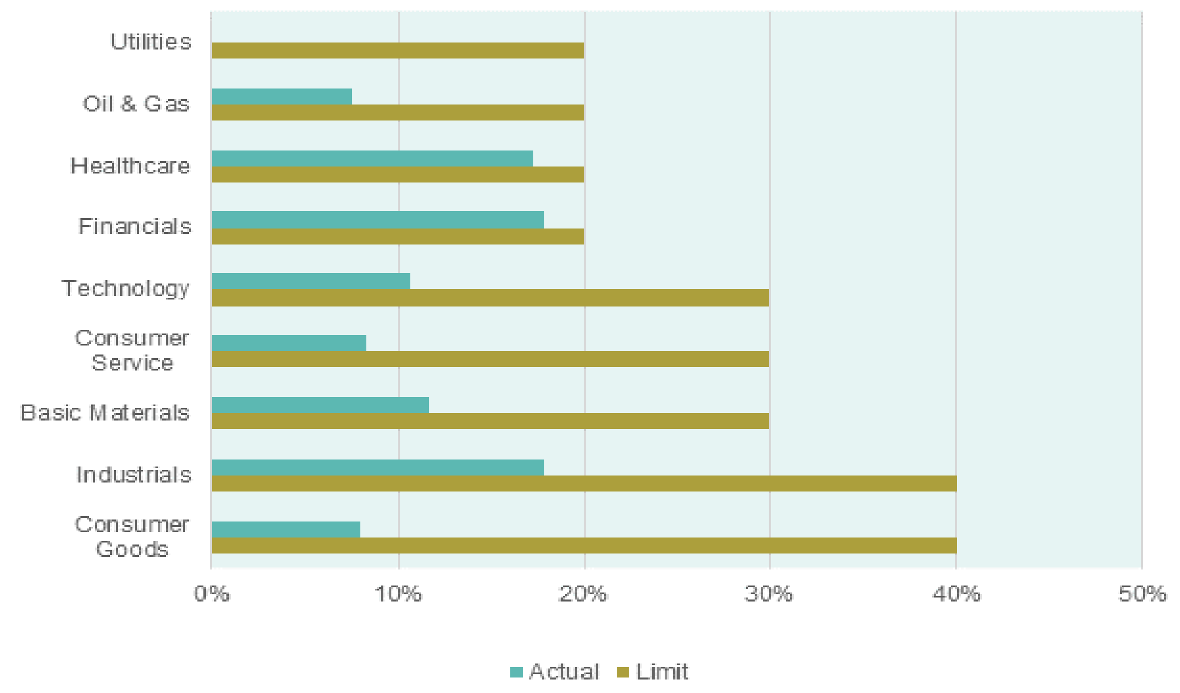
We retain large weightings in companies that are classified in the following sectors:

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

Our research still finds limited value in bond proxies like:

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

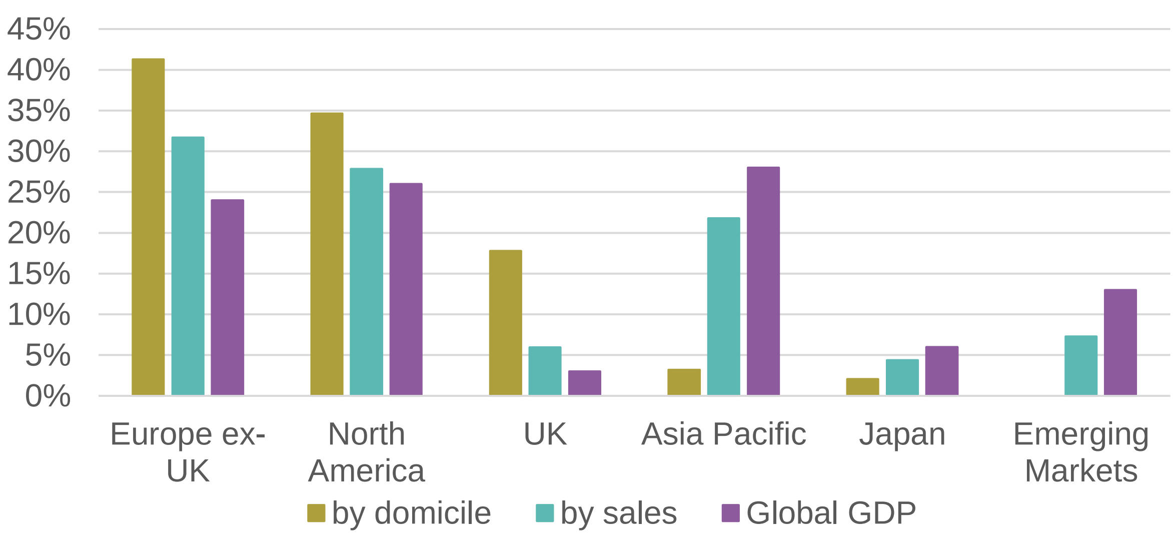
TB SGIG sector split



Source: Saracen Fund Managers as at 28/06/19

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 28/06/19

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.

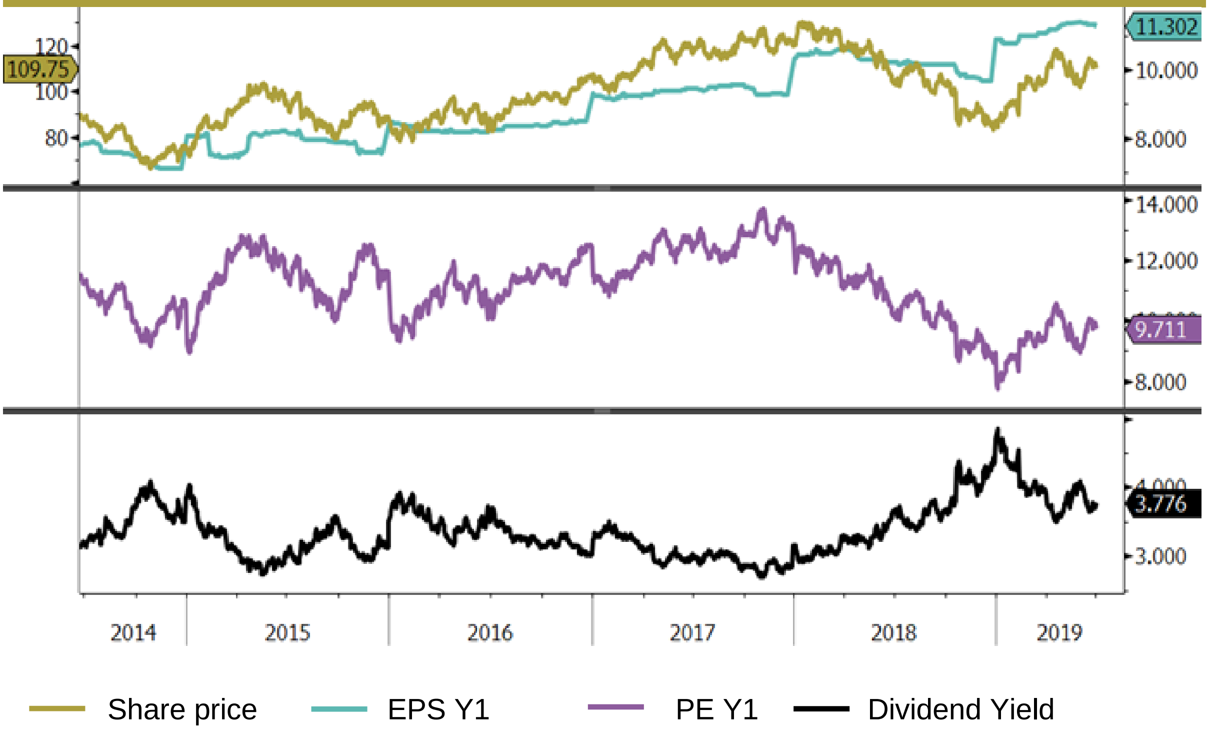
TB SGIG portfolio spread

	BEst P/E	BEst Div Yld
SARACEN GLBL INC & GROW	11.5	4.6
SCHLUMBERGER LTD	21.8	5.0
ASTRAZENECA PLC	21.0	3.4
SABRE CORP	20.1	2.4
NOVO NORDISK A/S-B	19.1	2.6
DUPONT DE NEMOURS INC	18.7	1.5
ABB LTD-REG	17.1	4.2
MERCK & CO. INC.	16.7	2.7
CISCO SYSTEMS INC	16.2	2.7
CORNING INC	15.9	2.6
SCHNEIDER ELECTRIC SE	15.8	3.2
JOHNSON & JOHNSON	15.7	2.8
CHEVRON CORP	15.2	3.9
PHILIP MORRIS INTERNATIONAL	14.8	6.1
PFIZER INC	14.5	3.4
ROCHE HOLDING AG-GENUSSCHEIN	14.2	3.3
ASAHI GROUP HOLDINGS LTD	14.0	2.3
JOHNSON MATTHEY PLC	13.8	2.7
EVONIK INDUSTRIES AG	12.7	4.5
BP PLC	11.9	5.9
INTERPUBLIC GROUP OF COS INC	11.7	4.3
HSBC HOLDINGS PLC	11.7	6.0
INTEL CORP	10.9	2.7
AIB GROUP PLC	10.7	6.5
DBS GROUP HOLDINGS LTD	10.5	4.9
SVENSKA HANDELSBANKEN-A SHS	10.5	6.6
HEIDELBERGCEMENT AG	10.3	3.5
VALEO SA	10.2	4.2
RIO TINTO PLC	10.1	6.3
CARNIVAL CORP	10.0	4.5
DOW INC	10.0	5.8
INTL BUSINESS MACHINES CORP	9.8	4.8
COMPAGNIE DE SAINT GOBAIN	9.6	4.2
MICHELIN (CGDE)	9.5	3.9
UBS GROUP AG-REG	9.1	6.4
AXA SA	8.3	6.4
BAYERISCHE MOTOREN WERKE AG	6.9	5.1
PROSIEBENSAT.1 MEDIA SE	6.8	7.6
BARCLAYS PLC	6.5	5.4
IMPERIAL BRANDS PLC	6.4	11.9
PANDORA A/S	5.7	7.9

Source: Bloomberg, Saracen Fund Managers

Whilst many of our cyclical holdings have bounced sharply in H1 2019, we still consider them to be cheap with supportive dividend yields. A good example would be our holding in Michelin which trades on less than 10X Year 1 PER and has a yield of around 4%. Michelin is a much steadier business than the market believes given that 75% of its revenue comes from replacement tyres. We expect Michelin to deliver between 5%-7% profit growth per annum over our 5-year forecast period. This level of profit growth is exactly what Diageo has guided to at its latest capital markets day – but you have to pay 26X earnings for the privilege of owning Diageo shares today!

Michelin

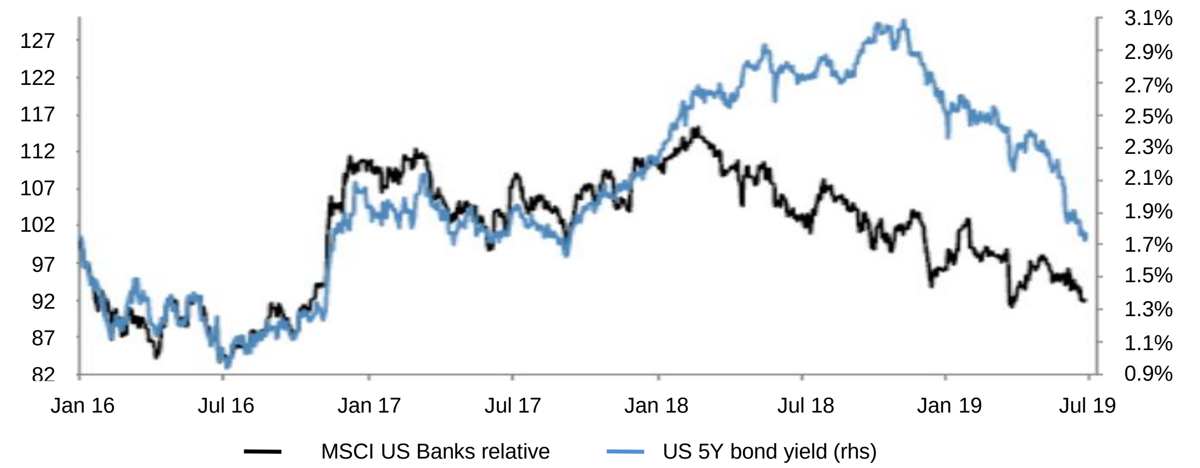


Source: Bloomberg

We continue to find lowly valued more cyclical 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 our cyclicals typically have strong balance sheets.

Having sold Invesco and Ashmore during the quarter post periods of strong share price performance, we retain our exposure to the banking sector. However, the decline in bond yields provided a difficult backdrop for banks. Nevertheless, the disconnect to share prices appears excessive.

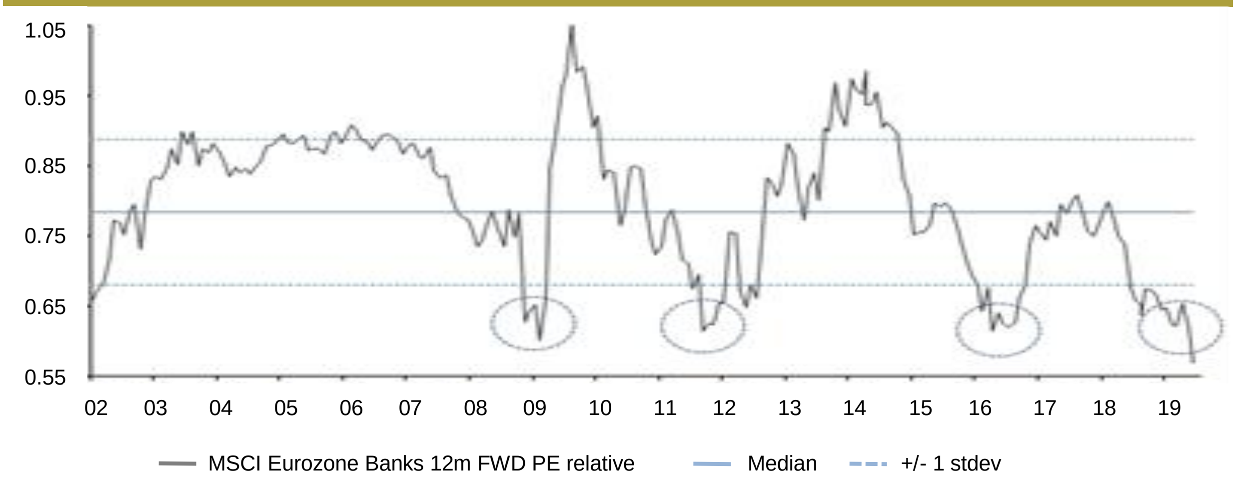
US Banks relative versus US 5-year yields



Source: DataStream, Blomberg, 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, Barclays, DBS, HSBC, Svenska Handelsbanken and UBS. We continue to believe that with valuations supported by shares trading around or even well below tangible book and yields close to PER's, the sector is an obvious winner as confidence returns.

