

The Bankers Investment Trust

Core option with solid long-term track record

The Bankers Investment Trust (BNKR) has continued to post solid returns (NAV TR +17.4% in the six months to 30 April 2021) from its diversified global equity portfolio. Lead manager Alex Crooke oversees a team of regional fund managers, as well as setting the trust's overall asset allocation and managing its gearing. While gearing has been low in recent times (averaging 1.25% net over the past 12 months), two newly announced loan note issues totalling c £75m will boost the available borrowing to c 10% of NAV, allowing the manager greater flexibility to express positive market views or take advantage of undervalued opportunities. Crooke is guardedly optimistic on the outlook for equities, particularly in Europe and Japan, which have a greater proportion of attractively valued stocks that should do well in a more inflationary environment. BNKR remains on track for a record-equalling 55th year of annual dividend growth in FY21, and currently yields 1.8%.

Alex Crooke interview: Diversified, low-volatility approach to global equities



Source: Edison Investment Research

Why invest in global equities now?

While fears remain over whether mass vaccination against COVID-19 can outpace the spread of the delta variant, the global economy is recovering well from the pandemic-induced downturn of 2020, with GDP growth of 6.1% and 4.9% forecast by the IMF for 2021 and 2022 respectively. This should be positive for businesses, supporting earnings and potentially higher dividends. Meanwhile, rising interest rate expectations and an uptick in inflation mean greater opportunities in more cyclical areas such as financials and industrials, which tend to do better in such conditions.

The analyst's view

BNKR is designed as a 'one-stop shop' for diversified global equity exposure, yet despite its very low cost (ongoing charges of 0.50% in FY20), it is far from an index tracker. The trust is overseen by Janus Henderson's co-head of equities, with its regional portfolios managed by specialists from across the firm, each of whom brings their own expertise and style tilt under the overall umbrella of 'growth at a reasonable price'. With long-run annualised total returns of c 10–15% and a 54-year history of dividend growth, we would argue that BNKR could represent a worthwhile long-term core holding for small and larger investors alike.

NOT INTENDED FOR PERSONS IN THE EEA

Investment trusts
Global equities

2 August 2021

Price 117.7p

NZ\$2.30

Market cap £1,547.3m

AUM £1,586.8m

NAV* 116.6p

Premium to NAV 0.9%

*Including income. As at 28 July 2021.

Yield 1.8%

Ordinary shares in 1,314.6m

Code/ISIN BNKR/GB00BN4NDR39

Primary exchange LSE

AIC sector Global

52-week high/low 118.9p 97.8p

NAV* high/low 118.3p 96.8p

Adjusted for share split. *Including income.

Gross gearing* 5.0%

Net gearing* 3.0%

*As at 30 June 2021

Fund objective

The Bankers Investment Trust (BNKR) aims, over the longer term, to achieve capital growth in excess of a global developed markets index and annual dividend growth greater than UK CPI inflation, by investing in companies listed throughout the world. BNKR has one of the longest records of year-on-year dividend growth for an investment trust (54 years based on the financial year to 31 October 2020). It is listed on the London Stock Exchange with a secondary listing in New Zealand.

Bull points

- Continued global economic recovery should be supportive for global equities.
- While the overall portfolio is diverse, with over 170 holdings, the regional portfolios are fairly concentrated and managed by specialists.
- New gearing facility gives lead manager Alex Crooke greater investment flexibility.

Bear points

- Higher inflation could lead to equity market volatility if interest rates rise rapidly.
- While BNKR has made strong absolute gains, recent relative returns have been more muted.
- Dividends may remain partly uncovered in FY21.

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The Bankers Investment Trust is a research client of Edison Investment Research Limited

The fund manager: Alex Crooke

The manager's view: Focus on recovery and inflation hedges

Crooke is guardedly optimistic about the near-term outlook for global equity markets, with the effects of unprecedented monetary and fiscal stimulus in 2020 still driving demand for both financial and non-financial assets. Economic growth forecasts for 2021 and 2022 continue to look healthy (global growth is projected at 6.1% this year and 4.9% next, according to the latest update to the IMF World Economic Outlook, published on 27 July), and the manager notes that GDP growth of 4–6% is a positive operating environment for companies. However, he remains mindful of both the risks and benefits of a more inflationary environment, as well as the continued threat from new variants of COVID-19, which could put a brake on the economic recovery. 'If we get a bit of inflation coming through it will help corporate profitability and that will flow through into dividends,' Crooke comments, although should inflation massively overshoot central bank targets, there is potential for some market volatility. 'When inflation is very strong – say 4%+ a year – that tends to worry the central bankers, and when interest rates rise rapidly, most assets tend to underperform until that settles down,' he explains. The manager has recently been focusing on opportunities in Europe and Japan, where equity valuations are lower than in the US. 'Europe is particularly well endowed with stocks – such as industrials and financials – that benefit from higher inflation,' he says, adding that the initially slow pace of COVID-19 vaccinations means the expected earnings recovery will extend into 2022.

Asset allocation

Current portfolio positioning

At 30 June 2021, there were 176 holdings in the BNKR portfolio, spread between the six regional portfolios covering the United States, UK, Europe, Japan, Pacific ex-Japan & China and China 'A' shares. The top 10 holdings (Exhibit 1), all of which are US stocks, made up 16.9% of the total portfolio (broadly half the fund's US exposure), which was a decrease in concentration compared with 19.0% a year previously. Although the number of holdings may appear large, it is perhaps more helpful to think of each regional portfolio as a relatively concentrated fund in its own right, and BNKR as essentially a fund of funds without the extra costs such a structure usually entails.

