The Brunner Investment Trust

A fund for all seasons

Investment trusts
Global equities

4 March 2022

The Brunner Investment Trust's (BUT) lead manager is Allianz Global Investors' (AllianzGI) Matthew Tillett, who is supported by deputy managers Christian Schneider and Marcus Morris-Eyton. The trust has had three consecutive financial years of outperformance versus its benchmark, a time that has included significant market rallies and setbacks, along with periods of growth and value stock leadership. BUT's managers invest for the long term, focusing on high-quality, reasonably priced growth companies. Following a period of improved relative performance, the trust's NAV total return now ranks second out of 17 funds in the AIC Global sector over the last 12 months, is above average over the last three years and is broadly in line over five years.

BUT's NAV versus the benchmark over the last three years (Tillett became lead manager on 13 May 2020)

Source: Refinitiv, Edison Investment Research. Note: Total returns in sterling.

The analyst's view

BUT has what may be described as an 'all weather approach' as it has demonstrated its ability to outperform during varied investment backdrops. The trust has a relatively concentrated portfolio of c 65 high-quality global equities with c 15% of the fund invested in companies with a sub-$10bn market cap, and its managers aim to generate long-term growth in both capital and income. In FY21, BUT's income exceeded Tillett's expectation, and the dividend is once again fully covered. The trust now has a 50-year record of consecutive dividend increases and revenue reserves equivalent to c 1.2x the latest annual payment. As global stock markets have got off to a rocky start in 2022, the manager has taken the opportunity to add to some of his high-conviction positions that have sold off, while taking profits in companies that have re-rated. Tillett believes that 2022 will be a year that favours successful stock pickers, and he is eager to build on his long-term performance track record. BUT is ahead of its benchmark over the last one, three, five and 10 years in both NAV and share price terms.

Scope for an even higher valuation

While BUT's discount has narrowed over the last year, one may argue that based on the trust's improved recent relative performance, there may be further to go. BUT is currently trading at an 8.6% discount to cum-income NAV versus a 10.3% to 10.5% range of average discounts over the last one, three and five years.

Price		**1,010p**
Market cap		**£431m**
AUM		**£502m**
NAV*		1,104.5p
Discount to NAV		8.6%
*Including income. As at 3 March 2022.		
Yield		2.0%
Ordinary shares in issue		42.7m
Code/ISIN		BUT/GB0001490001
Primary exchange		LSE
AIC sector		Global
52-week high/low	1,130.0p	858.0p
NAV* high/low	1,229.0p	996.8p
*Including income		
Net gearing*		6.9%
*As at 31 January 2022.		

Fund objective

The Brunner Investment Trust aims to provide growth in capital value and dividends over the long term through investing in a portfolio of global equities. Its benchmark is a composite of 70% All-World ex-UK (£) Index and 30% All-Share Index.

Bull points

- Balanced portfolio of global equities, aiming to generate both capital and income growth.
- Long-term record of outperformance versus its benchmark and 50 consecutive years of higher dividends.
- Scope for a higher valuation.

Bear points

- The fund is likely to underperform in a market led by very high growth or deep-value stocks.
- Structural gearing of £25m will amplify capital losses in a market sell-off.
- Dividend modestly below peer-group average.

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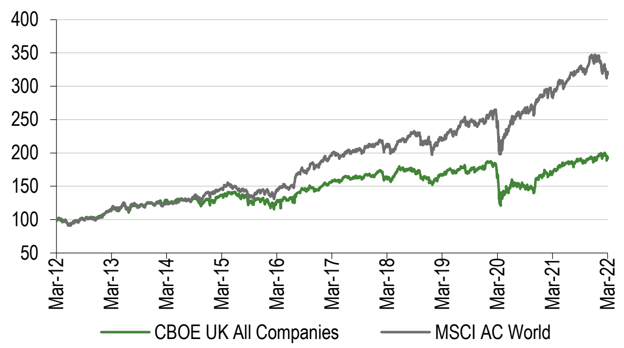
Market outlook: Be prepared for more volatility

As shown in Exhibit 1 (left-hand side) global stocks have recovered remarkably well from the sharp pandemic induced stock market sell-off in Q120. Stocks have been supported by continued loose monetary policies and fiscal programmes, and corporate earnings have generally exceeded consensus expectations. However, 2022 has started with a period of elevated stock market volatility as higher-than-expected inflation has put increased pressure on central banks to raise, or consider raising, interest rates. Many market participants have not experienced periods of high inflation and rising rates, as monetary policies have remained generally loose since the onset of the global financial crisis in 2007. Hence, it is unsurprising that the changing environment is proving to be unsettling for some. In addition, there has been a marked stock market rotation away from growth and into value/cyclical stocks and there is heightened political tension, with Russian troops having invaded Ukraine. Equity valuations have moderated somewhat, but as shown in Exhibit 2 (right-hand side) the Datastream World Index's 15.8x forward P/E multiple remains at a 6% premium to its 10-year average. Given the uncertain investment backdrop, a selective approach is likely to prove beneficial. Focusing on high-quality growth companies with competitive advantages and pricing power, and trading on reasonable valuations, while taking a longer-term view, would appear to be a sensible option during a period of above-average stock market volatility.

Exhibit 1: Market performance and valuation

Performance of indices (past 10 years in £ terms)



Datastream World Index valuation metrics (at 1 March 2022)

	Last	High	Low	10-year average	Last as % of average
P/E 12 months forward (x)	15.8	19.8	10.4	14.9	106
Price to book (x)	2.2	2.4	1.3	1.8	122
Dividend yield (%)	2.1	3.4	1.8	2.4	86
Return on equity (%)	13.6	13.7	7.2	10.8	126

Source: Refinitiv, Edison Investment Research

The fund manager: Matthew Tillett

The manager's view: Importance of Federal Reserve policy

Tillett is happy with BUT's results in FY21, having notched up a third consecutive year of outperformance versus its benchmark, commenting that 'the trust did what it is supposed to do'. He explains that the fund delivered steady performance without many 'wild swings', which the manager considers to be encouraging. In addition, BUT's income was higher than Tillett had expected, and the trust's dividend was once again covered.

The manager highlights 'spectacular stock market rotation' in early 2022 with growth stocks selling off and value stocks outperforming. He suggests that this has been the 'biggest rotation of the pandemic' with growth stocks having fallen more than value stocks have risen. The manager explains that market strength in recent years has been dependent on the US Federal Reserve's easy money policy, which continued in 2010 outside of the global financial crisis. He suggests the impact of this action has been underestimated, as when the US central bank has subsequently tried to tighten monetary policy it has not made much progress as this has caused equity markets to sell off, and led to pressures in the housing market and negative economic effects. Tillett comments that 'the link between easy money and the economy is much stronger now than it was 20 years ago'. He says that in 2020–21 there has been a speculative part of the market, which he refers to as 'spec tech'; companies with 'few revenues, no profits and crazy valuations'. There were also the 'meme' stocks that rallied strongly fuelled by retail investors. The manager notes that these two areas have been selling off since late 2021 but were masked by the performance of large-cap stocks, which until recently had supported the overall stock market while the frothier areas weakened. Tillett says that now, more-established technology stocks are selling off as investors reprice the value of their future cash flows in a rising interest rate environment, such as portfolio companies Accenture and Microsoft. He believes that these remain 'great long-term growth stories' with strong fundamentals but investors need to ascertain 'what is the correct valuation for a great business'.

Drawing on recent company meetings, the manager reports that demand for products and services is strong. However, firms are experiencing supply chain issues and higher input costs, which are spilling over into wage inflation. Tillett says that the important issue is whether this will be sustained; he believes that if US inflation continues to run above 5%, it will be difficult for the Federal Reserve to do anything else but tighten monetary policy; he suggests that inflation is the most important macroeconomic factor for 2022. The manager highlights risks from higher interest rates both in terms of their impact on equity valuations and removing speculative froth from the stock market, but also in terms of fundamental business risk. Tillett comments that it is tough for companies with no pricing power, as they are unable to pass on higher costs; hence, their margins get squeezed.

Current portfolio positioning

At end-January 2022, BUT's top 10 holdings made up 32.1% of the portfolio, which was a higher concentration compared with 30.8% a year earlier; eight positions were common to both periods.

Exhibit 2: Top 10 holdings (as at 31 January 2022)

Company	Country	Sector	Portfolio weight %	
			31 Jan 2022	31 Jan 2021*
Microsoft	US	Software & computer services	5.0	4.6
UnitedHealth	US	Healthcare equipment & services	4.6	3.7
Visa	US	Financial services	3.4	2.5
Adidas	Germany	Sportswear manufacturer	3.2	N/A
Taiwan Semiconductor	Taiwan	Technology hardware & equipment	2.9	3.4
Munich Re	Germany	Non-life insurance	2.9	2.6
Roche	Switzerland	Pharmaceuticals & biotechnology	2.8	3.1
CooperCompanies	US	Healthcare equipment & services	2.7	2.8
Schneider Electric	France	Energy management & automation	2.3	N/A
AbbVie	US	Pharmaceuticals & biotechnology	2.3	2.4
Top 10 (% of portfolio)			**32.1**	**30.8**

Source: The Brunner Investment Trust, Edison Investment Research. Note *N/A where not in end-January 2021 top 10.

