The Bankers Investment Trust

Global generalist with 47 years of dividend growth

Investment trusts

The Bankers Investment Trust (BNKR) invests in global equities with the objective of beating the FTSE All-Share capital return and increasing its dividend annually ahead of RPI inflation. Managed by Alex Crooke at Henderson Global Investors, it has a relatively high weighting (c 40%) in the UK, although this is expected to fall gently in the coming years. BNKR has one of the highest yields in the AIC Global sector (2.5% at 8 December), which may have helped propel it to a premium to NAV in late 2013/early 2014, and has raised its dividend for 47 successive years. It has fallen to a slight discount in the recent spell of market volatility, which may represent a more attractive entry point for long-term investors.

12 months ending	Share price (%)	NAV (%)	FTSE All-Share (%)	FTSE AW Dev Eur ex UK (%)	FTSE World Nth America index (%)	FTSE AW Asia Pacific ex Jap
30/11/11	3.5	1.1	2.6	(5.7)	5.5	(10.4)
30/11/12	20.0	11.8	12.1	13.5	13.3	16.6
30/11/13	35.5	25.6	19.8	27.7	25.9	5.5
30/11/14	1.5	7.7	4.7	5.8	21.4	9.4

Source: Thomson Datastream. Note: Total return basis.

Investment strategy: Growth at a reasonable price

Lead manager Alex Crooke sets BNKR's asset allocation in conjunction with the trust's board, and works with regional specialists drawn from Henderson's large team of fund managers to construct a global portfolio of stocks. While there is an overall focus on buying undervalued stocks with good share price and dividend growth prospects, the approach is flexible and takes into account the differing attributes of regional equity markets. The trust has a long-term approach, with low annual turnover averaging c 23% over the past five years. Over the long term the FTSE All-Share index, against which performance is measured, has been quite highly correlated (c 0.92 over 10 years) with the FTSE World index, making it a more relevant yardstick for a global fund than might at first appear.

Market outlook: Mixed messages

Global equity markets have largely bounced back from a sharp sell-off in mid-October, with investors seeming to have taken the end of the US quantitative easing programme in their stride, buoyed by new stimulus measures in the euro area and Japan. Valuations are neither particularly cheap nor expensive relative to history in most regions, although continued geopolitical tensions in Eastern Europe, the Middle East and more recently Hong Kong could spark further bouts of risk-aversion in the coming weeks and months.

Valuation: Discount widens on market volatility

At 8 December BNKR's shares were trading at a 3.8% discount to cum-income net asset value. This is wider than the 1.9% average for the past 12 months, a period in which it often traded at a premium to NAV, leading to the issuance of 850,000 shares. The global equity market sell-off in mid-October saw the discount spike briefly to 6.3%, a 12-month high, and wider than the three-year average discount of 4.6%. With the valuation likely to be supported in the medium term by BNKR's above-average yield, the current discount may present a more attractive entry point for investors, although near-term fluctuations are possible.

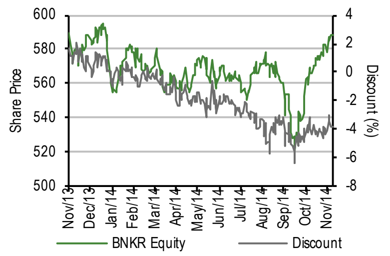
10 December 2014

Price	**588.0p**
	NZ$11.88
Market cap	**£659.2m**
AUM	**£708.4m**
NAV*	606.4p
Discount to NAV	3.0%
NAV**	611.5p
Discount to NAV	3.8%

*Excl income. **Incl income. Data at 8 December 2014.

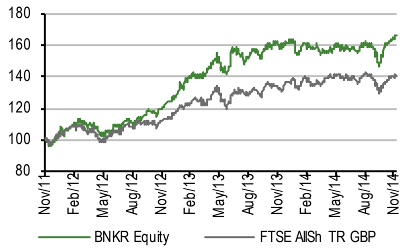
Yield	2.5%
Ordinary shares in issue	112.1m
Code	BNKR
Primary exchange	LSE
AIC sector	Global

Share price/discount performance*



*Including income. Negative values indicate a discount; positive values indicate a premium.

Three-year cumulative perf. graph



52-week high/low	595.0p	519.0p
NAV* high/low	606.4p	542.8p

*Excluding income.

Gearing

Gross	3.0%
Net	3.0%

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Edison profile page

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

Exhibit 1: The Bankers Investment Trust at a glance

Investment objective and fund background

The Bankers Investment Trust aims to maximise total returns to shareholders by means of a broadly diversified portfolio of international equities. It aims to exceed the long-term growth of the FTSE All-Share index and to grow its dividend ahead of the Retail Prices Index. BNKR has one of the longest records of uninterrupted annual dividend growth for an investment trust, at 47 years (based on year ended 31 October 2013). It is listed on the London Stock Exchange with a secondary listing in New Zealand.

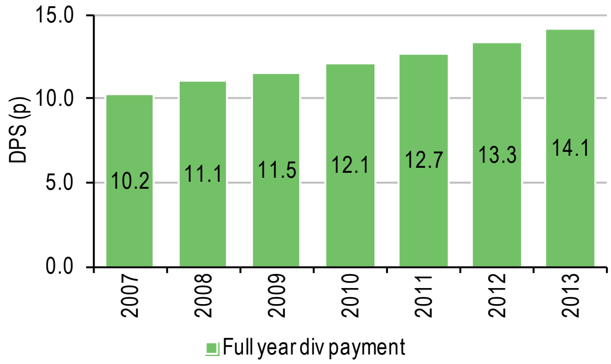
Recent developments

25 September 2014: Third interim dividend of 3.7p per share (Q3 2013: 3.6p) announced.
28 August 2014: Interim management statement for the three months ended 31 July 2014: NAV TR +2.0% vs +-0.2% for benchmark.