Exhibit 1: Top 10 holdings (as at 30 June 2021)

Company	Country	Sector	Portfolio weight %	
			30 June 2021	30 June 2020*
Microsoft	US	Technology	2.4	2.9
Estee Lauder	US	Consumer discretionary	2.0	1.9
CME Group	US	Financials	1.9	N/A
American Tower	US	Real estate	1.7	1.9
VISA	US	Financials	1.6	2.0
Mastercard	US	Financials	1.5	1.7
American Express	US	Financials	1.5	N/A
Home Depot	US	Consumer staples	1.5	N/A
Automatic Data Processing	US	Technology	1.5	N/A
Otis Worldwide	US	Industrials	1.5	N/A
Top 10 (% of holdings)			16.9	19.0

Source: The Bankers Investment Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in end-June 2020 top 10.

As shown in Exhibit 2, BNKR's geographical weightings are little changed over the past 12 months, with the biggest moves being a 1.8pp increase in Pacific ex-Japan (including China) and a 1.3pp reduction in the UK. The UK remains a significant overweight compared with its 4.3% weight in BNKR's global developed markets benchmark, and the current 20.3% position is at the top end of

Crooke's long-term target of 10–20%. Historically, the UK weighting was much higher (c 40% when we initiated coverage of BNKR in December 2014), but the process of reducing it to a level more appropriate to a diversified global portfolio has been somewhat slowed by the market's unfavoured status since the 2016 referendum on EU membership. 'Since the Brexit vote there has been a lot of currency volatility and worries about the UK's role in the world, so it has been easy for international investors to walk away,' Crooke explains. 'I am optimistic we will find that role in the world, and while we have reduced exposure to the UK substantially, it would be wrong to sell further from this position when the P/E relative is so low versus other markets.' Based on Datastream index data, the UK is currently trading at a forward P/E of 12.6x, which is 4% below the 10-year average, while the US forward P/E of 22.5x is 34% above the long-run average and close to a 10-year high.

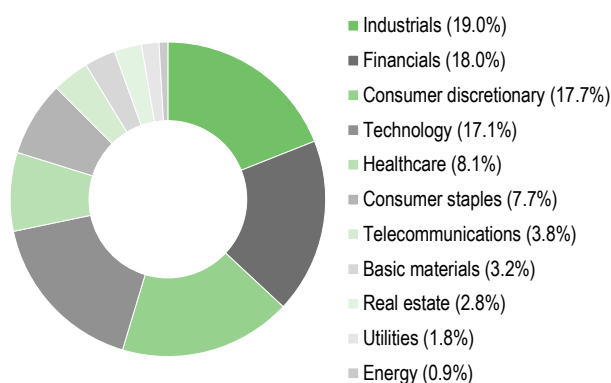
Exhibit 2: Portfolio geographic exposure (% unless stated)

	Portfolio end-June 2021	Portfolio end-June 2020	Change (pp)
North America	33.9	33.8	0.1
UK	20.3	21.6	(1.3)
Europe ex-UK	19.3	19.2	0.1
Pacific ex-Japan	15.3	13.5	1.8
Japan	10.9	11.5	(0.6)
Emerging markets	0.3	0.4	(0.1)
	100.0	100.0	

Source: The Bankers Investment Trust, Edison Investment Research

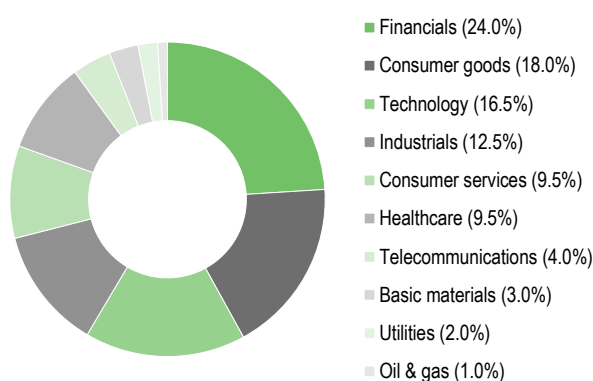
From a sector perspective, the portfolio has a slight cyclical tilt, in order to capture the benefits of post-pandemic reopening and economic recovery. Cyclical stocks tend to fall more into the 'value' rather than 'growth' category. Crooke says that while he does not necessarily think growth stocks will fall, markets will broaden: 'Banks, insurers and so on will make more money as nominal rates rise, and industrials will benefit from higher economic activity. Cyclical stocks respond well to a pick-up in economic activity, hence now looks like a good time to increase cyclicals and take profits in defensives.'

Exhibit 3: Sector exposure at 30 June 2021 (new ICB)



Source: The Bankers Investment Trust, Edison Investment Research

Exhibit 4: Sector exposure at 30 June 2020 (old ICB)



Source: The Bankers Investment Trust, Edison Investment Research

As a result of this shift in emphasis, financials remain an overweight position versus the benchmark (the June 2021 and 2020 figures in Exhibits 3 and 4 are not directly comparable as the old sector definition included real estate) and there are now more bank holdings alongside the long-standing positions in credit card companies. 'Over the last decade, you would have made money in the fee/transaction-based areas of financial services, but as rates go up, more interest rate sensitive stocks will do better, so we have been buying banks and mortgage lenders,' Crooke explains. Technology remains a firm underweight, given the over-dominance of a few mega-cap stocks (Apple, Amazon, Microsoft, Facebook and Alphabet/Google make up c 13% of the index, or three times the weight of the entire UK market), and BNKR also has below-index positions in defensive sectors such as healthcare and utilities.