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

	Portfolio end-Jan 2022	Portfolio end-Jan 2021	Change (pp)	Benchmark weight	Active weight vs b'mark (pp)	Trust weight/ b'mark weight (x)
North America	45.4	45.8	(0.4)	45.3	0.1	1.0
Europe ex-UK	27.0	27.8	(0.8)	9.5	17.5	2.8
UK	21.4	18.7	2.7	30.0	(8.6)	0.7
Pacific ex-Japan	3.7	4.9	(1.2)	9.0	(5.3)	0.4
Japan	2.6	2.8	(0.2)	4.6	(2.0)	0.6
Latin America	0.0	0.0	0.0	0.6	(0.6)	0.0
Middle East & Africa	0.0	0.0	0.0	1.0	(1.0)	0.0
	100.0	**100.0**		**100.0**		

Source: The Brunner Investment Trust, Edison Investment Research. Note: Excludes cash. Numbers subject to rounding.

During 2021, the most notable changes in the trust's geographic exposure were a 2.7pp higher UK weighting and a 1.2pp lower exposure to Pacific ex-Japan. Compared with the benchmarks, the largest active weights are Europe ex-UK +17.5pp and UK -8.6pp.

We are unable to provide a year-on-year comparison for BUT's sector weightings due to changes in sector classifications during the last 12 months. The trust's notable active weights are overweight positions in healthcare (+9.8pp) and industrials (+7.4pp) and underweight exposures in consumer staples (-5.5pp) and technology (-3.5pp).

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

	Portfolio end-January 2022	Benchmark weight	Active weight vs benchmark (pp)	Trust weight/ benchmark weight (x)
Healthcare	20.4	10.6	9.8	1.9
Industrials	20.2	12.8	7.4	1.6
Financials	18.9	17.2	1.7	1.1
Technology	14.2	17.7	(3.5)	0.8
Consumer discretionary	13.9	13.8	0.1	1.0
Consumer staples	3.1	8.5	(5.5)	0.4
Utilities	3.1	3.0	0.1	1.0
Basic materials	2.9	4.9	(2.0)	0.6
Energy	1.9	5.6	(3.6)	0.3
Real estate	1.5	3.0	(1.5)	0.5
	100.0	**100.0**		

Source: The Brunner Investment Trust, Edison Investment Research. Note: Excludes cash. Numbers subject to rounding.

Commenting on BUT's portfolio activity, Tillett says that he is looking for long-term opportunities in the larger-cap growth names in the portfolio. He increased the position in **Visa**, which had sold off due to pandemic-related weakness in its travel business. The company generates very high margins, and the manager is expecting the strong 15%+ annualised earnings growth of the previous decade to continue for the foreseeable future as the firm harnesses the ongoing shift from cash to digital transactions and the growth of e-commerce. Tillett highlights **Adidas** as another stock 'with a compelling long-term case'; he has added to BUT's position following share price weakness. It is the number two global sportswear manufacturer behind Nike and moving to a more digitalised customer offering, which offers scope for higher margins. The manager says that Adidas's business has been negatively affected by the pandemic. Lockdowns in Vietnam have led to hiccups in the company's manufacturing supply chain and it has a meaningful presence in China, which has been negatively affected by lockdowns and Chinese boycotting of western brands. Tillett has also added to **Yum China** (a 2016 spin-off from US Yum Brands) following share price weakness. He considers the company is well run with western management practices. Yum China is the largest quick service restaurant operator in China with low brand penetration, meaning the firm has a long growth runway. The manager views frequent lockdowns in China as temporary operational setbacks. Tillett has been taking profits on positions that have performed well during the pandemic and re-rated, such as **Accenture**, **Agilent** and **Microsoft**.

Tillett took advantage of market weakness in January 2022 to initiate two new positions in Adobe and Close Brothers. **Adobe** is a US software platform, which is dominant in creative industries and offers a range of products including Photoshop and Acrobat Reader. Its business has moved into the cloud; Adobe was one of the first software companies to move to an online subscription model. The manager explains that the firm is very profitable due to the standardised nature of the product offering, with a platform that makes it very easy to add new products. Adobe's shares are typically expensive but came down during the market rotation to a more reasonable valuation, according to the manager.

Close Brothers is a UK specialist bank; the manager has a preference for high-quality specialist rather than mainstream lenders. The company provides asset-backed financing to clients such as property developers and small- to medium-sized enterprises with asset-backed business models, as well as niche end markets such as insurance premium finance. The manager reports that Close

Brothers has a history of strong risk-adjusted returns and has a high net interest margin of c 700bp and a low- to mid-teens return on equity. It did not dilute shareholders by raising money in the global financial crisis or during the pandemic. While Close Brothers' dividend was cut during the pandemic, this was not out of economic necessity, but due to a regulatory requirement. Tillett says that the bank is not interest rate sensitive, so investors have gravitated away from it recently towards mainstream UK banks in anticipation of further interest rate hikes. Close Brothers owns Winterflood Securities and an asset management business that together generate around 20% of the company's profits. Excluding these two operations means that the bank is trading on a valuation of under 1.0x book value. It is well capitalised with mid- to high-single-digit earnings growth and a c 5% dividend yield.

Last October, the manager added **Paragon Bank** to BUT's portfolio. The company is a specialist lender, primarily to buy-to-let professional landlords. Its operations require manual underwriting, and its business is not well covered by the major UK banks. Paragon has a relatively high net interest margin and a good track record in terms of risk control and bad debts according to the manager. It owns a large book of business that was written before the global financial crisis when spreads were tighter than they are today, and is now in runoff; hence, writing new business is more profitable. Tillett sold the holding in **Lloyds Banking Group** to fund the Paragon position following a rally in its shares. The manager says that the UK banking sector provides a good level of income, but it is difficult to find quality firms with a positive return on equity regardless of the interest rate environment.

In September 2021, the manager initiated a position in **Homeserve**, which provides home repair and emergency services, primarily in the US and the UK. The business model leverages the customer base of utility company partners. Homeserve is well established in the UK and has taken time to gain scale in the US, where the market is more fragmented than in the UK, but its business there is growing rapidly and now generates more than 50% of the company's total profits. Homeserve also owns online find a builder business Checkatrade.com, in which it invested a considerable amount of capital and which has just reached profitability. The founder of Homeserve owns a large stake in the firm, which is an entrepreneurial business with a management team that is prepared to invest time and money in new operations.

Also, last September Tillett sold BUT's holding in **Enel** due to a changing view on the outlook for renewable energy businesses. The position was initiated a few years ago along with one in Iberdrola as their valuations were compelling and their renewables operations were underappreciated. Enel has an attractive growth pipeline of wind and solar assets, but is now facing increased competition. The manager believes that the strong inflows of capital to the sector is something of a red flag as oil companies are now bidding for renewable assets, putting pressure on future projects' returns. Earlier in 2021, the positions in both Enel and Iberdrola were reduced with the proceeds reinvested in **National Grid**, which is a major beneficiary of the energy transition towards cleaner fuels and Tillett believes that its margins are not at risk from increased competition due to the regulated nature of its business.

Performance: Building on long-term positive record

In FY21 (ending 30 November), BUT's net asset value (NAV) and share price total returns of +21.5% and +27.1% respectively were ahead of the benchmark's +21.1% total return. This was the third consecutive financial year of outperformance and the comment from the trust's chair succinctly sums up the achievement: 'it is particularly pleasing to see this outperformance in the radically different market conditions of these years'. The largest positive contributors, each delivering +0.7pp to BUT's relative return, were the fund's holdings in Novo Nordisk, Microsoft, Partners Group, Intuit and Accenture. On the other side of the ledger were the trust's positions in Bright Horizons Family

Solutions (-0.7pp) and Visa, Adidas and Munich Re (all -0.6pp), along with not holding Alphabet and Nvidia (both -0.6pp).

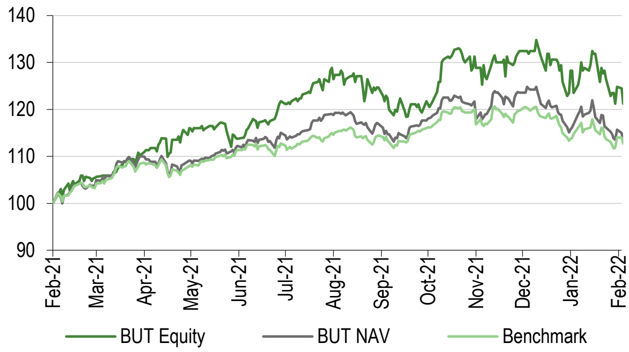
Exhibit 5: Five-year discrete performance data

12 months ending	Share price (%)	NAV* (%)	Benchmark** (%)	CBOE UK All Companies (%)	MSCI All World ex-UK (%)
28/02/18	17.9	12.7	7.3	4.4	8.1
28/02/19	0.9	(0.5)	3.0	1.6	3.3
29/02/20	11.9	9.6	5.9	(2.1)	9.4
28/02/21	7.1	15.4	15.4	2.8	20.5
28/02/22	24.5	15.0	14.0	16.7	12.5

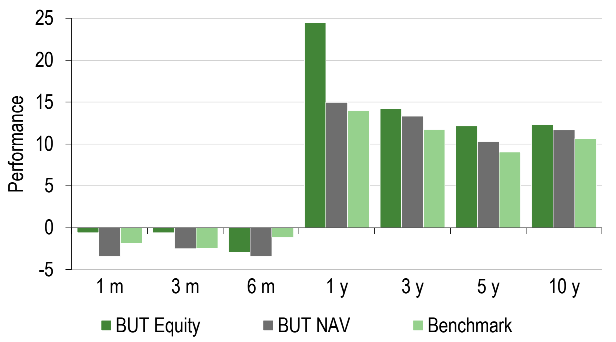
Source: Refinitiv. Note: All % on a total return basis in pounds sterling. *NAV with debt at market value. **From 22 March 2017, benchmark is 70% All-World ex-UK and 30% All-Share Index.

Exhibit 6: Investment trust performance to 28 February 2022

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.

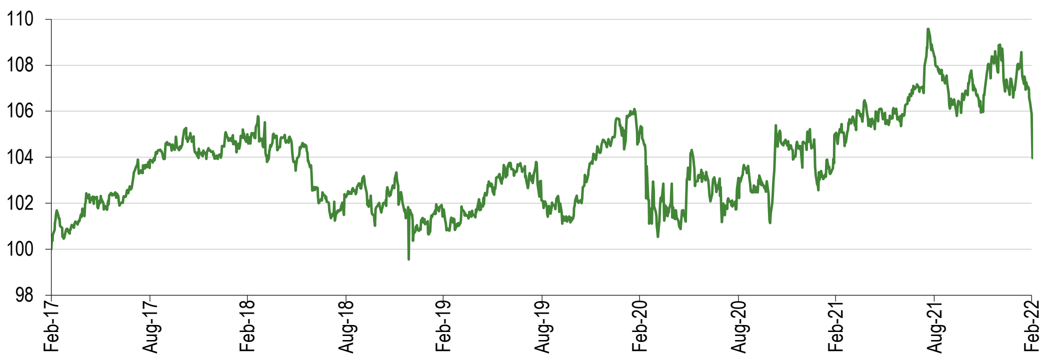
Looking at BUT's relative performance in Exhibit 7, it has outperformed the benchmark over the last one, three, five and 10 years in both NAV and share price terms. The performance versus the broad UK market is even more pronounced, highlighting the potential merit of investing overseas.

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 benchmark	1.3	1.9	(1.8)	9.2	7.0	15.2	16.4
NAV relative to benchmark	(1.6)	(0.1)	(2.3)	0.9	4.4	5.9	9.7
Price relative to CBOE UK All Companies	(0.5)	(4.8)	(5.6)	6.7	27.0	42.4	64.4
NAV relative to CBOE UK All Companies	(3.4)	(6.6)	(6.1)	(1.5)	23.9	30.9	55.0
Price relative to MSCI All World ex-UK	2.1	5.1	0.1	10.7	0.6	7.0	(3.4)
NAV relative to MSCI All World ex-UK	(0.7)	3.1	(0.4)	2.2	(1.9)	(1.6)	(9.0)

Source: Refinitiv, Edison Investment Research. Note: Data to end-January 2022. Geometric calculation.

Exhibit 8: NAV performance versus benchmark over five years



Source: Refinitiv, Edison Investment Research

Peer group comparison

BUT is one of 17 funds in the AIC Global sector. The peers follow a variety of mandates, and Tillett categorises the trust as one of the 'core' funds in the group with its balanced approach aiming to generate both capital and income growth. BUT is a straightforward equity fund with no unlisted exposure and its quality approach means that it is more likely to invest in long-term growth opportunities rather than hyper-growth, more speculative businesses. The manager reports that some investors favour BUT's high-conviction, more concentrated portfolio (c 65 stocks and c 15% small- and mid-cap exposure) rather than those of its more diversified 'core' peers such as Bankers Investment Trust, F&C Investment Trust and Witan Investment Trust.

Following a period of improved relative performance, BUT's NAV total returns are now above average over the last one and three years, broadly in line over the last five years, while lagging over the last decade. The one-year performance is particularly commendable, ranking second out of 17 funds and 13.5pp above the mean. BUT is ranked fourth over three years, 10th over five years and 11th (out of 16 funds) over the last 10 years. The trust's discount is currently wider-than-average, it has a competitive ongoing charge and a level of gearing that is modestly below the mean. BUT's 2.0% dividend yield is 20bp lower than the sector average.

Exhibit 9: AIC Global sector at 2 March 2022*

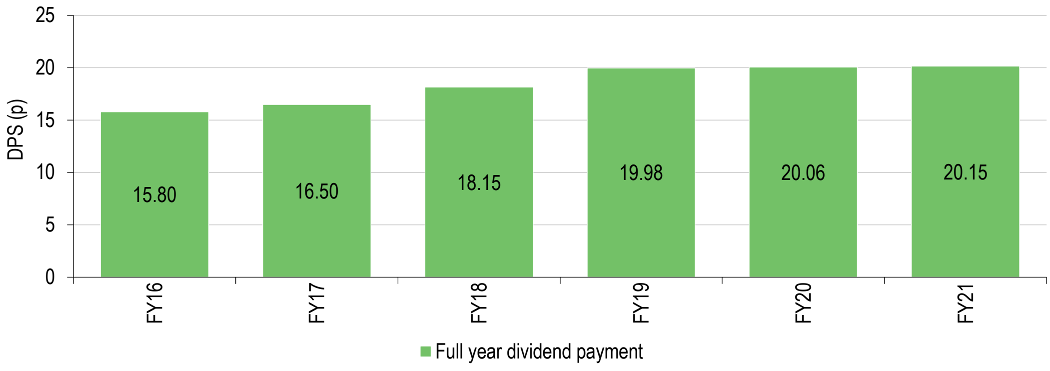
% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
Brunner Investment Trust	439.7	10.1	41.7	52.6	169.4	(8.2)	0.6	No	106	2.0
Alliance Trust	2,918.3	5.7	36.4	53.5	183.6	(6.8)	0.7	No	106	2.0
AVI Global Trust	956.4	5.7	38.7	49.8	164.6	(9.0)	0.8	No	101	1.7
Bankers Investment Trust	1,410.2	4.7	36.9	55.0	196.5	(4.4)	0.5	No	107	2.0
Blue Planet Investment Trust	6.7	(52.9)	(47.1)	(51.1)		(31.6)	4.3	No	144	3.9
EP Global Opportunities Trust	105.2	10.0	8.7	16.1	114.3	(12.1)	1.0	No	100	2.1
F&C Investment Trust	4,424.0	8.8	40.1	57.7	213.1	(8.6)	0.5	No	110	1.4
JPMorgan Elect Managed Growth	269.1	5.0	32.6	48.7	182.2	(3.9)	0.5	No	100	1.7
Keystone Positive Change Inv	140.9	(17.4)	(21.9)	(23.4)	34.9	(10.8)	0.5	No	108	4.9
Lindsell Train Investment Trust	236.0	(4.8)	39.3	117.8	490.7	6.5	0.8	Yes	100	4.2
Manchester & London Inv Trust	188.1	(13.9)	20.4	60.1	92.0	(15.8)	0.8	Yes	100	3.0
Martin Currie Global Portfolio	287.9	(5.1)	37.3	53.7	196.9	(1.8)	0.6	No	108	1.3
Mid Wynd International Inv Trust	485.3	7.9	55.5	79.4	239.9	0.8	0.6	No	103	0.8
Monks Investment Trust	2,498.8	(16.3)	44.0	75.9	205.7	(7.1)	0.4	No	104	0.2
Scottish Investment Trust	577.0	15.0	12.0	16.7	110.1	(2.5)	0.6	No	100	2.8
Scottish Mortgage Inv Trust	14,253.6	(20.9)	107.0	191.0	601.3	(1.4)	0.3	No	112	0.4
Witan Investment Trust	1,645.4	0.3	22.5	34.7	169.7	(7.2)	0.8	Yes	113	2.5
Average (17 funds)	**1,814.3**	**(3.4)**	**29.7**	**52.2**	**210.3**	**(7.3)**	**0.8**		**107**	**2.2**
BUT rank in sector	**10**	**2**	**4**	**10**	**11**	**11**	**10**		**8**	**10**

Source: Morningstar, Edison Investment Research. Note: *Performance to 1 March 2022 based on ex-par NAV. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

Dividends: 50-year run of higher payments

BUT has a very distinguished dividend history; its annual distributions have now increased for the past 50 consecutive years, at an average rate above the level of UK inflation. In FY21, the trust's earnings per share of 20.4p were 27.5% higher than the pandemic-induced depressed level of 16.0p in FY20. The annual dividend was increased by 0.4% to 20.15p per share. BUT's revenue reserves, after taking the proposed final dividend into account, is 24.7p per share, which is equivalent to c 1.2x the FY21 distribution. Based on its current share price BUT offers a 2.0% dividend yield.

Exhibit 10: Dividend history since FY16

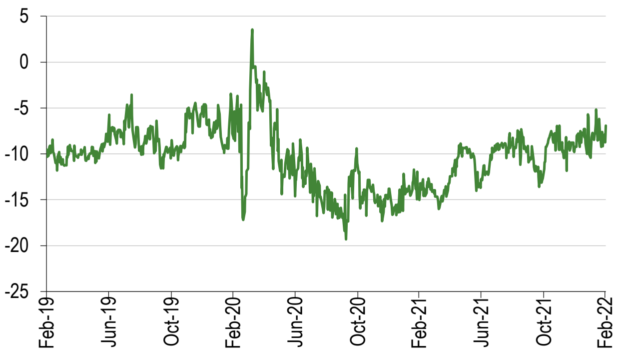


Source: Bloomberg, Edison Investment Research

Valuation: Discount is narrowing

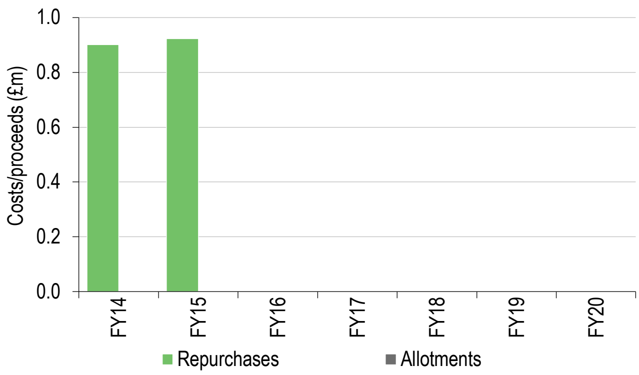
The board is encouraged by BUT's narrowing discount. There had been a significant overhang in the company's shares as Aviva announced its decision to sell its 20% holding in the trust following its 2015 acquisition of Friends Provident; Aviva's residual holding was sold in April 2021. The trust's higher valuation may also be a result of improved investment performance. While c 29% of BUT's share base is owned by the Brunner family, there are multiple owners within the family, some of whom trade their shares. The trust is currently trading at an 8.6% discount to cum-income NAV compared with a 5.2% to 16.0% range of discounts over the last 12 months. Over the last one, three, five and 10 years, BUT's average discounts are 10.4%, 10.3%, 10.5% and 12.0% respectively.

Exhibit 11: Discount over three years (%)



Source: Refinitiv, Edison Investment Research

Exhibit 12: Buybacks and issuance



Source: Morningstar, Edison Investment Research

Fund profile: Balanced focus on growth and income

BUT is one of the oldest UK investment trusts, having launched in January 1927, and is listed on the Main Market of the London Stock Exchange. Matthew Tillett has been lead manager since 13 May 2020, having been deputy manager since 2016. BUT also has two deputy managers, Christian Schneider, who is deputy CIO of AllianzGI's global growth team, and Marcus Morris-Eyton, who is a growth equity specialist. The trust aims to generate long-term growth in capital and income from a diversified portfolio of global equities, and measures its performance against a composite benchmark (70% World ex-UK index and 30% broad UK index, versus a 50:50 split until 21 March 2017). To mitigate risk, a maximum 10% of gross assets (at the time of investment) may be invested in a single holding, while the portfolio must contain at least 50 stocks. Gearing of up to 20% of NAV (at the time of borrowing) is permitted; at end-January 2022, net gearing was 6.9%. BUT has a long-term record of dividend growth: its annual distribution has increased in each of the past 50 consecutive years, compounding at a rate higher than the level of UK inflation.

Investment process: Fundamental stock selection

Manager Tillett and deputy managers Schneider and Morris-Eyton aim to generate long-term capital growth and a growing level of income from a portfolio of global equities that is diversified by geography and sector. BUT's portfolio of 60–80 stocks, where c 85% is invested in companies with market caps greater than $10bn, is selected from an investible universe of c 6,000 securities. Positions may be sold if there is a change in the investment case, on valuation grounds or if a better opportunity is identified. Portfolio turnover is c 20% pa, implying around a five-year holding period. The managers employ AllianzGI's stock selection process, which is based on three pillars:

- **Quality** – seeking companies with stable or improving, above-average returns (key features are long-term competitive advantages, operating in a business with high barriers to entry, strong balance sheets, well-respected management teams and sound environmental, social and governance (ESG) credentials).
- **Growth** – looking for firms experiencing long-term secular growth, while avoiding those in structural decline.
- **Valuation** – a range of methods is employed, focusing on companies that are trading at a discount to their perceived intrinsic value, not just assessing how 'cheap' a company is.

AllianzGI's investment team is very well resourced, and along with portfolio managers and analysts focusing on fundamental research includes ESG specialists, the proprietary Grassroots market research platform and online discussion platform Salesforce Chatter.

BUT's approach to ESG

While AllianzGI has considered ESG factors in its research for many years, BUT's portfolio is now employing an integrated ESG strategy. This approach aims to incorporate material ESG risk considerations into BUT's investment process, seeking to obtain a better risk/return profile for the fund. An analytical framework is used to manage tail risks and/or weaknesses in a company's ESG profile. The integrated ESG approach does not restrict the investment universe, but BUT's managers are required to monitor ESG risks for each portfolio holding. ESG analysis is considered to be an integral part of BUT's fundamental research process and AllianzGI believes that there is a link between integrated ESG analysis and enhanced long-term shareholder value.

Every stock researched is considered in terms of its ESG credentials. If the managers are considering initiating a position in a company with a low ESG rating, they need to understand the issues and be able to justify the purchase (some low ratings relate to a lack of disclosure rather than bad behaviour). BUT's managers regularly engage with investee companies, which has multiple benefits including enriching investment analysis and decision making and helping to assess a firm's leadership and culture. These meetings are not just about holding managements to account, but also about influencing company strategy, maybe in conjunction with other shareholders, and promoting effective governance, to help improve long-term performance. In particular, there is a focus on the sustainability of companies' business models and factors such as the environmental impact of their operations, social policies and capital management.

Shell is a portfolio company with which BUT's managers have had multiple ESG discussions. Major oil companies have historically not featured highly in the portfolio, but Tillett believes that the industry's quality is improving after many years of poor capital allocation. As the energy transition towards cleaner fuels progresses in the coming decades, energy companies that have effectively positioned themselves for these changes could thrive. The manager suggests that Shell's pivot to natural gas combined with its strength in downstream distribution and marketing makes the company well positioned for the future. In 2021, Shell set out an ambitious long-term strategy 'Powering Progress' aiming to reach net zero emissions by 2050 on a scope 3 basis, the full measure that includes the emissions of customers' use of its products as well as those generated by the company itself.

While not universally applauded, BUT's managers are supportive of Shell's plan as the company is distributing and marketing three times the amount of energy that it produces itself. This puts the firm in a strong position to work with customers to reduce their overall emissions, such as by adopting new technologies that Shell has developed such as sustainable aviation fuel and nature-based solutions to offset emissions. However, buy-in from other parties will be required, such as end-users and host governments.

Gearing

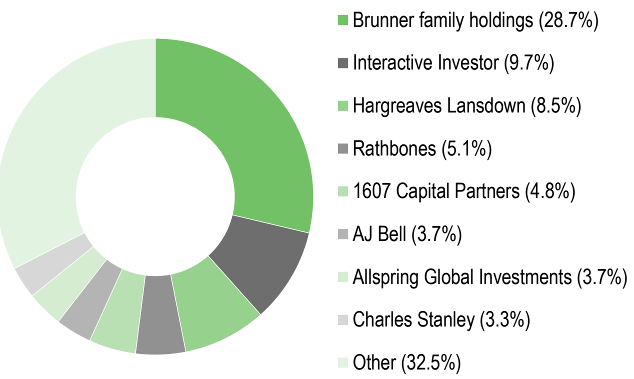
BUT's capital structure improved significantly following the repayment of two high-cost (11.125% and 9.25%) debentures in 2018. It now has £25m of fixed-rate 30-year 2.84% loan notes (repayable on 28 June 2048), a £10m short-term revolving credit facility (RCF) and £0.5m of 5% cumulative preference shares. The RCF is fully drawn down, its interest rate is set each month and is made up of a fixed margin plus SONIA. Under this agreement, £7.5m was rolled over on 27 December 2021 and £2.5m was rolled over on 19 January 2022, with a maturity date of 25 June 2022. At end-January 2022, BUT's net gearing was 6.1%.

Fees & charges

AllianzGI is paid an annual management fee of 0.45% of net assets minus short-term liabilities, excluding any funds managed by AllianzGI; it is charged in a 70:30 ratio between the capital and revenue accounts. In FY21, ongoing charges were 0.63%, which was 1bp lower year-on-year.

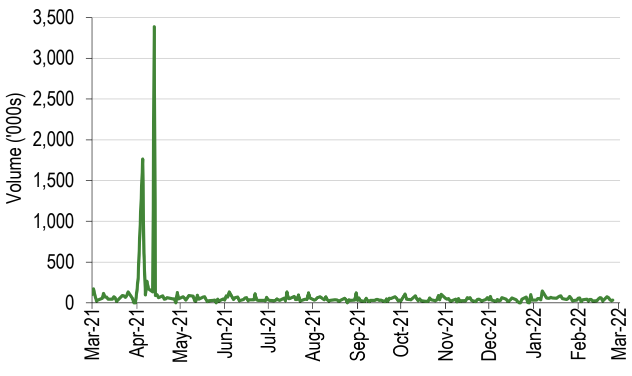
Capital structure

Exhibit 13: Major shareholders



Source: The Brunner Investment Trust, as at 31 January 2022.

Exhibit 14: Average daily volume



Source: Refinitiv. Note: 12 months to 14 February 2022.

BUT is a conventional investment trust with 42.7m ordinary shares in issue. As discussed earlier, the trust's largest shareholder is the Brunner family, who control around 29% of the share base.

At end-FY21, BUT’s shareholder base was split as follows: wealth managers 24.1% (vs 21.0% at end-FY20); investment platforms 28.0% (vs 21.3%); other retail 29.5% (vs 29.4%); institutions 15.8% (vs 25.8%); and other 2.6% (vs 2.5%). There is increased retail demand for the trust’s shares as evidenced by the higher weightings at wealth managers and investment platforms offset by lower demand from institutional holders, partly due to Aviva selling its residual BUT holding. The higher retail ownership has been helped by AllianzGI’s efforts to promote the trust to a wider audience. Over the last 12 months, the trust’s average daily trading volume was c 75k shares.

The board

Exhibit 15: BUT’s board of directors

Board member	Date of appointment	Remuneration in FY21	Shareholding at end-FY21
Carolan Dobson (chair since March 2016)	December 2013	£39,000	4,750
Peter Maynard	October 2010	£28,000	4,000
Jim Sharp	January 2014	£26,000	117,043
Amanda Aldridge	December 2019	£32,000	4,000
Andrew Hutton	April 2020	£26,000	6,000

Source: The Brunner Investment Trust

BUT’s board currently has five independent, non-executive directors. It aims to have board members with backgrounds in investment, accountancy, law and a director with commercial expertise, who has a connection to the Brunner family, in order to provide a balanced line-up; Jim Sharp is connected to the Brunner family by marriage. The board is seeking a new director to replace Peter Maynard, who is due to step down later in 2022. He has stayed on the board beyond his planned retirement date to provide continuity during the pandemic.

General disclaimer and copyright

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