Forthcoming		Capital structure		Fund details	
AGM	February 2015	Ongoing charges	0.45%	Group	Henderson Global Investors
Annual results	January 2015	Net gearing	3.0%	Manager	Alex Crooke
Year end	31 October	Annual mgmt fee	0.45% (see p10)	Address	201 Bishopsgate, London EC2M 3AE
Dividend paid	May, Aug, Nov, Feb	Performance fee	No		
Launch date	13 April 1888	Trust life	Indefinite	Phone	020 7818 6825
Continuation vote	None	Loan facilities	£30m facility	Website	www.bankersinvestmenttrust.com

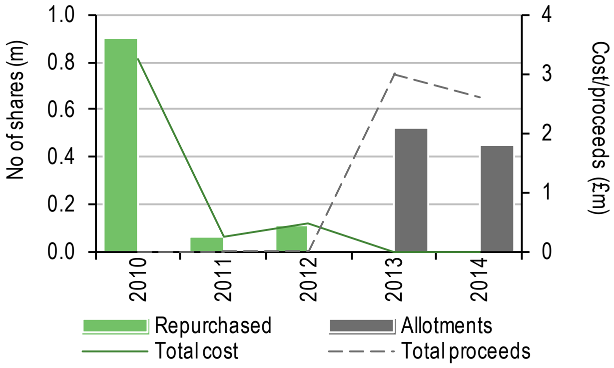
Dividend payments

Dividends paid quarterly in May, August, November and February. The trust has paid a dividend in all but two of its 126 years of existence and has grown its dividend for the last 47 years in a row.

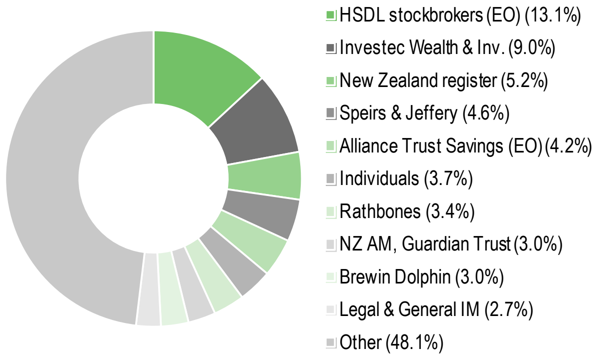


Share buyback policy and history

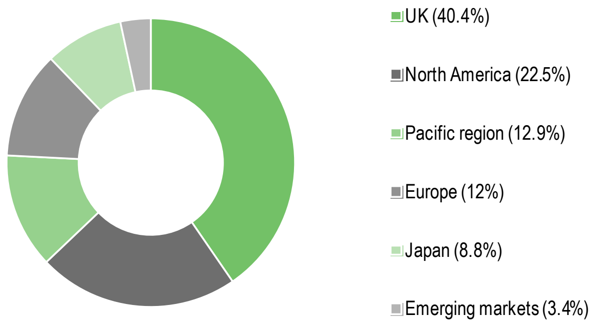
BNKR seeks authority annually to buy back its shares at a discount or issue at a premium to NAV in order to manage supply and demand.



Shareholder base (as at 31 October 2014)



Geographical breakdown of portfolio (as at 31 October 2014)



Top 10 holdings as at end October

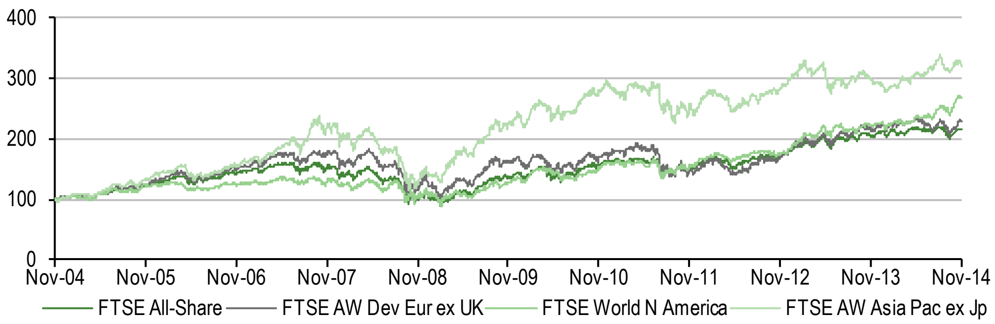
			Portfolio weight %	
Company	**Country**	**Sector**	**31 October 2014**	**30 April 2014***
BP	UK	Oil & gas producers	2.2	2.6
British American Tobacco	UK	Tobacco	1.4	1.4
Catlin Group	UK	Non-life insurance	1.4	1.5
Walt Disney	US	Media	1.4	n/a
Sports Direct International	UK	General retailers	1.3	1.7
Delphi Automotive	US	Automobiles & parts	1.2	n/a
HSBC	UK	Banks	1.2	1.4
Royal Dutch Shell	UK	Oil & gas producers	1.2	1.3
American Tower	US	Telecommunications	1.2	n/a
Galliford Try	UK	Home construction	1.2	1.4
Top 10 (% of portfolio)			**13.7**	**15.5**

Source: The Bankers Investment Trust, Edison Investment Research, Morningstar, Bloomberg. Note: *Top 10 – N/A where not in top 10 at end April 2014.

Global equity outlook

The UK market has struggled to advance in total return terms between 1 January and 1 December 2014, with the FTSE All-Share returning 1.8%. In contrast, the overall world market (FTSE All World index) has been positive, with a total return of 11.7% year-to-date, although underlying index total returns range from -29% (Russia) to +42% (India). The recent past has been volatile: having hit a 14-year high in September, for example, the FTSE 100 then declined by some 700 points to reach a 15-month low in mid-October, while the US reached fresh all-time highs in early November and is up 18.3% year-to-date (total returns, to 1 December).