Performance: Solid absolute returns over many years

Exhibit 5: Five-year discrete performance data

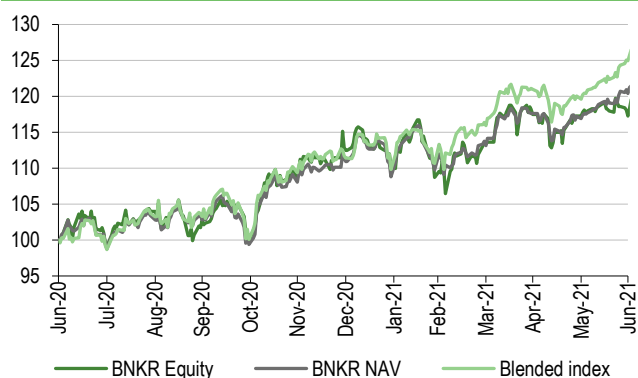
12 months ending	Share price (%)	NAV (%)	Blended index* (%)	MSCI World (%)	CBOE UK All Cos (%)
30/06/17	35.3	29.1	18.3	22.3	18.3
30/06/18	13.9	10.6	9.2	9.9	9.5
30/06/19	9.7	8.9	10.9	10.9	0.3
30/06/20	8.3	6.2	6.5	6.5	(13.6)
30/06/21	17.3	20.4	24.9	24.9	21.1

Source: Refinitiv. Note: All % on a total return basis in pounds sterling. Blended index is UK until 31 October 2017 and global thereafter.

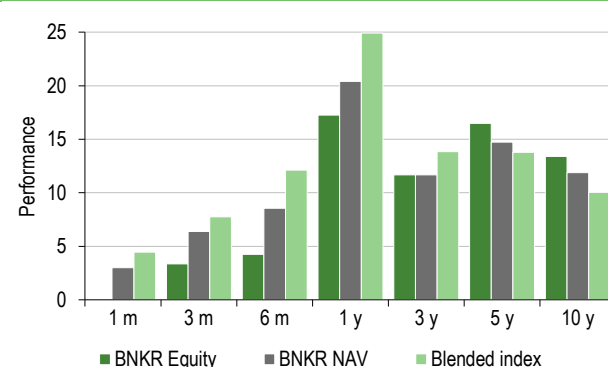
BNKR has a good performance track record in absolute terms, with a NAV total return of a little over 20% in the 12 months to end-June 2021 and annualised returns of c 12–16% on a share price and NAV basis over three, five and 10 years (Exhibits 5 and 6). However, it has tended to underperform the global equity market (and hence its benchmark) over more recent periods, partly as a result of its structural underweight to the US, where the main S&P 500 Index continues to push to new highs.

Exhibit 6: Investment trust performance to 30 June 2021

Price, NAV and benchmark total return performance, one-year rebased



Price, NAV and benchmark total return performance (%)



Source: Refinitiv, Edison Investment Research. Note: Three, five and 10-year performance figures annualised.

BNKR's H121 (ended 30 April) was a period largely characterised by a global market rotation towards more value and cyclical stocks. Crooke says that while the UK and Pacific (ex-Japan & China) portfolios did well relative to local indices over this period, given their managers' value and income tilt, the more growth-orientated US, European and Japanese portfolios underperformed their local benchmarks, while the China 'A' share portfolio return was muted in absolute terms but was largely in line with the local index (Exhibit 7). This was the reverse of the situation in FY20 (ended 31 October), when the US, European, Japanese and China 'A' shares portfolios outperformed strongly, while the UK allocation performed in line with the local index (which fell in absolute terms), and the Pacific (ex-Japan & China) return was negative on both an absolute and a relative basis as investors showed a strong preference for high-growth, low-yielding technology stocks. Many of the best-performing stocks in H121 have continued to do well in the months since the end of April, with Dutch semiconductor firm ASML's share price up 105.9% in BNKR's FY21 to date (1 November 2020 to 28 July 2021), American Express up 86.3% and Lloyds Banking Group up 66.9% (all in local currency terms).

Exhibit 7: Performance of regional portfolios in H121 and FY20 (% unless stated)

	H121 (6 months ended 30 April 2021)				FY20 (12 months ended 31 October 2020)			
	Bankers	Index	Relative (pp)	Weighting	Bankers	Index	Relative (pp)	Weighting
UK	29.1	28.5	0.6	20.2	(18.5)	(18.6)	0.1	19.4
Continental Europe	18.7	24.4	(5.7)	17.7	3.9	(3.9)	7.8	16.1
North America	19.0	20.9	(1.9)	34.2	20.6	10.5	10.1	35.9
Japan	5.7	9.6	(3.9)	11.4	11.4	0.9	10.5	12.4
Pacific ex-Japan	26.6	15.8	10.7	10.0	(4.1)	12.0	(16.1)	9.0
China 'A' shares	4.7	5.7	(0.9)	6.6	49.2	29.6	19.6	7.2

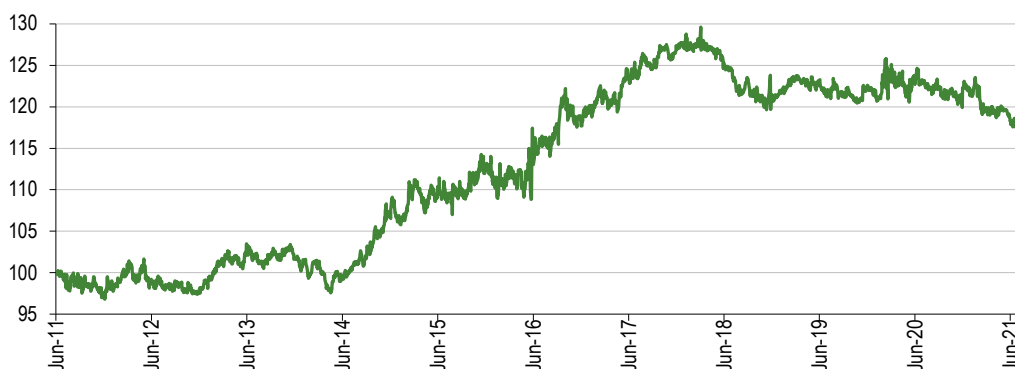
Source: Bankers IT, Edison Investment Research. Note: Total return performance relative to local broad market indices.

Looking at the long-term chart of relative performance in Exhibit 9, it is important to note that until 31 October 2017, BNKR used a broad UK equity index as its benchmark, on the basis that most of its investors would be UK-based and therefore find this a useful yardstick. Clearly, it has been a harder target for the portfolio to beat the return of the global index it now uses, particularly given the preponderance in the index of major US technology and internet stocks (many of which BNKR has not owned, or has been underweight on valuation grounds), as well as the large (c 60%) weighting of the broader US market, which has outperformed other major markets. However, given we may be moving to a scenario where successful 'global investing' is no longer a one-way bet on US tech, there is every chance for BNKR once again to outperform its benchmark.

Exhibit 8: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to blended index	(4.3)	(4.1)	(7.0)	(6.1)	(5.6)	12.5	35.3
NAV relative to blended index	(1.4)	(1.3)	(3.2)	(3.6)	(5.7)	4.3	18.2
Price relative to MSCI World Index	(4.3)	(4.1)	(7.0)	(6.1)	(5.6)	8.1	4.1
NAV relative to MSCI World Index	(1.4)	(1.3)	(3.2)	(3.6)	(5.7)	0.2	(9.0)
Price relative to CBOE UK All Companies	(0.0)	(2.0)	(6.4)	(3.1)	32.8	57.8	89.8
NAV relative to CBOE UK All Companies	3.0	0.9	(2.5)	(0.5)	32.8	46.2	65.9

Source: Refinitiv, Edison Investment Research. Note: Data to end-June 2021. Geometric calculation.

Exhibit 9: NAV performance versus blended index over 10 years


Source: Refinitiv, Edison Investment Research

Peer group comparison

As a member of the Association of Investment Companies' Global sector, BNKR is part of a 16-strong group that includes many of the largest and longest-established investment trusts. The peers follow a range of investment approaches and have widely differing geographical allocations. For example, US exposure (c 62% of BNKR's global developed markets benchmark) ranges from 2.2% at EP Global Opportunities to more than 50% in Alliance Trust, F&C Investment Trust, Manchester & London (at 66%, the only fund that is overweight the US versus the index), Mid Wynd International, Monks and Scottish Mortgage. BNKR's own US weighting was 33.9% at end-June 2021, compared with a peer group average of 41.9%. Meanwhile, most of the peers are overweight

the UK (which makes up a tiny 4.3% of the broad index but 17.4% on average for the peer group), with six of them having close to or above BNKR's 20.3% UK exposure.

Given the unsettled global equity market conditions of the past 12 months, with shifts in market leadership between defensive, high-growth and economically sensitive sectors, it is hard to point to a single driver of superior recent performance within the peer group. Of the top three performers, Scottish Mortgage (NAV total return +51.8% over 12 months to 27 July) is well known for its bias to technology stocks, as well as its exposure to potentially high-growth unlisted companies. Conversely, AVI Global Trust (+34.9%) has quite a value bias and tends to seek out opportunities in heavily discounted holding companies, often engaging with these holdings to unlock their intrinsic worth through corporate change. Witan (+35.1%), meanwhile, is a multi-manager portfolio encompassing both growth and value approaches.

BNKR's NAV total returns have underperformed the peer group average over one, three, five and 10 years, albeit with solidly positive returns in absolute terms. This may be as a result of its lack of a strong style bias in a period when markets have been somewhat polarised; the trust's better ranking (eighth and seventh respectively out of 16) over five and 10 years suggests its more balanced approach works well over time. Excluding the sector's two major outliers (Lindsell Train, whose holding in its own unlisted fund manager, which now makes up c 50% of the portfolio, has been the principal driver of returns, and Scottish Mortgage, which has been turbocharged by its holding in Tesla), BNKR's performance is comfortably ahead of the average over five and 10 years.

With ongoing charges of 0.50% in FY20, BNKR has the third lowest expenses in the competitively priced sector, and is not liable to a performance fee. It is one of five peers currently trading at a premium to NAV, ranking third in the group at 0.9%. Gearing is below the sector average and the 1.8% dividend yield is in line with both the mean and the median yield.

