EDISON

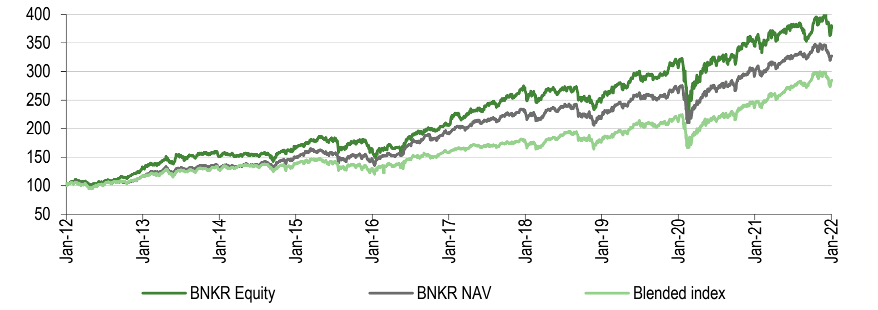
The Bankers Investment Trust

Another solid year of growth in capital and income

Investment trusts
Global equities

The Bankers Investment Trust (BNKR) has continued to post good returns for investors during the financial year ended October 2021, which also saw the 55th consecutive year of dividend increase. Long tenured lead manager Alex Crooke oversees a team of in-house regional managers, allocating capital on the basis of where he sees attractive fundamentals. Over the past 12 months the allocation to European and Pacific ex-Japan equities has been increased on the basis of attractive valuations and the prospects for dividend growth. In addition, part of Crooke's remit is to decide upon the level of gearing, which has risen on the back of new long-term structural borrowings secured in July 2021. The manager anticipates the recent spike in global inflation will moderate but is likely to persist at 2–4%, which he feels is supportive for long-term equity market returns.

Long-term outperformance



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

Why invest in global equities now?

Crooke believes that the current inflationary pressures will ultimately moderate into a long-term 2–4% range with an associated move to a more normalised interest rate environment. In this central scenario, companies that are able to pass through higher input costs will maintain margins and consequently the aggregate positioning remains towards quality growth at the right price. Crooke and the regional managers are valuation conscious. While in aggregate global equities in terms of their consensus forward earnings are a little more expensive than their 10 year average, there are pockets of relative value such as UK and Japanese equities that in total account for around 30% of the fund.

The analyst's view

BNKR is a diversified global equity portfolio that benefits from an experienced fund manager able to cherry pick the best ideas from a wide pool of well-regarded Janus Henderson fund managers. This gives him a much closer appreciation of the regional sleeves than in a conventional 'manager of managers' arrangement and keeps costs relatively low. Despite its very competitive fees (ongoing charges of 0.48% in FY21), with an active share of 80% it is far from an index tracker. Through Crooke's steady hand, BNKR has been able to provide shareholders with good long-term returns and dividend growth substantially over and above inflation.

NOT INTENDED FOR PERSONS IN THE EEA

14 February 2022

Price		**115.2p**
Market cap		**£1,513m**
AUM		**£1,589m**

NAV*		116.2p
Discount to NAV		0.93%

*Including income. At 8 February 2022.

Yield		1.91%
Ordinary shares in issue		1,313.1m
Code/ISIN		BNKR/GB00BN4NDR39
Primary exchange		LSE
AIC sector		Global
52-week high/low	125.0p	104.0p
NAV* high/low	125.2p	105.8p

*Including income

Gross gearing*	6.0%
Net gearing*	6.0%

*As at 8 February 2022

Fund objective

Over the long term, The Bankers Investment Trust (BNKR) aims to achieve capital growth in excess of the FTSE World Index and dividend growth greater than inflation, as measured by the UK Consumer Price Index, by investing in companies listed throughout the world.

Bull points

- The experienced manager is well placed to manage this dual mandate portfolio.
- One of the longest records of dividend growth in the sector.
- Competitive fees.

Bear points

- Continued UK bias sets BNKR at odds with the available opportunity set.
- Reliance on JHI managers could restrict choice of styles and alpha generation.
- Arguably still over-diversified at the stock level.

Analysts

David Holder +44 (0)20 3681 5700
Sarah Godfrey +44 (0)20 3077 5700
investmenttrusts@edisongroup.com
Edison profile page

The Bankers Investment Trust is a research client of Edison Investment Research Limited

Market outlook: A period of macro transition

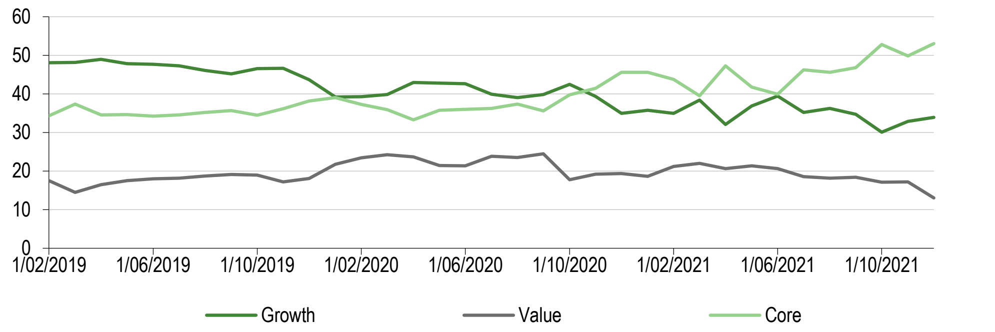
Since the global financial crisis, the world economy has seen monetary support on an extraordinary scale, with further widespread stimulus and expenditure through much of the COVID-19 crisis, leading to a boom in financial and other assets such as house prices. Having been curiously absent for some time, inflation has now appeared in many parts of the real economy. The UK Consumer Price Index (CPI) reached 5.4% in January with the Bank of England (BoE) forecasting it to peak at 7% in spring 2022 before returning closer to its target of 2% in two years' time. The United States has seen even higher inflation, with 7.5% (CPI) recorded in January, which is the highest level for 40 years. Labour, transport, food, raw material and energy prices have increased. Some of these moves will see a reversal; the Baltic dry freight index has reversed in recent weeks and commodities can be volatile, but bottlenecks and higher levels of inventory storage are likely to persist in microchips into 2023, for example. Wage inflation tends to be stickier, but Crooke has seen some evidence through European wage settlements that upward pressure here is not of huge magnitude.

Crooke argues that global markets are in a period of transition from prolonged accommodative central bank policy to a more normalised environment. Central banks have begun tightening monetary supply, with tapering in the United States having begun in November 2021 and set to end in March 2022 (with a rate rise priced in for February). Norway was the first G10 central bank to raise rates to 0.25% in September, while South Korea and Brazil had already done so. The Bank of England has now raised rates twice, from 0.10% to 0.25% in December and to 0.50% in February. Following an exceptional and prolonged period of excess liquidity in the system, Crooke says that 'the speed and scale of tapering will be the number one factor affecting asset class and equity selection going forward'.

The manager's view: Inflation to stabilise

Crooke is not in the transitory inflation camp, believing that long-term inflation will settle in the 2–4% range. This could provide a generally supportive environment for equities in that well placed companies should be able pass-through price rises to customers without impairing profit margins. He would be concerned if inflation settled above 5%, but says 2–4% is in line with long-term historical parameters. In the face of higher inflation, central banks have started to raise interest rates (although Crooke believes that they may be cut in China). Rates moving from 0% to 0.5% seems quite marginal, but it does affect the discount rates used to justify the current extended valuations, particularly for longer-duration growth assets such as some technology and biotech companies. BNKR's US, Europe and Japan regional sleeves all have more of a growth tilt, so have seen some underperformance year to date relative to their benchmarks, but as ever Crooke asserts that getting the fundamental stock picking right is always the long-term driver of returns. Overall, the portfolio is blended in terms of style characteristics (Exhibit 1) and so should be well placed to perform in a variety of market conditions.

Exhibit 1: Stylistic balance within the portfolio (%)



Source: Morningstar

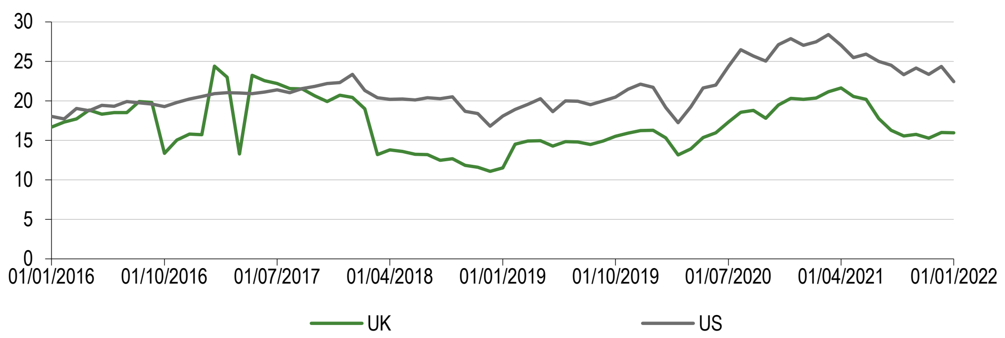
An area that Crooke is monitoring is energy, which is an underweight position. In the longer term, he believes that the industry will be unable to reinvest its current high cash flows into similarly high returning projects as the demand for fossil fuels decreases. However, as an input cost, energy does affect corporate profitability across the economy. At this stage, Crooke views the situation in Ukraine largely as a regional issue, but says these geopolitical events are affecting energy costs, which necessitates keeping a close eye on the cash flows of those businesses with more intensive energy requirements. Ordinarily, energy prices would ease off in the spring as usage declines in warmer weather; however, with the current backdrop, prices could remain unusually elevated for longer.

Asset allocation: Europe finding favour

Current portfolio positioning

The UK weighting within BNKR's portfolio continues to incrementally reduce, although Crooke has an eye on the income the market provides and the relative attractiveness of UK equities from a prospective P/E basis (Exhibit 2). Over the past 10 years, Crooke estimates that the P/E on the US market has risen by 30% while for the UK it has fallen by a similar magnitude, with the Brexit vote in 2016 being a notable catalyst for this divergence. Because of this, he says that now does not feel like the right time to make a wholesale shift from the UK to the United States on the basis of the fund's positioning away from the benchmark. However, the United States still comfortably accounts for the largest geographic allocation, with 35.4% at end FY21, and all of the top 10 holdings are US-listed companies (Exhibit 5).

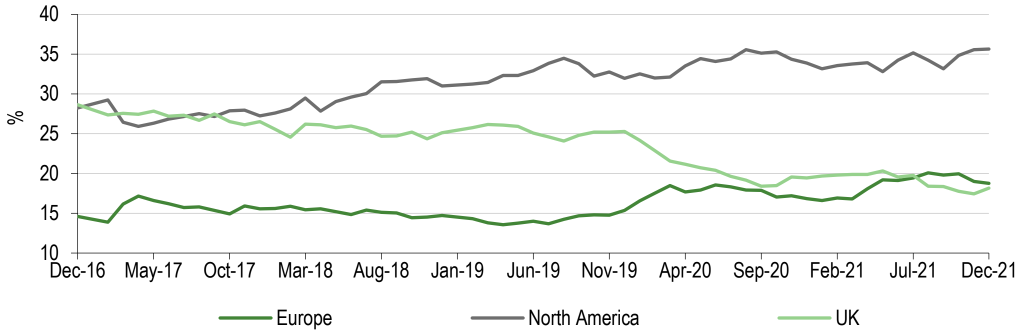
Exhibit 2: US/UK P/E divergence



Source: Morningstar

Europe is an area that has been slowly built up. Crooke likes the region because it is 'perceived as low growth, which isn't the reality at the corporate level'. For example, Danone's and Nestlé's earnings are little related to their French and Swiss domiciles. There is a huge array of world leading companies domiciled in the region on attractive valuations. The performance of the wider European market has of late been held back by weakness in software, gaming and consumer stocks. The allocation to European equities in BNKR was 18.8% as at the end of December 2021, up from 14.6% five years ago. The current weighting is higher than the benchmark's 14.0%.

Exhibit 3: UK reducing, Europe and North America increasing



Source: Morningstar

Exhibit 4: Regional weightings (% unless stated)

	October 2021	October 2020	Change (pp)	Index weight
United Kingdom	18.1	19.4	-1.3	4.2
Europe ex UK	18.8	16.1	2.7	14.0
North America	35.4	35.9	-0.5	66.4
Japan	11.8	12.4	-0.6	6.9
Pacific (ex Japan, China)	10.0	9.0	1.0	7.2
China A-shares	5.9	7.2	-1.3	0.0
Emerging markets	0.0	0.0	0.0	1.3

Source: The Bankers Investment Trust

Exhibit 5: Top 10 holdings (as at end of October 2021)

Company	Country	Sector	Portfolio weight % 31 Oct 2021	Portfolio weight % 31 Oct 2020*	Benchmark weight (pp)	Active weight vs benchmark (pp)
Microsoft Corp	US	Technology	3.0	2.7	3.7	(0.7)
American Express Co	US	Financial services	2.2	N/A	0.2	2.0
The Estee Lauder Companies	US	Consumer defensive	2.0	2.1	0.1	1.9
CME Group	US	Financial services	1.9	N/A	0.1	1.8
Automatic Data Processing	US	Industrials	1.8	N/A	0.2	1.6
American Tower Corp	US	Real estate	1.8	1.6	0.2	1.6
The Home Depot	US	Consumer cyclical	1.7	N/A	0.6	1.1
Intuit Inc	US	Technology	1.7	1.5	0.4	1.3
Otis Worldwide Corp	US	Industrials	1.6	N/A	0.1	1.5
Intercontinental Exchange	US	Financial services	1.6	1.4	0.1	1.5
Top 10 (% of holdings)			**19.3**	**18.0**		

Source: Morningstar. Note: *N/A where not in end-October 2020 top 10.

Exhibit 6: Sector weightings (% unless stated)

	Portfolio end-October 2021	Portfolio end-October 2020	Change (pp)	Index weight	Active weight vs index (pp)
Financials	19.4	15.7	3.7	13.9	5.5
Industrials	18.8	15.6	3.2	13.4	5.4
Consumer discretionary	16.9	17.3	-0.4	15.3	1.6
Technology	15.6	20.3	-4.7	24.2	-8.6
Healthcare	9.4	8.3	1.1	11.6	-2.2
Consumer staples	7.2	9.4	-2.2	5.8	1.4
Basic materials	4.6	3.1	1.5	3.6	1.0
Telecommunications	3.1	3.7	-0.6	3.1	0.0
Real estate	2.5	3.4	-0.9	2.8	-0.3
Utilities	1.5	2.2	-0.7	2.8	-1.3
Energy	1.0	1.0	0.0	3.5	-2.5

Source: The Bankers Investment Trust

Performance: UK and China dragging on performance

Exhibit 7: Five-year discrete performance data

12 months ending	Total share price return (%)	Total NAV return (%)	Blended index (%)	MSCI World Index (%)	CBOE UK All Companies (%)
31/01/18	29.4	19.6	12.1	11.9	11.3
31/01/19	(5.4)	(2.9)	1.6	1.6	(3.9)
31/01/20	21.9	18.3	18.2	18.2	10.5
31/01/21	12.4	11.0	11.4	11.4	(8.6)
31/01/22	8.0	12.1	19.8	19.8	19.3

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

At the headline level for FY21 (to 31 October), the trust returned 26.5% in NAV terms versus the benchmark return of 32.3% and the Investment Association (IA) category of 28.6%. Around 4pp of the underperformance was driven by asset allocation (off-benchmark weighting to China A-shares and overweight allocation to the UK) and c 1.4pp was lost via stock selection (predominantly in Europe and the UK). Over five years, performance is very modestly behind a demanding index, with stock selection driving the bulk of returns.

The annual performance of the six regional sleeves (Exhibit 8) has varied as one would expect, however, over the past six years on average, only one or two of the regions per year have underperformed their regional benchmarks. It is very much to BNKR's advantage that Crooke can access a wide pool of talented regional managers. The US sleeve has posted consistently strong relative and absolute returns while the UK sleeve has been more muted.

Exhibit 8: Discrete annual sleeve performance

	FY ending October 2021			FY ending October 2020			FY ending October 2019		
	BNKR regional sleeve performance (%)	BM (%)	± (%)	BNKR regional sleeve performance (%)	BM (%)	+/- (%)	BNKR regional sleeve performance (%)	BM (%)	± (%)
North America	36.6	35.3	1.3	20.6	10.5	10.1	13.5	12.9	0.6
Europe	27.5	33.7	-6.2	3.9	-3.9	7.8	15.6	11.5	4.1
UK	30.7	35.4	-4.7	-18.5	-18.6	0.1	6.9	6.8	0.1
Pacific ex Japan	28.4	11.3	17.1	-4.1	12.0	-16.1	10.5	7.6	2.9
Japan	12.1	13.0	-0.9	11.4	0.9	10.5	13.4	12.6	0.8
China	-1.2	5.1	-6.3	49.2	29.6	19.6	41.1	23.4	17.7
	FY ending October 2018			FY ending October 2017			FY ending October 2016		
	BNKR regional sleeve performance (%)	BM (%)	± (%)	BNKR regional sleeve performance (%)	BM (%)	+/- (%)	BNKR regional sleeve performance (%)	BM (%)	± (%)
North America	15.7	10.8	4.9	24.3	13.5	10.8	31.3	32.3	-1.0
Europe	-1.4	-5.2	3.8	21.5	19.9	1.6	24.3	19.7	4.6
UK	-3.4	-1.5	-1.9	12.7	13.4	-0.7	5.1	12.2	-7.1
Pacific ex Japan	-4.2	-8.4	4.2	17.8	16.1	1.7	46.8	37.5	9.3
Japan	-1.5	0.3	-1.8	9.8	9.2	0.6	34.8	31.4	3.4
China	-13.8	-20.5	6.7	55.3	15.1	40.2	44.2	14.0	30.2

Source: The Bankers Investment Trust

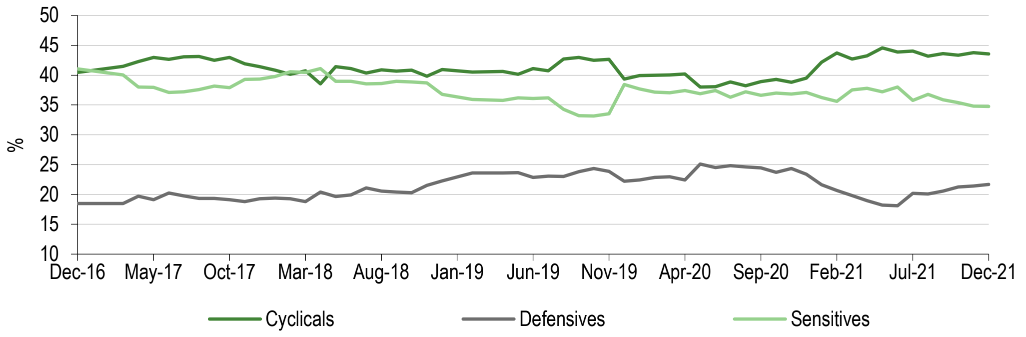
Regional sleeves

North America: Gordon Mackay manages the largest regional sleeve with an allocation of 35.4% to US equities. This is, however, a substantial underweight versus the global developed markets benchmark weighting of 66.4%. The performance of this sleeve at +36.6% was strong in absolute terms and relative to the market return of +35.3%. It also outperformed the IA North American category average and US large-cap growth peer group over this period. Over the past five years, the sleeve has been a good contributor to returns. The portfolio is broadly spread but does have a tilt towards quality growth, which as a style saw substantial recovery versus value stocks after Q1 CY21. Growth and value indices posted almost identical returns over the period, making the outperformance here particularly pleasing to the manager. New positions were initiated in ADP and

OTIS Worldwide, while environmental, social and governance (ESG) considerations saw Meta (Facebook) sold.

Europe: Jamie Ross manages the second largest allocation, which is to European equities at 18.8% of the portfolio compared to 14.0% within the index. Over the year to the end of October, the portfolio produced a good absolute return of +27.5%, however, this lagged the benchmark return of +33.7% and the IA Europe ex UK category average return of +33.3%. This relative underperformance followed outperformance in FY20. Ross's style is large-cap growth at a reasonable price (GARP), and over this period, growth investing in Europe lagged value. While Crooke has been building up cyclicality within the overall BNKR portfolio (Exhibit 9), the underweight in European cyclicals (industrials, energy and resources) was a drag on the relative performance of this sleeve. In order to broaden out the portfolio, some cyclicality has been added over the past couple of years in autos and retail banking, through names such as Faurecia (automotive components) and UniCredit (European banking).

Exhibit 9: Increasing cyclical stocks in BNKR's portfolio



Source: Morningstar

UK: the UK sleeve is managed by David Smith, who also manages Henderson High Income (HHI). At 18.1% BNKR has an overweight positioning to the UK versus the benchmark weighting of 4.2%. The UK weighting has trended down over time (Exhibit 3), but still remains an important constituent given generally low valuations in the market and the £11.3m of income that the sleeve provided in FY21 (some 32% of overall portfolio income). This sleeve has seen a reduction in names, from 44 at end-FY20 to the current 31, with a focus on 'best ideas' that has seen some holdings such as Imperial Brands and BP sold. The lack of energy stocks was a detractor over the period as the oil price, although volatile, generally moved higher. A lack of exposure to domestic earnings via small and mid caps also detracted. The UK sleeve posted good absolute returns of +30.7%, but lagged the market return of +35.4% and the IA UK equity income return of +38.2% over this period. The performance of this sleeve has been challenged since the Brexit referendum, which has been a headwind from a stock and asset allocation perspective. This sleeve yields 3.7%, which is higher than the regional benchmark yield of 3.1%, but it is more stylistically balanced than some of its more overtly value-orientated UK equity income industry peers.

Japan: the Japanese sleeve is managed by Junichi Inoue and, with a return of +12.1%, was marginally behind the market return of +13.0% after bumper 10.5pp relative outperformance in FY20. BNKR's allocation to Japanese equities is 11.8% versus the benchmark weighting of 6.9%. The portfolio has pronounced exposure to quality growth companies so when cyclical (value) stocks outperformed in the first half of FY21, the sleeve lagged. Growth returned to favour later in the period as economic growth became more evident. Performance was driven by long-term holdings such as Sony and Toyota and recruitment agency Persol Holdings.

Pacific (ex Japan and China): the Pacific ex Japan sleeve is managed by Mike Kerley, who also manages Henderson Far East Income (HFEL). This sleeve represents 10% of the portfolio versus

7.2% of the index. It produced a very strong performance through the period, rebounding strongly from a weaker showing a year before and returning +28.4% versus the market return of +11.3%. The lack of China tech exposure via not owning Alibaba and Tencent was a good decision as Chinese authorities took an increasingly aggressive stance towards e-commerce and some other industries such as real estate. Three of the sleeve's positions returned more than 50% over the period: Macquarie, Chinasoft and ANTA.

China A-shares: the Chinese portfolio accounts for 5.9% of the overall assets. This is an 'off benchmark' position as China is not included within the trust's benchmark index. As touched upon in the comments on the Pacific portfolio, some areas of Chinese equities were under pressure (e-commerce, real estate and education for example), and this sleeve returned -1.2%, underperforming the China A shares market return of +5.1%. There was some disinvestment from China generally, with earnings visibility in areas of structural growth such as electric vehicles technology and environmental green technology being particularly opaque. The portfolio tilt towards consumer names and some cyclicality in mining and financials was a detractor to performance.

Exhibit 10: More defensive with good risk adjusted returns

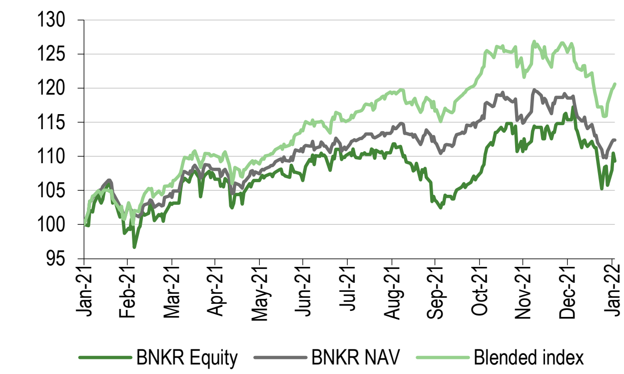
Name	Beta (10yr.%)	Tracking error (10yr. %)	Standard deviation (10yr.%)	Sharpe ratio (10yr.%)	Correlation to benchmark (10yr.%)	Max drawdown (10yr.%)
Bankers Ord	0.97	3.65	11.45	0.97	0.95	-14.97
FTSE World TR GBP	1.00	0.00	11.23	1.05	1.00	-16.14
IA Global category	0.98	2.97	11.40	0.86	0.97	-15.91
EAA Fund Global Large-Cap Blend Equity	0.96	1.74	10.92	0.80	0.99	-16.17

Source: Morningstar

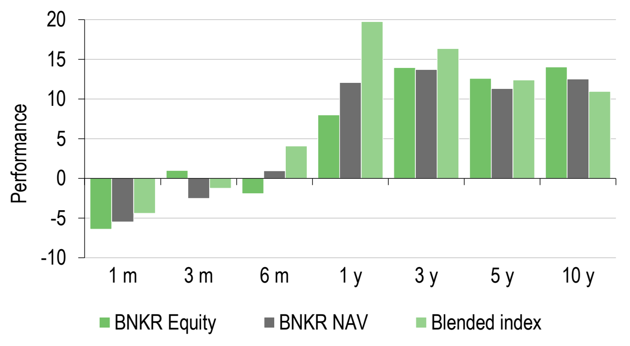
Investors should be aware that this global portfolio has a yield tilt which that can lead to relative underperformance in exuberant markets, and especially those lead by the US, which remains a significant underweight within the portfolio (Exhibits 4 and 12). While the company's standard deviation is only marginally higher than those of its peers, investors have been well rewarded with strong risk adjusted returns (Exhibit 10).

Exhibit 11: Investment trust performance to January 2022

Price, NAV and benchmark total return performance, one-year rebased



Price, NAV and benchmark total return performance (%)



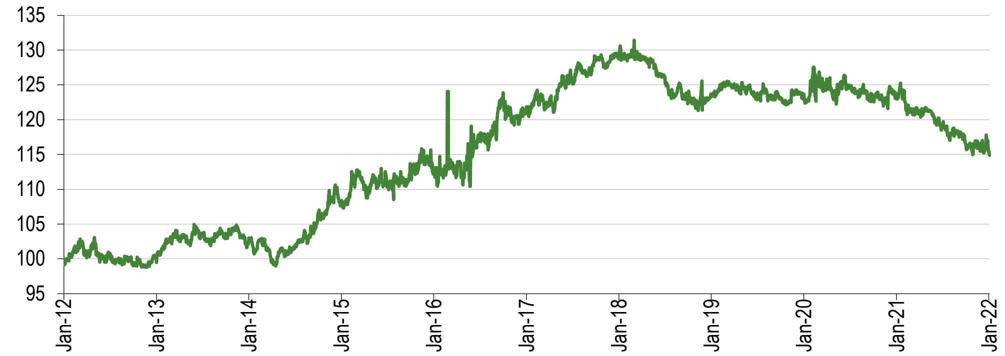
Source: Refinitiv, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

Exhibit 12: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to blended index	(2.1)	2.3	(5.8)	(9.8)	(6.1)	1.0	31.5
NAV relative to blended index	(1.1)	(1.3)	(3.0)	(6.4)	(6.6)	(4.8)	15.3
Price relative to MSCI World Index	(2.1)	2.3	(5.8)	(9.8)	(6.1)	1.1	0.5
NAV relative to MSCI World Index	(1.1)	(1.3)	(3.0)	(6.4)	(6.6)	(4.6)	(11.8)
Price relative to CBOE UK All Companies	(6.1)	(1.2)	(7.0)	(9.4)	22.9	40.7	83.2
NAV relative to CBOE UK All Companies	(5.2)	(4.6)	(4.3)	(6.0)	22.2	32.7	60.7

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

Exhibit 13: NAV performance versus blended benchmark over 10 years to end January 2022



Source: Refinitiv, Edison Investment Research

Peer group comparison

As a member of the Association of Investment Companies' (AIC's) Global sector, BNKR is part of a large 16-strong group that includes many of the largest and longest-established investment trusts in the market. There is a variety of style and objectives within this cohort and in the table below (Exhibit 14), we illustrate some of the most salient characteristics within the AIC peer group.

Exhibit 14: AIC Global sector as at end of January 2022*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Ongoing charge	Perf. fee	Discount (cum-fair)	Net gearing	Dividend yield
Bankers	**1,533.7**	**8.2**	**49.2**	**71.2**	**229.4**	**0.48**	**No**	**(0.3)**	**106**	**1.9**
Alliance Trust	3,028.3	10.5	45.1	66.4	200.4	0.65	No	(4.7)	108	1.9
AVI Global Trust	1,042.4	15.2	52.3	67.1	187.1	0.85	No	(6.2)	101	1.6
Brunner	450.4	15.5	53.1	72.7	227.8	0.64	No	(8.8)	106	1.9
EP Global Opportunities	106.3	3.7	7.5	16.7	116.7	0.99	No	(9.8)	100	2.1
F&C Investment Trust	4,561.4	11.6	47.2	70.4	238.5	0.52	No	(7.1)	110	1.4
JPMorgan Elect Managed Growth	292.1	11.4	46.8	67.7	219.7	0.54	No	(1.2)	100	1.6
Keystone Positive Change	157.6	(20.6)	(16.2)	(13.9)	53.3	0.51	No	(3.6)	100	4.4
Lindsell Train IT	239.0	2.4	55.6	152.0	565.3	0.75	Yes	0.9	100	4.2
Manchester & London	203.9	(0.5)	39.3	89.4	123.4	0.81	Yes	(18.3)	131	2.8
Martin Currie Global Portfolio	316.4	0.2	59.1	75.3	222.6	0.60	No	(0.2)	108	1.2
Mid Wynd International	496.4	6.7	68.7	92.1	282.3	0.61	No	1.7	100	0.8
Monks	2,789.1	(9.9)	62.9	101.1	256.3	0.43	No	(2.6)	103	0.2
Scottish Investment Trust	580.3	16.7	15.5	22.4	125.5	0.56	No	(3.4)	107	2.8
Scottish Mortgage	16,022.6	(10.3)	146.6	255.4	788.3	0.34	No	(0.3)	107	0.3
Witan	1,772.5	6.1	33.9	49.1	202.2	0.75	Yes	(4.5)	112	2.3
Simple average (16 funds)	**2,099.5**	**4.2**	**47.9**	**78.4**	**252.4**	**0.63**		**(4.3)**	**106**	**1.9**
BNKR rank in peer group	**6**	**7**	**8**	**8**	**6**	**3**		**4**	**8**	**9**

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

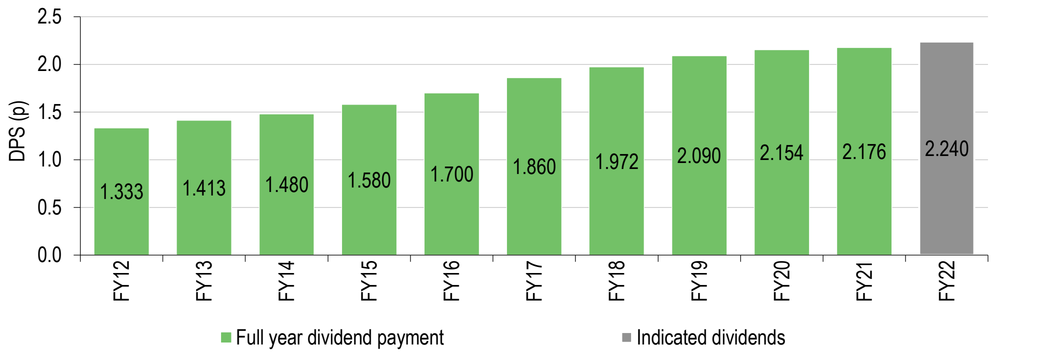
55 years of dividend growth: A true 'dividend hero'

BNKR has paid a dividend in all but two of its 133 years of existence, and these are paid quarterly in May, August, November and February. Revenue for FY21 recovered by 29% to 2.17p per share (2020: -22%, 1.68p). Total dividends per share were declared of 2.176p (2020: 2.154p), which equates to a 1% increase. This represents the 55th consecutive year of dividend increase, a record it shares with City of London (CTY) atop the AIC list of dividend heroes. After the payment of the final dividend for 2021, reserves will be 1.84p per share (2020: 1.87p) or approximately 10 months' worth at current levels. Given the further expected recovery in global earnings in 2022, BNKR's board is guiding to a dividend per share of at least 2.24p for FY22, which would be a 3% increase.

While EPS and associated DPS growth is (all things being equal) relatively forecastable, the scale and extent of special dividends could surprise on the upside. Regionally, Crooke has a positive view on Japanese corporates' ability to recover and increase payout ratios. He also highlights the UK and Europe as other areas that will continue to rebound strongly from a dividend payment perspective, having been hit especially hard in 2020 and 2021. All three of these markets are overweight positions, which could feed into higher than anticipated revenue growth in 2022 and beyond.

The trust has an objective to deliver long-term dividend growth ahead of UK CPI, which it has handsomely achieved (10-year cumulative dividend growth of 71.3% vs 20.3% for CPI). However, with UK CPI having risen sharply to 4.8% to the end of December 2021, the current level of income growth (1%) is lagging somewhat. The focus on quality companies within the portfolio does, we feel, provide the ability to bounce back from a very difficult FY20 for dividends (especially within the UK and European regions, representing some 36% of the portfolio versus 18.2% for the index). BNKR currently yields 1.91%.

Exhibit 15: Dividend per share growth over the last 10 years

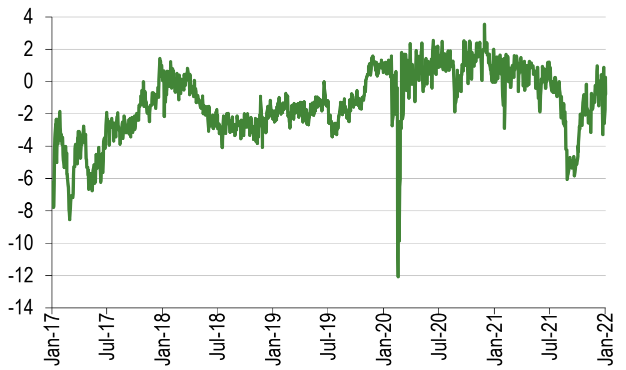


Source: The Bankers Investment Trust. Note: Historical figures adjusted for March 2021 share split.

Discount: Persistently trading around NAV

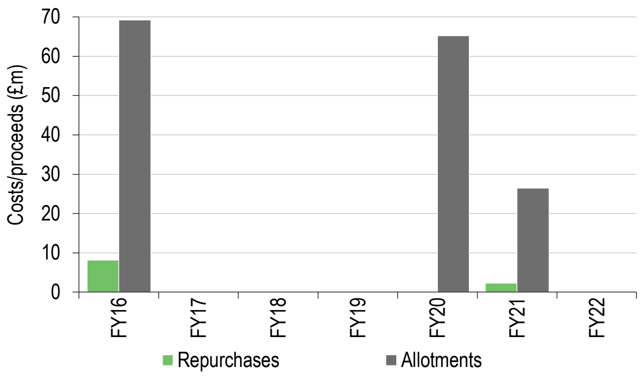
BNKR has the authority to buy back up to 14.99% and allot up to 10% of its share capital each year to manage a discount or premium. The board will only issue and buy back shares when it believes it to be in the best interests of shareholders. During FY21, BNKR issued 14.75m shares (2020: 65.51m adjusted for the March 2021 10-for-one share split), which raised £26.3m in proceeds (2020: £57m). Some 2m shares were repurchased into treasury through FY21 (2020: nil) at a cost of £2.3m. The current discount is 0.93%, which is broadly in line with the five-year average.

Exhibit 16: Discount over five years



Source: Refinitiv, Edison Investment Research

Exhibit 17: Buybacks and issuance



Source: Morningstar, Edison Investment Research

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 (co-head of equities at Janus Henderson Investors since 2018) has been at the helm of BNKR since 2003. He oversees a group of specialist regional portfolio managers and is responsible (in conjunction with the board) for the trust's geographical allocation and level of gearing.

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 portfolio is overseen by Crooke and managed on a regional basis by specialists from across Janus Henderson Investors' (JHI's) global equity teams, each of whom picks a selection of stocks chosen with a broad bias towards quality, value and income. The 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 160–180 names (October 2021: 163), the regional portfolios are fairly concentrated, with a target of c 30 holdings apiece. All of 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 55-year record of year-on-year dividend growth.

The regional portfolio managers are as follows:

North America: this sleeve has been managed by Gordon MacKay since the start of 2020, following the retirement of Ian Warmerdam. The Edinburgh-based team has a tilt to growth at a reasonable price rather than value.

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 has been a portfolio manager on the Janus Henderson Global Equity team since 2008.

Japan: Tokyo-based Junichi Inoue has been manager of this sleeve since 2017.

Pacific ex-Japan and China: this sleeve is managed by Mike Kerley, who also runs Henderson Far East Income (HFEL). He is a value-orientated investor, but his BNKR portfolio has less of an overt income orientation than HFEL.

China A-shares: this sleeve has been managed since 2020 by May Ling Wee, an experienced fund manager in JHI's Singapore regional hub, who had worked alongside former manager Charlie Awdry on the firm's open-ended China funds since 2016. The China sleeve is managed with an emphasis on companies serving local consumers in the region through domestic brands, and which benefit from increasing wealth and consumption among this population.

Integrated approach to ESG bearing fruit

BNKR's directors have had an additional focus on ESG factors over the past three 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.

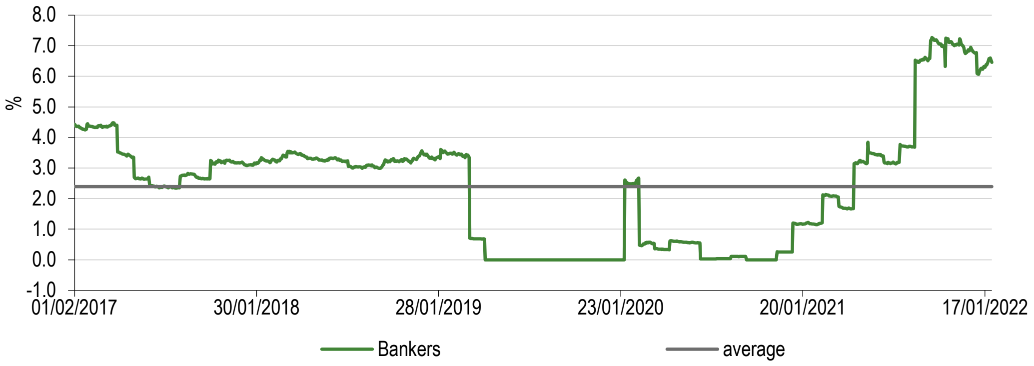
JHI employs an integrated approach to ESG, with regional investment teams adopting methods that are appropriate to the markets they cover. While Crooke says no sectors are excluded on a top-down basis, some individual teams may have areas they prefer to avoid from an ESG perspective. Underlying the approach 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 in a potential investment. Crooke's analysis of the BNKR portfolio shows it has a lower carbon footprint and less exposure to ESG risks than the broad global equity index the trust uses as a benchmark. 'We are trying to buy good companies that don't pollute the world,' he explains, adding that 'often the best companies to invest in are those that are improving, so they might have relative ESG risk today but that will lessen over time.'

According to analysis carried out by Sustainalytics, BNKR has a better current and historical sustainability score and less fossil fuel involvement than peers and the benchmark. It has been less exposed to carbon risk over the past five years than the index and has a Sustainalytics low carbon designation.

Gearing: New facilities replacing historical debentures

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 of 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 repayable 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 of unsecured loan notes (3.68% interest) maturing in 2035 and the £20m short-term borrowing facility arranged with SMBC Bank terminating in February 2022, which is likely to be rolled over for a further two years. The weighted average interest payable on the trust's fixed rate borrowings has reduced from 4.68% to 3.23% with the addition of the 2045 and 2041 facilities and will further reduce to 2.66% following the repayment of the debenture in October 2023. In aggregate the company is currently 6% net geared, which is a little higher than recent levels due in part to the additional facilities put in place recently.

Exhibit 18: Net gearing



Source: Morningstar.

Fees and charges: Tiered rates driving down fees

BNKR's board has added an additional layer to the tiered management fee. From 1 November 2021, the rate will be 0.45% on net assets up to £750m, 0.40% on the next £750m and 0.35% on net assets above £1.5bn. The current net assets are c £1.6bn. 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. All in, the ongoing charge for FY21 was 0.48% (FY20: 0.50%), which makes the trust especially competitive in this regard (Exhibit 19).

Exhibit 19: Competitive fees

Company	Latest market capitalisation (£m)	Management fee (%)	Latest ongoing charge ex perf fee (%)	Latest ongoing charge inc perf fee (%)
Scottish Mortgage	16,023	0.30	0.34	0.34
Monks	2,789	0.45	0.43	0.43
Bankers	**1,534**	**0.45**	**0.48**	**0.48**
Keystone Positive Change	158	0.70	0.51	0.51
F&C Investment Trust	4,561	0.35	0.52	0.52
JPMorgan Elect Managed Growth	292	0.30	0.54	0.54
Scottish Investment Trust	580	0.00	0.56	0.56
Mid Wynd International	496	0.50	0.61	0.61
Brunner	450	0.45	0.64	0.64
Alliance Trust	3,028	0.06	0.65	0.65
Witan	1,772	0.51	0.75	0.79
AVI Global Trust	1,042	0.70	0.85	0.85
EP Global Opportunities	106	0.75	0.99	0.99
Manchester & London	204	0.50	0.81	1.06
Martin Currie Global Portfolio	316	0.50	0.60	1.65
Lindsell Train Investment Trust	239	0.60	0.75	1.94
Blue Planet Investment Trust	11	1.50	4.30	4.30
Average	**1,977**	**0.51**	**0.84**	**0.99**

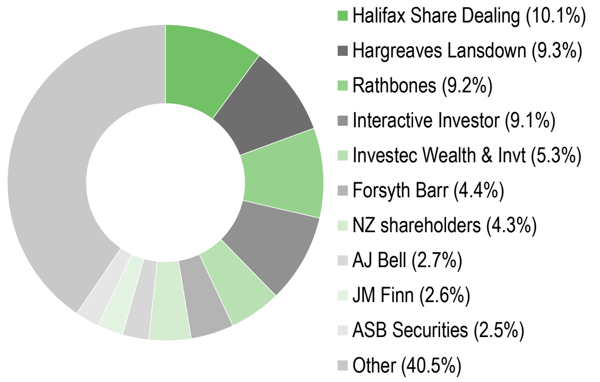
Source: Morningstar, as at January 2021.

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 1.31bn shares in issue (as at 1 February 2022) with 2.03m shares in treasury.

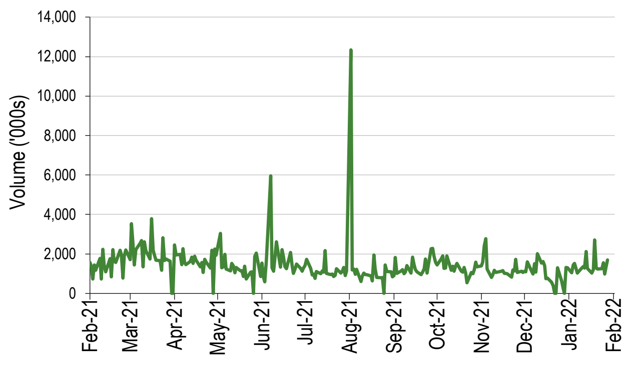
As shown in Exhibit 20, retail investor platforms and wealth managers are well represented among BNKR's largest shareholders, underlining the trust's 'one-stop shop' nature for investors seeking global equity exposure in a large and liquid vehicle.

Exhibit 20: Major shareholders as at 31 December 2021



Source: The Bankers Investment Trust

Exhibit 21: Average daily volume



Source: Refinitiv

The board

Exhibit 22: BNKR's board of directors

	Date of appointment	Remuneration in FY21	Shareholdings at the end of FY21
Sue Inglis (chair)	Nov-12	£44,300	100,000
Julian Chillingworth (SID)	Feb-15	£31,500	30,000
Simon Miller (chair elect)	Jan-22	£0	0
Isobel Sharpe (audit com)	Nov-17	£31,500	30,000
Richard West	Apr-20	£28,900	50,000
Richard Huntingford*	Sep-18	£28,900	27,500

Source: The Bankers Investment Trust. Note: *Retired October 2021.

The board currently numbers five, although Chair Sue Inglis will be standing down at the conclusion of the 2021 AGM in February 2022, having served nine years. Simon Miller joined in January 2022 and will succeed Inglis. Miller brings substantial investment and corporate leadership experience. After starting his professional career in law, Miller moved to corporate finance at Lazard Brothers. He was chairman of Brewin Dolphin from 2013 to 2021 and served on the board of Adam & Co as well as numerous investment companies. Richard Huntingford stood down from the board in October 2021. A replacement will be made in due course. Fund manager Alex Crooke also has a holding of 4.2m shares.

General disclaimer and copyright

Australia

New Zealand

United Kingdom

United States

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia