EDISON

The Brunner Investment Trust

More concentrated investment in global stocks

Investment trusts

The Brunner Investment Trust (BUT) invests in a concentrated global equity portfolio aiming to generate long-term growth in capital and income. Over time the number of stocks has been reduced, resulting in 70 high-conviction holdings selected for their strong fundamentals and attractive valuations. Since June 2016, BUT has been solely managed by Lucy Macdonald. Dividends are paid quarterly; BUT has a progressive policy and annual dividends have increased for the last 44 consecutive years. The current dividend yield of 2.7% compares favourably with sector peers.

12 months ending	Total share price return (%)	Total NAV* return (%)	Benchmark (%)	FTSE All-Share (%)	FTSE All-World ex-UK (%)
31/08/12	8.8	11.9	9.9	10.2	9.2
31/08/13	24.6	25.8	19.3	18.9	19.6
31/08/14	11.7	10.9	12.0	10.3	13.6
31/08/15	(0.1)	0.9	0.2	(2.3)	2.4
31/08/16	16.0	17.1	19.9	11.7	27.8

Note: Twelve-month rolling discrete £-adjusted total return performance. Benchmark is 50% FTSE All-Share and 50% FTSE All-World ex-UK. *NAV with debt at market value.

Investment strategy: In-depth, bottom-up research

Manager Lucy Macdonald is able to draw on the wide resources of Allianz Global Investors (AllianzGI) to select a portfolio of high-quality global stocks aiming to outperform a benchmark that is weighted 50:50 between the UK and overseas. Exposure to the UK has been reduced in recent years as the manager seeks to diversify geographically in search of better capital returns and income growth. The current UK weighting is 33.5%, a 9pp reduction versus a year ago. Favoured sectors for investment include technology as well as industrials, which offer a broad diversity of end-markets and where the manager can find companies with above-average growth trading at attractive valuations.

Market outlook: Potential pause

Global stock markets have been volatile in 2016 and have rallied strongly since the sell-off following the result of the UK's EU referendum. With valuations towards the high end of the 10-year range, modest economic growth and near-term uncertainties around the US election and the timing of US interest rate rises, global stocks could be approaching a period of consolidation. In this environment, a concentrated portfolio of high-conviction holdings may hold appeal for investors.

Valuation: Discount in widening trend

BUT's shares are currently trading at a 18.0% discount to cum-income net asset value. This is wider than the 14.2% average of the last 12 months (range of 7.9% to 20.8%) and is also wider than the averages over the last three, five and 10 years of 13.2%, 12.9% and 12.8% respectively. BUT tends to have a wider discount than its peers, perhaps due to its relatively expensive fixed gearing. The first tranche of debt is due to mature in early January 2018, which may lead to a narrowing of the discount as this date approaches.

29 September 2016

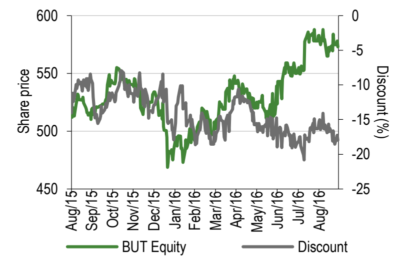
Price	**573.0p**
Market cap	**£246m**
AUM	**£360m**

NAV*	692.0p
Discount to NAV	17.2%
NAV**	698.5p
Discount to NAV	18.0%

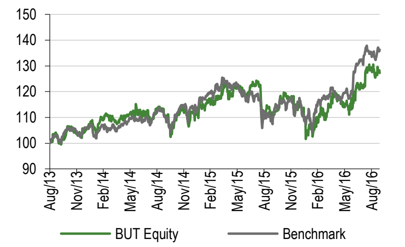
*Excluding income. **Including income.

Yield	2.7%
Ordinary shares in issue	43.0m
Code	BUT
Primary exchange	LSE
AIC sector	Global

Share price/discount performance



Three-year cumulative perf. graph



52-week high/low	588.0p	468.6p
NAV** high/low	711.6p	536.8p

**Including income.

Gearing

Gross*	14.2%
Net*	6.7%

*As at 31 August 2016.

