The Bankers Investment Trust

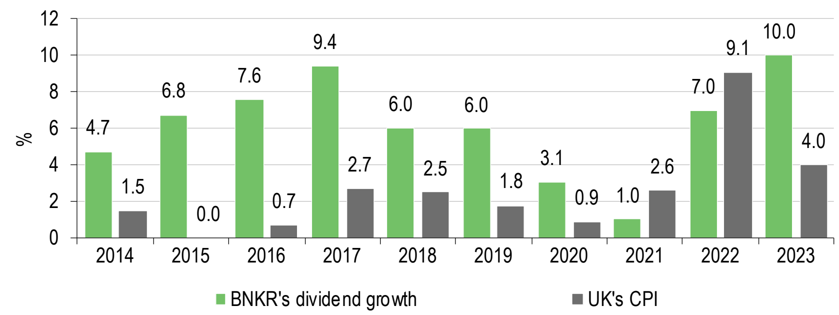
Greater investment flexibility may boost returns

Investment trusts
Global equities

24 May 2024

The Bankers Investment Trust (BNKR) focuses on cash-generating companies and FY23 (ended 31 October 2023) was its 57th consecutive year of dividend growth. Dividends rose by 10%, maintaining the trust's track record of above inflation dividend growth over the long term (see chart below). The board expects dividends to rise by at least 5% in FY24. While this is commendable, BNKR's recent relative total return performance has been adversely affected by its lack of exposure to most of the so-called Magnificent Seven US tech stocks, which the manager, Alex Crooke, has avoided as they do not pay dividends. However, BNKR's board has recently indicated that it will adopt a more flexible approach to using revenue reserves. This will enable the manager to invest in a broader pool of investments. This greater flexibility has the potential to deliver better capital returns, while ensuring the trust keeps delivering progressive dividend growth.

BNKR's dividend growth consistently exceeds UK inflation*



Source: LSEG, Edison Investment Research. Note: *Dividends paid from BNKR's fiscal year profits (ending 31 October), while CPI is for calendar years.

The analyst's view

- BNKR is potentially interesting for investors seeking a global equities portfolio that is geographically balanced and style neutral, with a dual focus on growth and income. As such, the trust is a 'one-stop shop' for global equity exposure.
- The trust's target of delivering dividend growth ahead of UK inflation should appeal to investors seeking regular, inflation-proof income.
- BNKR's US underweight, combined with its focus on both growth and income, means NAV total return (TR) has not fully captured the rally in US stocks over recent years – the trust returned 17.0% in NAV terms over the three years ended 30 April 2024, underperforming its benchmark, which rose by 30.4%. However, recent performance has been stronger in absolute and relative terms; in the six months ended 30 April 2024, BNKR delivered a return of 17.5%, versus a benchmark return of 16.6%. Also, the greater investment flexibility the board has indicated it will grant could help further improve future total returns.
- The trust's current discount to NAV of around 11% is significantly wider that its historical average of less than 4% and has scope to narrow back towards its longer-term average as rates begin to fall, market conditions improve and BNKR's performance benefits accordingly.

NOT INTENDED FOR PERSONS IN THE EEA

Price		**114.0p**
Market cap		**£1,347.5m**
Total assets		**£1,754.0m**
NAV*		128.5p
Discount to NAV		11.3%
*Including income. At 21 May 2024.		
Dividend yield		2.2%
Shares in issue		1,182.0m
Code/ISIN		BNKR/GB00BN4NDR39
Primary exchange		LSE
AIC sector		Global
Financial year end		31 October
52-week high/low	117.0p	92.3p
NAV* high/low	128.7p	106.3p
*Including income.		

Gearing

Net gearing (at 30 April 2024) 6%

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

- Very commendable dividend track record – 57 consecutive years of growing annual payments.
- Six geographic sleeves harness the best ideas from regional specialists.
- One of the lowest ongoing charges of any actively managed equity fund.

Bear points

- Structural underweight US exposure has contributed to underperformance versus the benchmark.
- High number of portfolio holdings, which means successful smaller positions do not move BNKR's performance needle.
- Gearing increases the portfolio's exposure to adverse market developments.

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EDISON

BNKR: Scope for dividend growth and better returns

A balanced, diverse trust focused on growth and income

BNKR's manager, Alex Crooke, searches the world for 'good companies', which he defines as high-quality, dividend-paying stocks offering yields of 2–5%. More specifically, he targets well-run, cash-generative businesses, with control over their own destiny and the means to pay off debt, increase the quality of their equity, invest in growth and grow their dividend. The strategy employs a balanced approach, with a focus on both growth and income and, while Crooke is not a value investor, he tries not to overpay for any company relative to its fundamentals. The trust comprises six regional sub-portfolios: UK, North America, Europe ex-UK, Japan, Pacific ex-Japan and China, each with its own manager, whose work is overseen by Crooke and who, in turn, advises him. The strategy places no limits on individual companies or sectors.

Dividends: Still rising and predicted to increase further in 2024

BNKR's dividend payment record is commendable. The trust's focus on cash-generating companies ensured that the financial year ended 31 October 2023 (FY23) was its 57th consecutive year of dividend growth. BNKR paid a dividend of 2.56p/share, a 10% increase on the FY22 dividend of 2.33p and well above the 7% increase projected by the board. This compares with a CPI increase of 4.6% over the year.

The company has a commitment to grow the dividend above inflation over the long term. While over the short term a surge in inflation has surpassed the trust's dividend increase, the dividend rose by a total of 29.8% over the past five years ended 31 October 2023, versus an inflation increase of 23.7%, and by 81.2% over the 10-year period, compared to a 33.2% rise in inflation.

Portfolio income rose by 7% in FY23, exceeding expectations. Revenue totalled 2.72p/share (FY22: 2.34p) due to the payment of some special dividends, as well as dividend growth among portfolio companies. This facilitated the greater than forecast rise in the trust's dividend in FY23 and has laid the basis for a further solid rise in the FY24 dividend. BNKR's board has indicated that the FY24 dividend will increase by at least 5% and the manager has since indicated that he is 'very comfortable' with this forecast, as portfolio income has remained well-supported so far this financial year. A 5% increase would lift the dividend to 2.69p/share and represent a prospective yield of at least 2.5%, based on the current share price.

Underweight to the US has been a drag on performance

BNKR returned 17.0% in NAV terms over the three years ended 30 April 2024, underperforming its benchmark, which rose by 30.4%. However, recent performance has been stronger in absolute and relative terms. In the six months ending 30 April 2024, BNKR delivered a return of 17.5% versus a benchmark return of 16.6%.

The main reason for the underperformance over the past three years is the trust's relatively low exposure to the US market (c 40% vs c 66% in the benchmark), in particular the large US tech names that have been the beneficiaries of investors' excitement about the artificial intelligence (AI) revolution and have dominated the US market accordingly. Four out of the so-called Magnificent Seven (M7) do not pay dividends, and up until the end of FY23, BNKR owned only two of these names – Microsoft and Apple – as the manager is wary of overpaying for forecast growth in this sector when there are companies in other sectors with similar or better growth forecasts, trading at lower valuations. The decision not to hold Meta and Nvidia, in particular, was a drag on returns, including against the company's peers, some of which hold all of the M7. This is reflected in BNKR's relative performance (Exhibit 8). See the peer group comparison section below for further discussion.

Investment pool widened to include zero-yielding stocks

BNKR's investment approach focuses on growth stocks that pay dividends. However, the very strong performance of the non-dividend paying M7 and the associated adverse impact on the trust's relative performance have prompted the board and the manager to review the company's portfolio construction in relation to its low exposure to US non-yielding stocks.

In BNKR's latest annual report, published in January 2024, Chairman Simon Miller said the company 'needs to be more flexible with revenue reserves to enable a broader investment pool'. This suggests to us that the board will begin using revenue reserves to supplement dividend payments, a move that would allow the manager to increase investments in zero-yielding, but potentially rapidly rising stocks. This would provide the portfolio with greater exposure to their potential capital growth, while still ensuring the trust's capacity to deliver progressive dividend growth.

BNKR has ample revenue reserves to supplement dividend payments as and when it chooses to do so. The trust has not drawn on its revenue reserves to partially fund dividend payments since FY21, and revenue reserves totalled £43.5m at end FY23. This equates to 3.5p per share, more than sufficient to fully fund the FY23 dividend payment of 2.56p/share.

Exposure to US non-dividend stocks has risen modestly

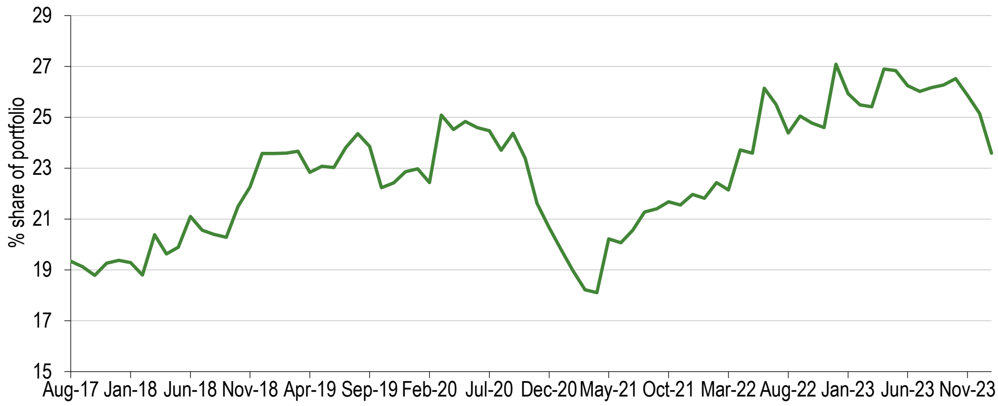
The board's more flexible attitude to the use of revenue reserves has already prompted some, albeit modest, portfolio changes. BNKR's North American portfolio manager, Jeremiah Buckley, has, over recent months, used the intermittent weakness in M7 stocks to open small positions in Amazon, Meta and Alphabet. He and Crooke like Amazon's and Meta's aggressive cost-cutting efforts and believe Alphabet is being more prudent in its capital allocation, with scope for performance to surprise on the upside this year. Yet they remain caution in their approach to these names, and the sector in general, as they believe it is prone to over-exuberance. As an illustration of this caution, they continue to avoid Nvidia. They have concerns that order demand will start to wane in the coming months, leaving the stock vulnerable if revenues ultimately prove insufficient to justify its high valuation.

Despite these recent US acquisitions, and the possibility that exposure to US non-dividend paying stocks may continue to rise if their share prices fall to attractive levels, the manager insists that he will maintain the portfolio's regional diversity and its focus on cash-generative companies.

Portfolio set for improving economic and market conditions

Crooke is positive on the market outlook. With inflation pressures easing, corporate profits resilient and earnings growth good, he expects economic and market conditions to improve as the year progresses and rates begin to fall. He does note, however, that the Fed may only cut rates once or twice this year, as historically it avoids interest rate moves during election run-ups. Crooke predicts that investors will maintain their current enthusiasm for AI-related stocks, and the recent sharp sell-off in the M7 stocks creates a potentially more attractive entry point for those concerned about excessive valuations within this cohort. The manager also expects the Japanese market to continue to do well and he sees scope for the UK market to do better after the forthcoming general election, which should remove some of the uncertainty currently dogging this market. In response to this generally brighter outlook, Crooke has reduced the portfolio's allocation to defensive stocks over recent months (Exhibit 1).

Exhibit 1: BNKR's exposure to defensive* sectors



Source: Morningstar. Note: *Morningstar's defensive super sector, which contains defensive healthcare, utilities and consumer companies.

The manager says that he is 'very happy' with the portfolio as it stands, but nonetheless he remains on the lookout for other compelling investment opportunities, and the company's regional portfolio managers continue to identify stocks from around the world that they believe have the potential to deliver capital and income returns for shareholders. For example, Crooke cites numerous opportunities in Asian equity markets, especially in Japan, where shareholder returns are improving thanks to rising dividends and share buybacks. Crooke also expects strong earnings growth from the Japanese market, supported by an improvement in economic activity. Across the broader market, investors' rush to invest in a handful of AI stocks means that most other quoted companies are trading on 'undemanding valuations', allowing the manager to acquire growth stocks at attractive levels. (See Portfolio allocation section for details of recent portfolio activity.)

Shares trading at a wider than usual discount

BNKR is currently trading at a discount to its NAV of around 11%, which is significantly wider that its historical average of less than 4%. Many investment companies, across a variety of markets and strategies, have seen their discounts widen over the past year or more, as investors have been attracted by the competitive rates on offer from cash and bond investment instruments, although BNKR's discount is wider than the average of its AIC peers (Exhibit 8).

The board has taken advantage of this wider than usual discount to buy back shares. It repurchased a total of 60.6m shares in FY23 (FY22: 18.2m), an activity that is beneficial to ongoing shareholders, as it added 0.5pp to the NAV in FY23. Share buybacks have continued at a faster pace during FY24, with a total of 41.0m shares purchased year to date (as at 21 May 2024). Crooke believes these repurchases are proving effective in supporting the share price, as the discount has narrowed recently. He also notes early signs of a pick-up in retail interest in the trust.

BNKR's discount has scope to continue to narrow back towards its longer-term average if this interest is sustained, or if interest rate falls boost market conditions, and BNKR's performance improves accordingly.

Performance

Exhibit 2: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	MSCI World (%)	CBOE UK All companies (%)	Benchmark (%)
30/04/20	2.0	(0.2)	(0.2)	(17.2)	(1.6)
30/04/21	28.9	28.8	33.0	25.3	33.3
30/04/22	(5.5)	0.9	6.9	9.1	5.6
30/04/23	(2.6)	1.6	3.6	7.0	2.7
30/04/24	14.4	14.3	19.4	7.4	18.5

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

As noted above, BNKR's performance has been strong in outright terms in the six months ended 30 April 2024. Recent returns have been supported by both allocation and stock selection decisions. The allocations to Japan and the UK have performed well, although their contributions to returns have been mostly offset by the adverse impact of the US underweight. The biggest positives at sector level were an underweight to real estate and an overweight to financials, while the underweight to technology and an overweight to consumer discretionary were the main drags.

At the stock level, Japanese, UK and Asian holdings all made positive contributions, notably the Japanese holdings Toyota and Shin-Etsu Chemical, which provides inputs for semiconductors. These three regional portfolios are all relatively value oriented and have done well as value stocks have outperformed in these markets. In the US, the decision not to hold Nvidia was a key detractor, as discussed above, along with positions in Nike and United Healthcare. However, the adverse impact of these positions was partially offset by the good performances of several other positions. Contributors included Microsoft, North American semiconductor equipment suppliers KLA and LAM Research, Trane Technologies, which supplies air conditioning units to data centres, and American Express. Portfolio gearing also enhanced returns in the rising market.

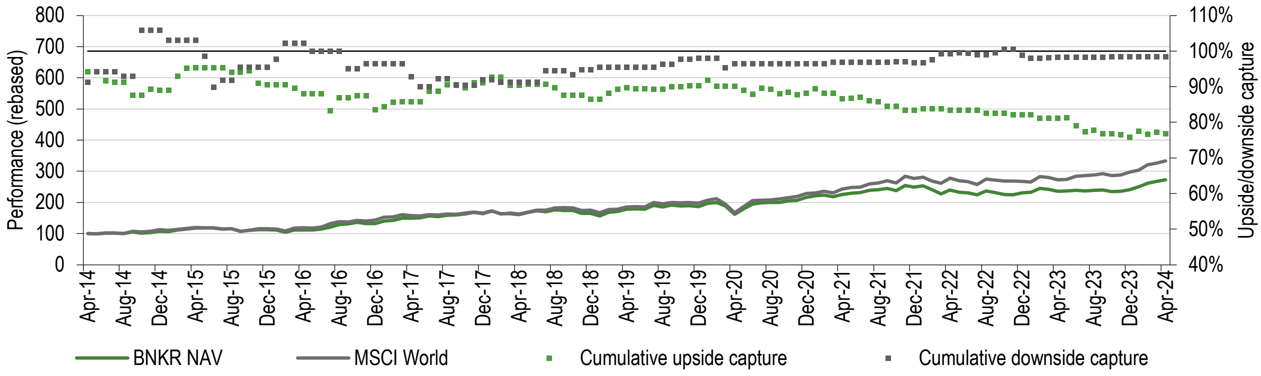
Exhibit 3: BNKR's top contributors to relative performance in FY23

Company	Region	Sector	Contribution (pp)
UniCredit	Continental Europe	Banking	0.46
Apple	North America	IT	0.38
3i Group	UK	Private equity	0.34
Tesla	North America	Auto manufacturer	0.28
Mitsubishi Corp	Japan	Conglomerate	0.27

Source: BNKR

Over the past decade, BNKR's cumulative upside capture was around 77%, demonstrating that the trust is likely to track the market, but underperform in months when the market rallies (Exhibit 4). The trust's upside capture has drifted down in recent years due in part to the performance impact of its lack of exposure to most M7 stocks. On the other hand, the company's downside capture has been steady at almost 100% for around five years, suggesting a tendency to closely track a falling market. This is somewhat surprising given the trust's defensive tilt over recent years.

Exhibit 4: Upside/downside capture over 10 years



Source: LSEG, Edison Investment Research. Note: Cumulative upside/downside capture calculated as the geometric average NAV total return (TR) of the fund during months with positive/negative reference index TRs, divided by the geometric average reference index TR during these months. A 100% upside/downside indicates that the fund's TR was in line with the reference index's during months with positive/negative returns. Data points for the initial 12 months have been omitted in the exhibit due to the limited number of observations used to calculate the cumulative upside/downside capture ratios.

Portfolio allocation

Aside from the acquisition of three more of the M7 stocks, in recent months the manager has also added some exposure to India and Hong Kong, where the market has been under pressure. In the Indian market he has opened positions in the country's leading bank, HDFC, and HDL, a subsidiary of Unilever, which produces household and personal goods. In Hong Kong he purchased ANTA Sports, a sportswear company, Lenovo, which produces personal computers, and HSBC, which was looking 'very cheap' according to Crooke.

These acquisitions have been funded by profit-taking in South Korea (via trims to positions in South Korean banks and telecoms), on the view that other markets offer more exciting opportunities, although the portfolio still owns Samsung Fire & Marine Insurance and Samsung Electronics. In the past few weeks, Crooke has also trimmed profitable positions in other markets, including holdings in oil companies, due to lower oil prices, and banks, where he is mindful that lower rates will make it more difficult for banks to continue growing profits.

These recent portfolio changes have not had a material impact on portfolio structure. At the regional level, the portfolio's largest exposure remains to North America (42% as at mid-April 2024), with exposure to the other regions evenly split. The allocation to the US has increased steadily over the past few years, via reductions to exposure to the UK and Europe, and it is possible that US exposure may increase further, but gradually and modestly, over the coming year and beyond if the manager continues to use market weakness to increase exposure to US non-yielding stocks. BNKR remains overweight to Japan and the UK.

Exhibit 5: Geographical split of BNKR's portfolio versus the benchmark

% unless stated	End-April 2024	End-April 2023	Change,(pp)	Relative* (pp)
North America	42.4	38.0	4.4	(23.4)
Continental Europe	16.7	17.4	(0.7)	6.0
UK	14.6	17.2	(2.6)	10.6
Japan	13.2	12.9	0.3	6.5
Other	8.1	8.5	(0.4)	0.3

Source: BNKR, benchmark's factsheet. Note: *Compared to benchmark.

At the sector level, the company's largest overweights at end December 2023 were to consumer staples and financials, where Crooke likes the exposure to higher interest rates provided by traditional financial institutions, although as mentioned above, he is winding back this allocation in anticipation of a decline in rates. The portfolio is also overweight to industrials and, to a lesser extent, pharmaceuticals. Crooke views valuations in this latter sector as low after their post pandemic sell-off and sees ‘exciting new research and promising innovation’ in several areas of the industry. The longer-term prospects for the pharma sector are also supported by ageing populations in most developed economies.

BNKR’s most significant underweights at the sectoral level are communications services and IT. Despite being underweight the M7 (even after the recent addition of Amazon, Meta and Alphabet), the manager says that the portfolio has many other holdings with exposure to AI and the broader tech sector. Accenture, which was the portfolio’s second largest position as at end February 2024, is one example. Accenture is a consulting company focused on assisting organisations to redefine their businesses to take advantage of the AI revolution. BNKR also owns several semiconductor manufacturers, including the US’s KLA and LAM Research, Taiwan Semiconductor Manufacturing Company and Dutch manufacturer ASML, while its positions in Trane Technologies and US internet network provider Cisco give additional exposure to this rapidly evolving sector. The portfolio has more modest underweights to utilities, real estate and energy.

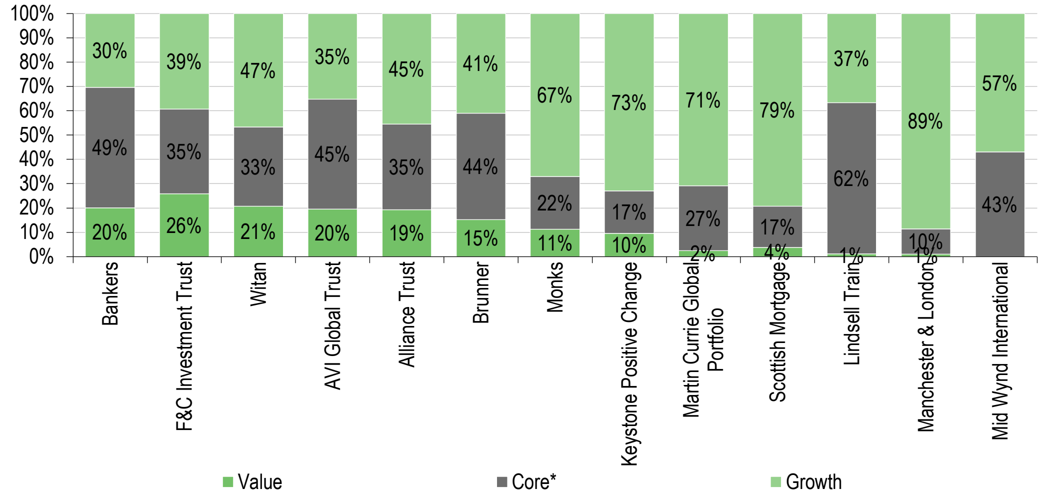
The AI revolution is only one of several mega themes that underpin the structure of BNKR’s portfolio. Japan’s corporate governance reforms, particularly the increased payouts to shareholders, is another, as reflected in the portfolio’s overweight to this market. In addition, the manager has raised exposure to other themes such as the re-shoring of supply chains, via, for example, positions in US semiconductor manufacturers, which reduce US companies’ reliance on Taiwanese semiconductors. The transition to electrification is another theme, manifest in recent investments in India’s Power Grid, the UK’s National Grid, and Siemens and Hitachi, which supply equipment for electrical grids.

Peer group comparison

BNKR is a member of the AIC Global sector, which includes 13 funds with a broad variety of investment mandates. BNKR is style neutral, with a balanced exposure to value and growth stocks and a bias towards larger-cap companies (see Exhibits 6 and 7). In our view, Alliance Trust and F&C Investment Trust are BNKR’s closest peers, but Brunner Investment Trust (despite its smaller size and higher portfolio concentration) and Witan (despite its lower bias to large caps) are also relatively close peers.

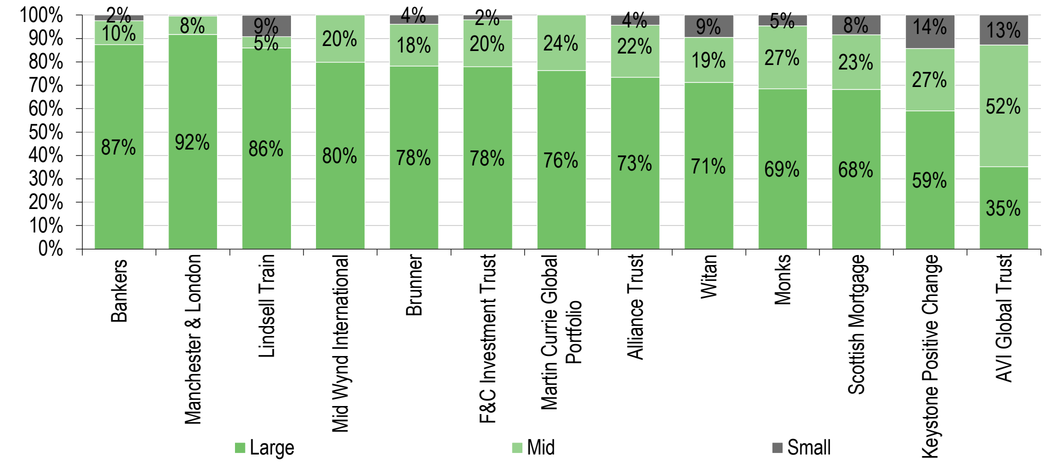
BNKR’s performance has lagged the average of its peers over all periods shown in Exhibit 8. This underperformance may be at least partially explained by the fact that BNKR has one of the lowest weightings to the US among its peers, as mentioned above. Stock selection in the US and China has also detracted from relative returns. BNKR is currently trading at a wider discount than that of its immediate peers, but its ongoing charge is among the lowest of the broader sector, its gearing level is the same as the sector average and its dividend yield is one of the highest.

Exhibit 6: BNKR's portfolio by style versus peers – 30 April 2024



Source: Morningstar. Note: *Core represents companies whose value and growth scores are not substantially different; see [Morningstar's Style Box] for details.

Exhibit 7: BNKR's portfolio by market cap* versus peers – 30 April 2024



Source: Morningstar. Note: *Morningstar methodology: large caps – the largest companies, which make up 70% of the capitalisation of a given market; mid-caps – the next 20%; and small caps – the remaining 10%.

Exhibit 8: AIC Global sector at 22 May 2024*

% 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	1,357.2	17.9	23.2	56.2	183.1	(11.3)	0.5	No	106	2.2
Alliance Trust	3,589.3	24.6	35.3	74.4	208.7	(2.1)	0.6	No	102	2.0
F&C Investment Trust	5,246.1	22.0	34.3	71.6	220.4	(7.6)	0.5	No	110	1.4
Witan	1,636.8	17.0	22.5	48.0	153.2	(5.4)	0.8	Yes	108	2.2
Brunner Investment Trust	574.2	21.1	40.5	79.7	195.2	(6.1)	0.6	No	105	1.7
Peer average (close peers)	**2480.7**	**20.5**	**31.2**	**66.0**	**192.1**	**(6.5)**	**0.6**	**-**	**106**	**1.9**
AVI Global Trust	1,095.9	24.8	34.8	76.8	173.4	(7.2)	0.8	No	112	1.4
Keystone Positive Change	132.7	0.8	(9.5)	(26.0)	(8.9)	(12.4)	0.9	No	109	0.2
Lindsell Train	161.8	0.4	(5.3)	28.0	326.2	(20.0)	0.9	Yes	100	6.4
Manchester & London	267.3	67.9	40.2	73.8	234.0	(15.6)	0.5	Yes	100	2.1
Martin Currie Global Portfolio	256.7	13.1	10.4	46.0	171.1	(2.1)	0.6	No	103	1.1
Mid Wynd Int'l Investment Trust	403.4	14.3	16.3	61.5	232.9	(1.8)	0.6	No	100	1.0
Monks Investment Trust	2,532.9	18.7	4.1	57.6	220.5	(9.6)	0.4	No	107	0.3
Scottish Mortgage	11,914.6	19.3	(16.5)	93.9	413.9	(7.6)	0.3	No	112	0.5
Peer average (13 funds)	**2,243.8**	**20.1**	**17.7**	**57.0**	**209.5**	**(8.3)**	**0.6**	**-**	**106**	**1.7**
BNKR rank	**6**	**8**	**6**	**9**	**9**	**10**	**4**		**7**	**3**

Source: Morningstar, Edison Investment Research. Note: *Performance to 17 May 2024. 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.

Fund profile: Long-term growth and income

Having been launched in 1888, BNKR is one of the UK's oldest investment companies. It seeks to achieve capital and income growth by investing in a diverse portfolio of global equities. Lead manager Alex Crooke has been at the helm of BNKR since 2003. He oversees a group of specialist regional portfolio managers.

The trust 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 AIC's Global sector. In terms of its dual focus on capital and income growth, over the long term BNKR seeks to achieve capital growth in excess of that of its benchmark index and dividend growth ahead of the rate of UK CPI (previously RPI).

Investment process: Enhanced 'manager of managers'

BNKR's regional portfolios are UK, North America, Europe, Japan, Pacific (excluding Japan and China) and China 'A' shares. There is a very small (0.3%) residual non-Asian emerging markets allocation.

Although the overall stock list is relatively long at c 160–190 names (January 2024: 186), the regional portfolios are fairly concentrated, with a target of c 30 holdings apiece. All 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 57-year record of year-on-year dividend growth.

The regional portfolio managers are as follows:

- **North America:** this sleeve has been managed by Denver-based Jeremiah Buckley since December 2022.
- **Europe:** since February 2019, the Europe portfolio has been managed by Jamie Ross, who also runs Henderson EuroTrust and the European allocation of The Law Debenture Corporation.
- **UK:** this sleeve is managed by David Smith, who also runs the Henderson High Income Trust and is deputy manager of the City of London Investment Trust.
- **Japan:** Tokyo-based Junichi Inoue has been the manager of this sleeve since 2017.
- **Pacific ex-Japan and China:** Mike Kerley will retire in June 2024 and Sat Duhra, who has worked alongside Kerley for 11 years, and also runs Henderson Far East Income, will take over the management of the Asia-Pacific portfolio.
- **China 'A' shares:** this sleeve has been managed since 2020 by May Ling Wee, an experienced fund manager in Janus Henderson Investors' (JHI's) Singapore regional hub.

ESG engagement viewed as key to better corporate behaviour

BNKR's directors have had an additional focus on ESG factors over the past five years. They believe that only by fully incorporating ESG into the process will the trust succeed in its objectives. The board discusses such considerations with the manager and the managers of the regional sleeves.

JHI employs an integrated approach to ESG, with regional investment teams adopting methods that are appropriate to the markets they cover. No sectors are excluded on a top-down basis, as Crooke believes that exclusion will not encourage an improvement in corporate behaviour. He prefers to engage with businesses, to encourage change and investment in better practices. However, some individual teams may have areas they prefer to avoid from an ESG perspective.

Underlying the trust's approach is a belief that good corporate governance is supportive of long-term decision making and investment returns. The interpretation of environmental and social factors can vary in importance depending on the sector and geographic region in which a company operates. Nonetheless, JHI says each ESG factor, in addition to the quantitative and qualitative assessments of a company, is an important consideration when calculating the opportunity represented by a potential investment.

Examples of recent engagements with portfolio companies include:

- A meeting with BP (a UK oil major) to discuss the company's revised energy transition strategy, which included a downgrading of its 2030 emission reduction targets and increased proposed investment in oil projects. The company stated that its long-term goal of being net zero by 2050 remained in place, and it has increased committed investment into low-carbon energy projects. However, BP says it needs to be flexible due to the need to generate suitable returns on capital expenditure. These concerns will form part of ongoing discussions with BP.
- Engagement with Shenzhen Mindray Bio-Medical (a Chinese medical device manufacturer) mainly regarding the accessibility and affordability of its lower-cost, value-for-money medical devices. The call also touched on how Mindray focuses its R&D investments and clinical trial diversity to ensure less bias to gender and ethnicity in the effectiveness of its devices. The company currently does not have an AI ethics oversight committee, an area that JHI will monitor over time.
- Discussions with BAWAG (a European bank) on the topic of excessive remuneration for top-level management. This has been an issue for several years and resulted in JHI voting against its remuneration report in 2022. However, the company has since undertaken a benchmarking exercise to better justify its remuneration recommendations. It also accepted JHI's feedback on the need for a set of measurable targets to determine the level of both short-term and long-term pay rewards. In view of these developments and after these latest discussions with the company, JHI was sufficiently reassured to vote in favour of the remuneration report, but engagement on this issue will continue.

Consistent with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), BNKR will publish its first TCFD report this year, detailing the environmental, social and governance factors most relevant to its portfolio companies.

Gearing

BNKR is permitted to gear up to 20% of net assets at the time of drawdown and may hold up to 20% in cash or bonds. The trust utilises a range of maturities and formats of borrowings. Through FY21, it issued £37m in unsecured fixed-rate debt at 2.28% maturing in 2045 and €44m in unsecured fixed-rate debt paying a 1.67% coupon maturing in 2041. In part, these facilities replace the £15m, 8% debenture, repaid in 2023, which should reduce drag from this expensive facility and give the manager flexibility to take advantage of market opportunities. The size differential reflects the growing assets of the company and rebalances the level of gearing available to the manager. Additionally, these new facilities augment the £50m in unsecured loan notes (3.68% interest) maturing in 2035. A £20m short-term borrowing facility arranged with SMBC Bank terminated in February 2024 and was not renewed as the funds were relatively expensive and not required. The weighted average interest payable on the trust's fixed-rate borrowings has reduced to 2.66% following the repayment of the debenture in October 2023 and the expiry of the short-term facility – a very attractive level given current market rates. In aggregate, the company is 7% net geared (as at end February 2024).

Fees and charges: Tiered rates driving down fees

Since 1 November 2021, BNKR's tiered management fee rate has been 0.45% on net assets up to £750m, 0.40% on the next £750m and 0.35% on net assets above £1.5bn. Current net assets are c £1.7bn. 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. The ongoing charge for FY23 was 0.50% (FY22: 0.50%), which makes the trust especially competitive in this regard (Exhibit 8).

Capital structure

BNKR is a conventional investment trust with one class of share, listed on the London and New Zealand stock exchanges. With the share price having reached more than £10 in February 2021, shareholders approved a 10-for-one share split designed to make it easier for smaller savers to invest regularly. As such, there are now 1.18bn shares in issue (as at 21 May 2024).

Retail investor platforms and wealth managers are well represented among BNKR's largest shareholders, underlining the trust's 'one-stop shop' nature for investors seeking global equity exposure in a large and liquid vehicle.

The board

Exhibit 9: BNKR's board of directors

	Date of appointment	Remuneration in FY24	Shareholdings at the end of FY23
Simon Miller (chair)	Jan-22	£50,000	60,000
Ankush Nandra (chair, Audit & Risk Assurance committee)	Sep-23	£38,000	20,000
Hannah Philp	Nov-22	£33,000	10,254
Charlotte Valeur	Nov-22	£33,000	-
Richard West	Apr-20	£33,000	96,289

Source: The Bankers Investment Trust

To ensure a greater focus on marketing the company, the board has recently established a Marketing Committee to support and scrutinise the increased marketing efforts of the manager, JHI. This committee is chaired by Hannah Philp. The intention is to attract more retail investors via an enhanced website and various advertising channels.

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