

# The Bankers Investment Trust

Global 'best ideas' fund with distinguished record

The Bankers Investment Trust (BNKR) has re-established its trend of long-term outperformance of its benchmark, after a slightly disappointing H218. While the portfolio retains a cyclical tilt, manager Alex Crooke at Janus Henderson Investors has overseen a gradual shift toward more defensive market areas in recent months. The trust's regional sub-portfolio managers focus on finding well-managed, cash-generative companies whose growing dividends can support BNKR's own impressive 52-year record of dividend growth. Crooke recognises the delicate balance between positive and negative factors in the global macro picture, and over the past year has taken some profits in highly rated technology names and kept gearing low at c 2–3%. He expects greater clarity on the macro outlook in the second half of 2019, but in the meantime is taking advantage of more attractive equity valuations resulting from the Q418 market sell-off.

12 months ending	Share price (%)	NAV (%)	Blended benchmark (%)*	FTSE World (%)	FTSE All-Share (%)
28/02/15	9.2	13.5	5.6	17.1	5.6
29/02/16	(5.3)	(4.4)	(7.3)	(1.5)	(7.3)
28/02/17	38.3	34.7	22.8	37.4	22.8
28/02/18	17.9	13.6	7.6	7.3	4.4
28/02/19	(1.8)	0.5	3.5	3.5	1.7

Source: Refinitiv. Note: All % on a total return basis in pounds sterling. \*See page 8.

## The market opportunity

Global equity markets, led by the US, are experiencing the longest bull run in history and investors may wonder if there is much more upside to be eked out. World equity indices are heavily dominated by the US and inherently reflect past performance. Given the many sources of uncertainty, a more flexible bottom-up investment approach – with a focus on company fundamentals, valuation, cash generation and dividend growth – has scope to outperform if the cycle turns.

## Why consider investing in Bankers?

- Strong long-term outperformer, already recovering from one-year relative blip.
- 52-year record of annual dividend growth (the joint-longest of any investment trust) with at least 6% dividend growth forecast for FY19.
- Access to regional specialist managers from Janus Henderson's equity teams.
- Focus on value and income affords a degree of potential downside protection.
- Geographical allocation much more balanced than global equity indices.

## Tight discount, solid dividend growth and low gearing

BNKR's shares have traded in a relatively narrow band versus its NAV over the past 18 months, ranging from a c 4.0% discount to a c 1.5% premium. At 21 March 2019, the shares stood at a 0.9% discount to cum-income NAV, which was narrower than the averages over one, three, five and 10 years, suggesting investor demand remains robust. Following a 52nd year of annual dividend growth in FY18, the shares currently yield 2.3%. Net gearing is relatively low at 3.0%, with potential to rise to c 8% via a combination of long-term debt and a flexible borrowing facility.

## Investment trusts

25 March 2019

**Price** 891.0p  
NZ\$17.18

**Market cap** £1,092.4m

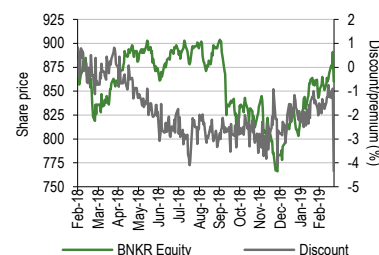
**AUM** £1,140.2m

NAV\* 893.3p  
Discount to NAV 0.3%  
NAV\*\* 899.0p  
Discount to NAV 0.9%

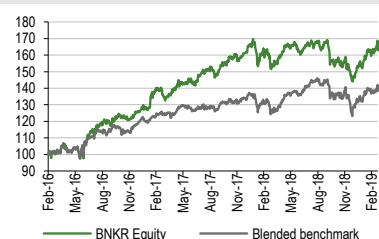
\*Excluding income. \*\*Including income. As at 21 March 2019.

Yield 2.3%  
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 904.0p 766.0p  
NAV\*\* high/low 930.9p 784.0p

\*\*Including income.

## Gearing

Gross 5.9%  
Net\* 3.0%

\*As at 28 February 2019.

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**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 long 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 year ended 31 October 2018). It is listed on the London Stock Exchange with a secondary listing in New Zealand.

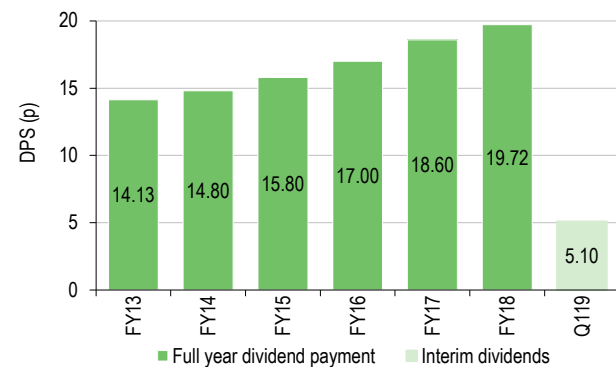
#### Recent developments

- 1 March 2019: BNKR non-executive Chairman Sue Inglis appointed to the board of Seneca Global Income & Growth Trust (SIGT).
- 27 February 2019: First interim dividend of 5.10p per share (Q118: 4.86p) declared for the year ending 31 October 2019, payable on 31 May.
- 15 January 2019: Results for the year ended 31 October 2018. NAV TR +0.8% and share price TR +0.2%, compared with +4.7% for the FTSE World index. Final dividend of 5.00p per share brings total for year to 19.72p, up 6% on FY17.

Forthcoming		Capital structure		Fund details	
AGM	February 2020	Ongoing charges	0.50%	Group	Janus Henderson Investors
Interim results	July 2019	Net gearing	3.0%	Manager	Alex Crooke
Year end	31 October	Annual mgmt fee	Tiered (see page 10)	Address	201 Bishopsgate, London, EC2M 3AE
Dividend paid	May, Aug, Nov, Feb	Performance fee	None	Phone	+44 (0) 20 7818 1818
Launch date	13 April 1888	Trust life	Indefinite	Website	<a href="http://www.bankersinvestmenttrust.com">www.bankersinvestmenttrust.com</a>
Continuation vote	No	Loan facilities	See page 10		

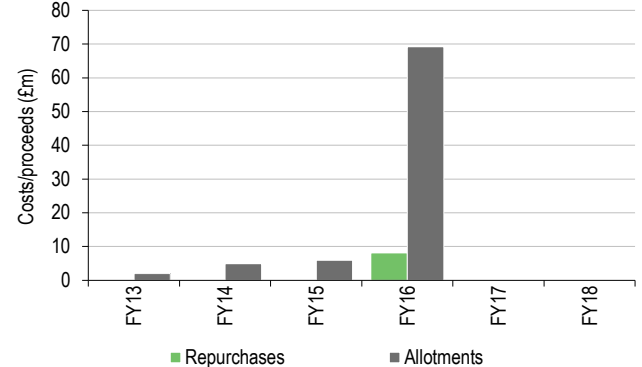
#### Dividend policy and history (financial years)

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 produced a 52nd consecutive year of annual dividend growth in FY18.

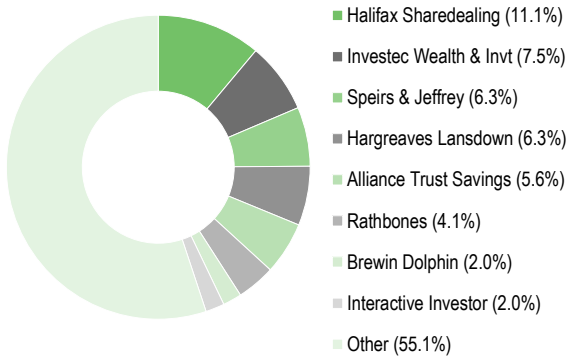


#### Share buyback policy and history (financial years)

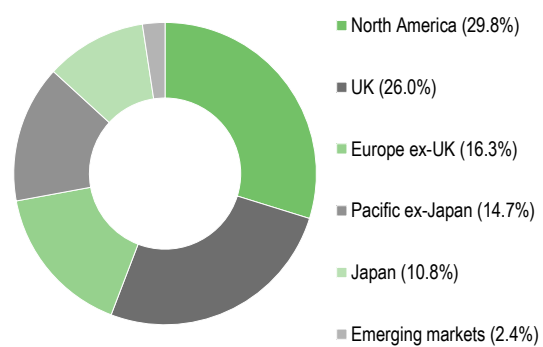
BNKR seeks authority annually to buy back shares at a discount or issue them at a premium in order to manage supply and demand. 2016 allotments include shares issued as a result of the rollover of Henderson Global Trust.



#### Shareholder base (as at 25 February 2019)



#### Portfolio exposure by geography (as at 28 February 2019)



#### Top 10 holdings (as at 28 February 2019)

Company	Country	Sector	Portfolio weight %	
			28 February 2019	28 February 2018*
Estée Lauder	US	Consumer goods	2.0	N/A
Microsoft	US	Technology	2.0	1.5
American Express	US	Financials	1.9	1.4
Berkshire Hathaway	US	Financials	1.6	N/A
ICON	US	Healthcare	1.5	N/A
Alphabet**	US	Technology	1.5	1.3
American Tower	US	Financials	1.4	N/A
Visa	US	Financials	1.4	N/A
Comcast	US	Consumer services	1.4	N/A
Mastercard	US	Financials	1.4	N/A
<b>Top 10 (% of portfolio)</b>			<b>16.0</b>	<b>14.0</b>

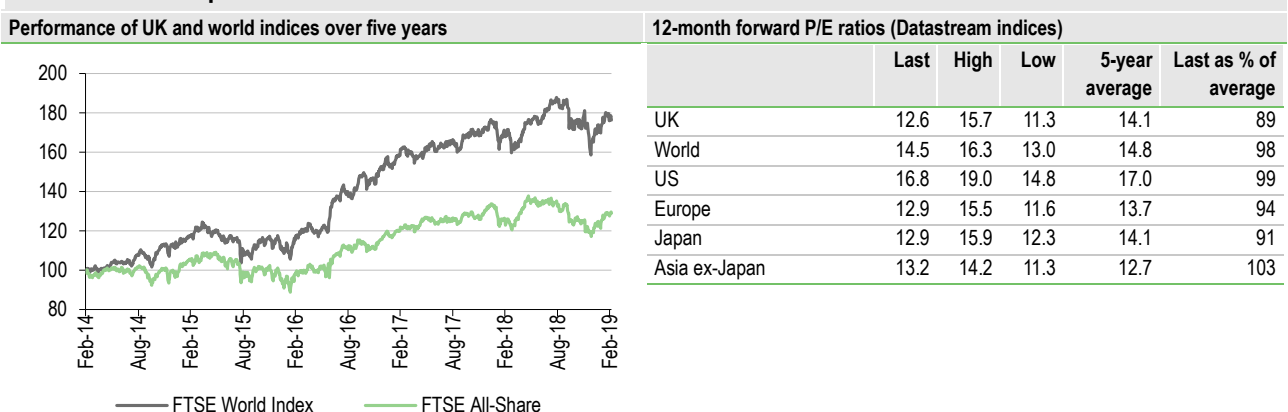
Source: The Bankers Investment Trust, Edison Investment Research, Bloomberg, Morningstar. Note: \*N/A where not in end-February 2018 top 10. \*\*Parent of Google.

## Market outlook: Go placidly amid the noise and haste

Global equity markets have performed strongly over the past five years (Exhibit 2, left-hand chart), with the FTSE World index total return far outstripping that of the FTSE All-Share, in part owing to the weakness of sterling following the UK's 2016 vote to leave the European Union. However, market volatility has picked up markedly in the past six months, as investors have begun to focus more on the negative factors that could threaten the longest equity bull market in history. These include the ever-present threat of a disorderly Brexit, slowing growth in China and trade tensions between the US and much of the rest of the world. However, a sharp recovery in markets in the early part of 2019 seems to suggest investors are willing to suspend disbelief for a while longer, and meanwhile the Q418 sell-off has seen average forward P/E valuations fall to much more reasonable levels. As shown in the right-hand chart, even the US (as measured by the Datastream US index) is now trading at a forward P/E multiple lower than its five-year average and c 12% below its peak. Only Asia ex-Japan currently trades at a forward P/E above its five-year average.

Given the threats to the macroeconomic outlook remain real, it would arguably be the wrong time for investors to embrace a passive global index approach, which would see them hugely exposed to the US equity market and the stocks that have run up hardest in the current bull phase. Instead, a more considered approach, with an eye on valuation and an appreciation of the importance of dividends to total investment returns, might be wise until the road ahead becomes clearer.

**Exhibit 2: Market performance and valuation**



Source: Refinitiv, Edison Investment Research. Note: Valuation data as at 19 March 2019.

## Fund profile: Growth and income from global portfolio

The Bankers Investment Trust (BNKR) was launched in 1888 and is one of the UK's oldest closed-end funds. It has been managed by Alex Crooke, co-head of equities at Janus Henderson Investors (JHI), since 2003. The trust aims to achieve capital and income growth from a portfolio of global equities (it can invest up to 20% in fixed income securities, although in practice it does not tend to do so). Crooke works with the board to set the geographical allocation and the level of gearing (permitted up to 20% of net assets), and oversees a group of JHI's regional specialist investment managers, who each run a dedicated portfolio (UK, Europe ex-UK, North America, Japan, Pacific ex-Japan including Hong Kong, China 'A' shares, and non-Asian emerging markets).

BNKR is a member of the Association of Investment Companies' Global sector, and measures its performance against the FTSE World index, aiming for capital growth in excess of that of the benchmark over the longer term. It also aims to grow its annual dividend above the rate of UK RPI inflation, and has an unbroken 52-year record of year-on-year dividend increases.

## The fund manager: Alex Crooke

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### The manager's view: Goldilocks and the three bear scenarios

Crooke comments that given the relatively lacklustre recent returns from most equity markets and uncertainty over the global outlook, it has been hard to get enough conviction on the macro side to be active with BNKR's gearing, which has remained in low single digits over the past 12 months. Instead, he says, FY18 was a year of taking profits on a stock-by-stock basis and looking to reinvest as opportunities arose.

The manager's central scenario for the macro outlook is for a continuation of the current protracted market cycle, albeit with only modest returns expected. Following the market volatility seen in 2018, global equities now look much better value, and earnings forecasts – while less optimistic than in recent years – remain positive. However, the picture is uncertain, with the majority of risks being to the downside. Crooke's three more negative scenarios include:

- overheating in the US causing a monetary policy overreaction (this threat has receded since the Federal Reserve has paused in its rate-hiking cycle in response to a softening in the US economy);
- an economic slump leading to lower growth and lower interest rates; or
- an escalation in trade tensions, causing a sharp drop in growth and a further 'risk-off' period, resulting in falling stock markets.

The manager expects greater clarity on the outlook to emerge in the second half of 2019. However, he does see reasons to retain a mildly optimistic stance, with some of the negative influences receding. In addition to the Fed's more accommodative stance, Italy has agreed its budget with the EU and the need to begin preparing for his 2020 re-election campaign could lead Donald Trump to seek a positive solution to the trade tensions between the US and China. While the outcome of Brexit negotiations is still far from decided, the removal of uncertainty should be a positive factor for UK equities, which have been shunned by overseas investors in recent years. Factors that remain a worry include slowing growth in China, and whether the rest of the global economy can catch up with the US, which remains vulnerable to a slowdown as the positive effects of one-off tax cuts recede.

Crooke has expressed these ideas in the BNKR portfolio by reducing Asian exposure throughout FY18, partly because of trade headwinds but also in light of China's uncertain growth outlook. 'In the medium term I am confident that China and Asia will deliver growth, and intra-Asian regional trade will pick up, but there are a few headwinds, so we have reduced Asia, but expect to increase it over time,' he says. Exposure to technology stocks continues to reduce, as the manager sees the sector as 'getting a bit late-cycle' and exhibiting increasing volatility. He adds that until there is more clarity on Brexit, it would be wrong to increase the UK weighting. 'There is still room for a good Brexit, although it is hard to have confidence that that will happen,' Crooke concludes.

## Asset allocation

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### Investment process: Multi-specialist model with value/income tilt

As lead manager of BNKR, Crooke sets the geographical allocation of the portfolio, with the regional sub-portfolios all managed by specialists at Janus Henderson Investors. Crooke's ambition is for each of the major regional portfolios to have approximately 25–30 stocks. Overall, the investment style of the trust is founded on bottom-up stockpicking with a tilt towards value and income, although individual managers' styles may vary somewhat. Cash-generative companies with growing dividends are a natural fit for the trust, given its own 52-year record of annual dividend growth. Portfolio turnover is relatively low, at 26.4% in FY18 and 25.3% in FY17, implying an average holding period of around four years.

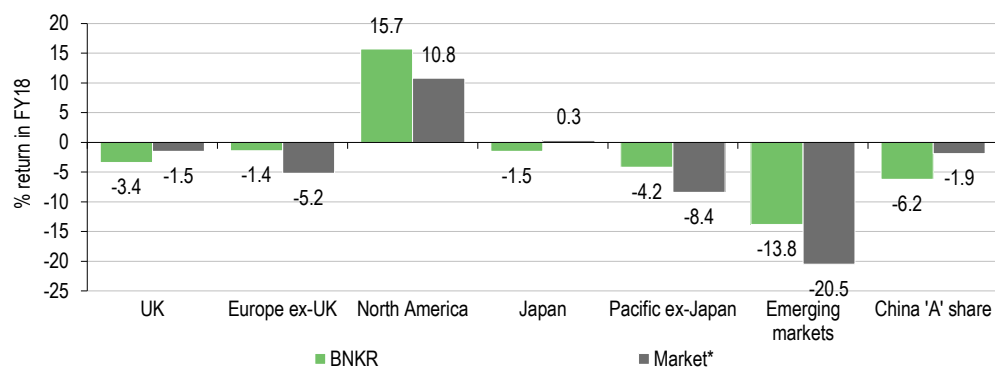
Below we give key details for each sub-portfolio at end-FY18 (31 October), with performance relative to local indices shown in Exhibit 3.

- **UK (54 stocks and 25.2% of the portfolio)** – formerly managed by Crooke (until his appointment as JHI's co-head of equities), stock selection is now in the hands of David Smith, who also manages the Henderson High Income Trust. Given the UK was historically a much larger portion of the overall portfolio (it has trended gently downwards from c 40% five years ago), there have tended to be more stocks in the UK than in other portfolios. However, Smith has continued the process of concentrating the number of stocks, which has fallen from 68 at end-FY17. In market capitalisation terms, the portfolio is c 70% large-cap (FTSE 100), c 25% mid-cap, and the remainder in small-cap. Relative to the whole portfolio, BNKR's UK allocation is overweight oil & gas, basic materials, consumer goods, consumer services and utilities; it is underweight industrials, healthcare, telecoms, financials and technology.
- **Europe (33 stocks and 14.9% of the portfolio)** – since the FY18 year-end, stock selection has passed to Jamie Ross, following Tim Stevenson's retirement. Ross worked closely with Stevenson and Crooke says he offers continuity of style in the BNKR European portfolio. Like the UK portfolio, the number of names in Europe was reduced over FY18, from 40 to 33, and the market cap breakdown is similar, with c 67% in large- to mega-caps, c 29% in mid- to large-caps and the remaining c 4% in small- to mid-caps. Geographically, Germany, Switzerland and France account for almost three-quarters of the portfolio. There are no holdings in consumer services or utility stocks. Relative to the whole portfolio, the European exposure is overweight oil & gas, basic materials, industrials, healthcare and telecoms. Financials exposure is broadly neutral, while consumer goods and technology stocks are underweight.
- **North America (26 stocks and 31.6% of the portfolio)** – this portfolio is managed by Ian Warmerdam, who has a more growth-orientated investment style than some of the other managers. However, Crooke says it would be wrong to assume the portfolio is stuffed with technology stocks – there are also 'grubby industrials' such as railroad operator Union Pacific. Holdings are biased towards the mega-caps, with c 79% of the portfolio in stocks with a market cap above £20bn. The sector allocation shows a reasonably high degree of conviction, with no holdings at all in oil & gas, basic materials, telecoms or utilities. Compared with the trust as a whole, the US portfolio is overweight technology (22.7% versus 11.9% for BNKR at end-FY18), financials and consumer services, has broadly average weights in industrials and healthcare, and is underweight consumer goods. Stock selection within financials – there are no banks in the portfolio, which features payment companies Visa, Mastercard and American Express – was the largest driver of positive performance in FY18.
- **Japan (30 stocks and 11.7% of the portfolio)** – Junichi Inoue, who is based in Japan, has managed BNKR's Japan portfolio since 2017. While there is very little exposure to small-cap stocks (market cap below £5bn), there is a reasonably even split between mid- to large-caps (c 46%) and large- to mega-caps (c 53%). In sector terms, there is no exposure to oil & gas, basic materials or utilities. Relative to the whole portfolio, the Japan allocation is overweight consumer goods, telecoms and healthcare, broadly neutral in industrials and technology, and underweight consumer services and financials. Among the main positive contributors to FY18 performance were branded electronics giant Sony and pharmaceutical firm Daiichi Sankyo.
- **Pacific excluding Japan and China (16 stocks and 8.7% of the portfolio)** – Mike Kerley, who also manages [Henderson Far East Income](#), selects the stocks for BNKR's Pacific portfolio. Holdings at end-FY18 were spread across six countries – Hong Kong, South Korea, Australia, Taiwan, Singapore and Thailand. In market cap terms, the largest exposure (c 46%) is to mid- to large-cap stocks between £5bn and £20bn, with c 42% in large- to mega-caps and c 12% in small- to mid-caps. Kerley has no exposure to basic materials, healthcare, consumer services or utilities stocks. Compared with the whole BNKR portfolio, the Pacific allocation is overweight oil & gas, telecoms, financials and technology, and underweight industrials and consumer goods. Kerley outperformed a falling market in FY18, assisted by a low weighting in internet

stocks, and good returns from holdings such as HKT Trust (Hong Kong’s main telecom company) and Australia’s Macquarie Bank.

- **China ‘A’ shares (14 stocks and 5.4% of the portfolio)** – after a stellar FY17, when it returned 55.3% versus 15.1% for the local market (both in sterling terms), Charlie Awdry’s ‘A’ share portfolio underperformed in FY18, mainly due to foreign investors selling out of the high-quality, large-cap stocks Awdry favours, in the period of market volatility from mid-2018 onwards. Awdry aims for a relatively concentrated portfolio. During FY18 he sold several of the previous year’s strongest performers, as they had rerated to a point where their valuations no longer looked favourable. The portfolio has no exposure to oil & gas, telecoms or utilities. Relative to BNKR as a whole, it is very overweight consumer goods (particularly beverages) and industrials, overweight technology (mainly hardware, rather than highly rated internet stocks) and basic materials, and underweight healthcare, consumer services and financials, where Awdry eschews banks and only holds Ping An Insurance, the portfolio’s largest position at 11.5%.
- **Emerging markets (12 stocks and 2.5% of the portfolio)** – Nicholas Cowley manages BNKR’s small non-Asian emerging markets allocation, which is mainly invested in South Africa, Brazil and Mexico. The portfolio has exposure to only five sectors, with no holdings in oil & gas, basic materials, healthcare, telecoms or technology. The allocation to consumer goods (mainly food and beverages) and financials (mainly banks) make up almost two-thirds of the total. Compared with the whole BNKR portfolio, the emerging markets portion is also overweight utilities and consumer services, but underweight industrials. Its two largest holdings are both beverage companies: Mexico’s Femsa, which is the second-largest shareholder in Heineken and also owns the local Coca-Cola bottler (Coca-Cola Femsa); and another Coke bottler, Coca-Cola Hellenic Bottling, listed in London but operating mainly in Southern Europe and Russia.

**Exhibit 3: Regional portfolio and index returns in FY18 (all in sterling)**



Source: The Bankers Investment Trust, Edison Investment Research. Note: \*Local FTSE indices except China 'A' share, which is CSI300 index.

## Current portfolio positioning

At 28 February 2019, there were 193 stocks in the BNKR portfolio, a slight decrease from 197 a year earlier. The top 10 holdings made up 16.0% of the total, a marginal increase in concentration from 14.0% at 28 February 2018.

In geographical terms (Exhibit 4), North America is the largest weighting (albeit still far below the benchmark weight), followed by the UK. Although both have increased as a percentage of the whole over the past 12 months, the direction of travel for UK equities has been generally downwards for more than three years, while US exposure has gently risen. The largest fall in exposure over the past year was in Pacific ex-Japan (which includes Hong Kong). While the UK weighting is several times that of the FTSE World index, the picture is quite different when considered by sources of revenue rather than country of listing. In terms of revenues, the portfolio is split broadly one-third each between North America, emerging markets and rest of the world (UK,

Europe, Japan and developed Asia), with the UK accounting for just 10.9% of portfolio company revenues (as at end-FY18). Crooke says that while this is still well above the UK's 5.9% weighting in the benchmark, and there is scope for it to fall further, the UK exposure is less domestically focused than it was a few years ago, with largest UK holding Diageo deriving c 95% of its revenues from overseas.

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

	Portfolio end-February 2019	Portfolio end-February 2018	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/index weight (x)
North America	29.8	27.2	2.6	60.2	(30.4)	0.5
UK	26.0	24.9	1.1	5.9	20.1	4.4
Europe ex-UK	16.3	16.4	(0.1)	15.1	1.2	1.1
Pacific ex-Japan	14.7	17.5	(2.8)	8.0	6.7	1.8
Japan	10.8	11.3	(0.5)	8.5	2.3	1.3
Emerging markets	2.4	2.7	(0.3)	2.4	0.0	1.0
	<b>100.0</b>	<b>100.0</b>		<b>100.0</b>		

Source: The Bankers Investment Trust, Edison Investment Research

In sector terms (Exhibit 5), the biggest bets are a large (c 10pp) overweight in consumer goods and a c 5pp underweight in technology. The technology underweight has increased over the past 12 months and Crooke says the regional managers are concentrating their tech exposure in innovative names that can deliver on expectations. There is a cyclical tilt to the overall portfolio, with biases to consumption in Asia and European industrials. While the pro-cyclical exposure was a headwind for BNKR's performance as markets sold off in the second half of 2018, Crooke says he believes the market is overly worried about the possibility of a global recession. This is giving rise to very attractively valued opportunities in unloved consumer-facing stocks that are well placed to benefit from higher spending as a result of wage growth, which is running at c 3–3.5% in the US and UK, both of which have historically high levels of employment. The largest sector weighting is in financials, where the portfolio is overweight financial services and European banks, and underweight real estate and insurance.

**Exhibit 5: Portfolio sector exposure vs benchmark (% unless stated)**

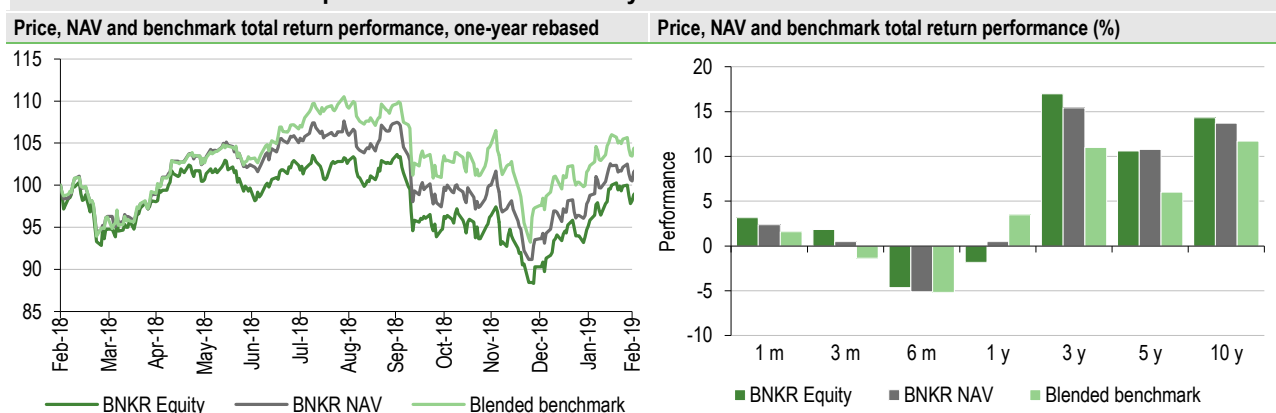
	Portfolio end-February 2019	Portfolio end-February 2018	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/index weight (x)
Financials	22.5	23.0	(0.5)	21.1	1.4	1.1
Consumer goods	21.0	20.3	0.7	11.3	9.7	1.9
Industrials	15.4	15.7	(0.3)	13.4	2.1	1.2
Technology	10.3	12.1	(1.8)	15.1	(4.8)	0.7
Consumer services	9.4	11.0	(1.6)	11.3	(1.9)	0.8
Healthcare	8.4	5.1	3.3	11.6	(3.2)	0.7
Basic materials	4.5	3.4	1.1	4.4	0.1	1.0
Oil & gas	3.7	4.7	(1.0)	5.9	(2.2)	0.6
Telecommunications	3.4	3.4	0.0	2.8	0.7	1.2
Utilities	1.3	1.2	0.1	3.3	(2.0)	0.4
	<b>100.0</b>	<b>100.0</b>		<b>100.0</b>		

Source: The Bankers Investment Trust, Edison Investment Research

Currently all of the top 10 holdings (see Exhibit 1) are US-listed companies. While the more growth-orientated US portfolio has a lower dividend yield than BNKR as a whole, Crooke says dividend growth is strong, with many companies delivering double-digit percentage increases year-on-year.

## Performance: Strong long-term record remains intact

**Exhibit 6: Investment trust performance to 28 February 2019**



Source: Refinitiv, Edison Investment Research. Note: Three, five and 10-year performance figures annualised. Blended benchmark is FTSE All-Share until 31 October 2017 and FTSE World index thereafter.

**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*	1.5	3.2	0.6	(5.1)	17.1	23.7	26.1
NAV relative to blended benchmark*	0.7	1.9	0.1	(2.9)	12.4	24.7	19.4
Price relative to FTSE World Index	1.5	3.2	0.6	(5.1)	5.0	(5.9)	0.6
NAV relative to FTSE World Index	0.7	1.9	0.1	(2.9)	0.8	(5.2)	(4.7)
Price relative to FTSE All-Share	0.9	(0.7)	(1.0)	(3.5)	22.8	29.8	32.2
NAV relative to FTSE All-Share	0.1	(2.0)	(1.5)	(1.2)	17.9	30.8	25.2

Source: Refinitiv, Edison Investment Research. Note: Data to end-February 2019. Geometric calculation. \*Blended benchmark is FTSE All-Share until 31 October 2017 and FTSE World index thereafter.

BNKR has bounced back somewhat from the recent global stock market sell-off, posting positive NAV total returns over one, three and 12 months, albeit somewhat negative over six months (Exhibit 6). Its NAV and share price total returns have also outperformed the benchmark (FTSE All-Share index until 31 October 2017 and FTSE World index thereafter) over one, three and six months, and three, five and 10 years.

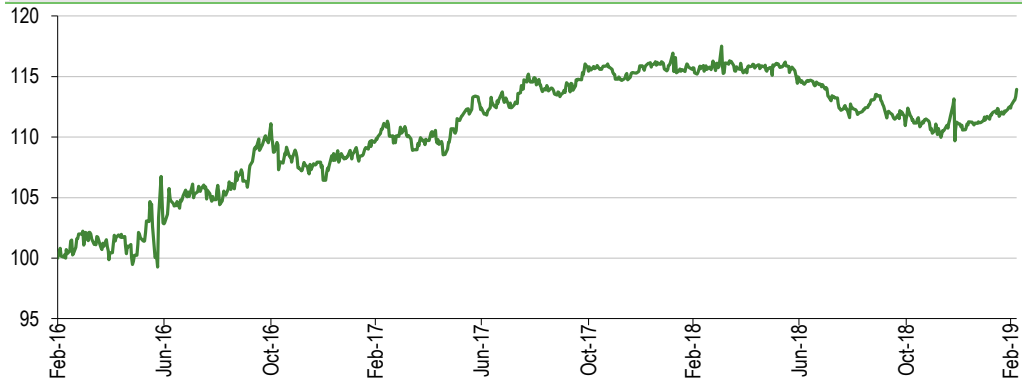
In FY18 (see Exhibit 3) BNKR's regional portfolios outperformed local benchmarks in North America, Europe ex-UK, Pacific ex-Japan and emerging markets. The UK, Japanese and China 'A' share portfolios all underperformed. Crooke notes that it was a difficult year for value and quality-biased investors, as once again momentum drove markets, and there was no observable 'flight to quality' during the late 2018 sell-off. North America was the only region, in terms of both BNKR and the local benchmarks, to post positive absolute performance in sterling terms (the Japanese index was essentially flat), with Ian Warmerdam's US stock picks returning 15.7% versus 10.8% for the local FTSE index. However, BNKR remains significantly underweight the US versus global indices (it makes up c 57% of the FTSE World index), so in asset allocation terms, the US detracted. Japan had contributed positively until the market sold off late in the financial year, while a small underperformance of the China 'A' share index was relatively insignificant when viewed against the magnitude of outperformance in previous years (+40.2pp in FY17).

Stock selection contributed positively in North America, Europe ex-UK and Pacific ex-Japan. Crooke reports that in the UK, some mid-cap holdings such as Ted Baker, Pets at Home and Connect Group performed poorly in FY18, and tobacco stocks also detracted. In sector terms, the overweight position in financials and the underweight in oil & gas made a positive contribution, while the overweight position in consumer goods and the underweight position in technology detracted. The top five positive stock contributors relative to the FTSE World index were all US stocks (Apple, Microsoft, Amazon, Union Pacific and Mastercard), while the biggest relative



detractors were a mixture of UK (British American Tobacco, Connect Group), Pacific ex-Japan (Netease, sold during the period), Europe ex-UK (Deutsche Post) and Japan (Fujitsu, also sold during the period).

**Exhibit 8: NAV total return performance relative to blended benchmark over three years**



Source: Refinitiv, Edison Investment Research

As shown in Exhibit 7, notwithstanding underperformance of both indices over one year to 28 February 2019, BNKR has broadly outperformed the FTSE World index over the short to medium term, and the FTSE All-Share index in the medium to long term, in both share price and NAV total return terms. Relative to the blended benchmark (Exhibit 8), NAV total return performance has ticked up since the start of the year, after a negative second half of 2018.

## Discount: Trading in a narrow range close to NAV

At 21 March 2019, BNKR's shares traded at a 0.9% discount to cum-income NAV. This is narrower than the 1.8% average discount over the past 12 months and significantly narrower than the averages over three, five and 10 years, which range from 3.2% to 6.0%. However, it does represent a widening from the small premium at which the shares traded in the early part of 2018. Discount volatility has been low over the past 18 months (in spite of stock market volatility having been higher), with the shares trading in a narrow range between a c 1.5% premium and a c 4.0% discount to NAV. While BNKR does have the ability to buy back or issue shares in order to manage a discount or premium, this has not been necessary in recent times as the shares have tended to trade close to NAV.

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



Source: Refinitiv, Edison Investment Research

## Capital structure and fees

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BNKR is a conventional investment trust with one class of share, although its shares are listed in both London and New Zealand. At 21 March 2019, there were 122.6m shares in issue. While the board has authority to buy back or issue shares to manage a discount or a premium, there have been no changes to the number of shares in issue since 2016, when BNKR was one of two rollover vehicles for Henderson Global Trust (HGL).

The trust is structurally geared via £50m of 20-year loan notes, issued in 2015 with a coupon of 3.68%, and a £15m debenture with an interest rate of 8%, maturing in 2023. This gross gearing of c 5.9% (based on 21 March 2019 net assets) is partly offset by cash and net gearing stood at 3.0% at 28 February. During FY18, BNKR arranged a new £20m bank loan (increasing the available gearing to c 8%), although this facility has not yet been drawn. Net gearing has remained in a narrow range of 2.0–4.0% over the last 12 months.

Janus Henderson Investors is paid an annual management fee of 0.45% of the first £750m of net assets and 0.40% above £750m, calculated quarterly. There is no performance fee. Ongoing charges for FY18 were 0.50%. This was a slight increase on 0.44% in FY17; however, the prior year reflected a period when management fees were capped following the HGL rollover. Transaction costs and other expenses were lower in FY18 than in FY17.

## Dividend policy and record

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Along with its stalemate, City of London Investment Trust, and Alliance Trust, BNKR has the joint-longest record of unbroken annual dividend increases for an investment trust, at 52 years. BNKR pays dividends quarterly, in May, August, November and February. Total dividends of 19.72p were paid for FY18 (two dividends of 4.86p and two of 5.0p), an increase of 6.0% on the 18.6p paid in respect of FY17. The dividend was fully covered by earnings per share (EPS) of 20.78p, and BNKR has revenue reserves of c 24.5p per share (based on the reserve at 31 October 2018 after deducting the third and fourth dividends), which is 1.24x the latest annual dividend per share. Crooke notes that portfolio companies paid fewer special dividends in FY18 compared with FY17 – a trend he expects to continue in FY19 – although FY18 EPS was still higher than the prior year, suggesting a healthy level of underlying dividend growth.

One of BNKR's objectives is to grow its dividend in excess of RPI inflation, and with compound annual dividend growth of 6.9% over the past five financial years versus 2.4% for RPI, it has comfortably achieved this objective. The board has forecast dividend growth of c 6.0% for FY19, which would suggest total dividends of at least 20.9p for the current financial year. So far, one interim dividend of 5.1p has been declared. Based on the current share price and the last four dividends, BNKR has a yield of 2.3%.

## Peer group comparison

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BNKR is a member of the Association of Investment Companies' Global sector, which contains many of the largest and longest-established investment trusts. Below in Exhibit 10 we show the 11 largest funds, with market capitalisations above £500m, as well as the averages for the 21-strong sector as a whole. BNKR is the median fund by size in the subset shown. Its NAV total return performance has been slightly above the subset average over one year, marginally below average over three and five years, and somewhat further below average over 10 years, although in absolute terms it has produced annualised NAV total returns of more than 10% over all but the one-year period. The average performance for the whole sector is slightly higher than for the subset of large

funds over one and five years, and slightly lower over three and 10 years. BNKR's ongoing charges are below average and there is no performance fee. Its discount to NAV and gearing are both below the averages for the large funds, and its dividend yield is above the average for both this group and the sector as a whole. It is worth noting that the averages are somewhat skewed by the very strong performance of two Baillie Gifford-managed funds, Edinburgh Worldwide and Scottish Mortgage, which both have more than half their assets invested in the US and a focus on technology stocks – two areas that have contributed prominently to global stock market performance in recent years. Excluding these two, BNKR has outperformed the average of the large funds over one, three, five and 10 years.

**Exhibit 10: Global investment trusts above £500m market capitalisation as at 19 March 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
<b>Bankers</b>	<b>1,075.3</b>	<b>4.0</b>	<b>54.7</b>	<b>73.1</b>	<b>260.1</b>	<b>0.5</b>	<b>No</b>	<b>(1.1)</b>	<b>103</b>	<b>2.3</b>
Alliance Trust	2,485.1	2.9	51.2	73.0	224.5	0.6	No	(4.9)	105	1.8
BMO Global Smaller Companies	791.4	(1.1)	41.0	64.1	394.1	0.6	No	(1.9)	105	1.1
British Empire	799.6	(0.2)	59.7	55.3	184.4	0.9	No	(9.1)	106	1.8
Edinburgh Worldwide	536.1	11.7	92.5	98.6	426.3	0.8	No	2.8	108	2.3
F&C Investment Trust	3,762.3	3.9	51.7	78.8	261.2	0.6	No	0.9	107	1.6
Law Debenture Corporation	688.4	2.7	36.6	43.8	262.2	0.3	No	(10.1)	103	3.2
Monks	1,831.1	2.7	74.2	82.7	259.1	0.5	No	4.3	106	0.2
Scottish Investment Trust	617.7	2.1	39.5	50.7	188.1	0.4	No	(8.2)	100	2.6
Scottish Mortgage	7,362.4	2.7	94.8	136.5	604.8	0.4	No	2.6	109	0.6
Witan	1,837.4	1.0	44.6	65.3	267.8	0.8	Yes	(2.4)	111	2.4
<b>Subset average (11 funds)</b>	<b>1,980.6</b>	<b>2.9</b>	<b>58.2</b>	<b>74.7</b>	<b>302.9</b>	<b>0.6</b>		<b>(2.5)</b>	<b>106</b>	<b>1.8</b>
<b>BNKR rank in subset</b>	<b>6</b>	<b>2</b>	<b>5</b>	<b>5</b>	<b>7</b>	<b>8</b>		<b>5</b>	<b>9</b>	<b>4</b>
<b>Sector average (21 funds)</b>	<b>1,190.1</b>	<b>3.8</b>	<b>57.6</b>	<b>80.9</b>	<b>293.9</b>	<b>0.6</b>		<b>0.0</b>	<b>104</b>	<b>1.9</b>
<b>BNKR rank in sector</b>	<b>6</b>	<b>6</b>	<b>8</b>	<b>10</b>	<b>12</b>	<b>16</b>		<b>9</b>	<b>12</b>	<b>8</b>

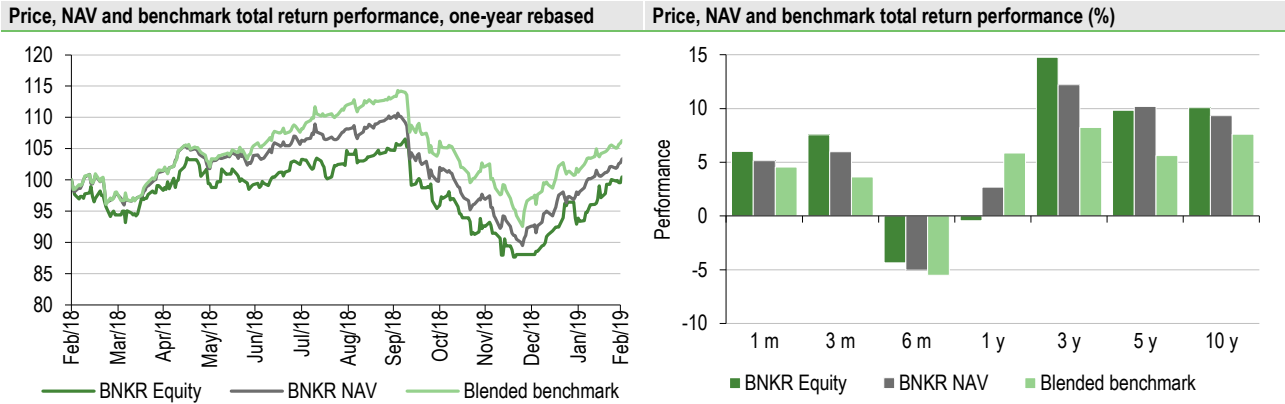
Source: Morningstar, Edison Investment Research. Note: \*Performance to 18 March 2019 based on ex-par NAV. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

## The board

There are currently four directors on BNKR's board, all non-executive and independent of the manager. Sue Inglis joined the board in 2012, became senior independent director in 2015, and has served as chairman since January 2019, following the retirement of Richard Killingbeck. Julian Chillingworth, appointed in 2015, is now the senior independent director. Isobel Sharp became a director in 2017 and is chairman of the audit committee. The newest director, Richard Huntingford, was appointed in September 2018. The directors have professional backgrounds in corporate finance, fund management, accountancy and media/marketing.

## Performance tables in New Zealand dollar terms

**Exhibit 11: Investment trust performance – in New Zealand dollar terms to 28 February 2019**



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

BNKR has a long-standing secondary listing on the New Zealand Stock Exchange and in Exhibits 11 and 12 we present the trust's performance in New Zealand dollar terms. Over five years, sterling and NZ dollar investors have seen broadly the same returns of c 10% a year in both share price and NAV total return terms. Recent sterling strength has increased returns (or limited losses) for NZ dollar investors over one, three, six and 12 months, while over 10 years, a weaker pound has meant NZ investors have seen annualised total returns of 10.1% (share price) and 9.3% (NAV), compared with 14.3% and 13.7% respectively for sterling investors.

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

12 months ending	Share price (%)	NAV (%)	Blended benchmark (%)	FTSE World (%)	FTSE All-Share (%)
28/02/15	9.6	16.1	8.1	19.9	8.1
29/02/16	(3.6)	(1.0)	(4.1)	1.9	(4.1)
28/02/17	15.5	9.4	(0.0)	11.8	(0.0)
28/02/18	31.5	25.8	19.8	19.0	15.8
28/02/19	(0.4)	2.7	5.9	5.9	4.1

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

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