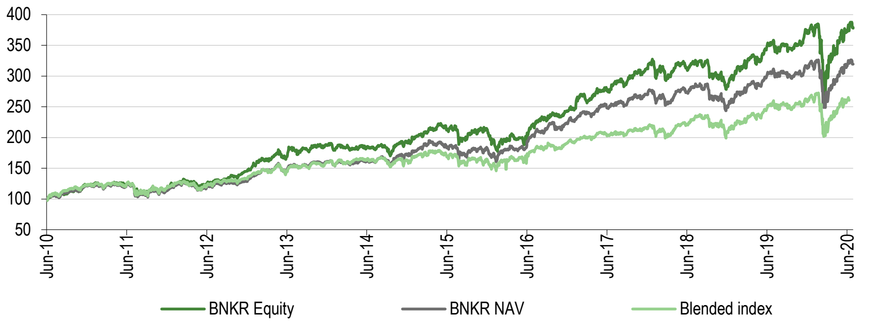
The Bankers Investment Trust

Quality-focused global growth and income fund

The Bankers Investment Trust (BNKR) has continued to deliver on its twin objectives of long-term capital and income growth, rebounding strongly from the global market declines of Q120 and declaring increased dividends for H120 despite the difficult backdrop for corporate earnings. Coming into 2020, manager Alex Crooke had positioned the trust relatively cautiously with a net cash position of c 3%, which he put to work during the sell-off, boosting the portfolio's long-term total return potential. At the half year the board reiterated its intention to increase BNKR's FY20 total dividend by c 3%, using reserves as necessary, which would secure a record-equalling 54th consecutive year of dividend growth for the trust's shareholders.

BNKR has delivered strong long-term absolute and relative performance



Source: Refinitiv, Edison Investment Research

The market opportunity

While many stock markets have quickly recovered the ground lost in the coronavirus-driven sell-off of February and March 2020, the path ahead remains highly uncertain for public health, corporate earnings and the global economy. In such circumstances investors may be well served by holding a globally diversified portfolio of quality companies with dividend growth potential.

Why consider investing in BNKR?

- On track for a 54th consecutive year of dividend growth, with a forecast 3% increase versus FY19, backed by healthy revenue reserves.
- Diversified global fund made up of concentrated regional 'best ideas' portfolios.
- Focus on quality, value and income has tended to mean lower volatility of returns, as demonstrated in the recent market sell-off.
- Strong long- and short-term absolute and relative performance record.

Premium rating allows for first issuance in years

At 30 July 2020, BNKR's shares traded at a 0.9% premium to cum-income NAV. The shares had moved to a premium in Q419, although they briefly fell to a five-year widest discount of 12.1% during March before rebounding to a three-year highest premium of 2.5%. The current rating compares with average discounts of 0.5%, 1.4%, 2.7% and 4.6% over one, three, five and 10 years respectively, and BNKR has recently issued shares at a premium for the first time in many years. The trust currently has a dividend yield of 2.2% and forecasts dividend growth of 3% in FY20.

Investment trusts
Global equities

31 July 2020

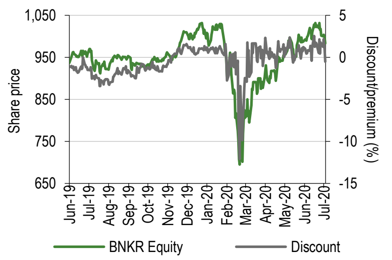
Price	**983.0p**
	NZ$19.70
Market cap	**£1,265.0m**
AUM	**£1,264.2m**

NAV*	972.0p
Premium to NAV	1.1%
NAV**	974.5p
Premium to NAV	0.9%

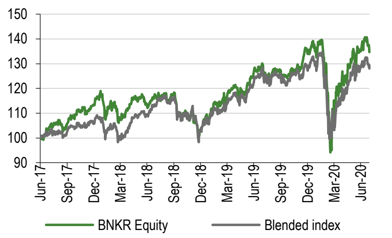
*Excluding income. **Including income. As at 30 July 2020.

Yield	2.2%
Ordinary shares in issue	128.7m
Code	BNKR
Primary exchange	LSE
Secondary exchange	NZX
AIC sector	Global

Share price/discount performance



Three-year performance vs index



52-week high/low	1,032.0p	695.0p
NAV* high/low	1,021.1p	777.7p

*Including income.

Gearing

Gross*	5.1%
Net*	0.0%

*As at 30 June 2020.

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Edison profile page

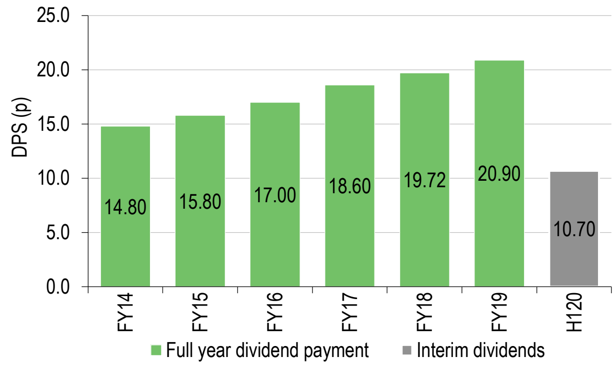
The Bankers Investment Trust is a research client of Edison Investment Research Limited

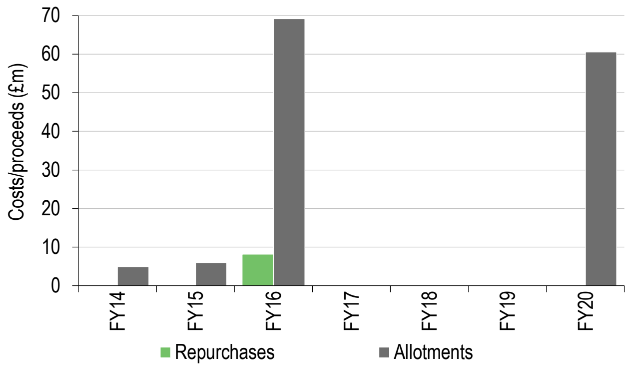
Exhibit 1: Trust at a glance

Investment objective and fund background	Recent developments
The Bankers Investment Trust (BNKR) aims, over the longer term, to achieve capital growth in excess of a global developed markets index and annual dividend growth greater than UK 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 (53 years based on the year ended 31 October 2019). It is listed on the London Stock Exchange with a secondary listing in New Zealand.	■ 29 June 2020: results for the six months ended 30 April. NAV TR -3.2% and share price TR -1.4% versus -5.3% for the reference index. Reiterates intention to pay FY20 dividends of at least 21.5p per share, a c 3% increase on 20.9p for FY19, using reserves as necessary. ■ 1 April 2020: Richard West appointed to the board of BNKR as a non-executive director. West has more than 30 years' experience in investment management, latterly at UBS Global Asset Management.

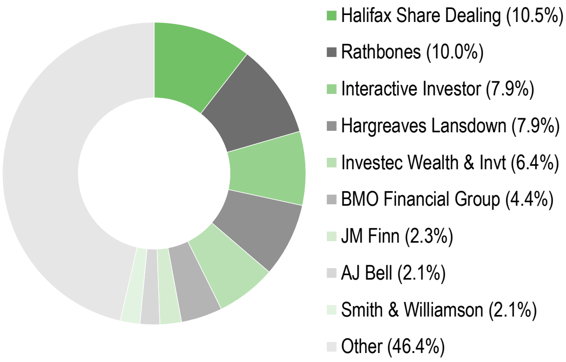
Forthcoming		Capital structure		Fund details	
AGM	February 2021	Ongoing charges	0.52%	Group	Janus Henderson Investors
Annual results	January 2021	Net gearing	0%	Manager	Alex Crooke
Year end	31 October	Annual mgmt fee	Tiered (see page 9)	Address	201 Bishopsgate,
Dividend paid	May, Aug, Nov, Feb	Performance fee	None		London, EC2M 3AE
Launch date	13 April 1888	Trust life	Indefinite	Phone	+44(0) 20 7818 1818
Continuation vote	None	Loan facilities	See page 9	Website	www.bankersinvestmenttrust.com

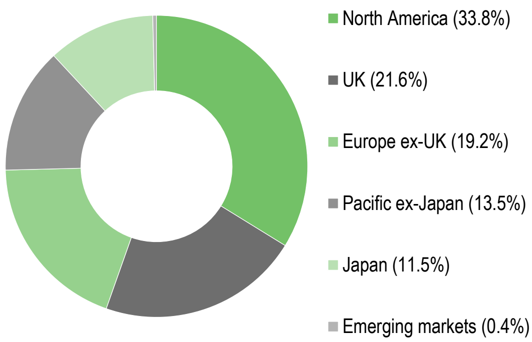
Dividend policy and history (financial years)	Share buyback policy and history (financial years)
Dividends are paid quarterly in May, August, November and February. The trust has paid a dividend in all but two of its 131 years of existence and is on track to produce a 54th year of consecutive annual dividend growth in FY20.	BNKR seeks authority annually to buy back shares at a discount or issue them at a premium to NAV to manage supply and demand. FY16 allotments include shares issued as a result of the rollover of Henderson Global Trust.





Shareholder base (at 30 June 2020)	Portfolio exposure by geography (at 30 June 2020)





Top 10 holdings (as at 30 June 2020)

			Portfolio weight %	
Company	**Country**	**Sector**	**30 June 2020**	**30 June 2019****
Microsoft	US	Technology	2.9	2.2
Amazon	US	Consumer services	2.1	N/A
Visa	US	Financials	2.0	1.6
Estée Lauder	US	Consumer goods	1.9	2.2
American Tower	US	Financials (real estate)	1.9	1.6
Apple	US	Technology	1.8	N/A
Adobe Systems	US	Technology	1.7	N/A
Alphabet*	US	Technology	1.7	1.4
Mastercard	US	Financials	1.7	1.6
Facebook	US	Technology	1.5	N/A
Top 10 (% of portfolio)			**19.0**	**17.4**

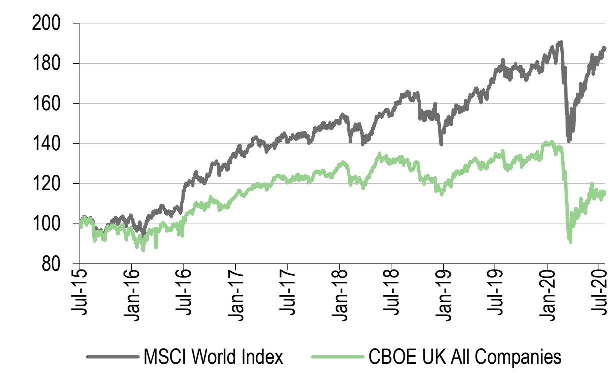
Source: The Bankers Investment Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *Parent of Google. **N/A where not in the top 10 at end-June 2019.

Market outlook: A fine balance between greed and fear

So far 2020 has been one of the most remarkable years ever seen by equity investors, with the co-ordinated global shock of the COVID-19 pandemic causing a swift and catastrophic market sell-off, followed by an equally swift rebound as governments and central banks worldwide implemented fiscal and monetary stimulus packages previously unseen in peacetime. As shown in Exhibit 2 (left-hand chart), the MSCI World index has already bounced back close to its previous high in sterling terms, although the UK market still has some way to go. The right-hand chart, meanwhile, shows forward P/E valuations at extended levels versus history, at or near 10-year highs for all the markets shown. Does this mean the only way for share prices is back down? With the pandemic far from over, the global economy – as well as the population – is likely to take some time to recover and if the only thing keeping markets afloat is artificial liquidity, the tide could turn dramatically if the money stops flooding in. On the other hand, there is little sign of any immediate change in monetary policy and, as Alex Crooke points out in 'The manager's view', it is an unwise investor that tries to 'fight the Fed'. In addition, the extended forward P/E multiples are likely to be as much a function of depressed earnings estimates as high share prices, meaning any top-line rebound as economies reopen could leave valuations looking more attractive. For investors seeking long-term total returns, a diversified global portfolio with a focus on value and income could provide a way forward in these difficult times.

Exhibit 2: Market performance and valuation

World versus UK equity market (total return, in sterling)



Valuation of Datastream indices

P/E 12 months fwd (x)	Last	High	Low	10-year average	Last as % of average
World	19.5	19.5	9.8	13.9	140
UK	15.5	15.7	8.5	12.7	122
US	23.2	23.2	11.2	15.8	146
Europe	17.2	17.2	7.6	12.4	138
Japan	17.5	17.5	10.5	13.6	129
Asia ex-Japan	16.1	16.1	10.6	12.8	126

Source: Refinitiv, Edison Investment Research. Note: Valuation data at 22 July 2020.

Fund profile: Seeking growth and growing income

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

BNKR measures its performance against a broad global developed markets index (until October 2017, it used a broad UK market index) and is a member of the Association of Investment Companies' Global sector. Gearing is permitted up to a maximum of 20% of net assets and up to 20% of the portfolio may be held in fixed income securities, although in practice BNKR has usually been invested solely in equities. At 30 June 2020, the trust had net gearing of 0% (meaning the structural borrowings of £65m were effectively offset by cash and equivalents).

In terms of its dual focus on capital and income growth, BNKR seeks to achieve capital growth in excess of that of its benchmark index and annual dividend growth ahead of the rate of UK RPI inflation. The trust has the joint-longest record of year-on-year dividend increases and is on track for a 54th consecutive year of dividend growth in FY20, with a forecast 3% increase to 21.5p.

The fund manager: Alex Crooke

The manager's view: Stay focused, but do not fight the Fed

Lead manager Alex Crooke says BNKR was positioned relatively defensively coming into the COVID-19 pandemic; in the second half of 2019 he took the view that the global economy was likely to slow and against a backdrop of high equity valuations, he had encouraged the regional portfolio managers to take profits in stocks that had done well, moving the overall portfolio to a c 3% net cash position by the start of 2020.

'When markets fell sharply in February and March, there was not a lot we could do but hope our quality bias would serve us well', he explains. 'Although there was nowhere to hide in March, we held our nerve and as we saw more value we put some cash to work – we were 0% net cash at end-April so we invested nearly 3% [during the sell-off]'. Crooke adds that he would have liked more time to continue to be a net investor in attractive stocks at depressed share prices, 'but the recovery was so sharp we only got to 3% rather than moving back to a geared position – we still have that in reserve'. The trust remains ungeared as at end-June 2020.

As the pandemic continues worldwide, with new spikes in infection rates in areas that previously looked to have had the virus under control, the manager says the shape of the expected economic recovery is changing: 'while the recovery might be V-shaped, the right-hand side of the V will probably take 12–18 months, which is more muted than the stock market is saying'. He explains the stock market recovery seen to date is a function of liquidity and money supply as much as people's view of the long-term economic prospects. 'I am not bearish, but I am loath to just jump on the market trend and I will wait to see how the second half of the year develops', Crooke says. 'For example, the travel industry will suffer for a number of years – there are still sectors you want to be careful of'. However, he adds that investors should bear in mind the adage 'don't fight the Fed'. 'The massive increase in money supply will have consequences in the long term, and usually it is higher inflation, which will favour equities: you will want to own equities in the next 10 years rather than credit', says the manager.

One of the most pressing concerns for income investors in the current situation is the number of corporate dividend cuts that have either been mandated in return for government support, or an inevitable result of depressed earnings. Crooke comments that while BNKR generally has a higher level of dividend growth than the market, the portfolio has not been immune to dividend cuts. 'The UK has been the most difficult market both at the index level and for us', he says. 'We have avoided some of the nasty sectors, for example we are underweight financials (particularly banks) and oil, but some of the insurers have cut dividends, although they are solid companies, and also some of the quality manufacturers such as in aerospace and defence.'

The manager says he is not yet looking elsewhere to replace lost income: 'we will in time, but initially we don't want to throw things out when they may have fallen in capital terms just to replace yield', he explains. An important consideration over the next 12 months will be the propensity of these lost dividends to come back; for example, Crooke says French asset manager Amundi could quickly return to the dividend list as regulatory requirements ease, and other companies might pay special dividends, but others might be much slower and return to a lower yield, meaning they may need to be sifted out. 'If there are better total return opportunities elsewhere, we will weed these companies out over the next six to 12 months, which will also automatically raise the portfolio yield as we move from non-yielders to those yielding something', he adds. The manager notes that some Asian markets offer attractive dividend yields, so buying more in the region could boost total returns.

The board of BNKR has reiterated its intention (originally stated in the FY19 annual report) to increase the dividend by at least 3% in FY20. While this will probably mean paying an uncovered dividend this year, Crooke points out that the trust has spent 15 years building its revenue reserve for just such events, including tucking away a lot of special dividends over the years rather than paying them out to shareholders. He adds: ‘Portfolio income will recover and there are tools we can use, either by investing more overseas or increasing the gearing and investing it in higher-yielding sectors. We will continue to focus on companies with higher free cash flow yields, so that once dividends return, we should see higher dividend growth’.

Asset allocation

Investment process: Selection of quality regional portfolios

BNKR’s portfolio is overseen by Crooke and managed on a regional basis by specialists from across Janus Henderson Investors’ (JHI’s) global equity teams, each of whom runs a relatively concentrated selection of stocks chosen with a broad bias towards quality, value and income. The regional portfolios are UK, North America, Europe, Japan, Pacific (excluding Japan and China) and China A-shares. The non-Asian emerging markets allocation has been exited over the past year.

Although the overall stock list is relatively long at c 170–180 names, the regional portfolios are fairly concentrated, with a target of c 30 holdings apiece. All of the managers are bottom-up stock pickers, although their individual investment styles differ somewhat, with some more focused on value and income, and others having more of a tilt towards growth. There is a bias towards cash-generative companies with strong balance sheets and growing dividends, underpinning BNKR’s own 53-year record of year-on-year dividend growth. Portfolio turnover is relatively low, at 26.2% in FY19 and 16.1% in H120 (after adjusting for the proceeds of share issuance), implying an average holding period of around three to four years.

Below is a brief summary of each of the regional portfolios.

- **UK (21.6% of the portfolio at 30 June 2020)** is managed by David Smith, who also runs the Henderson High Income trust. At end-FY19 (31 October) the portfolio consisted of 51 stocks, with the largest positions in GlaxoSmithKline and Diageo.
- **North America (33.8% of the portfolio at 30 June 2020)** has been managed by Gordon Mackay since the start of 2020, following the retirement of Ian Warmerdam. The Edinburgh-based team has more of a tilt to growth at a reasonable price rather than value. At 31 October 2019 there were 26 stocks in the portfolio; Microsoft remains the largest.
- **Europe (19.2% of the portfolio at 30 June 2020).** Following the retirement of Tim Stevenson in February 2019, the Europe portfolio is now managed by Jamie Ross, who also runs Henderson EuroTrust and the European allocation of The Law Debenture Corporation). He has a similar value-focused investment style to Stevenson. The top two positions in the 31-stock portfolio at end-FY19 were Swiss pharmaceutical company Roche and Dutch chemicals stock DSM, although the biggest country allocations were to France and Germany.
- **Japan (11.5% of the portfolio at 30 June 2020).** Managed since 2017 by Tokyo-based Junichi Inoue, there were 31 stocks in the portfolio at 31 October 2019, with the largest holdings in electronics giant Sony and Toyota Motor.
- **Pacific ex-Japan and China (8.1% of the portfolio at 30 June 2020)** is managed by Mike Kerley, who also runs Henderson Far East Income (HFEL). He is a value-orientated investor, but his BNKR portfolio has less of an overt income orientation than HFEL. At end-FY19 the 19-stock selection had a bias to Hong Kong and Taiwan, with the largest holdings being in Taiwan Semiconductor Manufacturing and Samsung Electronics. There was also a significant allocation to Australia, one of the region’s higher-yielding markets.

- **China 'A' shares (5.8% of the portfolio at 30 June 2020)** had been managed since its inception in 2013 by Charlie Awdry, with a focus on high-quality, large-cap companies. Awdry has resigned from JHI to take a career break, so the A-share portfolio has been taken on by May Ling Wee, an experienced fund manager in JHI's Singapore regional hub, who had worked alongside Awdry on the firm's open-ended China funds since 2016. Crooke does not anticipate any change in how the China sleeve is managed, with an emphasis on local consumption, increasing wealth and more domestic brands than international, arguing that these are multi-decade trends that should continue. At 31 October 2019, there were 14 stocks in the A-share portfolio, including household names such as Ping An Insurance.

Current portfolio positioning

At 30 June 2020 there were 172 holdings spread across BNKR's six regional portfolios, down from 186 a year earlier. Concentration in the top 10 holdings was 19.0%, up from 17.4% at 30 June 2019, indicating the broadly diversified nature of the fund. All of the top 10 stocks at 30 June 2020 were US-listed companies.

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

	Portfolio end-June 2020	Portfolio end-June 2019	Change (pp)
North America	33.8	31.5	2.3
UK	21.6	25.8	(4.2)
Europe ex-UK	19.2	15.5	3.7
Pacific ex-Japan	13.5	14.0	(0.5)
Japan	11.5	11.1	0.4
Emerging markets	0.4	2.1	(1.7)
	100.0	**100.0**	

Source: The Bankers Investment Trust, Edison Investment Research

As shown in Exhibit 3, the largest changes in geographical exposure over the 12 months were a 3.7pp increase in Europe ex-UK and a 4.2pp reduction in the UK. North America rose by 2.3pp, Asia-Pacific and Japan were broadly unchanged, while non-Asian emerging markets (EM) exposure fell by 1.7pp as a result of the winding down of the separate EM portfolio. While the US weighting (which currently accounts for the whole of the North American portfolio) is well below that of global indices, Crooke says that it is hard for an income-orientated fund such as BNKR to own anything like a full index weight, given the generally low dividend yields on offer from US companies. Conversely, the UK remains a significant overweight, partly for historical reasons as it has tended to offer a higher dividend yield than other markets. The manager says the UK weighting (currently c 20%) may rise a little in the medium term as BNKR participates in additional equity raisings at lower levels, to help portfolio companies to emerge from the crisis stronger. However, it is likely to settle in the mid-teens or below over the longer term, as other markets (such as those in Asia) increasingly offer the prospect of higher growth potential as well as decent yields.