Exhibit 10: AIC Global peer group as at 28 July 2021*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Ongoing charge	Perf. fee	Discount (cum-fair)	Net gearing	Dividend yield
Bankers	1,547.3	19.5	34.9	86.8	213.3	0.50	No	0.9	103	1.8
Alliance Trust	3,158.7	26.9	35.7	83.7	192.2	0.65	No	(5.8)	108	1.5
AVI Global Trust	987.4	34.9	32.4	87.8	137.4	0.89	No	(8.7)	104	1.7
Brunner	438.7	28.5	37.3	84.7	202.8	0.64	No	(9.1)	106	2.0
EP Global Opportunities	106.0	7.7	(2.3)	29.7	108.2	0.99	No	(8.2)	100	2.1
F&C Investment Trust	4,531.1	26.7	35.8	86.0	221.5	0.52	No	(8.6)	109	1.4
JPMorgan Elect Managed Growth	288.3	31.5	29.6	77.7	188.4	0.54	No	(3.6)	100	1.6
Keystone Positive Change	206.2	14.9	(5.6)	6.3	83.3	0.55	No	(2.6)	100	3.4
Lindsell Train	323.0	21.1	74.9	189.6	642.8	0.75	Yes	23.1	100	3.1
Manchester & London	239.5	5.1	30.4	118.6	100.5	0.78	Yes	(11.2)	131	2.4
Martin Currie Global Portfolio	351.3	22.6	62.8	111.4	255.3	0.60	No	0.6	107	1.0
Mid Wynd International	467.4	23.8	55.8	108.2	246.7	0.69	No	1.0	100	0.8
Monks	3,296.2	28.3	64.5	154.8	265.1	0.43	No	0.8	102	0.1
Scottish Investment Trust	502.5	3.2	(4.7)	27.7	95.7	0.52	No	(10.3)	107	3.1
Scottish Mortgage	18,595.6	51.8	152.8	356.4	789.3	0.34	No	(1.6)	107	0.3
Witan	1,868.6	35.1	24.0	67.7	184.4	0.75	Yes	(7.4)	110	2.2
Sector average (16 funds)	2,306.7	23.9	41.1	104.8	245.4	0.63		(3.2)	106	1.8
BNKR rank in peer group		6	12	9	8	7		14	3	10

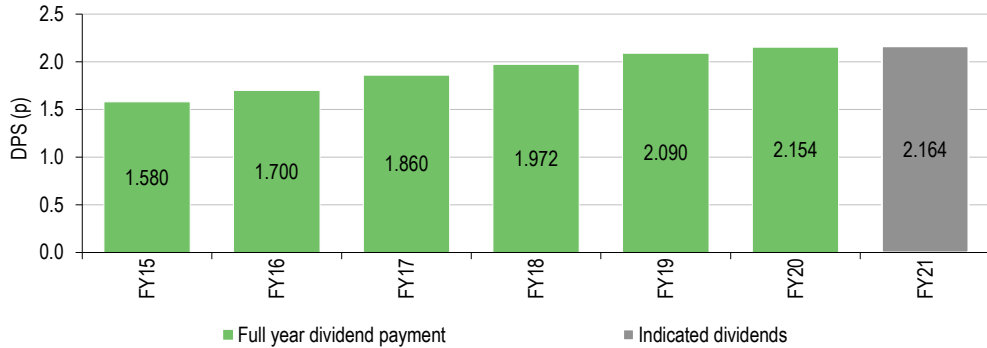
Source: Morningstar, Edison Investment Research. Note: *Performance as at 27 July 2021 based on cum-fair NAV. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

Dividends: Expecting a 55th annual increase

BNKR has paid a dividend in all but two of its 133 years of existence, and has increased its annual payout in each of the last 54 years, a record it shares with only two other investment trusts, City of London and Alliance Trust. In FY20, total dividends of 21.54p per share were 3.1% higher than the 20.90p paid in FY19, although revenue returns per share, at 16.83p, took a 22% year-on-year hit from COVID-19-related dividend cuts. As a result, the board dipped into BNKR's revenue reserve for the first time since FY11 to fund the uncovered part of the dividend.

The trust pays dividends quarterly, in May, August, November and February. So far in FY21 (following the 10-for-1 share split in February), it has declared two dividends totalling 1.076p (H120: 1.070p adjusted for the share split), and the board has stated that it intends to pay a total dividend of at least 2.164p, an increase of c 0.5% on FY20. While Crooke says it may take a couple of years for corporate dividends to recover fully to pre-pandemic levels, the net revenue return per share of 0.97p in H121 was a 22.8% improvement on the adjusted figure of 0.79p in H120.

Exhibit 11: Dividend history since FY15



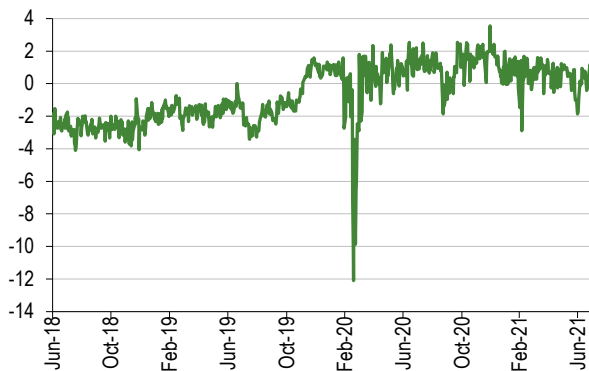
Source: Bloomberg, Edison Investment Research. Note: Historical figures adjusted for March 2021 share split.

With inflation running above trend (UK CPI was 2.5% in the 12 months to June 2021), the forecast increase in the FY21 dividend as it stands would be below the rate of inflation; however, the trust's objective of providing above-inflation dividend growth over the long term still stands. At the forecast level for the full year, BNKR would have provided compound annual dividend growth of 4.9% over five years, well above the rate of inflation. With effect from the start of FY21, the trust has changed its inflation target from RPI to CPI, in line with the increasing use by government and BNKR's peers of the CPI measure.

Although it may be necessary to draw on the revenue reserve again in FY21, BNKR has built it up to a healthy level over the past decade, and at end-H121 (accounting for the first two interim dividends), the reserve stood at £36.9m, equivalent to 0.8x the annual dividend. Based on the current share price and the forecast FY21 dividend, BNKR has a prospective yield of 1.8%, in line with the average of its peers (see Exhibit 9).

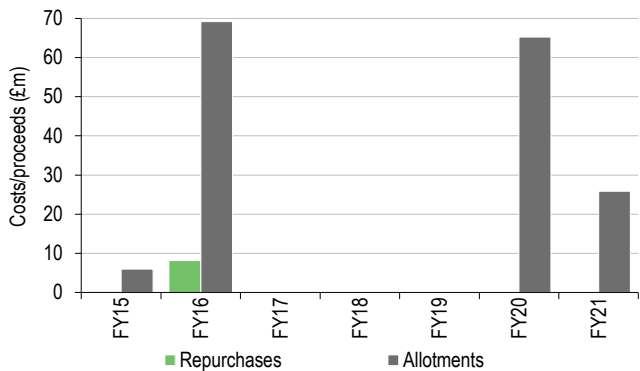
Discount: Premium controlled by regular issuance

Exhibit 12: Premium/discount over three years



Source: Refinitiv, Edison Investment Research

Exhibit 13: Buybacks and issuance



Source: Morningstar, Edison Investment Research

At 28 July 2021, BNKR's shares traded at a 0.9% premium to NAV. While there is no stated discount or premium management policy in place, the trust's board has tended to issue or buy back shares in order to limit extremes in the discount or premium. As shown in Exhibit 13, over the past seven years there have been far more shares allotted than repurchased (raising £91m since the start of FY20), although the shares have traded on average at a 2.2% discount to NAV since the start of FY15.

In common with many closed-end funds, BNKR's shares briefly fell to a heavy discount to NAV during the first wave of the COVID-19 pandemic, reaching a five-year widest point of 12.1% in March 2020 before bouncing back to a small premium. Since then, the rating has settled into a range broadly between par and a 2% premium to NAV compared with a c 1–3% discount in the pre-pandemic period, albeit with slightly more volatility (Exhibit 12). The current 0.9% premium to NAV is in line with the average premium of 0.9% for the past 12 months, and compares with average discounts of 0.6%, 1.9% and 3.3% respectively over three, five and 10 years.

Fund profile: One-stop 'best ideas' portfolio

Having been launched in 1888, BNKR is one of the UK's oldest investment companies. It seeks to achieve capital and income growth by investing in a diverse portfolio of global equities. Lead manager Alex Crooke (co-head of equities at Janus Henderson Investors) has been at the helm of BNKR since 2003. He oversees a group of specialist regional portfolio managers and is responsible (in conjunction with the board) for the trust's geographical allocation and level of gearing.

The trust measures its performance against a broad global developed markets index (until October 2017, it used a broad UK market index) and is a member of the Association of Investment Companies' Global sector. In terms of its dual focus on capital and income growth, over the long term BNKR seeks to achieve capital growth in excess of that of its benchmark index and dividend growth ahead of the rate of UK CPI (previously RPI) inflation.

Investment process: Long-term, bottom-up approach

BNKR's portfolio is overseen by Crooke and managed on a regional basis by specialists from across Janus Henderson Investors' (JHI's) global equity teams, each of whom picks a selection of stocks chosen with a broad bias towards quality, value and income. The regional portfolios are UK, North America, Europe, Japan, Pacific (excluding Japan and China) and China A-shares. There is a very small (0.3%) residual non-Asian emerging markets allocation.

Although the overall stock list is relatively long at c 170–180 names, the regional portfolios are fairly concentrated, with a target of c 30 holdings apiece. All of the managers are bottom-up stock pickers, although their individual investment styles differ somewhat, with some more focused on value and income, and others having more of a tilt towards growth. There is a bias towards cash-generative companies with strong balance sheets and growing dividends, underpinning BNKR's own 54-year record of year-on-year dividend growth. Portfolio turnover is relatively low, at 24.8% (using the SEC methodology) in FY20 and 19.0% in H121 (38.0% annualised), implying an average holding period of around two-and-a-half to four years.

The regional portfolio managers are as follows:

- **North America (33.9% of the portfolio at 30 June 2021)** has been managed by Gordon MacKay since the start of 2020, following the retirement of Ian Warmerdam. The Edinburgh-based team has a tilt to growth at a reasonable price rather than value.
- **UK (20.3% of the portfolio at 30 June 2021)** is managed by David Smith, who also runs the Henderson High Income Trust.