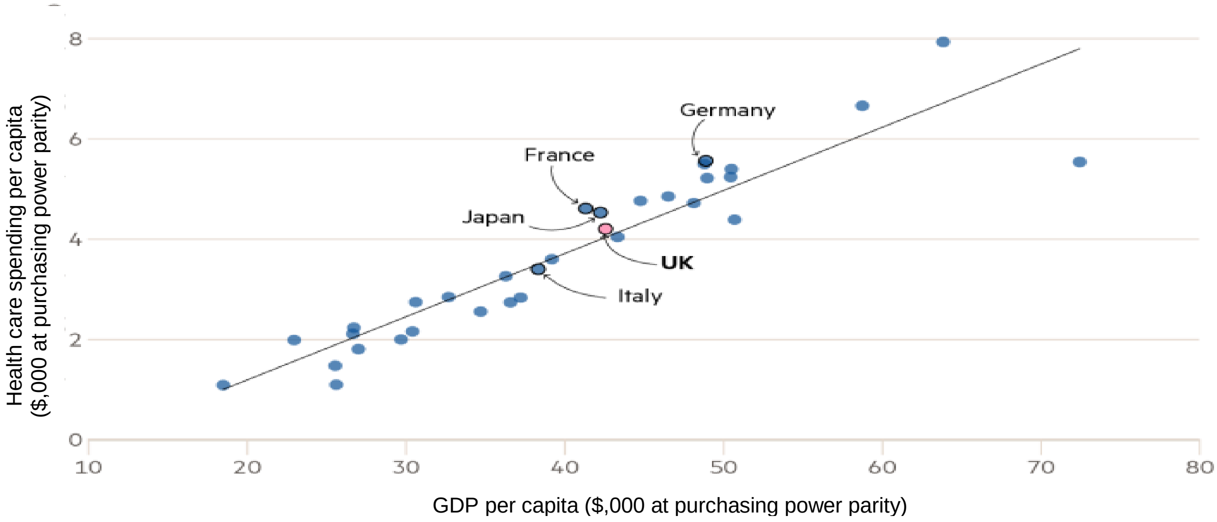
Eurozone Banks 12m FWD PE relative



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

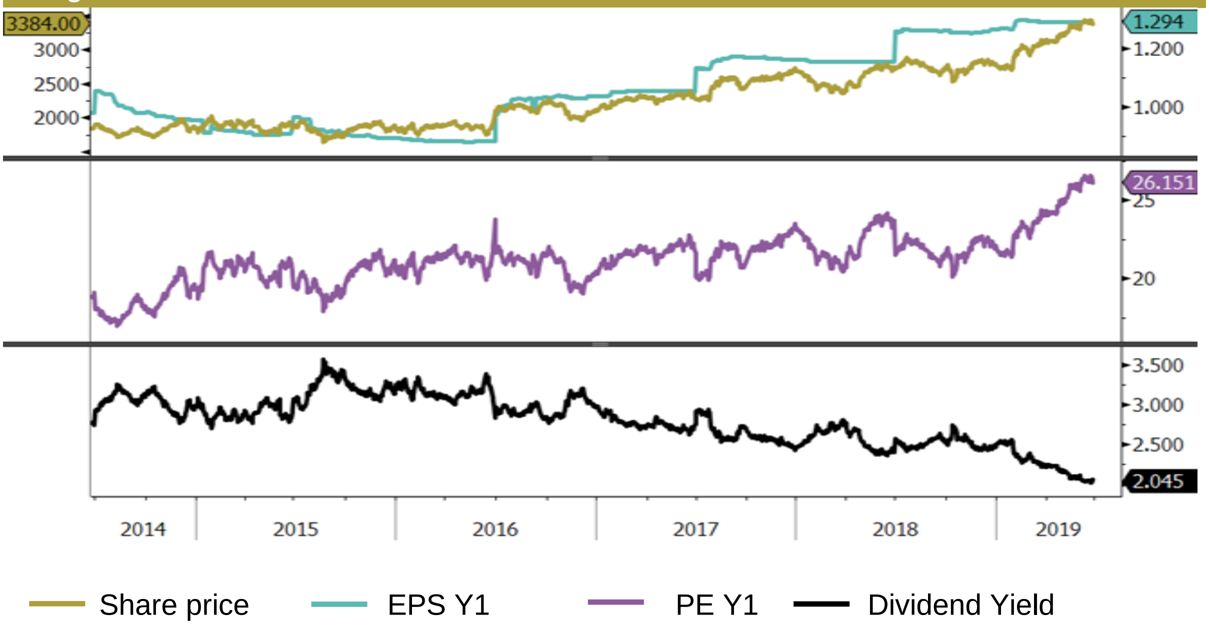


Source: King's Fund analysis of OECD data; (Advanced economies ex US and Luxemburg as of 2016)

We retain a very limited exposure to the bond proxy sectors. Consumer Staples, Real Estate and Utilities continue to 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.

One such example would be Diageo, which we sold last year. We bought the stock at the launch of the fund in June 2011 when the shares traded on 14X Year 1 PER and yielded 4%. As the chart below highlights, the shares today trade on 26X and only yield 2% which looks expensive relative to the fundamentals of the business.

Diageo



Source: Bloomberg

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 94%. 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 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.

Outlook

- **Differentiated portfolio**
- **The fund is attractively valued versus both the market and peer group**
- **Extreme valuation anomalies within equity markets**
- **Global economic growth slowing but persisting**
- **Cyclicals and Financials to outperform**
- **Value in Healthcare**

Our research is now finding remarkable valuation extremities across the market. We remain surprised by the multiple that investors are willing to pay for the perceived “quality” companies and growth stocks.

Investors are struggling to identify a catalyst that will change the current market conditions. However, given that “Quality” valuations are in the 97^{th} percentile and the performance differential between value and growth is currently more extreme than it was at the height of the TMT bubble, we suggest that a turning point must be close!

Catalysts are only obvious in hindsight, but over the long-run we firmly believe that valuation does matter and that shares prices will ultimately follow long-term cash earnings.

Our belief that economic growth will persist and our rigorous focus on valuation means that we continue to have a very differentiated portfolio from the peer group.

The fund, which is made up of well-known global leading businesses with strong Balance Sheets that are well place to grow revenues, profits and dividends for many years, remains very cheap. The underlying portfolio trades on 11.5X Year 1 PER and yields 4.4%. The low valuation combined with underlying dividend growth on a high starting yield should deliver good performance over time.

The Managers added to their positions over the quarter!

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

Graham Campbell
David Keir
Bettina Edmondston

June 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

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.

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 – 28 June 2019