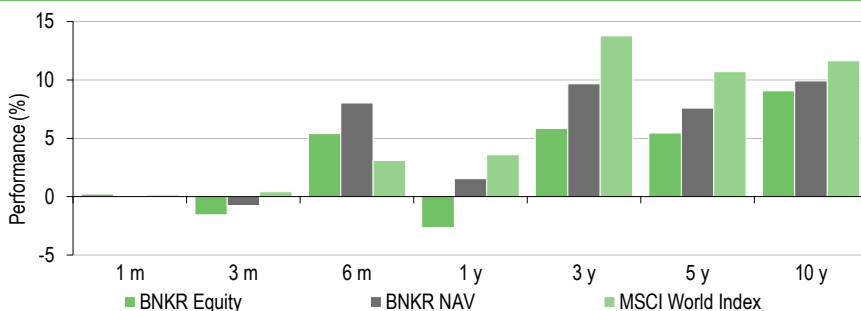


# The Bankers Investment Trust

Well positioned for the current environment

The Bankers Investment Trust (BNKR) has been managed by Alex Crooke, co-head of equities at Janus Henderson Investors (JHI), since July 2003. It can be considered as a 'one-stop shop' for global equity exposure as the fund is made up of six geographic portfolios (sleeves), which harness the talent of JHI's regional specialists. Crooke (in conjunction with the board) sets BNKR's asset allocation and manages its gearing. He believes that inflation will remain elevated, and that future shareholder total returns will be more balanced between income and capital growth, which will play into the trust's strengths. While BNKR's income growth lagged the rate of UK inflation in FY22, the manager is confident in the prospects for the trust's income generation. He highlights BNKR's top 10 holdings, which are dominated by US companies; higher income from these businesses is supporting the trust's overall income stream. BNKR has paid an annual dividend for the last 132 years, and FY22 marked the 56th year of consecutive growth.

## BNKR's performance over the last decade (to end-April 2023)



Source: Refinitiv, Edison Investment Research

## The analyst's view

An environment of more balanced shareholder returns should favour BNKR's dual mandate of above-market capital growth and annual dividend growth above the level of UK inflation. While the trust has lagged the performance of its global benchmark, primarily due an underweight US exposure, a market that has outperformed global equities for the majority of years over the last decade, BNKR's absolute returns are very respectable. Over the last 10 years, it has generated annual NAV and share price returns of 9.9% and 9.1%, respectively. Data from JHI show that an inflation-adjusted £10k invested in the trust in 1973 would have grown to c £114k by 2022.

## Scope for a higher valuation

BNKR's discount has been in a widening trend since early 2022. There is scope for a higher valuation if the trust can narrow the performance gap versus its benchmark. However, to provide some perspective, it has above-average total returns versus the 13 funds in the AIC Global sector over the last one, three and five years. BNKR's 10.9% discount to cum-income NAV is wider than the 2.4% to 7.9% range of average discounts over the last one, three, five and 10 years.

**NOT INTENDED FOR PERSONS IN THE EEA**

Investment trusts  
Global equities

3 May 2023

**Price** 99.4p  
**Market cap** £1,263m  
**Total assets** £1,597m

NAV\* 111.6p

Discount to NAV 10.9%

\*Including income. At 28 April 2023.

Dividend yield 2.4%

Shares in issue 1,270.8m

Code BNKR

Primary exchange LSE

AIC sector Global

Financial year end 31 October

52-week high/low 108.2p 93.0p

NAV\* high/low 116.4p 102.8p

\*Including income.

## Gearing

Net gearing\* 5%

\*At 31 March 2023.

## Fund objective

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 CPI inflation, by investing in companies listed throughout the world. BNKR has one of the longest records of year-on-year dividend growth for an investment trust. It is listed on the London Stock Exchange with a secondary listing in New Zealand.