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Edison profile page

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

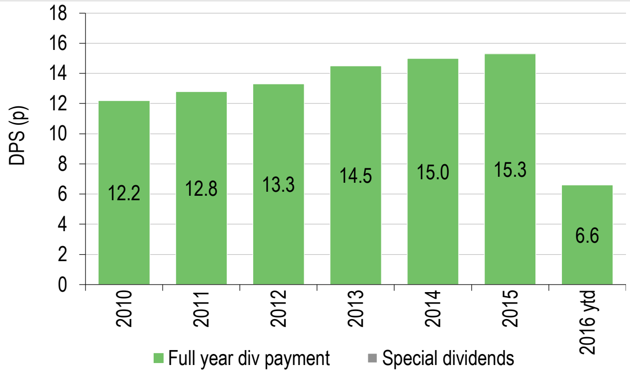
Exhibit 1: Trust at a glance

Investment objective and fund background	Recent developments
The Brunner Investment Trust aims to provide growth in capital value and dividends over the long term through investing in a portfolio of UK and international securities. Since 25 March 2008, the benchmark has been a composite of 50% FTSE All-Share and 50% FTSE All-World ex-UK Index (£).	■ 27 July 2016: Half-year report to 31 May 2016. NAV TR +2.6% versus +2.2% for blended benchmark. ■ 23 June 2016: Lucy Macdonald becomes sole manager following the departure of co-manager Jeremy Thomas.

Forthcoming		Capital structure		Fund details	
AGM	March 2017	Ongoing charges	0.75%	Group	Allianz Global Investors
Final results	February 2017	Net gearing	6.7%	Manager	Lucy Macdonald
Year end	30 November	Annual mgmt fee	0.45%	Address	199 Bishopsgate
Dividend paid	Jun, Sep, Dec and Mar	Performance fee	None		London, EC2M 3TY
Launch date	January 1927	Trust life	Indefinite	Phone	+44 (0)800 389 4696
Continuation vote	None	Loan facilities	See page 7	Website	www.brunner.co.uk

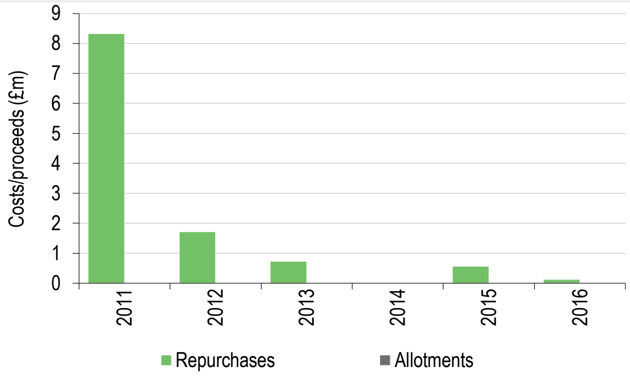
Dividend policy and history

From the 2014 financial year, dividends have been paid quarterly, in June, September, December and March. Dividends are expected to rise over the longer term and have increased for 44 consecutive years.

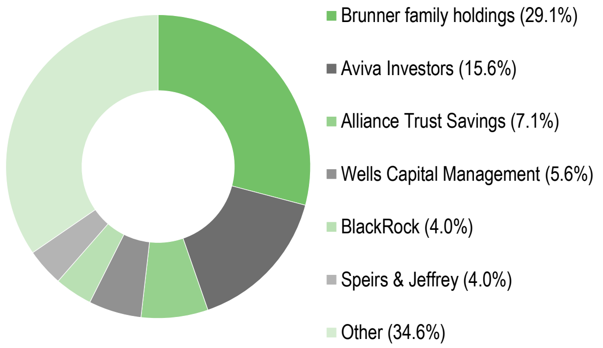


Share buyback policy and history

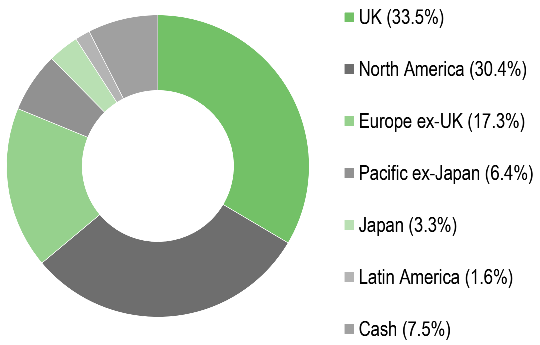
Renewed annually, the trust has authority to purchase up to 14.99%, and allot up to 10% of issued share capital. Financial years shown.



Shareholder base (as at 7 September 2016)



Distribution of portfolio (as at 31 August 2016)



Top 10 holdings (as at 31 August 2016)

			Portfolio weight %	
Company	**Country of listing**	**Sector**	**31 August 2016**	**31 August 2015***
Microsoft	US	Software & computer services	2.9	2.1
Royal Dutch Shell 'B'	UK	Oil & gas producers	2.6	2.3
Nielsen	US	Media/market research	2.4	N/A
UnitedHealth	US	Healthcare equipment & services	2.4	N/A
AbbVie	US	Pharmaceuticals & biotechnology	2.3	1.7
Vodafone	UK	Mobile telecommunications	2.1	2.3
BP	UK	Oil & gas producers	2.1	1.9
Accenture	UK	Support services	2.1	N/A
GlaxoSmithKline	UK	Pharmaceuticals & biotechnology	1.9	1.7
Roche	Switzerland	Pharmaceuticals & biotechnology	1.9	1.7
Top 10			**22.7**	**19.8**

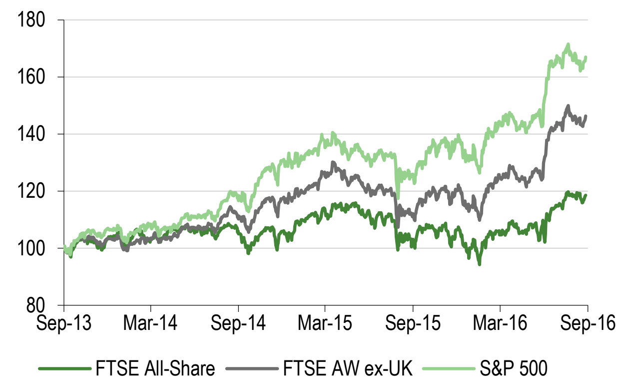
Source: The Brunner Investment Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in August 2015 top 10.

Market outlook: Potential for share price consolidation

Share prices have rallied strongly over the last three years, led by US stocks (Exhibit 2, left-hand side). Having sold off post the result of the UK's EU referendum, global share prices have subsequently recovered. Stock markets have been volatile in 2016, and this trend could continue ahead of the US election and debate surrounding the timing and magnitude of US interest rate hikes. This could lead to a period of stock price consolidation. Looking at valuations of global stocks as shown by the Datastream World index (Exhibit 2, right-hand side), on a forward P/E basis, equities are close to the top of their 10-year range and are 17% higher than the average over this period. Dividend yields are broadly in line with the average. There is room for the RoE to improve over time, as although it has recovered from the depths of the global financial crisis, it is still nearly 50% off the high level of the last 10 years and 24% below the 10-year average. For investors wishing to have exposure to global stock markets, a fund invested in a high-conviction portfolio of quality, dividend-paying companies may hold appeal.

Exhibit 2: Market valuation and performance

Performance of UK, world and US markets, last three years



Datastream World Index 10-year valuation metrics (at 29 September 2016)

	Last	High	Low	10-year average	Last as % of average
P/E 12 months forward (x)	15.2	16.0	8.8	13.0	117
Price to book (x)	2.0	2.5	1.1	1.8	107
Dividend yield (%)	2.6	4.6	2.0	2.6	97
Return on equity (%)	8.9	16.8	4.8	11.6	76

Source: Thomson Datastream, Edison Investment Research, FTSE

Fund profile: Concentrated global equity portfolio

BUT was launched in 1927 to manage the wealth of the Brunner family following the sale of Brunner Mond & Co, the largest of four companies that combined to become Imperial Chemical Industries. It is managed by Lucy Macdonald, chief investment officer for global equities at AllianzGI. Prior to 23 June 2016, Macdonald was co-manager of the trust alongside Jeremy Thomas. The portfolio comprises UK and international equities aiming to generate long-term growth in capital and income; in recent years, the fund has become more concentrated. Since 2008, the benchmark has been a 50:50 split between the FTSE All-Share and the FTSE World ex-UK indices. Following a reduction in BUT's UK equity exposure, there is a proposal scheduled for the March 2017 AGM to consider a change in the benchmark. Dividends are paid quarterly and the annual dividend has increased for the last 44 consecutive years. The interests of the manager and other shareholders are aligned; Lucy Macdonald has a significant amount of her pension invested in BUT.

The fund manager: Lucy Macdonald

The manager's view: Conviction investment required

The manager comments that in the current low-growth environment, dividends form an important part of total shareholder return and that successful active portfolio management can lead to superior performance. This is an important consideration, given that global stock markets have rallied since the Brexit vote sell-off, leading to valuations that look stretched in the short term. Low growth is expected to continue for a considerable time; it is difficult to envisage much further monetary easing and there is debate regarding the timing of higher interest rates in the US. Corporate profits are modest and are meeting reduced earnings expectations, which implies a lack of potential stock market momentum from positive surprises. The manager suggests that in this environment investors will benefit from focusing on concentrated, conviction portfolios like BUT.

A lot of exposure within the BUT portfolio is in technology businesses, which are generating higher-than-average growth. However, this is not just in the traditional areas – the manager opines that technological trends are prevalent across a broad range of sectors including selected parts of industrials, consumer and healthcare, but is stock specific. She believes that in the future most stocks will essentially become technology stocks and that as a result, index sector classifications are becoming less meaningful.

Asset allocation

Investment process: High-conviction stock selection

BUT is managed on a bottom-up, stock selection basis, while taking account of the prevailing macro environment. Quality stocks are selected for their balance of capital growth and income, based on in-depth fundamental research. Potential portfolio companies are quantitatively screened to determine style characteristics and upside potential. Running a concentrated portfolio, the manager is able to draw on the strengths of AllianzGI with its broad team of fund managers, analysts, Grassroots[SM] (a proprietary market research network) and ESG expertise. Before the change to a single manager, BUT consisted of two portfolios, one of UK and one of international equities; it is now managed as a single global portfolio, with a consistent investment style. Over time, exposure to the UK has been reduced in favour of overseas equities to diversify the income stream and provide access to higher growth in dividends. Despite volatility in global stock markets in 2016, portfolio turnover remains low.

Current portfolio positioning

BUT's portfolio is diversified by geography and sector; at the end of August 2016, the top 10 positions accounted for 22.7%, which is a modest increase in concentration from 19.8% 12 months earlier. The number of positions has been reduced over time and there is scope for the portfolio to become even more concentrated; there are currently 70 holdings.

Exhibit 3: BUT geographical exposure vs benchmark (% unless stated)

	Portfolio end-August 2016	Portfolio end-August 2015	Change	Benchmark* weight	Active weight vs index (pts)	Trust weight/ index weight (x)
UK	33.5	42.5	-8.9	50.0	-16.5	0.7
North America	30.4	27.1	3.2	29.7	0.7	1.0
Europe ex-UK	17.3	12.9	4.4	8.2	9.2	2.1
Pacific ex-Japan	6.4	5.2	1.2	6.3	0.0	1.0
Japan	3.3	3.0	0.3	4.5	-1.3	0.7
Latin America	1.6	1.3	0.3	0.7	0.9	2.2
Middle East & Africa	0.0	0.0	0.0	0.6	-0.6	0.0
Cash	7.5	8.0	-0.5	0.0	7.5	N/A
	100.0	**100.0**		**100.0**		

Source: The Brunner Investment Trust, Edison Investment Research, FTSE. Note: *Benchmark is 50% FTSE All-Share index weight and 50% FTSE All-World ex-UK index weight. Ranked by exposure, excluding cash.

As shown in Exhibit 3, the reduction in UK exposure has continued; funds have primarily been reinvested in Europe ex-UK, North America and Pacific ex-Japan. There has been a reduction in high-yield/low dividend growth stocks; positions in Barclays, GlaxoSmithKline and Royal Dutch

Shell have been sold or reduced and underperforming UK positons in Brammer and Tesco have been sold. A new position has been initiated in US-listed electronic component manufacturer Amphenol. The manager expects the company to generate double-digit revenue growth from increasing its market share and via acquisitions; it has acquired the Advanced Sensors business from GE, which broadens its addressable market. Earnings should grow faster than revenues as a result of margin expansion and share repurchases.

The largest holding in the portfolio is Microsoft. The manager has held the stock for a long time, but still has high conviction that its share price has further upside. It is one of the large previously non-paying technology companies that now offers both yield and growth in dividends. Microsoft has a good mix in its business between business and consumer. Azure, the cloud platform, is growing strongly and Microsoft continues to have a strong presence in gaming; the manager considers that this business is undervalued given recent revaluations of competitors Activision Blizzard and Electronic Arts.

Exhibit 4: BUT portfolio sector exposure vs benchmark (% unless stated)

	Portfolio end-August 2016	Portfolio end-August 2015	Change	Benchmark* weight	Active weight vs index (pts)	Trust weight/ index weight (x)
Financials	22.6	20.5	2.1	22.7	-0.1	1.0
Industrials	18.2	20.1	-1.9	11.8	6.4	1.5
Healthcare	10.8	10.7	0.1	10.4	0.4	1.0
Consumer services	9.8	10.1	-0.3	11.2	-1.4	0.9
Technology	8.0	6.1	1.9	7.3	0.7	1.1
Oil & gas	7.7	9.8	-2.1	8.6	-0.9	0.9
Consumer goods	6.8	7.3	-0.5	15.5	-8.7	0.4
Basic materials	3.8	3.5	0.3	5.0	-1.2	0.8
Telecommunications	3.4	3.3	0.1	4.0	-0.6	0.8
Utilities	1.4	0.7	0.7	3.6	-2.2	0.4
Cash	7.5	7.9	-0.4	0.0	7.5	N/A
	100.0	**100.0**		**100.0**		

Source: The Brunner Investment Trust, Edison Investment Research, FTSE. Note: *Benchmark is 50% FTSE All-Share index weight and 50% FTSE All-World ex-UK index weight. Ranked by exposure, excluding cash.

Exhibit 4 shows sector exposure as at the end of July 2016. Over the previous 12 months there have been modest changes, with the largest increases in financials and technology and the largest decreases in cyclical sectors oil & gas and industrials. Industrials is the largest overweight sector and offers exposure to a wide variety of end-markets. Holdings include Nielsen, whose media analytics allows customers to assess the value generated by their advertising spend. Automation is a growing subsector within industrials and is represented in the portfolio via holdings in Flowserve and SMC. The manager is modestly underweight the large financial sector as she considers the industry is challenged. In the banking sector there is little top-line growth; there will be continued restructuring and consolidation and the insurance sector will find growth difficult in a low interest rate environment. In financials, the manager favours asset managers, where volume growth is in line with GDP. Pension provisions are shifting more towards the individual and the money created from quantitative easing has to be managed somewhere. BUT has a holding in UBS, which has sold off most of its investment banking operations and has significant asset management exposure, including in Asia, which is the largest area of wealth creation.

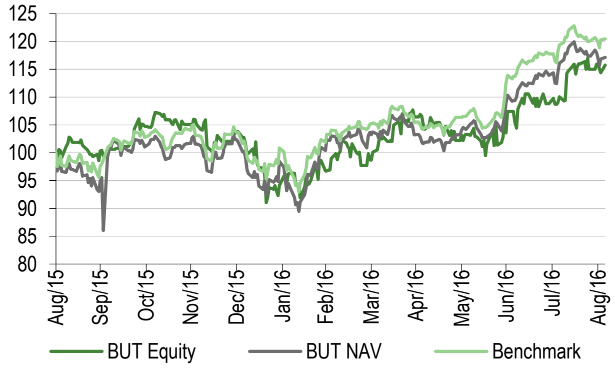
Performance: Benefits from overseas exposure

BUT's absolute returns in recent months have been very strong assisted by the boost to overseas equities as a result of the fall in the value of sterling following the Brexit vote. Over the last six months, BUT's NAV and share price total return have been 16.6% and 19.9% respectively. Its share price has outperformed the benchmark over this period. The largest positive contributors were positions in Germany-listed companies Adidas (apparel & footwear), where the position is being trimmed following a period of share price outperformance, and Covestro (chemicals), US-listed

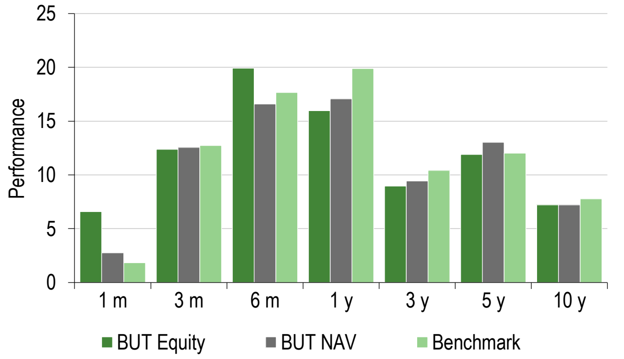
Microchip Technology (semiconductors) and from not holding BT (telecoms). The largest two detractors to performance were both UK companies: Mothercare (specialist retail) and Brammer (industrial distribution).

Exhibit 5: Investment trust performance to 31 August 2016

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



Price, NAV and benchmark total return performance (%)



Source: Thomson Datastream, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised. Blended benchmark is 50% FTSE All-Share and 50% FTSE All-World ex-UK from 26 March 2008; previously 60% All-Share/40% AW ex-UK.

Looking at relative returns in Exhibit 6, BUT's NAV total return has outperformed the benchmark over five years. As a reference to UK shareholders, the benefits of having international equity exposure are shown by BUT's share price and NAV total return outperformance versus the FTSE All-Share index over all periods shown.

Exhibit 6: Share price and NAV total return performance, relative to index (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to Benchmark	4.7	(0.3)	1.9	(3.3)	(3.8)	(0.6)	(5.3)
NAV relative to Benchmark	0.9	(0.2)	(0.9)	(2.3)	(2.6)	4.6	(5.2)
Price relative to FTSE All-Share	4.6	3.1	6.0	3.8	7.5	11.2	14.4
NAV relative to FTSE All-Share	0.9	3.3	3.1	4.8	8.9	17.0	14.4
Price relative to FTSE AW ex-UK	4.8	(3.2)	(1.5)	(9.2)	(13.0)	(9.7)	(18.5)
NAV relative to FTSE AW ex-UK	1.0	(3.1)	(4.3)	(8.3)	(11.9)	(4.9)	(18.4)

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-August 2016. Geometric calculation.

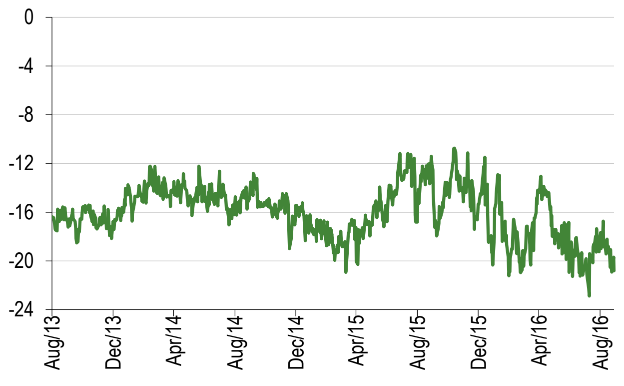
Exhibit 7: NAV performance relative to benchmark over five years

Source: Thomson Datastream, Edison Investment Research

Discount: Widening trend over last 12 months

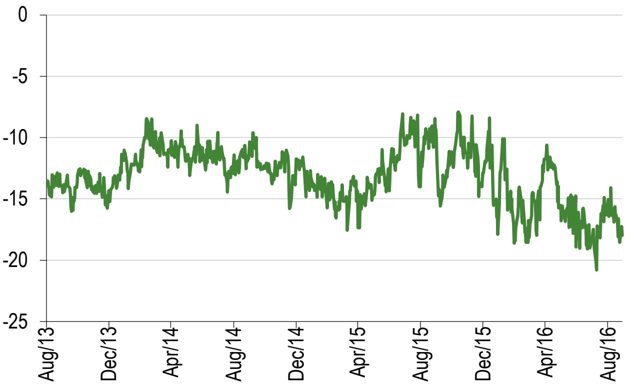
BUT's shares are currently trading at an 18.0% discount to net asset value (Exhibit 9, cum-income with debt at fair value). This is wider than the 14.2% average of the last 12 months (range of 7.9% to 20.8%); the widest discount was on 9 August 2016 in the post-Brexit period, during which time investment trusts have generally experienced wider discounts. The current discount is also wider than the averages over the last three, five and 10 years of 13.2%, 12.9% and 12.8% respectively.

Exhibit 8: Three-year discount to NAV (debt at par or book value)



Source: Thomson Datastream, Edison Investment Research

Exhibit 9: Three-year cum-income discount (debt at fair or market value)



Source: Thomson Datastream, Edison Investment Research

Given BUT's structural gearing, highlighted in the following section, it is sensible to consider the discount with debt at par value (Exhibit 8); this tends to be higher than with debt at fair value as the market value of the debt is higher than the par value.

BUT's discount should narrow as the debt reaches maturity. It may repurchase 14.99% of its shares annually and allot up to 10%; however, these powers have been used sparingly. The last significant activity was in FY11, when 2.0m shares were repurchased at a cost of £8.3m.

Capital structure and fees

A conventional investment trust, BUT has 43.0m ordinary shares in issue. It has structural gearing of c £50m in the form of a £18.2m stepped interest rate loan with an effective interest rate of 11.27%, repayable on 2 January 2018, a £28.0m fixed-rate loan with an effective interest rate of 9.25%, repayable on 20 May 2023 and £0.5m in 5% cumulative preference stock. Compared to the current environment of low interest rates, the cost of BUT's debt is relatively high. The board has considered all options for early repayment and concluded that this would be uneconomic.

AllianzGI receives an annual management fee of 0.45% of net assets minus short-term liabilities and excluding any funds managed by AllianzGI. Ongoing charges for FY15 were 0.75%, versus 0.79% in the prior year.

Dividend policy and record

BUT has a progressive dividend policy and annual dividends have been increased in each of the last 44 consecutive years. Since FY14, dividends have been paid quarterly, in June, September, December and March; the compound annual growth rate over the last five years is 4.6%. The FY15 annual dividend of 15.3p was a 2% increase over the previous year and required a modest contribution of 1.2p from revenue reserves. However, after payment of the final dividend in FY15, revenue reserves remained strong at 22.6p per share. BUT's current dividend yield is 2.7%.

Peer group comparison

In Exhibit 10 we have compared BUT to a selected group of trusts in the AIC Global sector that have between 25% and 50% exposure to the UK. BUT is ahead of the peer group average over one year, but behind over three, five and 10 years. In terms of risk-adjusted returns as measured by the Sharpe ratio, it is above the peer average over one year and below over three years. The discount is the widest in the peer group and the ongoing charge is modestly wider than average, which may be due to the maintenance cost of the debentures. BUT has a higher dividend yield than the peer group average, ranking second out of the selected group of nine closed-end funds.

Exhibit 10: Global peer group (UK weighting between 25% and 50%, as at 28 September 2016)

% unless stated	Market cap £m	NAV TR 1 Year	NAV TR 3 Year	NAV TR 5 Year	NAV TR 10 Year	Sharpe 1y (NAV)	Sharpe 3y (NAV)	Discount (ex-par)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Brunner	246.3	27.1	30.2	85.5	92.9	0.5	0.1	(20.7)	0.8	No	107	2.7
Bankers	814.0	26.3	37.9	97.1	119.7	0.5	0.3	(8.0)	0.5	No	102	2.4
F&C Global Smaller Companies	637.1	24.5	46.8	132.7	183.9	0.4	0.5	0.9	0.5	No	105	0.9
F&C Managed Portfolio Growth	53.9	12.6	23.8	73.8		(0.4)	(0.1)	(0.7)	1.1	Yes	100	0.0
JPMorgan Elect Managed Growth	220.4	15.6	30.1	90.6	112.6	(0.1)	0.1	(2.0)	0.5	No	100	1.3
Law Debenture	595.8	18.1	28.7	90.6	136.4	0.1	0.1	(13.5)	0.5	No	108	3.2
Lindsell Train	178.0	38.7	90.8	169.9	354.4	1.3	1.3	68.6	1.3	Yes	100	0.9
Scottish Investment Trust	686.3	29.7	33.5	81.4	102.6	0.7	0.2	(13.9)	0.7	No	105	2.3
Witan	1,530.9	27.4	39.9	105.6	130.3	0.5	0.3	(7.9)	0.8	Yes	111	2.2
Average	**551.4**	**24.5**	**40.2**	**103.0**	**154.1**	**0.4**	**0.3**	**0.3**	**0.7**		**104**	**1.8**
Trust rank in sector	**6**	**4**	**6**	**7**	**8**	**4**	**8**	**9**	**4**		**3**	**2**

Source: Morningstar, Edison Investment Research. Note: TR=total return. Sharpe ratio is a measure of risk-adjusted return. The ratios shown are calculated by Morningstar for the past 12- and 36-month periods by dividing a fund's annualised excess returns over the risk-free rate by its annualised standard deviation. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

There are five non-executive members on the board of BUT. Chairman, Carolan Dobson was appointed in December 2013 and assumed her current role in March 2016. Ian Barlow is chairman of the audit committee; he joined the board in November 2009. Vivian Bazalgette is senior independent director and chairman of the remuneration committee, and he joined the board in January 2004. The other two board members and dates of appointment are Peter Maynard (October 2010) and Jim Sharp (the newest member of the board, January 2014).

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