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

	Portfolio end-June 2020	Portfolio end-June 2019	Change (pp)
Financials	24.0	24.0	0.0
Consumer goods	18.4	22.0	(3.6)
Technology	17.3	10.0	7.3
Industrials	12.2	14.0	(1.8)
Healthcare	9.1	8.0	1.1
Consumer services	9.0	9.0	(0.0)
Telecommunications	3.6	3.5	0.1
Basic materials	2.9	4.5	(1.6)
Utilities	2.1	1.5	0.6
Oil & gas	1.4	3.6	(2.3)
	100.0	**100.0**	

Source: The Bankers Investment Trust, Edison Investment Research

In sector terms (Exhibit 4), the largest allocation, to financials, is unchanged over 12 months. It is important to note that much of BNKR's financials exposure is not in banks – which have been hit hard by higher loan loss provisions as a result of the sharp economic slowdown – but is instead focused in areas such as credit cards, which, while they have been affected by lower aggregate spending, stand to benefit from an increase in online and contactless transactions. The manager reduced the position in American Express because of its exposure to travel services, but Visa and Mastercard remain top 10 holdings.

The biggest sector change over 12 months to 30 June is a 7.3pp increase in the technology weighting. This has largely been a result of good performance from these stocks; Crooke says that with some valuations now looking elevated, now is not the right time to buy further into the sector, although he feels it would also be the wrong moment to sell. The biggest fall in exposure is a 3.6pp reduction to consumer goods. Oil & gas was already a significant underweight versus the benchmark, but has fallen further (-2.3pp) in response to widespread dividend cuts as a result of the collapse in the oil price. The industrials weighting is also down (-1.8pp), partly as a result of the sale of positions in two airports (Shenzhen and Paris) as it became clear that COVID-19 would have a severe impact on transportation stocks.

Performance: Recovering well from COVID-19 sell-off

Exhibit 5: Five-year discrete performance data

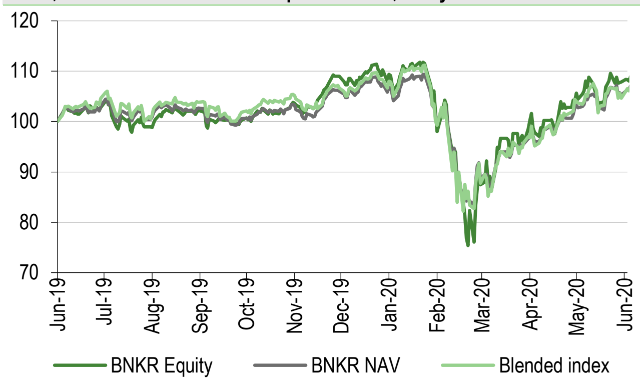
12 months ending	Share price (%)	NAV (%)	Blended benchmark (%)	MSCI World Index (%)	CBOE UK All Companies (%)
30/06/16	(4.1)	4.8	1.7	15.1	1.7
30/06/17	35.3	29.1	18.3	22.3	18.3
30/06/18	13.9	10.6	9.2	9.9	9.5
30/06/19	9.7	8.9	10.9	10.9	0.3
30/06/20	8.3	6.2	6.5	6.5	(13.6)

Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

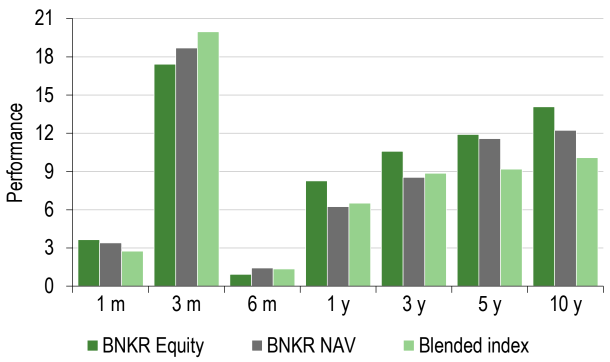
BNKR has recovered well from the coronavirus-driven global market declines of February and March to post solid absolute returns in NAV and share price terms over 12 months to end-June 2020 (Exhibit 5). The three-month NAV and share price total returns of +18.7% and +17.4% respectively have been sufficient to pull even the six-month numbers into positive territory. NAV total returns have been largely in line with global developed market indices, and are well ahead of the lacklustre UK market, which remains firmly down over 12 months. This relative performance is notable given BNKR's exposure to the US (which has been a significant driver of global market returns in recent years) is only around half of index weightings, while the UK allocation remains overweight versus global indices.

Exhibit 6: Investment trust performance to 30 June 2020

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



Price, NAV and index total return performance (%)



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

In terms of performance drivers from the start of FY20 (1 November 2019) to end-June 2020, Crooke says asset allocation has been broadly neutral, although the off-benchmark allocation to

China has been positive (and also outperformed the local index). Stock selection has had the most impact, particularly in North America, Europe and Japan, where the portfolios outperformed local indices by 10.5pp, 9.1pp and 7.5pp respectively in FY20 to end-June. Crooke comments that the managers of these portfolios broadly have a quality bias, especially in the US, Japan and Europe, focusing on stocks with high returns on equity and less leverage. 'They aren't all-out growth managers; there are varying degrees of growth to GARP [growth at a reasonable price]', he adds. Digging deeper into the individual portfolio performance drivers, Crooke says North America benefited from being underweight financials (excluding credit cards) and energy, while in Europe performance was helped by avoiding some cyclicals and retailers. 'In Japan it is hard to draw any sector conclusions; the outperformance has been coming off stock picking', the manager concludes. The UK portfolio produced a negative return over the period but outperformed the local index, while Asia-Pacific ex-Japan was down in both absolute and relative terms.

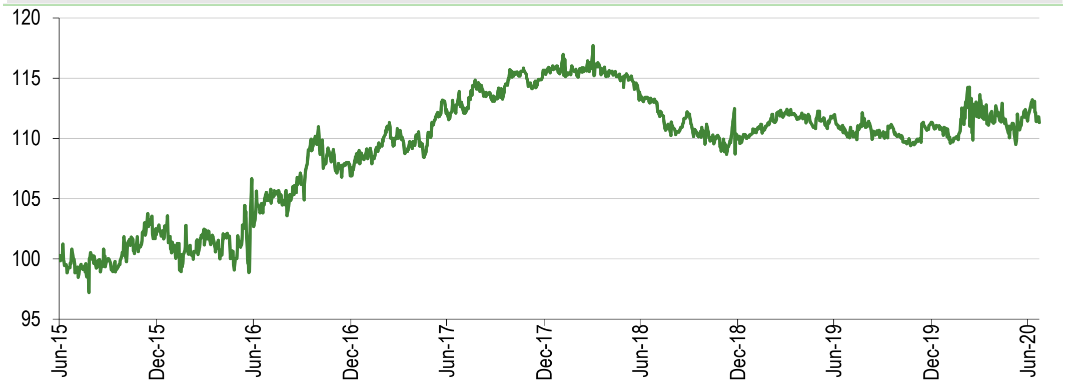
Looking at longer-term returns (Exhibits 6 and 7), BNKR's absolute and relative performance has been strong over five and 10 years, with annualised NAV and share price total returns of c 12–14% versus c 9–10% for the blended index. Over one and three years, NAV total returns have been broadly in line with those of the index, while BNKR's share price has outperformed.

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 index	0.9	(2.1)	(0.4)	1.7	4.9	13.0	42.7
NAV relative to Blended index	0.6	(1.1)	0.1	(0.2)	(0.9)	11.5	21.3
Price relative to MSCI World Index	0.9	(2.1)	(0.4)	1.7	4.2	(4.0)	12.7
NAV relative to MSCI World Index	0.6	(1.1)	0.1	(0.2)	(1.5)	(5.3)	(4.2)
Price relative to CBOE UK All Companies	1.7	6.5	23.1	25.3	42.5	53.6	94.0
NAV relative to CBOE UK All Companies	1.4	7.6	23.7	23.0	34.8	51.5	64.9

Source: Refinitiv, Edison Investment Research. Note: Data to end-June 2020. Geometric calculation. Blended index is UK until 31 October 2017 and global thereafter.

Exhibit 8: NAV total return performance relative to blended index over five years

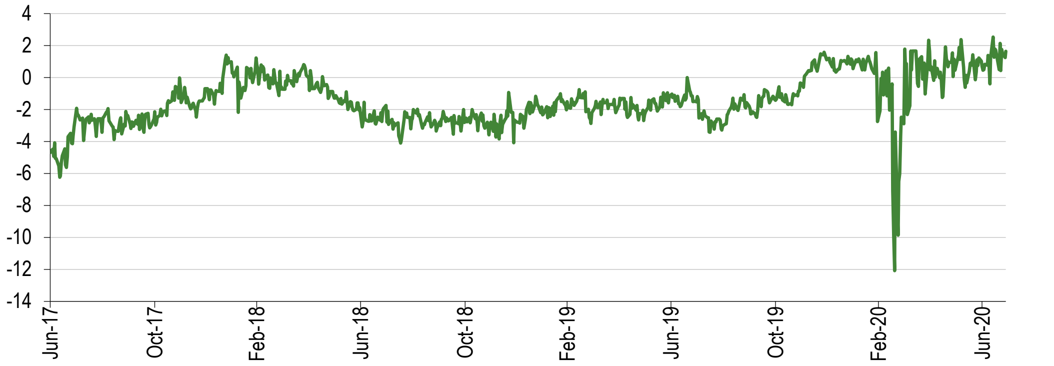


Source: Refinitiv, Edison Investment Research

Discount: Bouncing back with renewed share issuance

BNKR's discount to cum-income NAV had been broadly stable in a range of 0–4% from Q317 to Q419. In late 2019 the share price moved to a slight premium and the trust began issuing its first shares since the rollover of Henderson Global Trust in 2016, with 4.9m shares issued between December 2019 and February 2020, raising £48.8m. Then in late February and March, as fears grew over the global spread of COVID-19 and markets sold off around the world, the discount briefly spiked to a five-year high of 12.1%, before snapping back in the subsequent market recovery to reach a three-year highest premium of 2.5%. Since then, although the valuation has been a little more volatile than hitherto, the shares have remained largely in a range from a 2% premium to a 2% discount to NAV, and share issuance has resumed, with a further 1.2m new shares allotted since April, raising £11.8m. While there is no formal discount control mechanism, recent history suggests the board may continue to issue shares when there is excess demand, but is unlikely to undertake buybacks unless the discount to NAV exceeds c 8% for a period of time.

Exhibit 9: Share price premium/discount to NAV (including income) over three years (%)



Source: Refinitiv, Edison Investment Research

Capital structure and fees

BNKR is a conventional investment trust with one class of share, listed on the London and New Zealand stock exchanges. At 30 July 2020 there were 128.7m ordinary shares outstanding, an increase of 6.1m shares (5.0% of the share base) in FY20 to date. The board has the authority to buy back up to 14.99% and allot up to 10% of its share capital to manage a discount or a premium to NAV. Prior to FY20, the number of shares in issue had been unchanged since the end of FY16.

The trust is permitted to gear up to 20% of net assets at the time of drawdown. It uses a mixture of structural and flexible gearing, with a £15m debenture at an 8% coupon maturing in 2023, £50m of loan notes with a coupon of 3.68% maturing in 2035, and a £20m bank loan facility with Sumitomo Mitsui Bank. Together these equate to available gearing of 6.5% (5.0% for the structural gearing alone). Having built up a net cash position during FY19 on caution over the global economic outlook, the trust remained ungeared as at 30 June 2020.

BNKR pays its investment manager, Janus Henderson Investors, an annual management fee on a sliding scale, starting at 0.45% on the first £750m of net assets and 0.40% thereafter, calculated quarterly. There is no performance fee. The management fee is allocated 30:70 between the revenue and capital accounts, in line with the long-term expected split of returns, and for FY19, ongoing charges were 0.52% (FY18: 0.50%).

Dividend policy and record

In an environment of widespread dividend cuts at the corporate level, it is important to note that BNKR remains on track for a record-equalling 54th consecutive year of dividend growth in FY20 (ending 31 October). The trust pays dividends quarterly, in May, August, November and February. So far in FY20 it has declared two dividends totalling 10.7p (H119: 10.2p), and the board has stated that it intends to pay a total dividend of at least 21.5p, an increase of c 2.9% on FY19's 20.9p. While lower than BNKR's medium-term annual dividend growth rate (6.4% pa over five years based on the forecast FY20 dividend), this would still represent an above-inflation increase (UK RPI inflation in June 2020 was 1.1%), in line with the trust's objective.

BNKR's net revenue return per share dipped to 7.85p in H120 (H119: 9.25p; FY19: 21.61p), and given the portfolio income tends to be slightly weighted to the second half of the year (May to October), the full-year impact on the revenue account could be greater as coronavirus-related dividend cuts pass through. However, the trust has a healthy revenue reserve (equal to c 1x the annual dividend at end-H120, after adjusting for the second interim dividend), to which it has added in nine of the last 10 financial years. The ability of investment trusts to reserve some of their income in good years as a 'rainy day fund' to see them through bad years is an important differentiating factor compared with open-ended funds, and BNKR's board has said it will use the reserve as necessary in FY20 to ensure the trust's dividend growth record is maintained. Based on the current share price and the last four dividends, BNKR has a yield of 2.2%. It is a testament to the strength of the trust's share price recovery since the COVID-19 sell-off in February and March that the yield stands at practically the same level as in our last note, published December 2019.

Peer group comparison

Exhibit 10: AIC Global sector as at 28 July 2020*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Ongoing charge	Perf. fee	Discount (cum-fair)	Net gearing	Dividend yield
Bankers	**1,292.2**	**3.9**	**25.8**	**75.6**	**201.7**	**0.52**	**No**	**2.2**	**100**	**2.2**
Alliance Trust	2,592.5	(1.1)	17.8	68.4	162.6	0.65	No	(5.5)	103	1.8
AVI Global Trust	746.4	(5.7)	8.0	54.1	104.9	0.85	No	(10.5)	108	2.4
Brunner	336.0	(2.8)	17.4	60.4	169.5	0.67	No	(11.2)	107	2.5
EP Global Opportunities	105.0	(7.7)	(1.5)	33.1	106.0	0.94	No	(10.0)	100	2.3
F&C Investment Trust	3,687.7	(0.4)	21.0	70.7	195.1	0.54	No	(7.6)	108	1.7
JPMorgan Elect Managed Growth	235.2	(5.0)	12.4	43.2	159.3	0.58	No	(4.6)	100	2.0
Lindsell Train	241.0	10.6	80.8	204.4	585.5	0.83	Yes	6.7	100	3.4
Majedie Investments	99.4	(18.4)	(16.6)	4.5	56.6	1.03	Yes	(21.7)	108	6.1
Manchester & London	237.8	16.0	60.2	147.1	129.0	0.84	No	1.8	100	2.3
Martin Currie Global Portfolio	267.1	12.8	46.7	105.6	238.8	0.63	Yes	(0.8)	100	1.3
Mid Wynd International	335.1	10.3	42.9	101.9	238.8	0.51	No	5.0	100	0.9
Monks	2,492.2	16.8	50.8	135.4	229.4	0.48	No	5.0	104	0.2
Scottish Investment Trust	555.2	(5.1)	2.4	42.4	123.8	0.58	No	(10.5)	100	3.1
Scottish Mortgage	12,980.3	59.8	118.9	244.9	633.2	0.36	No	2.8	107	0.4
Witan	1,517.9	(11.2)	0.7	41.6	143.9	0.83	Yes	(8.8)	108	3.0
Sector average (16 funds)	**1,732.6**	**4.5**	**30.5**	**89.6**	**217.4**	**0.7**		**(4.2)**	**103**	**2.2**
BNKR rank in sector	**6**	**7**	**7**	**7**	**6**	**13**		**5**	**9=**	**9**

Source: Morningstar, Edison Investment Research. Note: *Performance to 27 July 2020 based on cum-fair NAV. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

BNKR is a member of the Association of Investment Companies' Global sector, a 16-strong group that includes many of the largest and longest-established investment trusts. The peers follow a range of investment approaches and have widely differing geographical allocations. For example, US exposure (c 60–65% of global developed market indices) ranges from less than 5% at Majedie Investments and EP Global Opportunities, to more than 50% in Alliance Trust, F&C Investment Trust, Mid Wynd International and Scottish Mortgage, while Manchester & London – at c 77% in the US – only just meets the criteria for inclusion in the sector, which stipulate that funds should have less than 80% invested in a single geographical area. (At the other end of the spectrum, Lindsell Train Investment Trust has almost 80% invested in the UK, although much of this is attributable to its large holding (c 50%) in its asset manager, Lindsell Train.) BNKR has no such outsized geographical skews compared with peers, instead offering a broadly diversified global exposure, albeit with the second-largest exposure to China (c 9%) after Scottish Mortgage (c 20%).

In NAV total return terms, BNKR ranks seventh of 16 over one, three and five years, and sixth over 10 years. Performance is below the mean but above the median over all periods shown. It is important to note the wide dispersion of returns in the sector, with 78.2pp between the best- and worst-performing funds over one year and 576.6pp between the top and bottom performers over 10 years. BNKR has tended to exhibit lower-than-average volatility of returns given its broad diversification and quality focus.

Ongoing charges are among the lowest in the AIC universe, and there is no performance fee. At 28 July, BNKR was one of six peers whose shares were trading above NAV, albeit at a very slight premium of 0.5%. The trust is currently ungeared (in common with half of the peer group), and its dividend yield is in line with the average. The AIC Global sector does not require funds to have a specific income mandate, so yields are generally on the lower side.

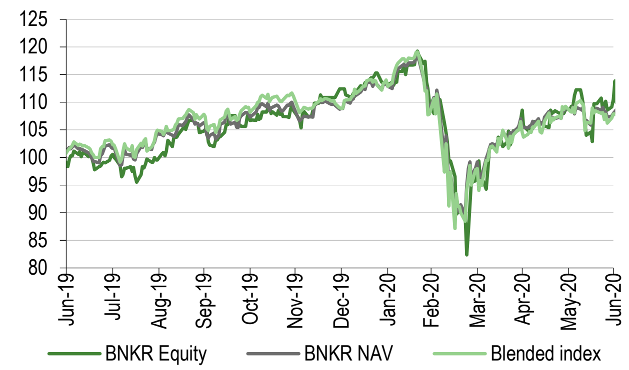
The board

There are five directors on BNKR's board; all are non-executive and independent of the manager. Sue Inglis joined the board in 2012 and was appointed chairman in February 2019 following the retirement of Richard Killingbeck. Julian Chillingworth became a director in 2015 and has served as senior independent director (a position previously held by Inglis) since February 2019. Isobel Sharp was appointed in 2017 and has chaired the audit committee since 2018. Richard Huntingford joined the board in 2018, while the newest director, Richard West, was appointed on 1 April 2020. The BNKR board has strong investment industry credentials, with two former fund managers (Chillingworth and West) alongside specialists in corporate finance, accountancy and media.

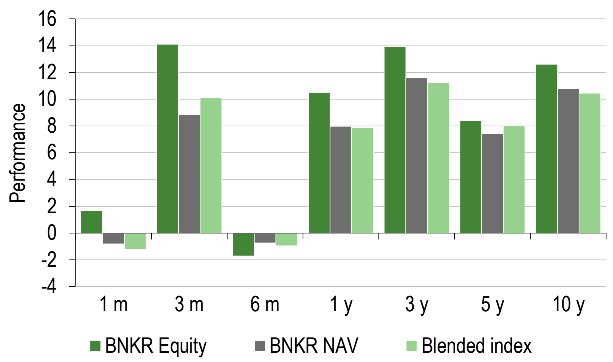
Performance tables in New Zealand dollar terms

Exhibit 11: Investment trust performance – in New Zealand dollar terms to 30 June 2020

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



Price, NAV and benchmark total return performance (%)



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

BNKR has a long-standing secondary listing in New Zealand, accounting for c 10% of the overall shareholder register. In Exhibits 11 and 12 we present BNKR's performance and that of its blended index (UK until 31 October 2017 and global thereafter) in NZ dollar (NZ$) terms. Continued sterling weakness has dampened returns for NZ$-based investors over both the short and long term, with UK-based investors feeling the benefit of overseas returns over one, three and six months as sterling drifted lower on the twin concerns of COVID-19 and Brexit. In the medium term, NAV total returns have been higher for NZ$ investors over one and three years, but are lower over five and 10 years to end-June.

Exhibit 12: Investment trust discrete years' performance in New Zealand dollar terms

12 months ending	Share price (%)	NAV (%)	Blended index (%)	MSCI World (%)	CBOE UK All Cos (%)
30/06/16	(23.9)	(15.5)	(8.6)	(7.1)	(17.9)
30/06/17	32.9	21.7	17.0	15.6	11.8
30/06/18	22.6	21.6	18.3	20.8	20.4
30/06/19	9.1	5.9	7.8	7.8	(2.6)
30/06/20	10.5	8.0	7.9	7.9	(12.5)

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

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