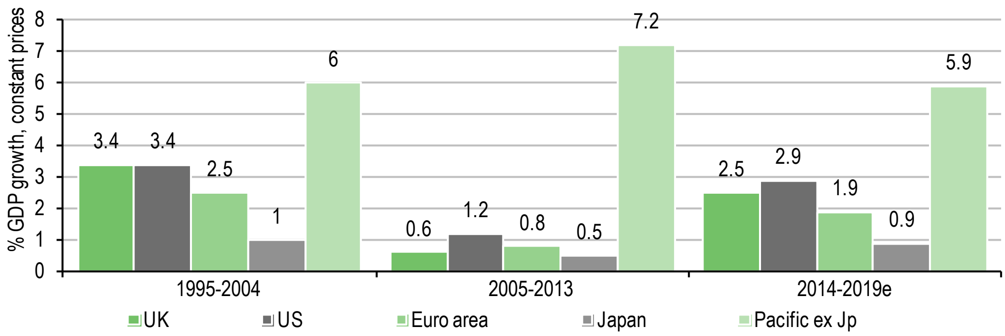
Exhibit 2: Regional equity market returns over 10 years



Source: Thomson Datastream. Note: Sterling-adjusted, total return indices, rebased to 100.

A number of factors have been driving recent market volatility. As well as geopolitical factors – tension between Russia and Ukraine, the activities of Islamic State in Syria and Iraq, and pro-democracy protests in Hong Kong – economic worries have centred on lacklustre growth in Europe and the pace of monetary tightening in the US. When the US Federal Reserve did, as expected, finish tapering its QE bond purchasing programme at the end of October, markets took it largely in their stride. The introduction of covered bond purchases by the European Central Bank and a surprise extra stimulus package from the Bank of Japan should ensure the global liquidity tap keeps running, providing an ongoing source of support for risk assets.

Exhibit 3: GDP growth by market/region, 1995-2019



Source: International Monetary Fund, World Economic Outlook October 2014

As seen in Exhibit 2, developed markets of the UK, US and Europe have marched in lockstep for much of the past three years, although the US has pulled ahead in recent months as its economic recovery becomes more embedded. Asian markets, which surged ahead of the developed world in the wake of the 2008 financial crisis, have been more volatile, although as illustrated in Exhibit 3, the region still has far superior GDP growth prospects, to the rest of the world, even allowing for a significant slowdown in China.

Exhibit 4: Global market valuations (12-month forward P/E) and dividend yields

Index	12m fwd P/E	10yr high	10yr low	10yr ave	Last as % of ave	Dividend yld %
World	14.6	15.1	8.7	12.9	113%	2.5
US	16.8	16.8	9.3	14.1	119%	1.9
Europe	13.4	14.0	7.7	11.6	115%	3.1
Asia	12.8	16.8	10.1	13.4	96%	2.2
UK	14.0	14.2	7.4	11.6	120%	3.3

Source: Thomson Datastream, Edison Investment Research. Data to 1 December 2014. Uses Datastream indices.

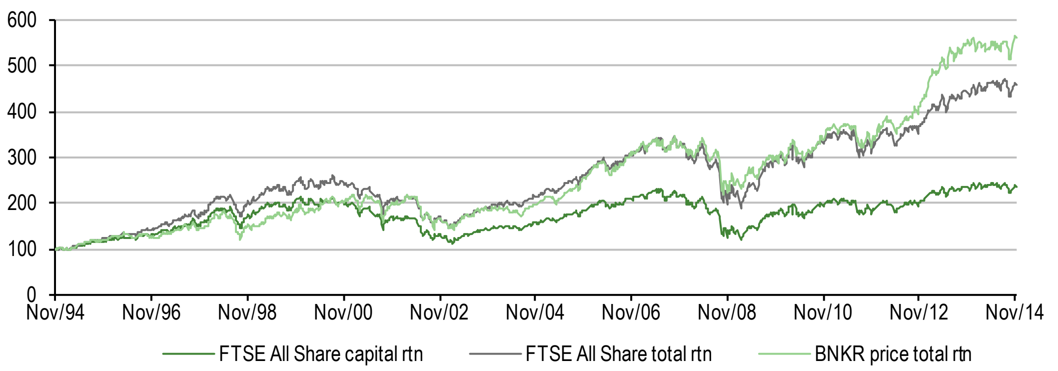
In spite of the recent sell-off, it is difficult to argue that equities in most regions are particularly cheap (Exhibit 4, based on Datastream indices). While 12-month forward P/E ratios are at or below their historical highs in all regions, only Asia currently has a forward P/E that is lower than the average over the past 10 years. However, dividend yields in most regions continue to look attractive in an environment where real interest rates remain negative in most developed markets.

With such a mixed picture across regions in terms of recent performance, economic prospects and valuations relative to history, a globally diversified approach to investing may provide a less bumpy ride in uncertain times than might be the case with a narrower focus.

The importance of growing dividends

BNKR's objective of growing its annual dividend ahead of RPI inflation underlines the importance to long-term equity returns of growing and compounding dividends. Exhibit 5 below shows the capital return and total return (with dividends reinvested) from the FTSE All-Share index over 20 years to the end of November 2014. (The total return for BNKR has also been included for context.) While the index doubled in value over the period, the total return was almost twice the capital return.

Exhibit 5: The importance of dividends: capital and total returns for FTSE All-Share



Source: Thomson Datastream, Bloomberg. Note: Sterling-adjusted, total return indices, rebased to 100.

Across an index or an investment portfolio, however, there will almost inevitably be times at which certain companies cut or suspend their dividends. This can be problematic for income investors, particularly in markets such as the UK where there is a high degree of dividend concentration. At its highest level of concentration in 2009, the top five UK dividend payers accounted for 47% of total UK dividends. This was partly a result of the suspension of dividends by many banks following the financial crisis of 2008. However, the problem was compounded the following year when 2009's top dividend payer, BP, suspended its dividend as a result of the Deepwater Horizon disaster.

Investment trusts have a structural advantage when it comes to maintaining dividends, which is why so many of them have impressive long-term records of dividend growth (Exhibit 6). While open-ended funds must pay out substantially all the income they receive, investment trusts can reserve up to 15% of revenues. This may mean that in any given year, an open-ended fund has a higher yield than a closed-ended fund, because the closed-ended fund has opted to reserve some of the income, but the income in reserve can be used to maintain or increase the investment trust's dividend in years when the portfolio revenue might have decreased – an avenue not available to the open-ended fund.

