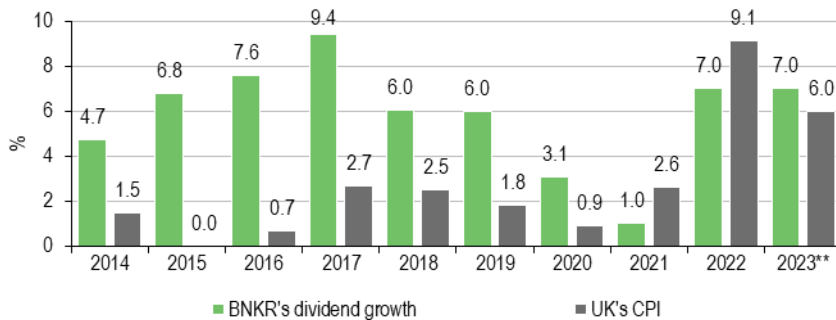


The Bankers Investment Trust

Most regional portfolios outperformed in H123

The Bankers Investment Trust (BNKR) posted an 8.1% net asset value (NAV) per share total return (TR) in H123 (period ending 30 April 2023). Most of its regional sub-portfolios (sleeves) outperformed their benchmarks, highlighting the respective managers' strong stock-selection capabilities. Dividend income across the portfolio was up 10% in H123 and BNKR declared a second interim dividend of 0.62p (with the ytd payout up c 10% y-o-y). Moreover, Alex Crooke (BNKR's lead manager) now expects FY23 dividend growth of at least 7% versus 5% earlier, which he believes should allow BNKR (after high inflation in FY22) to resume its track record of delivering dividend growth ahead of UK inflation.

BNKR's dividend growth consistently exceeds UK inflation*



Source: Refinitiv, Edison Investment Research. Note: *Dividends paid from BNKR's fiscal year profits (ending October), CPI for calendar years. **Manager's expectations.

BNKR's investment thesis

Crooke focuses on cash-generative businesses with sufficiently robust balance sheets to continue distributing dividends even in a slowing economy. He also favours Asian markets over the US, as he believes that the US Federal Reserve will continue to tighten its monetary policy to curb inflation, while Asia should benefit from China's reopening. Given BNKR's balanced regional exposures and the focus on both growth and income, its NAV TR has not fully captured the rally in US stocks in recent years, with its three-year NAV TR to end-June 2023 at 6.4% pa versus the benchmark TR of 10.9%. Crooke believes that US stocks are now overpriced compared with their earnings trends and the real yields available to investors.

Balanced exposure to global equity markets

BNKR can be viewed as a 'one-stop shop' for global equity exposure. Its portfolio consists of six geographic sleeves, managed by Janus Henderson Investors' (JHI's) regional specialists. It is an interesting proposition for investors seeking a global equities portfolio that is balanced geographically, large-cap biased and style-neutral, providing both exposure to growth stocks and growing income. We note that Crooke has recently increased the trust's exposure to more defensive businesses, while avoiding the most popular technology stocks. The manager acknowledges the ongoing disruption caused by the implementation of AI, but focuses on more diverse companies that should benefit from the trend, such as Microsoft and Accenture, rather than pure-play AI businesses.

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Investment trusts
Global equities

11 August 2023

Price 98.6p
Market cap £1,238m
Total assets £1,598m

NAV* 111.7p
Discount to NAV 11.7%

*Including income. At 10 August 2023.

Dividend yield 2.5%
Shares in issue 1,261.5m
Code/ISIN BNKR/GB00BN4NDR39
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 (at 30 June 2023) 7%

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, which means successful smaller positions do not move BNKR's performance needle.

Analysts

Michal Mordel +44 (0)20 3077 5700
Mel Jenner +44 (0)20 3077 5700

investmenttrusts@edisongroup.com

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Performance in line with the plan

BNKR's interim results to end-April 2023 showed a strong six-month NAV TR performance of 8.1%, ahead of the benchmark's 3.5% TR. It outperformed most of its regional benchmarks, returning to its long-term trend, after a more challenging FY21–22 (see Exhibit 1), highlighting the respective management teams' stock-picking expertise. During H123, the strongest outperformance was in the UK (+3.1pp) and continental Europe (+1.3pp), and four out of five of the trust's top performance contributors were from these markets (see Exhibit 2). On the other hand, BNKR's investments in China and Pacific ex-Japan underperformed their respective benchmarks. Crooke highlights that the China sleeve is positioned for a revival in consumer goods demand, which has lagged the recovery of the Chinese economy following its early-2023 reopening. The manager remains confident that consumer stocks will perform well, although later than previously expected. Following recent changes in senior positions at JHI, Crooke will now dedicate himself fully to the management of BNKR and the Global Equity Income strategy, as his role of head of EMEA and Asia Pacific was assumed by Lucas Klein.

Exhibit 1: Relative performance of BNKR's regional sleeves versus respective regional benchmarks (pp)

	FY19	FY20	FY21	FY22	H123	Cumulative
UK	0.1	0.1	(4.7)	(3.3)	3.1	(5.1)
Continental Europe	4.1	7.8	(6.2)	(0.9)	1.3	10.5
North America	0.6	10.1	1.3	(6.0)	1.1	8.8
Japan	2.9	10.5	(0.9)	(1.8)	1.0	13.4
Pacific ex-Japan	0.8	(16.1)	17.1	4.7	(4.0)	1.5
China 'A' shares	17.7	19.6	(6.3)	(6.1)	(8.6)	7.2

Source: BNKR, Edison Investment Research. Note: Highlighted periods of relative outperformance.

The best performing stock in BNKR's portfolio in H123 was Microsoft, which is at the forefront of AI implementation in IT services. Crooke highlights that while he acknowledges the potential benefits of AI, the North American manager (Jeremiah Buckley) avoids pure-play AI technology stocks as he views them as overpriced and too risky. Crooke currently favours traditional financial holdings, providing more interest rate and less transaction-based exposure, which proved effective, as highlighted by UniCredit being the second-best performing stock in the portfolio in H123.

Exhibit 2: BNKR's top performance contributors in H123

Company	Region	Sector	Contribution (pp)
Microsoft	North America	IT	0.56
UniCredit	Continental Europe	Banking	0.37
3i Group	UK	Private equity	0.31
Hermes International	Continental Europe	Luxury goods	0.30
Moncler	Continental Europe	Luxury goods	0.29

Source: BNKR

In H123, BNKR's performance was supported by the strong UK stock market, while the North American stock markets were broadly flat during the period. To end-June 2023, however, BNKR underperformed its global benchmark across all analysed periods (see Exhibit 4). The benchmark is heavily skewed towards North America (66.7% of the index weight at end-May 2023), which has been a major contributor to global equities indices' returns, as highlighted by the US S&P 500 Index's outperformance across all periods shown. As a balanced, style-neutral global fund, BNKR has a significant underweight exposure to North America (27.6pp below the benchmark weight at end-May 2023, see Exhibit 3).

Exhibit 3: Geographical split of BNKR's portfolio versus the benchmark

% unless stated	End-June 2023	End-June 2022	Change	Relative* (pp)
North America	39.1	35.8	3.3	(27.6)
Continental Europe	16.7	16.6	0.1	3.2
UK	16.5	19.7	(3.2)	12.3
Japan	13.6	11.8	1.8	6.8
Other	14.0	16.1	(2.1)	10.1

Source: BNKR, benchmark's factsheet. Note: *Compared to benchmark's most recent available data (May 2023).

Exhibit 4: BNKR's performance versus the benchmark (to end-June 2023)

% unless stated	One month	Three months	Six months	One year	Three years	Five years
BNKR NAV TR	1.7	(0.1)	3.8	6.8	20.3	39.2
Benchmark TR	3.1	3.7	8.6	12.9	36.4	57.6
Difference (pp)	(1.5)	(3.8)	(4.8)	(6.0)	(16.0)	(18.5)
S&P 500 TR	3.9	5.8	10.6	14.2	46.3	85.5

Source: Refinitiv, Edison Investment Research

Crooke highlights that there are plenty of indicators showing that the US market is overpriced and unlikely to continue its outperformance versus other regions. We believe that BNKR may be an appealing stock for investors sharing this view.

Exhibit 5: US versus world (performance versus earnings growth)



Source: BNKR, as at 21 June 2023

Exhibit 6: US stocks valuation versus real yields



Source: BNKR, as at 21 June 2023

The manager highlights that the US economy is slowing, while core inflation remains above the US Federal Reserve's 2.0% target, which will likely prompt it to further tighten its monetary policy. Also, the savings boom that has helped to support the US market is mostly exhausted. US stock prices have outpaced US earnings growth; on this basis, other regions of the world look more reasonably valued. The US market also appears unattractive when compared to real yields on US 10-year government bonds (see Exhibit 6).

Recently declared interim dividend brings ytd DPS increase to c 10% y-o-y

BNKR's focus on cash-generating companies saw dividend income increase by 10% y-o-y in H123. Crooke has raised his dividend growth forecast to 7.0% in FY23 (from 5.0%) and expects it to beat UK inflation, which he forecasts at c 6% (versus 7.9% in May 2023 and the IMF forecasts of 6.8% for 2023 and 3.0% for 2024). This was assisted by BNKR's recent North American portfolio repositioning (following the change in manager) to more cash-generating businesses with the ability to pay dividends even during periods of economic weakness (see details in our [previous note](#)).

Crooke believes that, although inflation continues to be persistent, corporate earnings and balance sheets are strong and many supply chain bottlenecks have been removed, assisting the consumer. That said, he still expects global earnings to decline in 2023 and thinks this expectation is likely to

be shared by the broad market given current global valuation levels. He remains sceptical with respect to the broader market's enthusiasm for US stocks on the back of hopes that the Federal Reserve has reached the peak of its interest rate tightening cycle.

Maintaining a defensive tilt, still overweight China

BNKR focuses on companies with high cash generation, and Crooke currently favours more defensive businesses. Compared with its benchmark, the trust has a significantly lower exposure to technology stocks, which made up 15.5% of the portfolio at end-June 2023, versus 25.2% in the benchmark portfolio (at end-May 2023). The North American manager is avoiding the most popular and highly valued names like NVIDIA (1.6% of the benchmark and currently trading on a forward P/E multiple of 48.0x according to Refinitiv consensus estimates), which explains part of the underweighting and underperformance. BNKR is also overweight financial stocks, which represented 17.2% of the portfolio (versus the 13.0% combined sector weighting of banks, financial services and insurance in the benchmark), although BNKR's exposure has recently moved away from credit cards payments towards more traditional financial institutions.

Exhibit 7: BNKR's exposure to defensive* sectors



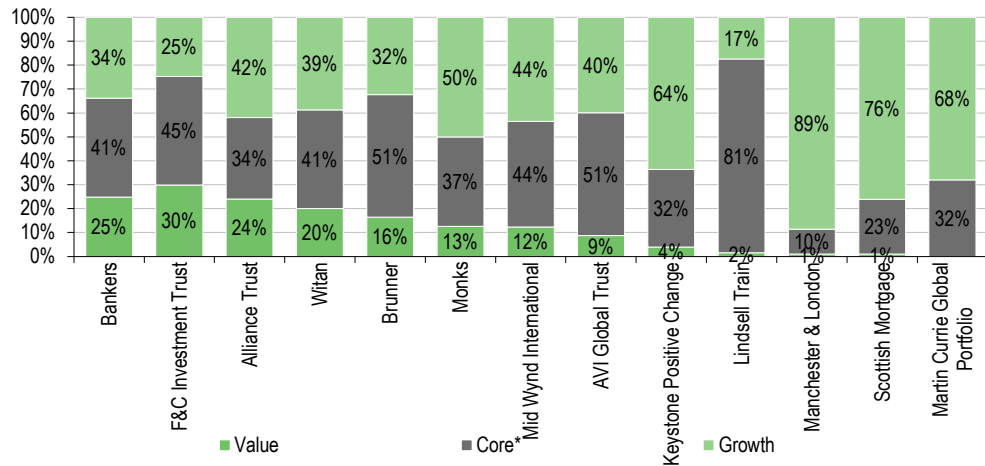
Source: Morningstar. Note: *Morningstar's defensive super sector, which contains defensive healthcare, utilities and consumer companies.

In terms of the trust's geographical exposure, the relatively low US weighting is offset by overweight positions in China, Japan and the UK compared with global equity indices. Crooke believes that China (as well as other Asian markets) will continue to benefit from the reopening of the Chinese economy despite the challenging macroeconomic environment and should post strong 4–5% GDP growth in 2023 (the IMF forecast is 5.2%). The manager also sees Asian markets, including Japan, as providing a good counterbalance to Western economies, where interest rates are rising.

Peer group comparison

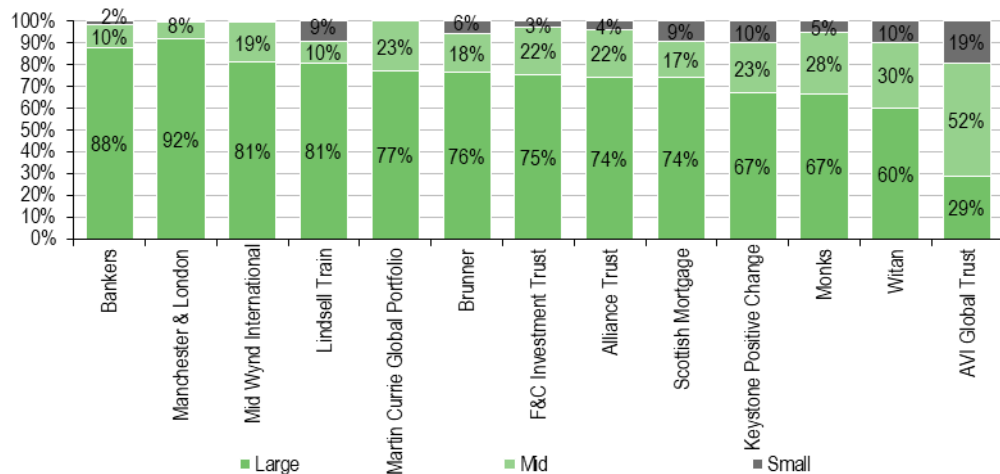
We compare BNKR's performance to other funds in the AIC Global sector, which includes 13 funds with a broad variety of investment mandates. BNKR is style neutral with a balanced exposure to value and growth stocks (although the regional sleeves employ different investment approaches) and a bias towards larger-cap companies (see Exhibits 8 and 9). We therefore consider Alliance Trust and F&C Investment Trust its closest peers, but also view Brunner Investment Trust (despite its smaller size and higher portfolio concentration) and Witan (despite its lower bias to large caps) as relevant peers.

Exhibit 8: BNKR's portfolio by style versus peers



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

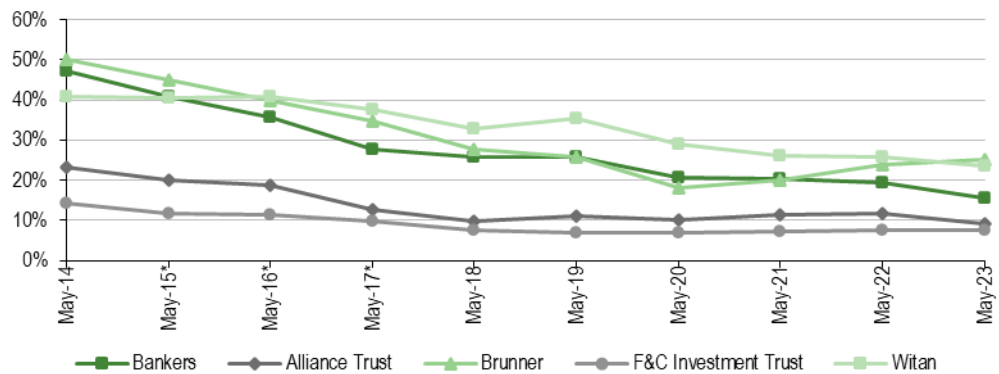
Exhibit 9: BNKR's portfolio by market cap* versus peers



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%.

BNKR's current more balanced regional exposures are yet to be fully reflected in its long-term NAV TR, which over the last 10 years was somewhat below Alliance Trust and F&C Investment Trust (though broadly in line with the average including Witan and Brunner, see Exhibit 11). This underperformance may be at least partially explained by BNKR's high historical weighting to UK equities (poorly performing relative to US and continental Europe), which the manager has gradually reduced in recent years (see Exhibit 10). More recently, its lower US weighting versus some peers (c 39% currently versus 50–60% for Alliance Trust and F&C Investment Trust) has affected its performance, as discussed above.

Exhibit 10: BNKR's share of UK equities versus peers



Source: Morningstar. Note: *BNKR's 2015–17 figures are as at end-March of the respective years. Brunner's 2014 figure is as at end-March, and Alliance Trust's and F&C Investment Trust's figures are as at January 2017 and December 2016, respectively.

BNKR is currently trading at an 11.7% discount to its NAV, which is slightly wider than the peer average. The company seized the opportunity to buy back 24.1m shares at an average discount of 9% in the six months to end-April 2023. At the same time, the trust's dividend yield currently stands at 2.5%, slightly above sector average. BNKR has maintained moderate gearing, broadly in line with its peers.

Exhibit 11: AIC Global sector at 11 August 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	1,238.3	1.1	19.5	33.7	149.1	(12.1)	0.5	No	109	2.5
Alliance Trust	2,958.3	7.8	36.3	44.1	162.6	(5.7)	0.6	No	105	2.3
F&C Investment Trust	4,462.3	3.0	34.7	42.7	177.1	(10.8)	0.5	No	109	1.6
Witan	1,486.6	5.2	35.2	23.5	127.0	(9.4)	0.8	Yes	116	2.5
Brunner Investment Trust	458.9	7.7	45.7	51.5	160.5	(12.3)	0.6	No	105	2.1
Peer average (close peers)	2,341.6	5.9	38.0	40.4	156.8	(9.6)	0.6	-	109	2.1
AVI Global Trust	917.2	6.5	45.6	42.1	135.0	(11.2)	0.9	No	106	1.7
Keystone Positive Change	133.2	0.2	(15.4)	(29.6)	(1.8)	(14.3)	0.9	No	109	5.2
Lindsell Train	191.0	(4.2)	5.4	48.8	333.6	(4.5)	0.9	Yes	100	5.4
Manchester & London	176.8	15.8	(3.6)	17.8	124.5	(18.3)	0.7	Yes	100	3.2
Martin Currie Global Portfolio	253.2	4.4	7.3	35.7	144.6	(0.8)	0.7	No	111	1.2
Mid Wynd Int'l Investment Trust	412.3	0.1	19.4	45.6	198.3	(2.3)	0.6	No	100	1.0
Monks Investment Trust	2,260.5	(0.1)	5.9	35.0	171.9	(12.5)	0.4	No	106	0.3
Scottish Mortgage	9,681.3	(8.1)	(2.0)	59.3	381.6	(18.6)	0.3	No	113	0.6
Peer average (13 funds)	1,894.6	3.0	18.0	34.6	174.2	(10.2)	0.7	-	107	2.3
BNKR rank	6	8	6	10	8	8	3	-	4	5

Source: Morningstar, Edison Investment Research. Note: *Performance to 9 August 2023. 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.

Exhibit 12: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	MSCI World (%)	CBOE UK All companies (%)	Benchmark (%)
30/06/19	9.7	8.9	10.9	0.3	9.8
30/06/20	8.3	6.2	6.5	(13.6)	5.3
30/06/21	17.3	20.4	24.9	21.1	24.9
30/06/22	(11.6)	(6.5)	(2.1)	2.2	(3.3)
30/06/23	1.5	6.8	13.8	8.3	12.9

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

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