## Bull points

- Six geographic sleeves harness the best ideas from regional specialists.
- Very commendable dividend track record – 56 consecutive years of higher annual payments.
- Competitive, tiered fee structure.

## Bear points

- Structural underweight US exposure has contributed to underperformance versus the benchmark.
- Persistently high inflation could mean that high stock market volatility continues.
- High number of portfolio holdings; hence, successful smaller positions do not move BNKR's performance needle.

## Analyst

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## **The manager's view: Expecting more balanced returns**

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Alex Crooke comments that FY22 (which ended on 31 October 2022) was a tough period, and one of the hardest during his tenure at BNKR, with underperformance versus the benchmark. He says that investors are used to falling markets as a result of economic and financial crises; however, the 2022 downturn was different. Stock markets declined due to the rapid rise in inflation, to levels not seen since the 1980s, and central banks were forced to aggressively increase interest rates to try to combat higher prices. Crooke notes that in this challenging market environment even quality names underperformed, either due to being over-owned or because their valuations were too high. He comments that energy was the only place to hide in 2022 and BNKR has an underweight position compared with its benchmark.

Chinese equity returns were very poor last year because of the country's zero-COVID approach, but the market rebounded in November 2022 after the policy pivot and rapid reopening of the economy. The manager highlights the relatively strong performance of the UK market in 2022, which was supported by its defensive names and dollar strength boosting multinational companies' overseas earnings. Crooke explains that BNKR's growth sleeves, North America, China and Europe, suffered as investor preference was for value shares, although growth shares have outperformed over the longer term. During 2022, the shares of major-cap companies outperformed, while those of small- and mid-cap businesses lagged, primarily due to valuations derating rather than earnings disappointing.

Crooke believes that inflation rates will come down further, but tight labour markets with wage growth and low unemployment, and savings accumulated during the global pandemic yet to be fully spent, mean that inflation is likely to remain above central bank targets. The manager says that in the United States, while interest rates could be close to peaking, they could stay higher for longer; he considers it unlikely that the Federal Reserve will return to its prior very low interest rate policy.

Future shareholder returns are likely to be more balanced between income and capital, rather than capital growth dominating, as has been the case in recent years, opines Crooke. He expects US outperformance will fade, having outpaced the world market for nine years over the last decade. The US market has been supported by the performance of large-cap technology stocks and these businesses are now facing increased regulatory scrutiny. The manager considers that there could be a faster economic recovery in Europe than in the United States and Europe could deliver superior earnings growth. Crooke believes that BNKR, with its dual mandate of capital and income growth, is set up nicely for an environment of more balanced shareholder returns.

## **Change of North American portfolio manager**

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Following the end of FY22, Jeremiah Buckley succeeded Gordon Mackay as BNKR's North America portfolio manager. Crooke explains that following a reorganisation in mid-December 2022, the US sleeve is now more balanced with a P/E multiple in line with the US market rather than at a premium. It has a higher return on investment and a higher dividend yield. While the new portfolio has lower sales and earnings growth, the manager has more confidence in these estimates than when the fund held more technology companies. BNKR's credit card exposure has been reduced and there are more traditional financial holdings such as Morgan Stanley and JPMorgan; a higher bank weighting provides more interest rate and less transaction-based exposure. Buckley has a positive outlook for the healthcare sector and exposure has increased. Within technology, there has been a shift from software to more hardware, in particular a higher semiconductor exposure. The technology weighting is lower due to both weak share price performance and portfolio activity.

Crooke explains that the change in manager means that BNKR's US sleeve now has a different style. Buckley has been managing money for nearly 25 years and has a US large-cap focus. He has a consistent, conservative approach, seeking high-quality companies with robust balance sheets that generate strong cash flows, so they can invest and pay dividends during periods of economic weakness, and where managements' interests are aligned with those of long-term investors. Crooke believes that this strategy is suitable for the current environment and considers that Buckley has a similar approach to that employed by BNKR for the last 30 to 50 years.

## Peer group comparison

BNKR is one of 13 funds in the AIC Global sector, which includes many of the largest and oldest UK investment trusts; they follow a variety of investment mandates. The trust is characterised by a focus on both long-term capital and income growth and is broadly diversified via its six geographic sleeves. BNKR can be considered as a core global equity fund, with a bias towards larger-cap companies and, in aggregate, is style neutral (although the regional sleeves employ different investment approaches).

The trust's NAV total returns are above the peer-group averages over the last one, three and five years ranking sixth, sixth and eighth respectively, while lagging over the last decade. However, the 10-year average is skewed by the outsized returns of two funds. Lindsell Train's holding in its own unlisted fund manager has been an important performance contributor and makes up more than 40% of its portfolio. Scottish Mortgage has a growth bias and around 30% of the portfolio is made up of unlisted companies. If these two funds are excluded, BNKR's NAV total return is comfortably ahead of the average over the last decade. Its discount is above average in a sector where just one of the funds is trading at a premium. BNKR has a very competitive ongoing charge, ranking third, and no performance fee is payable. The trust currently has a below-average level of gearing and a dividend yield that is 10bp higher than the sector mean.

**Exhibit 1: AIC Global sector at 2 May 2023\***

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
Bankers Trust	1,263.1	2.0	33.3	43.0	156.4	(10.8)	0.5	No	105	2.4
Alliance Trust	2,824.3	4.8	47.1	47.1	154.8	(6.2)	0.6	No	105	2.5
AVI Global Trust	898.8	(1.8)	56.0	37.5	117.6	(9.8)	0.9	No	108	1.8
Brunner Investment Trust	452.5	7.1	55.2	51.8	151.3	(11.9)	0.6	No	106	2.0
F&C Investment Trust	4,592.2	0.4	42.1	45.1	169.3	(5.2)	0.5	No	107	1.5
Keystone Positive Change	125.5	0.8	(7.8)	(29.9)	2.2	(15.4)	0.9	No	109	5.5
Lindsell Train	207.0	5.1	20.5	67.0	374.4	(4.9)	0.8	Yes	100	5.1
Manchester & London	155.1	(1.0)	(13.4)	10.3	66.3	(14.6)	0.7	Yes	100	3.6
Martin Currie Global Portfolio	261.2	9.2	26.0	55.1	168.5	0.7	0.7	No	111	1.2
Mid Wynd Int'l Investment Trust	439.7	(3.8)	32.7	54.4	204.9	(2.4)	0.6	No	101	1.0
Monks Investment Trust	2,220.3	(1.7)	24.8	39.2	173.8	(11.2)	0.4	No	106	0.2
Scottish Mortgage	8,617.4	(27.0)	22.5	66.0	376.9	(21.8)	0.3	No	116	0.6
Witan	1,493.7	4.0	43.6	25.4	128.8	(9.2)	0.8	Yes	113	2.6
<b>Simple average (13 funds)</b>	<b>1,811.6</b>	<b>(0.2)</b>	<b>29.4</b>	<b>39.4</b>	<b>172.7</b>	<b>(9.4)</b>	<b>0.6</b>		<b>107</b>	<b>2.3</b>
<b>BNKR rank</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>8</b>	<b>7</b>	<b>8</b>	<b>3</b>		<b>9</b>	<b>6</b>

Source: Morningstar, Edison Investment Research. Note: \*Performance to 28 April 2023. Based on cum-fair NAV. TR, total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

**Exhibit 2: Five-year discrete performance data**

12 months ending	Share price (%)	NAV (%)	MSCI World (%)	CBOE UK All companies (%)
30/04/19	7.8	9.6	13.1	2.5
30/04/20	2.0	(0.2)	(0.2)	(17.2)
30/04/21	28.9	28.8	33.0	25.3
30/04/22	(5.5)	0.9	6.9	9.1
30/04/23	(2.6)	1.5	3.6	7.0

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

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