Exhibit 6: Investment companies with the longest record of dividend growth

Company	AIC sector	Year established	Years of dividend gth	Current yield
City of London IT	UK Equity Income	1891	48	3.9
Bankers IT	Global	1888	47	2.5
Alliance Trust	Global	1888	47	2.0
Caledonia Investments	Global	1960	47	2.1
Foreign & Colonial IT	Global	1868	44	2.2
F&C Global Smaller Companies	Global	1889	44	0.9
Brunner	Global	1927	43	2.8
JPMorgan Claverhouse IT	UK Equity Income	1963	41	3.3
Murray Income	UK Equity Income	1923	40	4.0
Witan IT	Global	1909	39	2.0

Source: Association of Investment Companies, Edison Investment Research. Yields at 2 December 2014.

BNKR has maintained or increased its dividend in each of the past 47 years. While there is no guarantee that it will continue to do so indefinitely, the trust does have a substantial revenue reserve (see Dividend section on page 10). The only trust with a longer record of continuous dividend growth is Henderson stablemate City of London, a UK specialist.

Fund profile: Income and growth from global portfolio

The Bankers Investment Trust was founded in 1888, taking its name from the occupation of several of the original board members. BNKR is listed on the London Stock Exchange and has a secondary listing in New Zealand. It is a member of the Association of Investment Companies' Global sector, although it has a relatively high weighting in the UK, at c 40% of the portfolio. BNKR is managed by Alex Crooke at Henderson Global Investors. Crooke has been at the helm since 2003; previous manager Michael Moule had run the trust since 1977.

BNKR measures its performance against the FTSE All-Share index, using the rationale that if UK-based holders are to take the extra risk of investing overseas, they should be rewarded with medium-term returns in excess of those available from the domestic index. However, this is not a 'benchmark' in the sense of an index against which portfolio construction is measured.It also has a long-established objective of growing its annual dividend in excess of RPI inflation.

The trust is largely unconstrained in terms of its portfolio: it may not hold more than 15% in a single investment at acquisition (in practice the largest holding at 31 October was 2.2% of the portfolio) and it may not hold more than 10% in an industry subsector (for example banks or mining companies). Gearing may be employed up to a maximum of 20%.

The fund manager: Alex Crooke

The manager's view: Positioned for a 'slow grind' upwards

Crooke is broadly positive on the outlook for equity markets globally, although he cautions that economic growth is unlikely to accelerate to levels seen in the 1980s and 1990s, as governments and consumers (although not companies) are still too indebted and need to deleverage. He says that efforts to make the financial sector 'bombproof' mean another crisis like that of 2007/8 is unlikely, although the corollary of reduced volatility is a lower potential growth rate for equities.

The manager notes that equity valuations are no longer as cheap as they were, but says they are far from bubble territory: "Bubbles are characterised by increased borrowing, very high levels of capex and absurd M&A deals, and I don't see that; companies are moderate in their outlook."

Crooke characterises the recent sell-off in global markets as an 'air pocket' of sentiment, and says he used the correction as an opportunity to top up holdings in selected stocks at better valuations.

A potential cloud on the macro horizon is the lack of economic progress in Europe, which Crooke says has disappointed his expectations. Sentiment has been impacted by the situation in Ukraine and by disappointing GDP and inflation data, although action by the European Central Bank to begin buying covered bonds could be the first step towards an improvement. "In the US it took three goes of QE to get things moving, so it would be naïve to think [the ECB action] will solve everything – we should expect another and another iteration," says Crooke. However, he does not anticipate significant declines in European GDP, and says that a slow grind towards a resumption of growth is a relatively favourable backdrop for owning equities.

Asset allocation

Investment process: Finding growth and value across regions

BNKR's investment approach can broadly be characterised as 'growth at a reasonable price', allied with a sustainable and growing income stream. Manager Alex Crooke works with the trust's board to agree the asset allocation policy in terms of how much of the portfolio is invested in each geographical area (UK, US, Europe, Asia Pacific, Japan and emerging markets). Crooke then allocates resources to regional specialists across Henderson Global Investors (see below) and decides how any gearing is to be deployed. The manager notes that over his tenure, roughly one-third of value added has come from asset allocation and two-thirds from stock selection.

Henderson does not have a 'house style', so the regional portfolios may have different characteristics according to the individual managers' investment approaches. Crooke has overall responsibility for the BNKR portfolio, however, and the sub-portfolios may be run differently from the managers' other mandates to meet BNKR's objectives.

Most of the regional portfolios (with the exception of the UK, which is larger, and emerging markets, which is very small) hold 20-30 stocks. Crooke monitors the sub-portfolios to guard against contradictory macro biases (for example one manager being ultra-bullish on the oil price while another is bearish). While some of the regional portfolios are more growth-orientated and others have more of a value approach, Crooke says managers across all the portfolios try to buy stocks below their intrinsic value. Free cash flow (after interest costs and capital expenditure) is an important metric in identifying promising stocks, as well as dividend-paying ability, although this is variable by region. The managers use appropriate valuation frameworks according to sector (for example, Crooke notes that price/earnings is not a useful metric for valuing banks).

Regional portfolio managers and metrics

- **UK: Alex Crooke.** As well as being responsible for the overall portfolio, Alex Crooke is in charge of the UK stock selection. Crooke has managed UK equities at Henderson since 1994 and has been lead manager of BNKR since 2003. The UK portfolio has a value tilt and a bias towards mid-caps. At 31 October 2013 year end 59% of the portfolio was invested in FTSE 100 stocks, 34% in FTSE 250 and 7% in smaller companies. The UK was 45% of the overall portfolio but accounted for 50.5% of revenues, yielding 3.4%. For FY13 the BNKR UK portfolio produced a total return of 30.6%, against a 22.8% total return from the FTSE All-Share.
- **Europe: Tim Stevenson.** Stevenson is Henderson's director of European equities and has been investing in Europe with the company since 1986. A growth-oriented investor, Stevenson's portfolio for BNKR has more of a value tilt than his other mandates: stocks have an average P/E of 15x, a higher dividend yield than the market, and are trading below their long-term P/E averages. FY13 saw a large increase in the large-cap European weighting, from

39% to 62% of the portfolio. The yield on the European portfolio was 3.6%, and it produced a total return of 32.6% in FY13, against 33.4% for the FTSE All-World Developed Europe index.

- **US: Ian Warmerdam.** During 2014 responsibility for the US portion of BNKR moved from Antony Gifford to Edinburgh-based Ian Warmerdam, who joined the firm in 2001. The style of the portfolio has changed from a mid-cap tilt to a more overtly growth-orientated approach, although still at a P/E discount to the market. The manager says it is difficult to outperform consistently in the US, so BNKR retains a flexible approach to its US portfolio and has shifted it between managers and investment styles in response to market conditions. At FY13 the US portfolio yielded 1.9% and had produced a total return of 24.6%, while the FTSE World North America index had returned 26.4%.
- **Pacific ex-Japan: Michael Kerley.** Kerley joined Henderson in 2004 and manages a range of Asia ex-Japan mandates including the closed-ended Henderson Far East Income Fund (HFEL). In common with the UK portion, the Asian portfolio has a value tilt, and its largest exposure is to smaller companies. A China A-share portfolio was also put in place at the end of 2013. The Asia-Pacific region is a surprisingly good source of dividends and at FY13 the portfolio had a yield of 4.2% and a total return of 18.6%, well ahead of the 11.9% from the FTSE All World Asia Pacific (ex-Japan) index.
- **Japan: Michael Wood-Martin.** Wood-Martin has been investing in Japan for Henderson since 1987. The Japan portfolio is positioned to reap the benefits of Abenomics and the domestic reflation story. Japan is a lower-yielding market and this is reflected in its contribution to portfolio revenues: at FY13 Japan made up 9.7% of the portfolio but contributed only 5.8% of revenues, yielding 1.8%. Total return from the Japan portfolio was 33.2%, against 34.6% for the FTSE World Japan index.

Current portfolio positioning

At 31 October 2014, BNKR held 210 stocks. This is well above the 93-stock average for the AIC Global sector, where the large majority of trusts have fewer than 100 holdings, although portfolios range from c 25 stocks to more than 600. Concentration is well below average, with the top 10 holdings making up 13.7% of the portfolio, compared with a sector average of 37.6%.

The UK is the largest portfolio regionally, accounting for 40.4% of assets at 31 October (Exhibit 7). The weighting to the US is well below its share of the global equity market (Crooke notes that the market is not particularly attractive on valuation grounds, having outperformed the world for the past two or three years), with most other regional exposures close to their representation in the world indices. The board has indicated that the UK weighting may gently reduce over time, although as both an important contributor to revenue and a fertile source of globally exposed companies at attractive valuations, it is unlikely to fall as far as the global index weightings of 7-8%. In time, says Crooke, both the US (where dividend growth is among the highest, although yields are low) and Asia (already a good source of yield, and with an increasing number of companies coming to market) could contribute more to revenues, allowing the UK weighting to come down perhaps towards the 20-30% level (the Global sector average is 34%).

Exhibit 7: Exposure by region (% unless stated)

	Portfolio end Oct 2014	Portfolio end April 2014	Change from April (% pts)	FTSE All World index* weight	Active weight v index* (% pts)	Trust weight/ index weight* (x)
UK	40.4	45.3	-4.9	7.3	33.1	5.6
North America	22.5	19.6	2.9	54.1	-31.6	0.4
Pacific region	12.9	11.8	1.1	11.5	1.4	1.1
Europe	12.0	12.6	-0.6	16.0	-4.0	0.8
Japan	8.8	8.6	0.2	7.8	1.0	1.1
Emerging markets	3.4	2.2	1.2	3.3	0.1	1.0
	100.0	**100.0**	**0.0**	**100.0**	**0.0**	

Source: The Bankers Investment Trust, Edison Investment Research. *Note: FTSE All World index is not the benchmark but has been included for comparison. Rounding errors mean some figures may not sum.

In recent months Crooke says BNKR has gone a little more into emerging markets (here broadly defined as Latin America and Middle East/Africa), as well as topping up China exposure with a new investment in A shares (c 3% of the portfolio), where valuations are very low.

The UK portfolio is tilted towards mid-caps, although there are some mega-caps (BP, Glaxo, Shell) in the top 10 holdings. In recent months larger companies have done better than smaller ones in the UK, although Crooke says he is still positive on the outlook for key holdings including Sports Direct (which has the potential to double or treble its earnings as it expands into Europe) and housebuilders such as Galliford Try. “Housebuilding is an area we still like,” he says. “What is different from previous cycles is that housebuilders have not radically increased leverage – they are returning cash, and they are more disciplined in terms of buying land.” He notes that the sector sold off on fears over rising interest rates, but that favourable government policy towards housebuilding should provide support in the medium term.

Exhibit 8: Sector allocations (% unless stated)

	Portfolio end Oct 2014	Portfolio end April 2014	Change from April (% pts)	FTSE All World index* weight	Active weight v index (% pts)	Trust weight/ index weight (x)
Industrials	17.1	16.5	0.6	12.3	4.9	1.4
Financials	26.2	23.5	2.7	22.4	3.8	1.2
Consumer Servs	14.0	15.0	-1.0	10.6	3.4	1.3
Telecoms	4.4	4.0	0.4	3.7	0.7	1.2
Consumer Goods	13.8	14.0	-0.2	13.2	0.6	1.0
Oil & Gas	7.3	9.5	-2.2	7.6	-0.3	1.0
Utilities	2.1	2.0	0.1	3.4	-1.3	0.6
Basic Materials	3.1	3.5	-0.4	5.2	-2.1	0.6
Technology	6.7	7.0	-0.3	11.0	-4.3	0.6
Healthcare	5.3	5.0	0.3	10.7	-5.4	0.5
	100.0	**100.0**	**0.0**	**100.0**	**0.0**	

Source: The Bankers Investment Trust, Edison Investment Research. Ranked by active weight. Note: *FTSE All World index is not the benchmark but has been included for comparison. Rounding errors mean some figures may not sum.

Crooke is largely unconcerned by index-level sector weightings, pointing out that they are a backward-looking measure of what has become bigger, rather than an indicator of what will do well in the future. While restricted from holding more than 10% in any industry subsector, there are no minimum weightings, and the trust currently has no exposure to biotechnology (which tends to have no yield) or food retailers (which are too expensively valued), and very little to retailers generally.

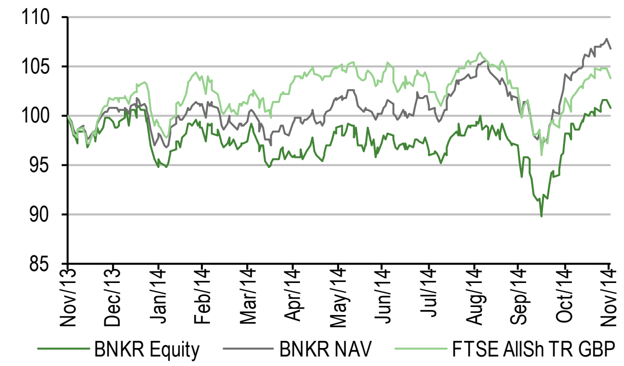
Other underweight areas include utilities, technology and healthcare. Crooke says the market puts too high a rating on the ‘safe’ earnings of utilities, and fails to consider the lack of earnings growth on offer or the susceptibility of regulated industries to political interference. At the other end of the spectrum, the perceived superior earnings growth potential of tech companies also leads to unjustifiably high valuations, although Crooke says he is beginning to increase his weighting in more mature and established tech stocks, as a transfer of ownership from the original entrepreneurs to institutional investors has led to a greater focus on dividends. The manager is less likely to change his mind about healthcare stocks, where he notes that patent cycles are getting shorter, the business is very technical and much of the potential value is in the terminal phase, and subject to binary outcomes. He acknowledges that his long-term scepticism towards healthcare has cost him some relative performance as the sector has rerated over the past two to three years, although having exited his position in Shire Pharmaceuticals – “you have got to sell when you see very, very high valuations” – he would consider revisiting the stock if it continues its decline following the withdrawal of an agreed takeover bid from AbbVie.

Turnover in the portfolio is low, at an average of 22.7% over the past five years, implying a longer-term approach with a holding period of approximately five years.

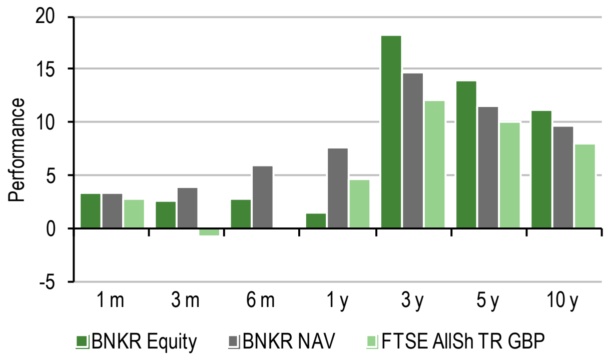
Performance: Solid longer-term record

Exhibit 9: Investment trust performance to 30 November

Price, NAV and benchmark one-year total return performance



Price, NAV and benchmark total returns (%)*



Source: Thomson Datastream, Edison Investment Research. Note: *Three, five and 10-year figures annualised.

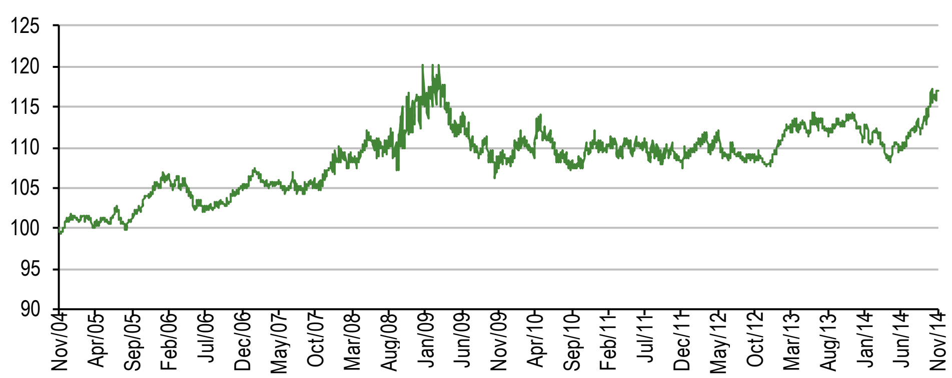
Exhibit 10: Share price and NAV total return performance, relative to indices

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to FTSE All Share	0.5	3.3	2.9	(3.0)	17.3	19.2	32.0
NAV relative to FTSE All Share	0.5	4.5	6.1	2.9	7.5	7.3	16.9
Price relative to FTSE AW Dev Europe ex UK	(2.2)	(0.9)	3.4	(4.0)	7.6	32.8	23.7
NAV relative to FTSE AW Dev Europe ex UK	(2.3)	0.3	6.6	1.8	(1.4)	19.5	9.5
Price relative to FTSE World North America	(1.2)	(5.7)	(10.8)	(16.3)	(4.6)	(9.7)	5.9
NAV relative to FTSE World North America	(1.2)	(4.5)	(8.1)	(11.2)	(12.6)	(18.7)	(6.2)
Price relative to FTSE AW Asia Pac (ex-Japan)	2.5	2.6	(4.2)	(7.2)	22.6	29.6	(12.9)
NAV relative to FTSE AW Asia Pac (ex-Japan)	2.5	3.8	(1.2)	(1.5)	12.3	16.7	(22.8)

Source: Thomson Datastream, Edison Investment Research. Note: Data to end November 2014. Geometric calculation.

BNKR's NAV total return has been ahead of the FTSE All-Share over all the periods shown in Exhibits 9 and 10 (three, five and 10-year figures in Exhibit 9 are annualised). Over longer periods its share price total returns have been ahead of both the index and the NAV performance, although a widening in the discount towards the end of the period has impacted on share price total returns over the past year. The FTSE All-Share is used as the reference index, reflecting the trust's mandate and given its broad relevance to UK investors. Looking at BNKR's performance relative to other regional indices (Exhibit 10), it has broadly outperformed European equities and underperformed the US, while it has outperformed the Asia Pacific region over three and five years but underperformed over six months, a year and 10 years. Exhibit 11 shows long-term NAV performance versus the FTSE All-Share and suggests BNKR has a tendency to outperform the index in more difficult market conditions (particularly 2008/9 and since summer 2014).

Exhibit 11: NAV performance relative to FTSE All Share index over 10 years

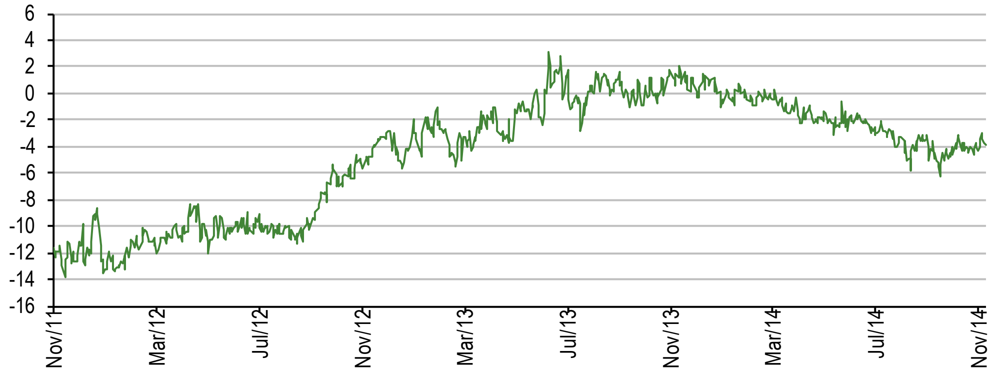


Source: Thomson Datastream, Edison Investment Research

Discount: Back at a small discount

At 8 December BNKR's shares traded at a 3.8% discount to cum-income net asset value. This was wider than the one-year average of 1.9%, but narrower than the three and five-year averages (4.6% and 7.8% respectively). As seen in Exhibit 12, the shares traded at a premium for most of the second half of 2013, reaching a 12-month high of 2.0% in December. This led the board of BNKR to issue further shares to meet demand (850,000 shares in the past 12 months). The trust drifted back to a slight discount over the summer, and reached its widest point in 12 months (6.3%) on 15 October during the recent sell-off. BNKR will buy back shares to manage the discount to NAV, but has not done so since February 2012 when the discount was in excess of 12%.

Exhibit 12: Discount/premium over three years (to cum-income NAV with debt at fair value)



Source: Thomson Datastream, Edison Investment Research.

Capital structure and fees

BNKR is a conventional investment trust with 112.1m ordinary shares in issue. It also has £25m of debenture stock (equivalent to 3.9% of net assets at the 30 April half-year end) in two tranches: a 10.5% debenture repayable in 2016 (£10m) and an 8% debenture repayable in 2023 (£15m). The debentures make up the majority of the gearing currently employed by BNKR; there is also a £30m loan facility with Commonwealth Bank of Australia, of which £7.25m was drawn at 30 April. If the whole loan were drawn the maximum level of gearing based on the 30 April net assets would be 8.7%. Manager Alex Crooke indicates that gearing is always likely to be below 10%, and at 31 October net gearing was 3.0%.

Ongoing charges on BNKR are among the lowest in the sector. Henderson Investment Funds Ltd receives an annual management fee of 0.45% of net chargeable assets. The ongoing charges figure of 0.45% for FY13 may rise for FY14 as a result of an increase in the base management fee following the removal of a performance fee structure, although other expenses in FY13 accounted for only 0.12% of net assets. Assuming no significant rise in other expenses, the ongoing charges figure for FY14 is unlikely to exceed 0.6%, which would still be below average for the peer group.

Dividend policy

BNKR has a clearly stated policy of growing its dividend in excess of Retail Price Index (RPI) inflation, and in 2013 announced its 47th annual dividend increase (see Exhibit 4). Dividends are paid quarterly, in May, August, November and February, and for the year ended 31 October 2013 the total dividend was 14.13p, a 6% increase on the previous year. Three dividends have so far been declared in respect of FY14, amounting to 11.0p, and at the 30 April half-year the board reiterated its guidance that it expects the full-year dividend to be at least 14.7p per share, an increase of 4% on 2013. BNKR has a substantial revenue reserve (equivalent to 28.9p per share at the half-year end), which should enable the trust to achieve its objective of growing the dividend even in periods of falling revenues. The board has stated that given the size of the reserve, it expects to pay out the large majority of revenue generated (after expenses) as dividends. Based on its 8 December share price of 588p, BNKR's current dividend yield is 2.5%.

Peer group comparison

The Association of Investment Companies' Global sector is a large and diverse group, comprising 38 funds with an aggregate market capitalisation of more than £21bn. Exhibit 13 below shows the 11 trusts with market capitalisations greater than £500m. BNKR is at the smaller end of this group. Geographical weightings vary widely, with UK exposure ranging from 8% (Scottish Mortgage) to 69% (Law Debenture). Of the trusts listed below, Caledonia and Witan have similar UK weightings to BNKR. The trust's NAV performance is largely mid-table over one, three and five years, as is its risk-adjusted performance as measured by the Sharpe ratio over one and three years. Ongoing charges, the discount to net asset value and the level of gearing are all somewhat below average. BNKR has the second-highest yield in the group of larger trusts, and the sixth-highest in the whole AIC sector of 38.

Exhibit 13: Global investment trusts with >£500m market cap

% unless stated	Market cap £m	TR one year	TR three years	TR five years	Ongoing charge	Perf. fee	Discount (-) / Premium	Net gearing	Yield	Sharpe NAV 1 year	Sharpe NAV 3 years
Bankers	**653.0**	**8.4**	**49.8**	**70.5**	**0.5**	**No**	**-3.7**	**103.0**	**2.5**	**0.4**	**1.2**
Alliance Trust	2652.1	10.1	45.2	58.8	0.8	No	-13.2	109.0	2.1	0.5	1.2
British Empire Securities	742.1	8.1	32.8	43.8	0.7	No	-10.8	100.0	2.0	0.3	0.8
Caledonia Investments	1279.6	16.0	52.0	57.0	1.0	No	-17.3	99.0	2.1	1.5	1.5
Foreign & Colonial IT	2363.2	13.0	50.9	73.1	0.5	No	-9.3	107.0	2.2	1.1	1.4
Law Debenture Corporation	618.4	7.4	62.8	109.1	0.5	No	8.9	105.0	2.9	0.5	1.5
Monks	872.5	3.7	28.4	45.2	0.6	No	-13.5	100.0	1.0	0.1	0.7
Personal Assets	602.8	8.6	9.5	39.9	0.9	No	-0.2	76.0	1.6	0.0	0.4
Scottish Investment Trust	664.6	7.1	42.5	57.7	0.7	No	-9.9	104.0	1.9	0.2	1.0
Scottish Mortgage	3123.4	24.8	87.2	124.6	0.5	No	3.3	113.0	1.1	1.4	1.3
Witan	1425.5	10.4	59.5	78.1	0.7	Yes	-0.9	111.0	2.0	0.7	1.3
Sector weighted average		**12.0**	**50.1**	**72.0**	**0.8**		**-5.8**	**106.7**	**1.8**	**0.8**	**1.2**
BNKR rank out of 38	**10**	**19**	**14**	**12**	**36**		**17**	**17**	**6**	**24**	**13**

Source: Morningstar, 2 December 2014, Edison Investment Research. Notes: TR = NAV total return. The Sharpe ratio is a measure of risk-adjusted return. The ratios we show 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 shown here as total assets less cash/cash equivalents as a percentage of shareholders' funds.

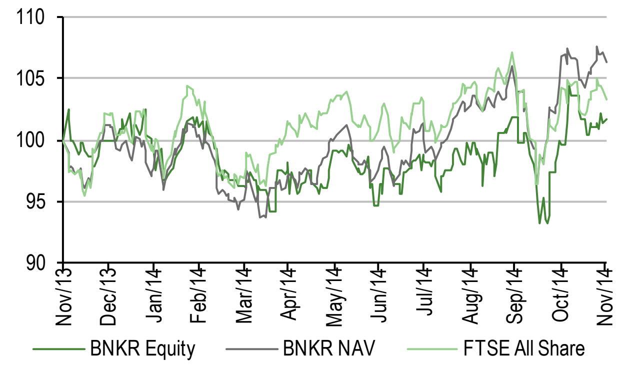
The board

BNKR has five directors. Chairman Richard Killingbeck joined the board in 2003 and became chairman in September 2013. Richard Burns, the senior independent director, was appointed to the board in 2006. Matthew Thorne became a director in 2008 and Susan Inglis was appointed in 2012. The newest director, David Wild, joined the board in February 2014. The directors have backgrounds in fund management, finance and retail.

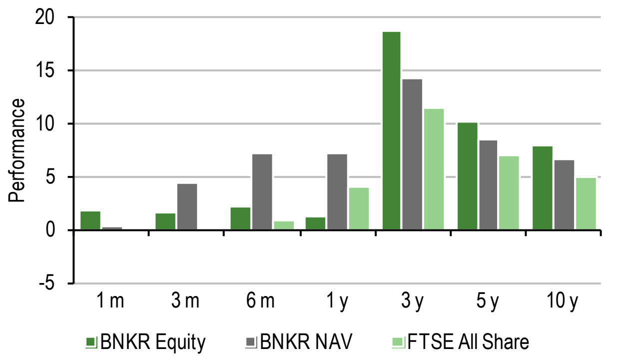
Performance tables in New Zealand dollar terms

Exhibit 14: Investment trust performance – in New Zealand dollar terms to 30 November

Price, NAV and FTSE All-Share total return performance, one-year rebased



Price, NAV and FTSE All-Share total return (%)*



Source: Thomson Datastream, Edison Investment Research. *Three, five and 10-year returns are annualised.

In NZ$ terms BNKR's NAV total return has been ahead of the FTSE All Share index in each of the last two discrete years to 31 October (Exhibit 15) and over one, three and six months and annualised over one, three, five and 10 years. Share price performance is ahead of the index and the NAV total return over three, five and 10 years (annualised) but has lagged over one, three and six months and one year (Exhibit 14, right-hand chart). As can be seen in the left-hand chart of Exhibit 14, the premium to NAV at which the trust traded in late 2013 had closed by the early part of 2014, and after trading close to NAV for some months, the shares moved to a discount during the summer. A dip in the NAV, share price and benchmark in mid-October 2014 had largely reversed by the end of the month and performance in November was positive.

Exhibit 15: Investment trust discrete years performance – in New Zealand dollar terms

12 months ending	Share price (%)	NAV (%)	FTSE All-Share (%)	FTSE AW Dev Eur ex UK (%)	FTSE World Nth America index (%)	FTSE AW Asia Pacific ex Jap
30/11/11	(3.3)	(2.3)	(0.9)	(8.9)	2.0	(13.5)
30/11/12	20.9	7.9	8.3	9.6	9.3	12.6
30/11/13	36.3	29.0	23.1	31.2	29.3	8.4
30/11/14	1.3	7.1	4.1	5.2	20.7	8.7

Source: Thomson Datastream. Note: Total return basis, in NZ$ terms.

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