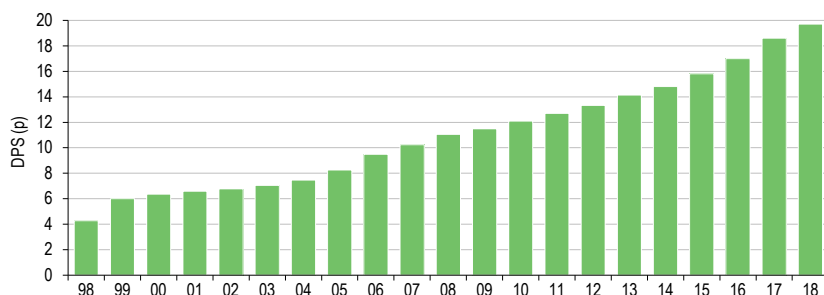


The Bankers Investment Trust

Global outperformer on track for 53rd divi increase

The Bankers Investment Trust (BNKR) has recently moved from a slightly geared to a small net cash position, as manager Alex Crooke seeks to lock in gains and await a more favourable re-entry point. The global fund is run as a collection of regional portfolios, with an overall tilt towards a value style of investment, although this varies from one sub-portfolio manager to another. Over 12 months to end-September almost all the regional portfolios have outperformed local indices, with the exception of the UK and the small and now largely liquidated non-Asian emerging markets allocation. BNKR invests for both capital and income growth, and is on track to grow its dividend by c 6% for FY19 (ended 31 October), a 53rd consecutive annual increase.

BNKR's dividends have grown for last 52 years; 8.0% CAGR over last 20



Source: The Bankers Investment Trust, Edison Investment Research

The market opportunity

Although many of the world's equity markets have enjoyed a decade-long bull run since the end of the global financial crisis, monetary policy remains supportive of further gains, given the low returns available on assets such as bonds and cash. However, with risks from both unstable geopolitics and historically high valuation multiples, investors may prefer a globally diversified portfolio of stocks chosen for their attractive valuations as well as growth and income potential.

Why consider investing in Bankers?

- Long-term record of good total return performance in varied market conditions.
- Experienced manager (Alex Crooke, since 2003) overseeing specialist managers of relatively concentrated regional sub-portfolios, with bias to value and income.
- On track for 53 years of consecutive annual dividend increases, with 8% compound annual growth over last 20 years (see chart above).
- Flexible approach to gearing; small net cash position reflects manager caution but also gives the scope to take advantage of any market dislocations.

Tight discount and above-inflation dividend growth

At 13 December 2019, BNKR's shares traded at a 0.9% premium to cum-income NAV. The discount has historically been quite tight, with averages over one, three, five and 10 years ranging from 1.8% to 5.5%; the current level is close to the 12-month high premium of 1.1%. BNKR's 2.1% dividend yield is above the average of its peers, and the board targets annual increases ahead of RPI inflation.

Investment trusts
Global equities

17 December 2019

Price **966.0p**

NZ\$19.44

Market cap **£1,184.4m**

AUM **£1,229.5m**

NAV* 949.3p

Premium to NAV 1.8%

NAV** 957.1p

Premium to NAV 0.9%

*Excluding income. **Including income. As at 13 December 2019.

Yield 2.1%

Ordinary shares in issue 122.6m

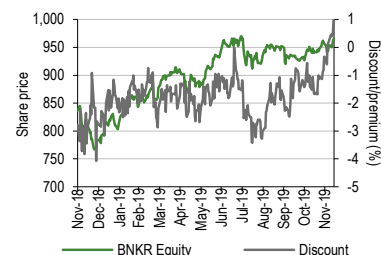
Code BNKR

Primary exchange LSE

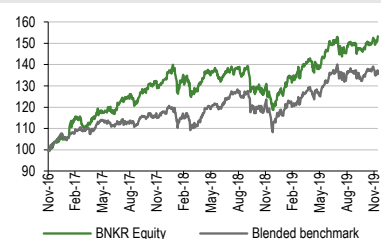
AIC sector Global

Benchmark FTSE World index

Share price/discount performance



Three-year performance vs index



52-week high/low 970.0p 766.0p

NAV* high/low 985.1p 784.0p

*Including income.

Gearing

Gross* 5.5%

Net cash* 2.0%

*As at 31 October 2019.

Analysts

Sarah Godfrey +44 (0)20 3681 2519

Mel Jenner +44 (0)20 3077 5720

investmenttrusts@edisongroup.com

[Edison profile page](#)

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

Exhibit 1: Trust at a glance

Investment objective and fund background

The Bankers Investment Trust (BNKR) aims, over the longer term, to achieve capital growth in excess of the FTSE World Index and annual dividend growth greater than UK RPI inflation, by investing in companies listed throughout the world. BNKR has one of the longest records of uninterrupted annual dividend growth for an investment trust (52 years based on the year ended 31 October 2018). It is listed on the London Stock Exchange with a secondary listing in New Zealand.

Recent developments

- 26 September 2019: Third interim dividend of 5.35p declared (Q318: 5.00p), payable on 29 November.
- 1 July 2019: Results for the half-year ended 30 April. NAV TR +8.7% and share price TR +9.8% versus +6.9% for the FTSE World Index. Second interim dividend of 5.10p declared (Q218: 4.86p).