- **Europe (19.3% of the portfolio at 30 June 2021).** Since February 2019, the Europe portfolio has been managed by Jamie Ross, who also runs Henderson EuroTrust and the European allocation of [The Law Debenture Corporation](#).
- **Japan (10.9% of the portfolio at 30 June 2021)** has been managed since 2017 by Tokyo-based Junichi Inoue.
- **Pacific ex-Japan and China (9.5% of the portfolio at 30 June 2021)** is managed by Mike Kerley, who also runs [Henderson Far East Income \(HFEL\)](#). He is a value-orientated investor, but his BNKR portfolio has less of an overt income orientation than HFEL.
- **China 'A' shares (5.8% of the portfolio at 30 June 2021)** has been managed since 2020 by May Ling Wee, an experienced fund manager in JHI's Singapore regional hub, who had worked alongside former manager Charlie Awdry on the firm's open-ended China funds since 2016. The China sleeve is managed with an emphasis on companies serving local consumers in the region through domestic brands, and which benefit from increasing wealth and consumption among this population.

BNKR's approach to ESG

JHI employs an integrated approach to environmental, social and governance (ESG) factors, with each regional investment team adopting methods that are appropriate to the markets they cover. While Crooke says no sectors are excluded on a top-down basis, some individual teams may have areas they prefer to avoid from an ESG perspective. Underlying the approach is a belief that good corporate governance is supportive of long-term decision-making and investment returns. The interpretation of environmental and social factors can vary in importance depending on the sector and geographic region in which a company operates. Nonetheless, JHI says each ESG factor, in addition to the quantitative and qualitative assessments of a company, is an important consideration when calculating the opportunity in a potential investment. Crooke's analysis of the BNKR portfolio shows it has a lower carbon footprint and less exposure to ESG risks than the broad global equity index the trust uses as a benchmark. 'We are trying to buy good companies that don't pollute the world,' he explains, adding that 'often the best companies to invest in are those that are improving, so they might have relative ESG risk today but that will lessen over time.'

Gearing: Increasing in recent months

BNKR is permitted to gear up to 20% of net assets at the time of drawdown, and may hold up to 20% in cash or bonds. It uses a mixture of structural and flexible gearing, with a £15m debenture at an 8% coupon maturing in 2023, £50m of loan notes with a coupon of 3.68% maturing in 2035, and a £20m bank loan facility with SMBC Bank International (formerly Sumitomo Mitsui Banking Corporation Europe), which has recently been extended for a further year. Together, these equate to available gearing of 5.5% (4.2% for the structural borrowings alone), which has clearly limited the manager's ability to use gearing to the full extent of the policy. On 27 July 2021, the board announced it had agreed to issue two tranches of fixed rate unsecured private placement notes: £37m with a 24-year life and an annualised coupon of 2.28% and a 20-year tranche of €44m (also c £37m at current rates) with an annualised coupon of 1.67%. The funding date of the notes is 3 August 2021. In the near term this will increase the available gearing to £159m, or c 10% of net assets, although the new borrowing in part anticipates the repayment of the £15m debenture in 2023. The weighted average interest payable on the BNKR's fixed rate borrowings will decrease from 4.68% to 3.23% at the date of funding and will fall further to 2.66% when the relatively expensive debenture is repaid. The trust was ungeared (or mildly net cash) for much of FY20 (ended 31 October), except for the period immediately following the COVID-19 induced sell-off in global equities. However, more recently BNKR's manager has employed a modest amount of net

gearing, rising from 1% in December 2020 to 2% in January, February and March 2021, and 3% in April, May and June. Average net gearing for the 12 months to end-June 2021 was 1.25%.

Fees & charges

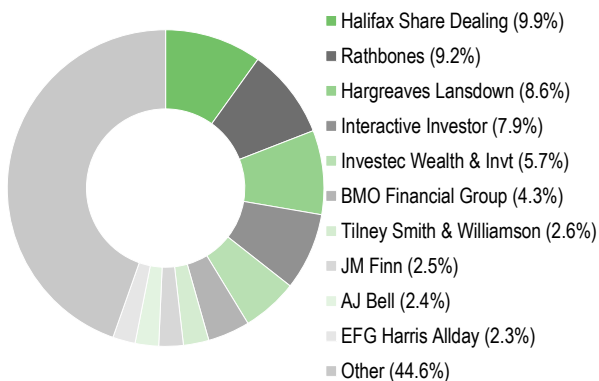
The trust pays its investment manager, JHI, an annual management fee on a sliding scale, starting at 0.45% on the first £750m of net assets and 0.40% thereafter, calculated quarterly. There is no performance fee. The management fee is allocated 30:70 between the revenue and capital accounts, in line with the long-term expected split of returns, and for FY20, ongoing charges were 0.50% (FY19: 0.52%). This is the third lowest ongoing charges figure in the very competitively priced AIC Global sector (see Exhibit 9), where the average is 0.63%.

Capital structure

BNKR is a conventional investment trust with one class of share, listed on the London and New Zealand stock exchanges. With the share price having reached more than £10, in February 2021 shareholders approved a 10-for-one share split designed to make it easier to reinvest dividends and for smaller savers to invest regularly. As such, there are now 1.31bn shares in issue (as at 28 July 2021). Adjusting for the share split, the number of ordinary shares outstanding has increased by 27.5m (2.1% of the share base) over the past 12 months, as a result of issuance to meet investor demand and to manage the premium to NAV. The board has the authority to buy back up to 14.99% and allot up to 10% of its share capital each year to manage a discount or premium. Prior to FY20, the number of shares in issue had been unchanged since the end of FY16.

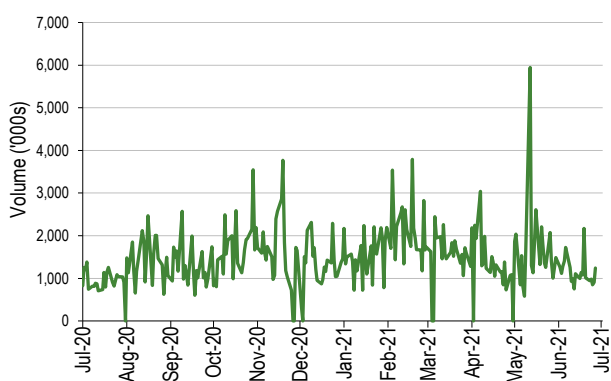
As shown in Exhibit 14, retail investor platforms and wealth managers are well represented among BNKR's largest shareholders, underlining the trust's 'one-stop shop' nature for investors seeking global equity exposure in a large and liquid vehicle. Average daily traded volume (Exhibit 15, again adjusted for the share split) was 1.55m (c 0.12% of the share base) over the 12 months to 28 July.

Exhibit 14: Major shareholders



Source: Bloomberg, as at 16 July 2021

Exhibit 15: Average daily volume



Source: Refinitiv. Note: 12 months to 26 July 2021.

The board

Exhibit 16: BNKR's board of directors

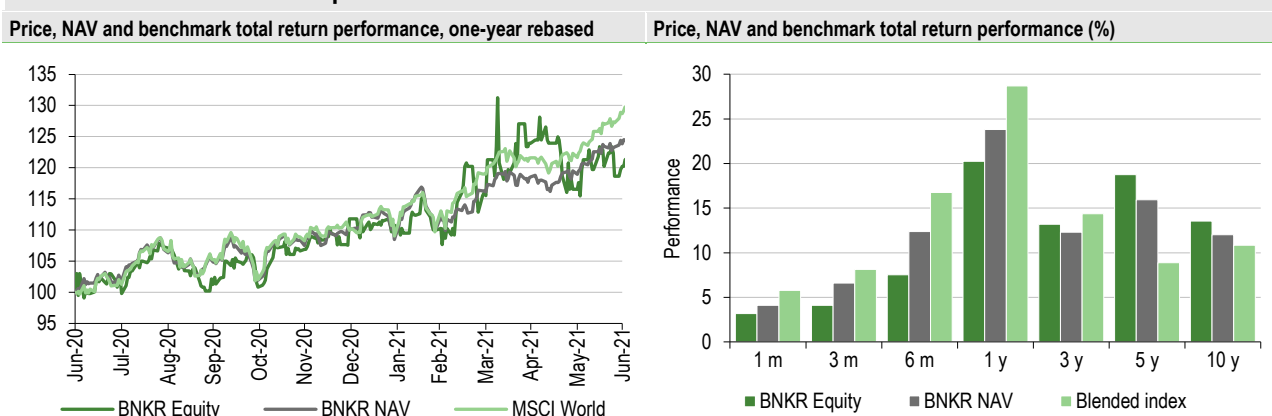
Board member	Date of appointment	Remuneration in FY20	Shareholdings at end-FY20
Sue Inglis (chair)	2012 (2019)	£44,300	10,000
Julian Chillingworth (SID)	2015 (2019)	£31,500	3,000
Isobel Sharp (audit cttee chair)	2017 (2018)	£31,500	3,000
Richard Huntingford	2018	£28,900	2,750
Richard West	2020	£16,858*	5,000

Source: The Bankers Investment Trust. Note: *Richard West was appointed to the board on 1 April 2020 so fees are for seven months' service at an annual rate of £28,900.

Given that Sue Inglis will have served for nine years as a director by end-FY21, it was noted in BNKR's H121 results that the board's nominations committee had begun the process of seeking a new director. On 27 July 2021, it was announced that Simon Miller would join the board on 1 January 2022, with the intention that he will take over as chairman at the trust's February 2022 AGM, when Inglis will retire. Miller has over 25 years' experience in financial services and recently retired as chairman of wealth manager Brewin Dolphin Holdings.

Performance tables in New Zealand dollar terms

Exhibit 17: Investment trust performance – in New Zealand dollar terms to 30 June 2021



Source: Refinitiv, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

BNKR has a long-standing secondary listing in New Zealand (c 10% of the share register) so that shareholders there can trade more easily and receive dividends in New Zealand dollars. In Exhibits 17 and 18 we present the trust's performance and that of its blended index (UK until 31 October 2017 and global thereafter) in NZ dollar terms. A stronger sterling on the back of post-Brexit trade deals has meant higher returns for NZ dollar investors over six and 12 months to 30 June 2021, although both short-term (one and three months) and longer-run returns are broadly similar in both currencies (see Exhibit 6).

Exhibit 18: Investment trust discrete years' performance in New Zealand dollar terms

12 months ending	Share price (%)	NAV (%)	Blended index (%)	MSCI World (%)	CBOE UK All Cos (%)
30/06/17	32.9	21.7	(8.8)	15.6	11.8
30/06/18	22.6	21.6	12.0	20.8	20.4
30/06/19	9.1	5.9	7.8	7.8	(2.6)
30/06/20	10.5	8.0	7.9	7.9	(12.5)
30/06/21	20.2	23.8	28.7	28.7	24.7

Source: Refinitiv. Note: Total return basis, in NZ dollar terms.

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