Forthcoming

AGM	February 2020
Annual results	January 2020
Year end	31 October
Dividend paid	May, Aug, Nov, Feb
Launch date	13 April 1888
Continuation vote	None

Capital structure

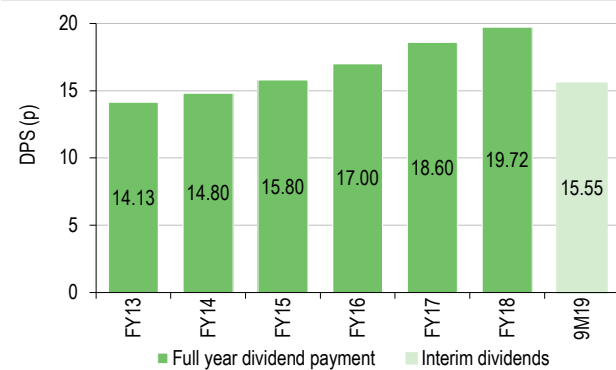
Ongoing charges	0.50%
Net cash	2.0%
Annual mgmt fee	Tiered (see page 9)
Performance fee	None
Trust life	Indefinite
Loan facilities	See page 9

Fund details

Group	Janus Henderson Investors
Manager	Alex Crooke
Address	201 Bishopsgate, London, EC2M 3AE
Phone	+44 (0) 20 7818 1818
Website	www.bankersinvestmenttrust.com

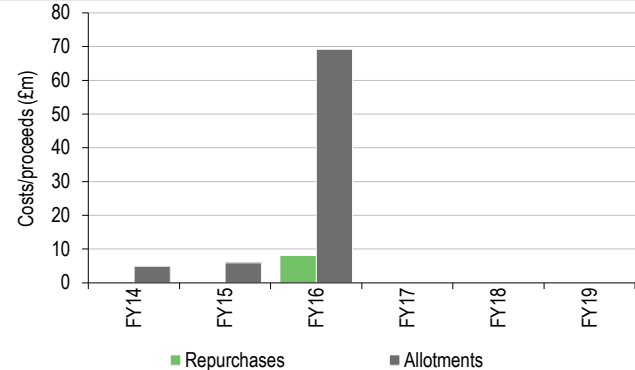
Dividend policy and history (financial years)

Dividends are paid quarterly in May, August, November and February. The trust has paid a dividend in all but two of its 131 years of existence, and is on track to produce a 53rd year of consecutive annual dividend growth in FY19.

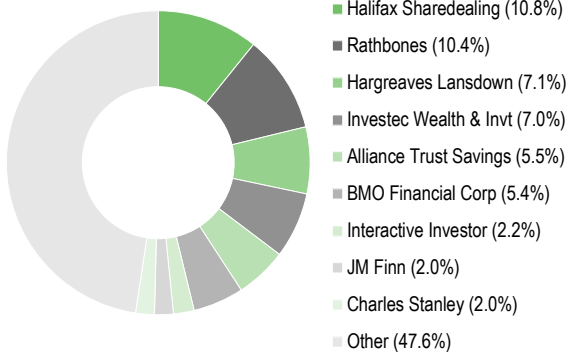


Share buyback policy and history (financial years)

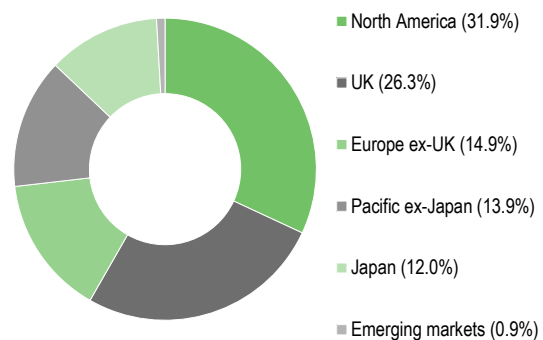
BNKR seeks authority annually to buy back shares at a discount or issue them at a premium to NAV, in order to manage supply and demand. FY16 allotments include shares issued as a result of the rollover of Henderson Global Trust.



Shareholder base (as at 22 August 2019)



Portfolio exposure by geography (as at 31 October 2019)



Top 10 holdings (as at 31 October 2019)

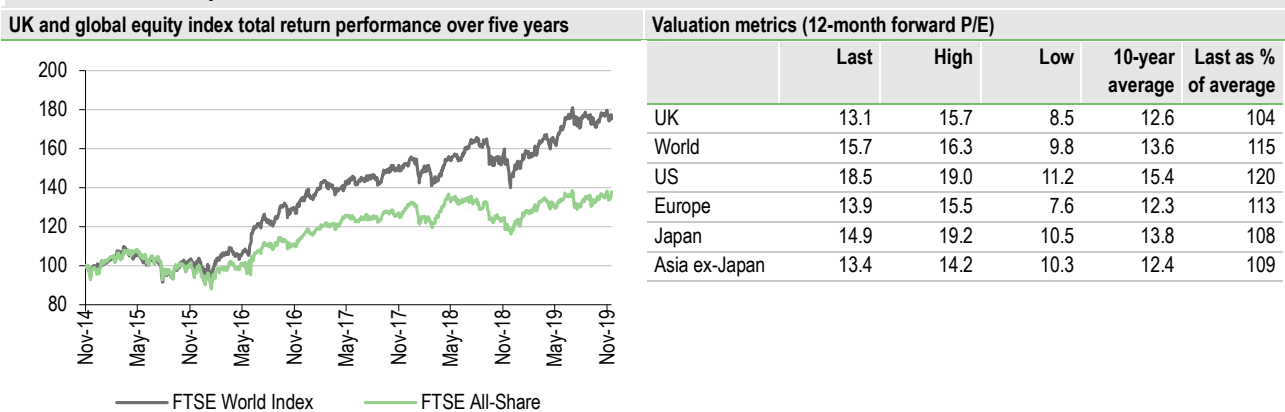
Company	Country	Sector	Portfolio weight %	
			31 October 2019	31 October 2018
Microsoft	US	Technology	2.3	2.0
Estée Lauder	US	Consumer goods	2.2	1.6
American Express	US	Financials	2.0	1.9
American Tower	US	Financials	1.8	1.3
VISA	US	Financials	1.7	1.4
Mastercard	US	Financials	1.7	1.3
Berkshire Hathaway	US	Financials	1.6	1.7
Alphabet*	US	Technology	1.6	1.5
Comcast	US	Consumer services	1.6	1.3
GlaxoSmithKline	UK	Healthcare	1.5	1.2
Top 10 (% of portfolio)			18.0	17.0

Source: The Bankers Investment Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *Parent of Google.

Market outlook: On the up and up, but for how long?

Despite significant risk factors from geopolitics and slowing economic growth, global stock markets – once more led by the US – have posted good gains so far in 2019, with the FTSE World Index up 21.6% in sterling terms from 1 January to 30 November. Even UK equities – for most of the year one of the least favoured asset classes among global investors – have produced total returns of 15.3% (measured by the FTSE All-Share), close to double the 10-year average of 8.2% pa. Admittedly these above-average returns are partly due to a flattering starting point, following the sharp sell-off in Q418. However, investor sentiment recovered through the year following a return to more supportive monetary policy measures in the US and Europe, with liquidity boosted by a return to bond purchasing at both the Federal Reserve and the European Central Bank (ECB). But while this may have mitigated risks to an extent, safeguarding the US from an overtightening-induced recession, we still have to contend with the ongoing US-China trade dispute, the mechanics of what now looks like a near-certain Brexit, and US elections in November 2020. Furthermore, after a decade-long bull market in most regions, valuations (Exhibit 2, right-hand side) look somewhat stretched relative to historical averages. While recent history has shown that what goes up can easily go up some more, investors with a focus on not overpaying for growth may be better rewarded in the long term.

Exhibit 2: Market performance and valuation



Source: Refinitiv, Edison Investment Research. Note: Valuation data based on Datastream indices, as at 13 December 2019.

Fund profile: ‘Dividend hero’ for global growth & income

Launched in 1888, The Bankers Investment Trust (BNKR) is one of the UK’s oldest investment companies. Alex Crooke, co-head of equities at Janus Henderson Investors (JHI), has been BNKR’s fund manager since 2003. The trust invests globally with the aim of achieving capital and income growth from a portfolio of equities. Crooke, in conjunction with the board of directors, sets the level of gearing and the geographical allocation. The portfolio is managed on a regional basis by specialists from across JHI’s global equity teams, each of whom runs a relatively concentrated selection of stocks chosen with a broad bias towards value and income. The regional portfolios are UK, North America, Europe, Japan, Pacific (excluding Japan and China) and China A-shares. BNKR measures its performance versus the FTSE World Index and is a member of the Association of Investment Companies’ Global sector. The trust may invest up to 20% of its assets in fixed income securities, but in practice does not tend to do so. Gearing is permitted up to 20% of net assets, with borrowings coming from a mixture of low-cost long-term loan notes (£50m), a debenture maturing in 2023 (£15m) and a flexible bank loan facility (£20m).

As well as seeking to achieve capital growth in excess of the FTSE World Index, BNKR also aims to grow its annual dividend (paid quarterly) ahead of the rate of UK RPI inflation. It has the joint-longest record of year-on-year dividend increases for an investment company, having increased its dividend every year since 1966.

The fund manager: Alex Crooke

The manager's view: Prudence advisable amid uncertainty

Crooke explains that while he is not bearish on the medium-term outlook for markets, he feels the prudent approach in the current environment has been to take profits in a number of BNKR's holdings and move from a geared to a net cash position. 'Year-to-date, markets have gone up quite a bit – the US is up more than 25% in sterling terms, and Europe is up 20%,' he says, adding that market earnings growth expectations have been downgraded, although they are not yet negative. 'I don't believe we are facing Armageddon and a US recession, but we are seeing estimate downgrades and companies are getting hit hard on the back of them,' says Crooke. 'I believe gearing should be used actively, not permanently. I think of it as being like sails – you take them down in poor weather,' he adds. 'I still see uncertainty – the Fed cuts rates when it sees weakness in the economy, and that is wrapped up with uncertainty on how the US-China trade talks will conclude.'

The manager says that while monetary easing around the world has buoyed equity markets, this is a secondary effect rather than an explicit intention. In the US, mortgages are normally fixed-rate and are priced based on long-term bond yields, so a flatter yield curve reduces housing costs. 'The Fed is trying to force the banks to lend money and not hoard it, but the appetite to borrow is lacking,' he explains. Meanwhile, the European Central Bank is doing what it can to avert an economic slowdown, but outgoing ECB chief Mario Draghi has warned that governments in the region also need to help out with fiscal policy measures. Lower rates and the return of quantitative easing have put further pressure on banks, although Crooke says he and the regional portfolio managers are still finding opportunities in the sector. 'It is tough for banks – deposits are not earning anything – but that is reflected in their share prices.' He adds that banks' low valuations are more to do with investor sentiment than fundamental issues of over-borrowing, such as in 2008. 'European banks are in a pretty dark place, but they have lots of capital,' the manager explains. 'The likes of Credit Agricole and ING are pretty safe beasts, but the market is very negative on the outlook.'

Crooke admits he may have been a little optimistic in his view (published in [our last note](#)) that the road ahead would be clearer by the second half of 2019. 'I thought we would have more clarity on the trade war and Brexit by now, but both are getting pushed out', he explains. China has actually been one of the best-performing areas of the BNKR portfolio, with the manager having slightly increased the allocation in late 2018 and early 2019 during the global market sell-off. 'What we own in China is not the market,' says Crooke. 'We are particularly focused on consumer angles as we think China can continue to see wage growth, and people want a more 'Western' lifestyle. What we own is things like brewers, distillers, airports, duty free shops and air-conditioning unit makers, rather than exporters. Trade tariffs aren't affecting us at the moment but they will if it feeds into job losses and very poor sentiment.'

Regarding Brexit and the political outlook in the UK, Crooke said of the market ahead of December's general election: 'At these levels of low expectations, the UK is ridiculously good value – it's off the scale on a P/E relative basis versus the MSCI World; back to 2008/9 or 2003 levels.' While a disorderly Brexit (which looks quite unlikely at present) might be another leg down of misery, the manager points out that any significant weakening of sterling would actually be positive for overseas investment returns. However, he stressed he was not positioning the portfolio for any specific Brexit or election outcome: 'Trusts like this are supposed to take a longer-term view and not whipsaw from quarter to quarter.'

In summary, the manager says that he is still optimistic on an 18-month view that there will be some clarity on trade discussions, there will be GDP upgrades in 2021, and that Federal Reserve rate cuts will have a beneficial effect: 'Looking beyond next year you can be a bit more optimistic.' Meanwhile, he adds, 'investors have had a great year, but markets could pull back a bit and give us a chance to get more active at cheaper valuations.'

Asset allocation

Investment process: Focused selection of regional portfolios

Lead manager Crooke is responsible for BNKR's overall strategy and geographical allocation, as well as deciding the level of gearing in conjunction with the board. The portfolio itself is split into six regional segments, each run by specialists at JHI. Although the overall stock list is relatively long at c 180 names, Crooke's ambition is that each regional portfolio should have c 30 holdings, making BNKR in effect a sort of fund of funds investing around the world on a fairly concentrated basis. The overarching investment approach is founded on bottom-up stock picking with a tilt towards value and income, although individual styles may differ somewhat from one regional manager to another. As befits a trust with over half a century of year-on-year dividend growth, there is a bias towards cash-generative companies with strong balance sheets and growing dividends. Portfolio turnover is relatively low, at 26.4% in FY18 and 15.0% in H119, implying an average holding period of around three to four years.

The key details for each sub-portfolio at end-September 2019 are shown below, along with 12-month total return (TR) performance relative to local indices (all in sterling). We have excluded the non-Asian emerging markets allocation, as it is below 1% of the total following the departure of the previous management team. While Janus Henderson has hired a new US-based emerging markets team from Putnam Investments, Crooke is removing the allocation for the time being, on the back of concerns over global growth, unstable geopolitics and volatility of returns. However, he says he reserves the right to re-introduce an allocation to emerging markets once he has got to know the new team.

- **UK (51 stocks and 24.2% of the portfolio, TR +2.4% versus +2.7% for the FTSE All-Share Index).** David Smith, who also runs the Henderson High Income trust, is the manager of this portfolio. The larger number of holdings is in part a reflection of a time when the UK made up a larger part of the total portfolio; the manager is continuing the process of concentrating the selection, with the stock list falling from 54 at end-FY18 (31 October). GlaxoSmithKline is currently the largest UK holding. Crooke is maintaining the UK allocation at c 25% of the total.
- **North America (27 stocks and 33.8% of the portfolio, TR +10.9% versus +10.3% for the FTSE World North America Index).** The North America portfolio has been managed by an Edinburgh-based team under Ian Warmerdam since 2014, and Gordon Mackay will be the named portfolio manager following Warmerdam's retirement at the end of 2019. The team has more of a tilt to growth at a reasonable price rather than value, and the US portfolio is overweight technology stocks, while BNKR as a whole is underweight. Nine of the 10 largest stocks in BNKR's portfolio at end-October were US-listed.
- **Europe (33 stocks and 14.4% of the portfolio, TR +9.3% versus +6.2% for the FTSE World Europe ex-UK Index).** Following the retirement of Tim Stevenson in February 2019, the Europe portfolio is now managed by Jamie Ross (also manager of Henderson EuroTrust), who previously worked closely with Stevenson and has a similar value-focused investment style.
- **Japan (30 stocks and 11.6% of the portfolio, TR +2.5% versus +0.3% for the FTSE World Japan Index).** This portfolio has been managed since 2017 by Tokyo-based Junichi Inoue, with a focus on large and mid-cap stocks such as pharmaceutical firm Daiichi Sankyo.
- **Pacific ex-Japan (18 stocks and 9.7% of the portfolio, TR +6.6% versus +4.1% for the FTSE World Asia Pacific ex-Japan Index).** Mike Kerley, who also manages [Henderson Far](#)

East Income (HFEL), is the long-standing manager of BNKR's Asian allocation, bringing to it a similarly value-orientated investment approach, but with less of a focus than HFEL on income.

- **China 'A' shares (19 stocks and 5.7% of the portfolio, TR +22.2% versus +15.7% for the CSI 300 Index).** This portfolio was introduced in 2013 as it became easier to access China-listed stocks, and is managed by Charlie Awdry, who focuses on high-quality, large-cap companies.

Current portfolio positioning

At 31 October 2019 there were 179 stocks in BNKR's portfolio, down from 188 a year previously. The top 10 holdings made up 18.0% of the total, a slight increase in concentration from 17.0% at 31 October 2018. As part of a move to reduce gearing (from 3% net geared to 2% net cash over the 12 months) against a backdrop of heightened geopolitical risk and high valuations, Crooke says it was prudent to lock in some profits, and he has been asking the underlying portfolio managers to sell or trim holdings where they see risks and talk to him before reinvesting. 'I don't want to add new holdings unless they are really great companies,' he explains.

Exhibit 3: Portfolio geographic exposure vs benchmark (% unless stated)

	Portfolio end-October 2019	Portfolio end-October 2018	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/index weight (x)
North America	31.9	30.6	1.3	61.0	(29.1)	0.5
UK	26.3	25.9	0.4	5.4	20.9	4.9
Europe ex-UK	14.9	16.0	(1.1)	15.1	(0.2)	1.0
Pacific ex-Japan	13.9	13.6	0.3	7.8	6.1	1.8
Japan	12.0	11.7	0.3	8.6	3.5	1.4
Emerging markets	0.9	2.2	(1.3)	2.1	(1.2)	0.4
	100.0	100.0		100.0		

Source: The Bankers Investment Trust, Edison Investment Research

In geographical terms (Exhibit 3), the balance of the portfolio is little changed over the past 12 months, with the largest changes being a 1.3pp increase in North America (as a result of strong performance from the US portfolio) and a 1.3pp decrease in non-Asian emerging markets, as the portfolio is being liquidated following the departure of the team that managed it. Relative to the FTSE World Index, BNKR remains very underweight North America and very overweight the UK, with smaller overweights in Asia and Japan, and a broadly neutral weighting in continental Europe. While non-Asian emerging markets is now an underweight versus the index, BNKR's incoming Chairman Sue Inglis noted in the H119 interim report that the trust still has significant exposure at the underlying company earnings level to the African and Latin American regions, through companies listed in Europe and New York.

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

	Portfolio end-October 2019	Portfolio end-October 2018	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/index weight (x)
Financials	25.5	24.0	1.5	20.7	4.8	1.2
Consumer goods	20.7	20.5	0.2	11.4	9.4	1.8
Industrials	13.3	15.0	(1.7)	13.4	(0.1)	1.0
Technology	11.2	11.0	0.2	16.7	(5.5)	0.7
Consumer services	9.8	9.7	0.1	11.2	(1.5)	0.9
Healthcare	8.4	7.3	1.1	11.5	(3.1)	0.7
Telecommunications	3.7	3.6	0.0	2.8	0.9	1.3
Basic materials	3.4	2.7	0.7	4.0	(0.6)	0.9
Oil & gas	2.8	5.0	(2.2)	5.0	(2.2)	0.6
Utilities	1.2	1.2	0.0	3.4	(2.2)	0.4
	100.0	100.0		100.0		

Source: The Bankers Investment Trust, Edison Investment Research

Sector weightings (Exhibit 4) are also broadly unchanged over the year, with the largest moves being reductions in oil & gas (-2.2pp and now a 2.2pp underweight versus the index), and industrials (-1.7pp, now a broadly neutral position). In oil & gas, Crooke says the demand backdrop is tough as the pendulum swings further away from fossil fuels. He currently prefers mining (basic

materials) to either oil or utility companies, as he sees the likes of Anglo American and BHP as good dividend payers with strong balance sheets. The manager says that their income is more secure than that of the oil companies, while they offer a better total return profile than utilities. The largest increases were in financials (+1.5pp, increasing the overweight position), and healthcare (+1.1pp, but still underweight versus the index). Crooke explains that the portfolio managers in aggregate have been net buyers of financials, which selectively look good value on a two-year view given the relatively low likelihood of a global recession. However, they remain underweight real estate and insurance, and overweight 'other financials' such as stock exchange operators London Stock Exchange and Deutsche Boerse, and credit card companies American Express, Mastercard and Visa. The increase in healthcare is largely a product of good performance from stocks such as Daiichi Sankyo, although Smith has added to the holding in UK pharmaceutical giant GlaxoSmithKline. Relative to the FTSE World Index, the largest active sector positions are a 9.4pp overweight in consumer goods (including Estée Lauder, which is currently the second largest position), and a 5.5pp underweight in technology.

Performance: Solid long-term record of outperformance

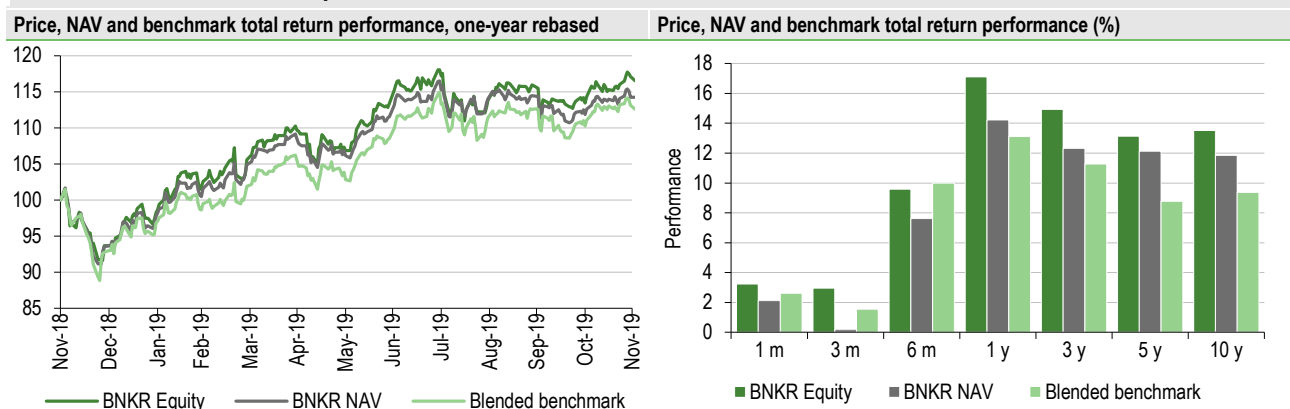
Exhibit 5: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	Blended benchmark (%)	FTSE World (%)	FTSE All-Share (%)
30/11/15	11.1	5.9	0.6	2.6	0.6
30/11/16	9.9	18.1	9.8	25.6	9.8
30/11/17	30.6	22.3	15.0	15.4	13.4
30/11/18	(0.8)	1.5	6.0	6.0	(1.5)
30/11/19	17.1	14.2	13.1	13.1	11.0

Source: Refinitiv. Note: All % on a total return basis in pounds sterling. Blended benchmark is FTSE All-Share until 31 October 2017 and FTSE World Index thereafter.

BNKR has a strong long-term performance record, with NAV total returns of c 12–14% pa over one, three, five and 10 years (Exhibit 6, RHS), beating the blended benchmark over all these periods. Recent months have been more challenging, with returns somewhat lagging the benchmark over one, three and six months to 30 November 2019. Over longer periods it is worth noting that historical blended benchmark returns are based on the FTSE All-Share Index prior to 31 October 2017. Versus the current benchmark, the FTSE World Index, BNKR's NAV total return has mildly underperformed over five and 10 years, and is marginally ahead of the index over one and three years (Exhibit 7).

Exhibit 6: Investment trust performance to 30 November 2019



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

In sector terms, BNKR's strongest performance relative to the FTSE World index over 12 months to 30 September 2019 came from financials (an overweight), healthcare and oil & gas (both

underweight), while underweight positions in consumer services, technology and utilities detracted from returns. Geographically, the strongest performance relative to local indices came from China, Europe ex-UK and Pacific ex-Japan, with only the UK (a marginal laggard at -0.3pp versus the FTSE All-Share) and the non-Asian emerging markets allocation (which has since largely been liquidated) underperforming. The North American outperformance (+0.6pp) came partly from avoiding dull sectors such as retail, oil & gas and some areas of financials, while overweight positions in technology and credit card providers were beneficial. Stock selection has contributed positively overall, with the top five contributors (Estée Lauder, American Tower, Anta Sports, Sany Heavy Industry and Comcast) adding 2.0pp of relative performance, while the five biggest detractors (FedEx, Activision Blizzard, Procter & Gamble, Sinopec and Galliford Try) cost 1.4pp.

Recent sterling strength, as the market began to price in a Conservative victory in December's general election and thus a potential end to Brexit uncertainty, detracted from absolute performance over periods to 30 November, as a weaker pound boosts returns from non-sterling investments.

Exhibit 7: Share price and NAV total return performance, relative to indices (%)

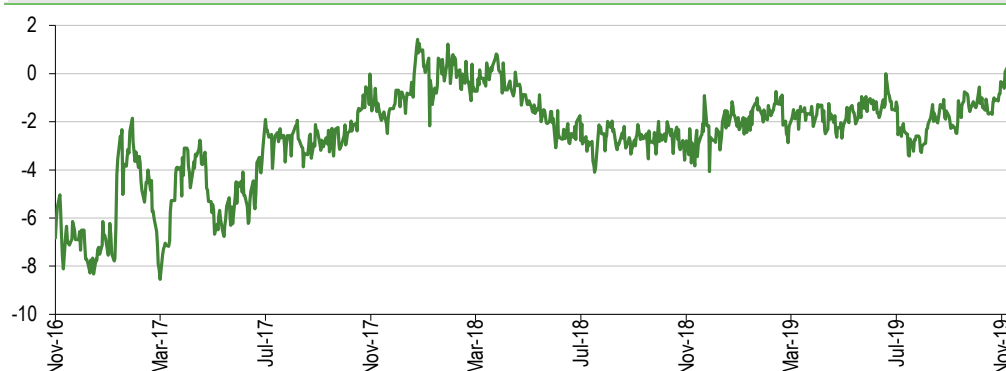
	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to blended benchmark	0.6	1.4	(0.4)	3.5	10.1	21.7	45.1
NAV relative to blended benchmark	(0.5)	(1.3)	(2.2)	1.0	2.8	16.5	25.1
Price relative to FTSE World Index	0.6	1.4	(0.4)	3.5	9.7	4.0	13.8
NAV relative to FTSE World Index	(0.5)	(1.3)	(2.2)	1.0	2.5	(0.5)	(1.9)
Price relative to FTSE All-Share	1.0	(0.8)	3.5	5.5	22.4	35.2	61.3
NAV relative to FTSE All-Share	(0.1)	(3.5)	1.7	2.9	14.3	29.4	39.0

Source: Refinitiv, Edison Investment Research. Note: Data to end-November 2019. Geometric calculation.

Discount: Stable in a narrow c 0–4% range

Following a widening in the discount to double-digit levels in the wake of the UK's June 2016 referendum on EU membership, BNKR's shares have related to levels more in line with longer-term average discounts, which stand at 1.8%, 2.6%, 3.1% and 5.5%, respectively, over one, three, five and 10 years. For the past two years the rating has remained in a narrow range of a c 2% premium to a c 4% discount, and as a result, no shares have been bought back or issued since FY16. At 13 December 2019, the shares stood at a 0.9% premium to cum-income NAV, at the narrower end of the 12-month range of a 1.1% premium to a 4.1% discount.

Exhibit 8: Share price premium/discount to NAV (including income) over three years (%)



Source: Refinitiv, Edison Investment Research

Capital structure and fees

Structured as a conventional investment trust, BNKR has one class of share, with 122.6m ordinary shares in issue. The shares are listed in both London and New Zealand. Although the board has the

authority to buy back or allot shares in order to manage a discount or a premium, the number of shares outstanding has remained unchanged since FY16, when the trust was one of the two rollover vehicles for Henderson Global Trust (HGL).

BNKR has structural gearing (£50m of 20-year loan notes and a £15m debenture maturing in 2023), with a blended interest rate of c 4.7%. It also has a £20m short-term bank borrowing facility. Together these equate to available gearing of c 7.1% of net assets. However, the bank facility was undrawn at end-H119 (30 April), and Crooke had offset the long-term debt with cash, leaving BNKR's net gearing at 0.0%. At 31 October 2019, BNKR had a 2.0% net cash position, reflecting a degree of caution as well as the proceeds of liquidating the majority of the non-Asian emerging markets portfolio.

JHI receives an annual management fee on a sliding scale, with 0.45% paid on the first £750m of net assets and 0.40% thereafter, charged 30% to revenue and 70% to capital. There is no performance fee, and ongoing charges (based on FY18) are 0.50%.

Dividend policy and record

BNKR has the joint-longest record of annual dividend increases for an investment trust, having grown its dividend for 52 consecutive years. It is on track for a 53rd straight increase, with the board having reiterated at the half-year stage that it anticipates a c 6% increase in the total dividend for FY19 (ended 31 October). The trust reports a 50-year compound annual dividend growth rate of 10%; over the last 20 years (see front page chart) the CAGR is 8%. By way of comparison, UK CPI inflation is currently 1.5% and has averaged 2.2% pa over the last 10 years.

The trust pays dividends quarterly, in May, August, November and February. For FY18, the total dividend was 19.72p. So far in FY19, three dividends have been paid, totalling 15.55p, an increase of 5.6% on 9M18 (14.72p). Based on the forecast increase of c 6% for FY19, it would be reasonable to assume a total payout for the year of at least 20.9p. This would imply a final dividend of at least 5.35p, the same as the third interim payment. BNKR has a very healthy revenue reserve of more than 1x the latest annual payout, and currently yields 2.1%, based on the last four dividends.

Peer group comparison

Exhibit 9: AIC Global sector as at 13 December 2019*

% 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
The Bankers Investment Trust	1,184.4	16.2	39.8	82.8	200.2	0.50	No	0.9	100	2.1
Alliance Trust	2,691.8	15.4	41.8	82.1	179.9	0.65	No	(4.5)	105	1.7
AVI Global Trust	837.6	8.7	25.8	61.4	125.3	0.85	No	(7.2)	102	2.2
The Brunner Investment Trust	376.1	18.1	34.8	72.1	168.1	0.67	No	(5.3)	108	2.3
EP Global Opportunities	120.6	(1.0)	11.8	43.8	112.3	0.94	No	(6.7)	100	1.9
F&C Investment Trust	3,991.9	12.9	35.9	81.2	200.5	0.57	No	0.4	109	1.6
JPMorgan Elect Managed Growth	262.6	14.6	35.7	66.2	192.0	0.58	No	(3.3)	100	1.8
Lindsell Train Investment Trust	270.5	26.7	109.0	233.6	593.2	0.88	Yes	29.4	101	2.2
Majedie Investments	129.4	(5.7)	(4.2)	27.8	70.7	1.03	No	(14.5)	111	4.7
Manchester & London	162.2	14.7	68.1	129.8	103.3	0.84	No	(3.5)	100	2.7
Martin Currie Global Portfolio	244.9	24.0	44.7	92.5	214.4	0.60	Yes	(0.4)	100	1.4
Mid Wynd International	261.5	19.0	44.1	101.8	231.0	0.51	No	3.3	100	1.0
Monks	2,054.6	18.5	52.4	108.0	191.1	0.50	No	5.6	105	0.2
Scottish Investment Trust	614.4	5.8	14.8	54.0	133.8	0.45	No	(5.9)	101	3.0
Scottish Mortgage	7,628.5	12.0	80.6	135.7	404.3	0.37	No	(2.2)	108	0.6
Witan	1,931.7	13.5	32.2	72.9	192.6	0.79	Yes	(1.4)	112	2.2
Sector average (16 funds)	1,422.7	13.3	41.7	90.3	207.0	0.7		(0.9)	104	2.0
BNKR rank in sector	6	6	8	7	6	14=		4	11=	8

Source: Morningstar, Edison Investment Research. Note: *Performance to 12 December 2019. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

The AIC Global sector, of which BNKR is a member, has 16 constituents following a broad range of investment approaches. BNKR is the sixth-largest fund in the group by market cap. One of the biggest disparities between the funds is their exposure to UK and US equities, which respectively make up 5.4% and 58.7% of the FTSE World Index. UK exposures range from -3.8% (a net short position) at Manchester & London and 2.0% at Scottish Mortgage, to 80.4% at Lindsell Train Investment Trust (52.2pp of which is accounted for by the holding in the unlisted UK-based investment manager Lindsell Train) and 77.6% at Majedie Investments. BNKR is close to the median with c 22%. US exposures range from 0.9% at Majedie to 90.7% at Manchester & London; BNKR is again mid-table with c 31% exposure, a little over half the benchmark weighting. (All figures are to 30 November.) The level of US equity exposure has been a major factor in global funds' relative performance in recent years, as the world's largest stock market has enjoyed a decade-long bull market resulting in multiple all-time highs.

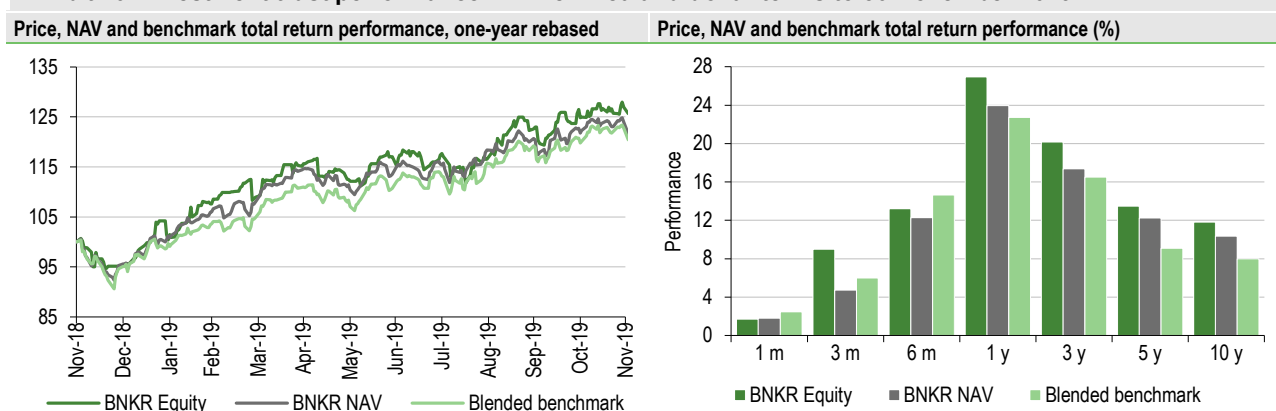
In NAV total return terms, BNKR has outperformed the sector average over one year and lags the average over three, five and 10 years, ranking sixth, eighth, seventh and sixth, respectively. If the somewhat anomalous Lindsell Train (where performance has been driven largely by upward revaluations of the fund management firm) is excluded, BNKR's NAV total returns are above average over all periods shown. Ongoing charges at 0.5% are the joint third-lowest in a sector where the average charge is a very competitive 0.7%, and there is no performance fee. At 13 December 2019, BNKR's was one of five funds trading at a premium to NAV, it is currently ungeared (in line with five of the peers), and its 2.1% dividend yield is eighth in the group, a little ahead of the 2.0% average.

The board

BNKR currently has four independent, non-executive directors, with the appointment of a fifth expected to be announced before the end of the year. The chairman, Sue Inglis, assumed her current role in January 2019 following the retirement of Richard Killingbeck. She has been a director of BNKR since 2012 and had served as senior independent director since 2015. Julian Chillingworth, who joined the board in 2015, is now senior independent director. Isobel Sharp (appointed 2017) chairs the audit committee, while Richard Huntingford is the newest director, having joined the board in September 2018. The board members' professional backgrounds span corporate finance, fund management, accountancy and media/marketing.

Performance tables in New Zealand dollar terms

Exhibit 10: Investment trust performance – in New Zealand dollar terms to 30 November 2019



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

BNKR retains its long-standing secondary listing in New Zealand, which makes up c 10% of the overall shareholder register. In Exhibits 10 and 11 we present BNKR's performance and that of its benchmark in NZ dollar (NZ\$) terms. Although a strengthening in sterling in September and October limited gains at the underlying portfolio level (see Exhibit 6), it boosted returns for NZ\$ investors over three and six months, while sterling-based investors saw higher returns in the month of November. NAV total returns have also been higher for NZ\$ investors over one and three years (while sterling has been weak in a global context since the UK's EU referendum in 2016, the NZ dollar has been weaker), but are broadly similar over five and 10 years to end-November.

Exhibit 11: Investment trust discrete years' performance in New Zealand dollar terms

12 months ending	Share price (%)	NAV (%)	Blended benchmark (%)	FTSE World (%)	FTSE All-Share (%)
30/11/15	29.2	21.0	15.2	17.4	15.2
30/11/16	(16.1)	(8.9)	(15.3)	(3.1)	(15.3)
30/11/17	46.1	36.6	29.2	29.1	26.8
30/11/18	(6.4)	(4.5)	(0.2)	(0.2)	(7.2)
30/11/19	27.0	24.0	22.7	22.7	20.4

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

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1,185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia