

# The Brunner Investment Trust PLC

Annual General Meeting  
April 2019

Lucy Macdonald  
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Value. Shared.



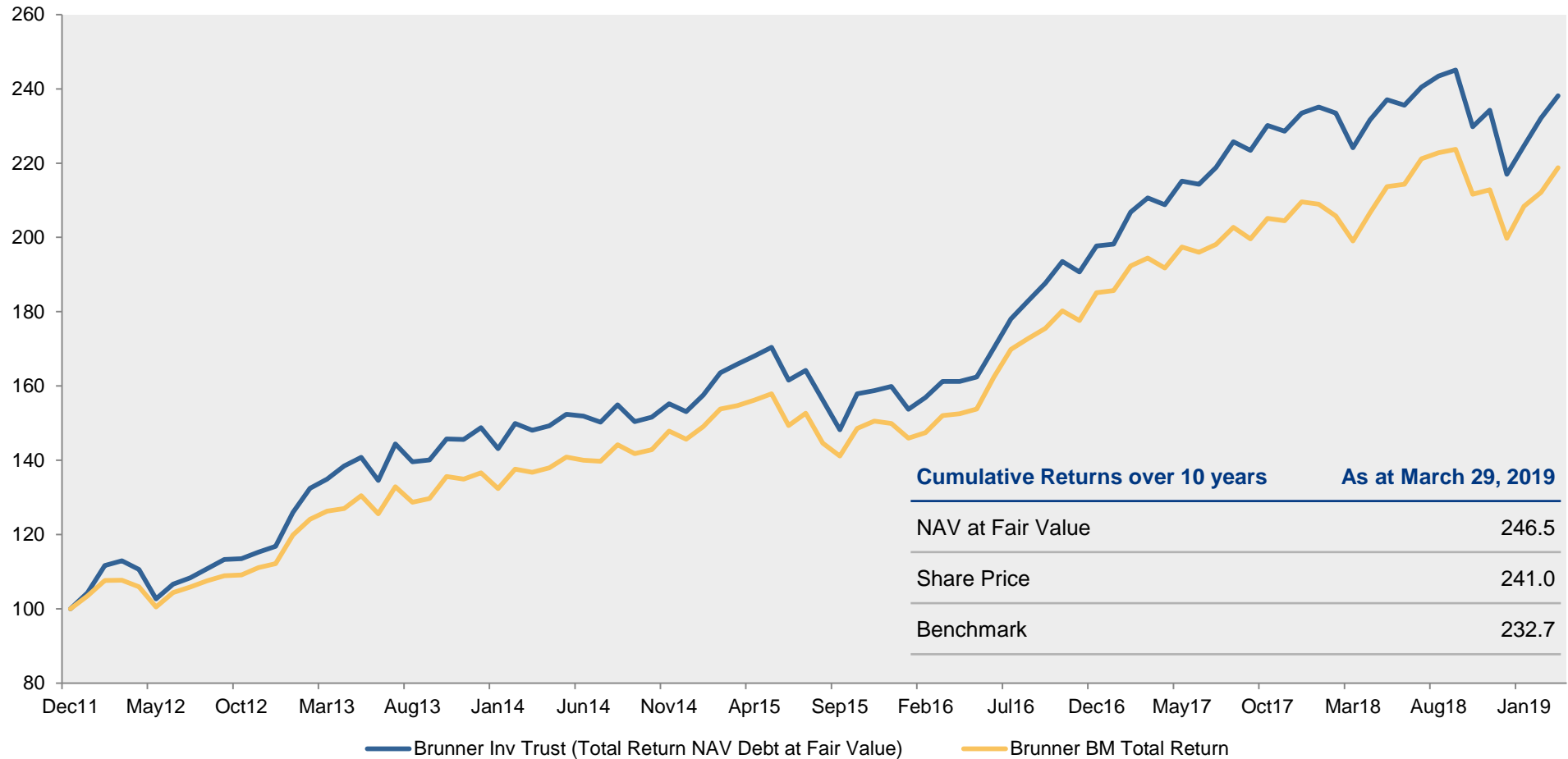
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# 01

## Portfolio Review



# Track record of performance

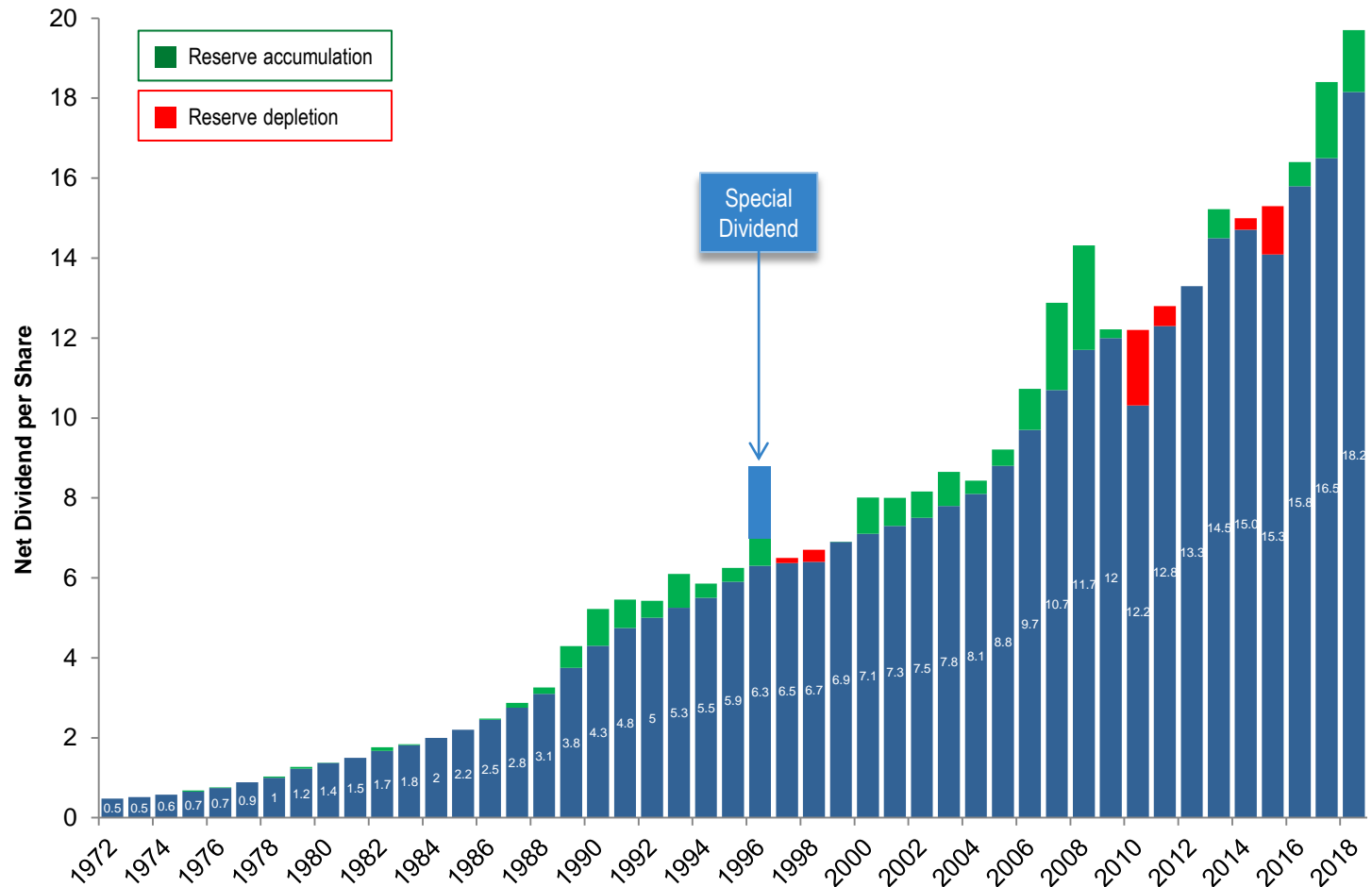


Source: AllianzGI UK/ DataStream, as at March 29, 2019, GBP. Total Return. Cumulative returns. Benchmark is 30% FTSE All-Share and 70% FTSE World (ex UK) Index (£), (was 50/50 up to 21/03/17). Past performance is not a reliable indicator of future results. This is no recommendation or solicitation to buy or sell any particular security.

# Consistent dividend growth

## 46 Years of Rising Dividends

- One of the sector's **highest yielding** trusts at **2.42%**
- Pays out **quarterly** dividends
- Prudent capital allocation to ensure **consistent** dividend growth
- Strong revenue reserves of 25.4p per share
- Board is minded to grow the dividend in **excess of inflation**

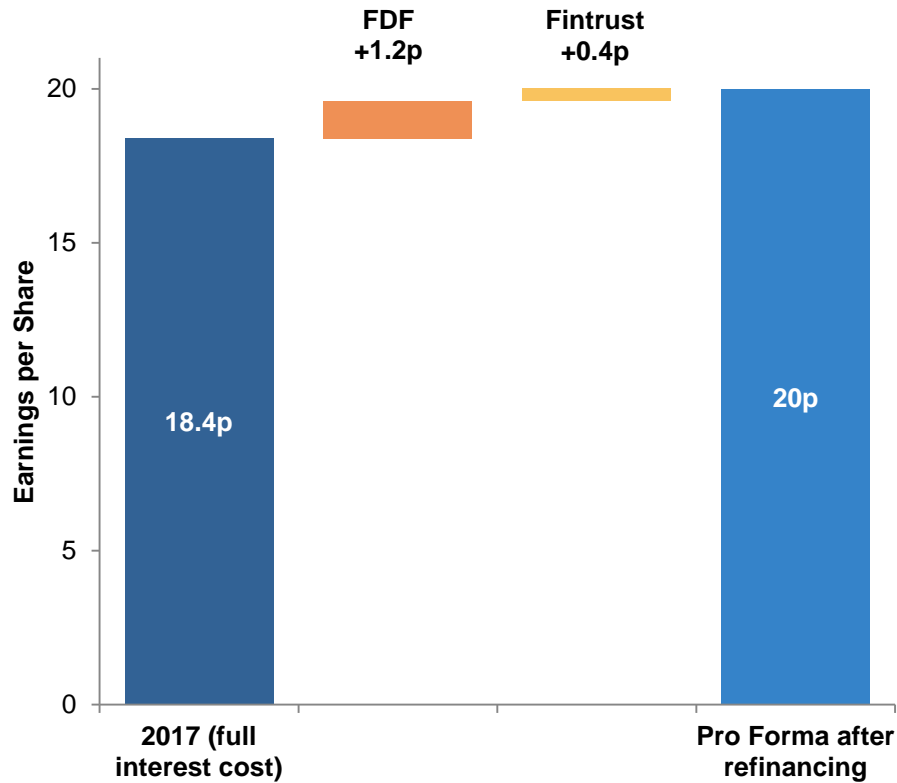


Past performance is not a reliable indicator of future results.

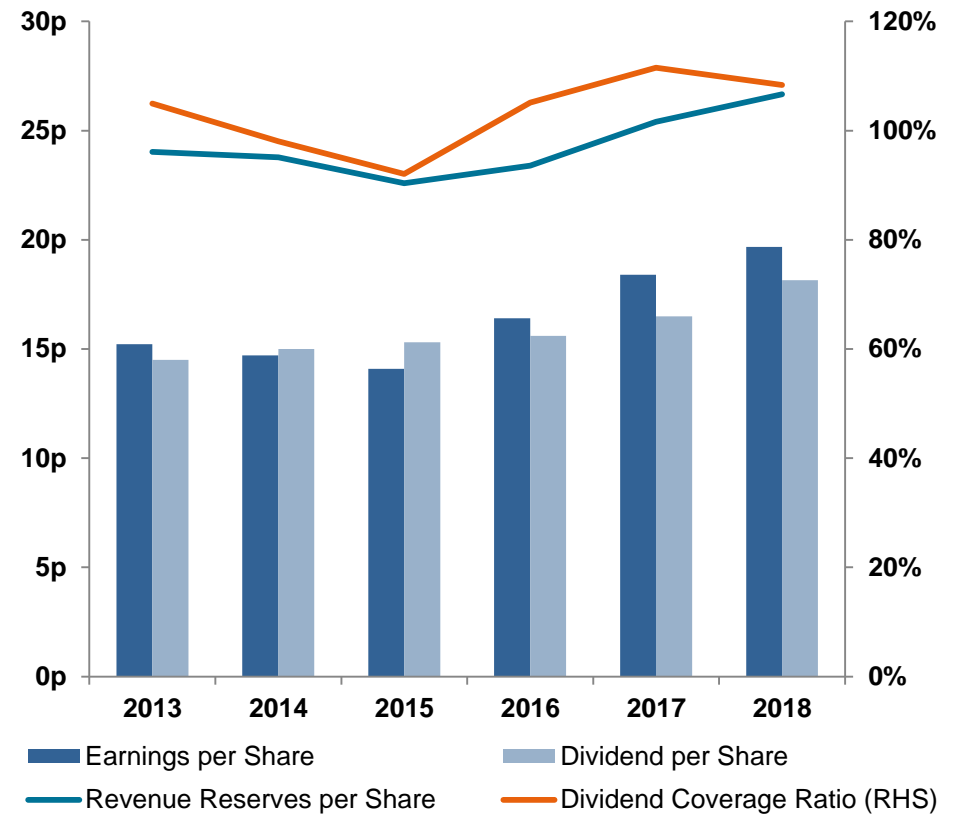
Source: AllianzGI, as at February 28, 2019.

# Reducing interest payments to boost dividend cover

**Pro Forma Earnings per Share are 8.7% higher following debt refinancing**



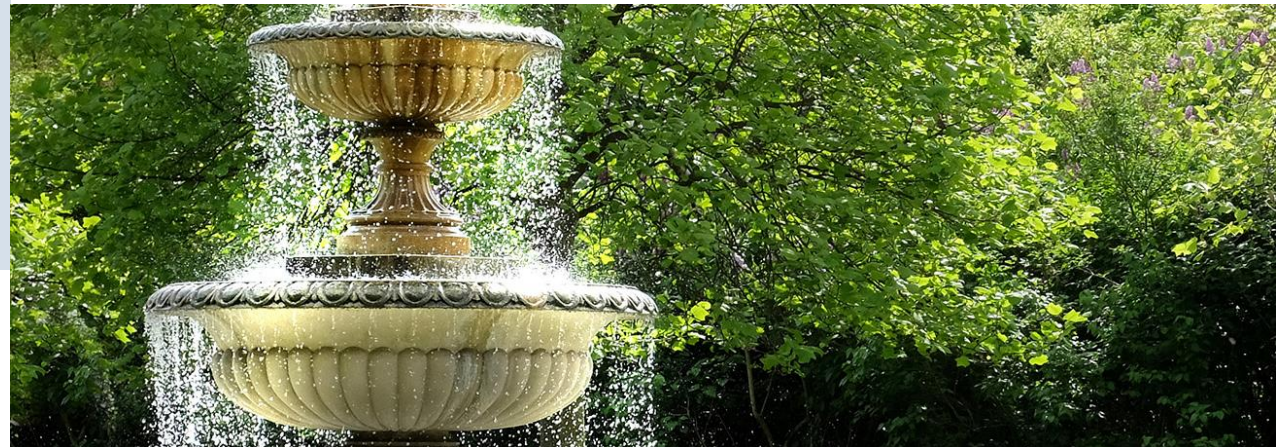
**Providing more scope for dividend growth given already strong reserves**



Calculations are based on historic reported earnings per share as at February 28, 2019. FDF and Fintrust refinancing uplifts are estimates not forecasts. Past performance is not a reliable indicator of future results. This is no recommendation or solicitation to buy or sell any particular security.

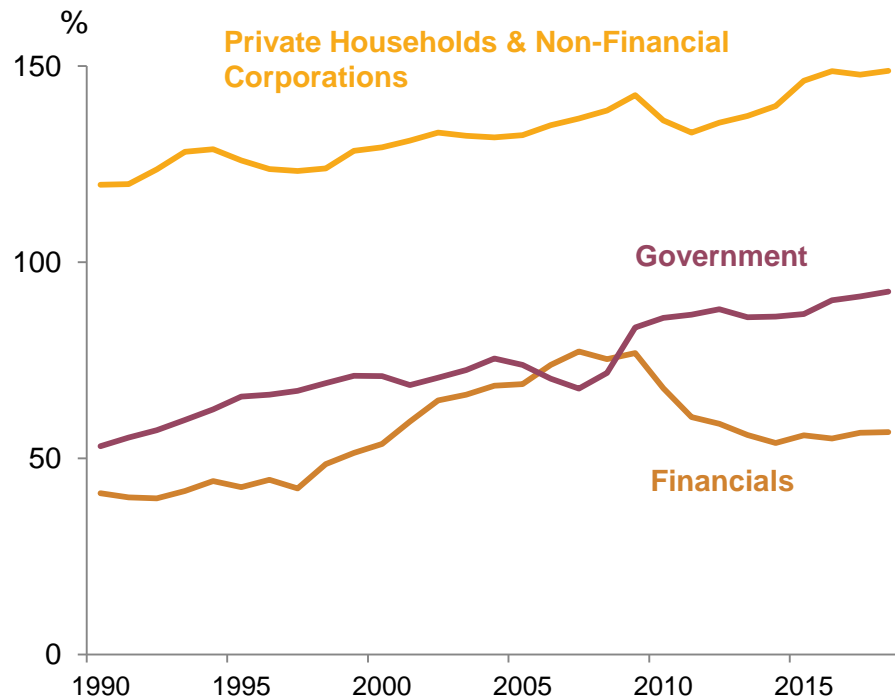
# 02

## Market Outlook and Positioning

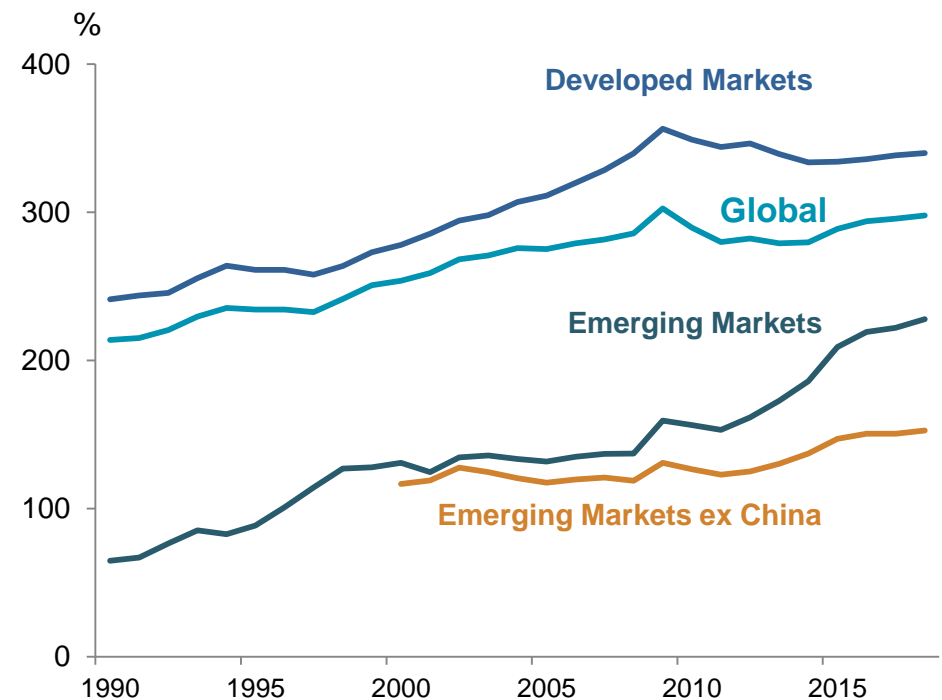


# What deleveraging?

**Global debt to GDP by sector**



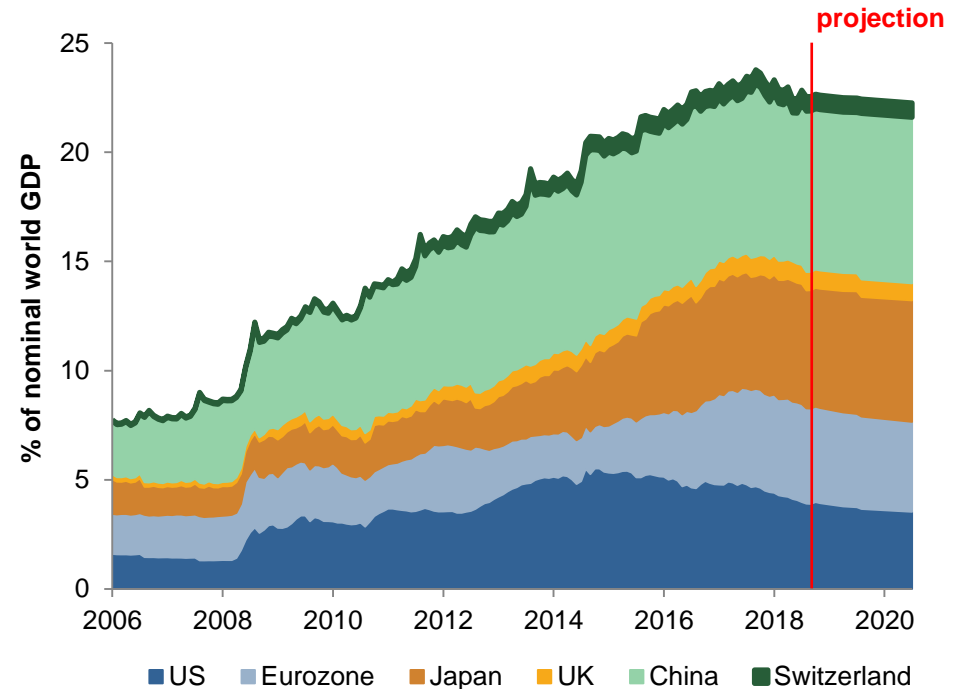
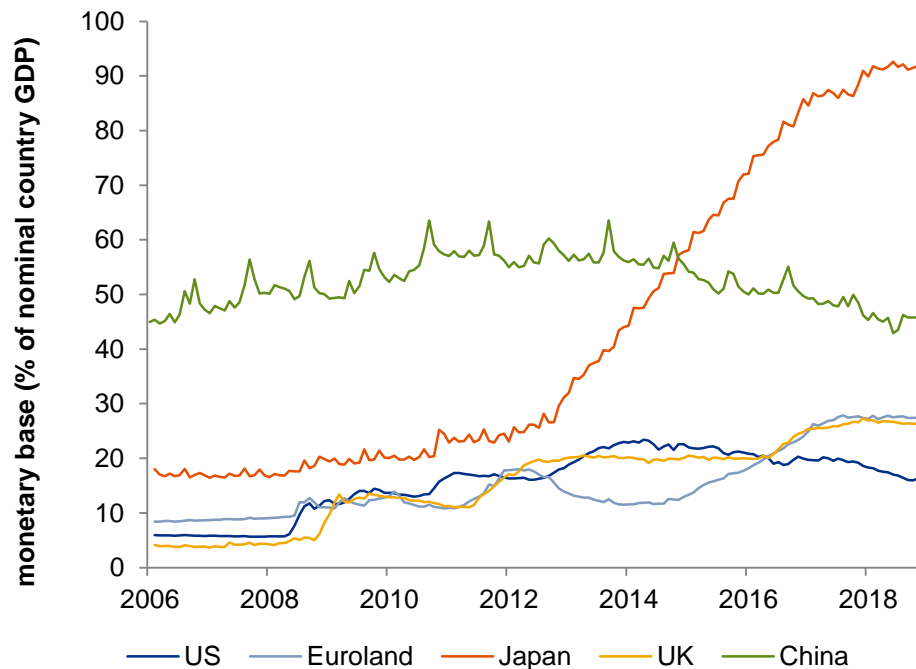
**Global debt to GDP by region**



Global leverage has risen for decades, fuelled by asymmetric monetary policy and financial market deregulation.

# Liquidity: central banks wait and see

## Central bank liquidity stimulus peaked in 2018

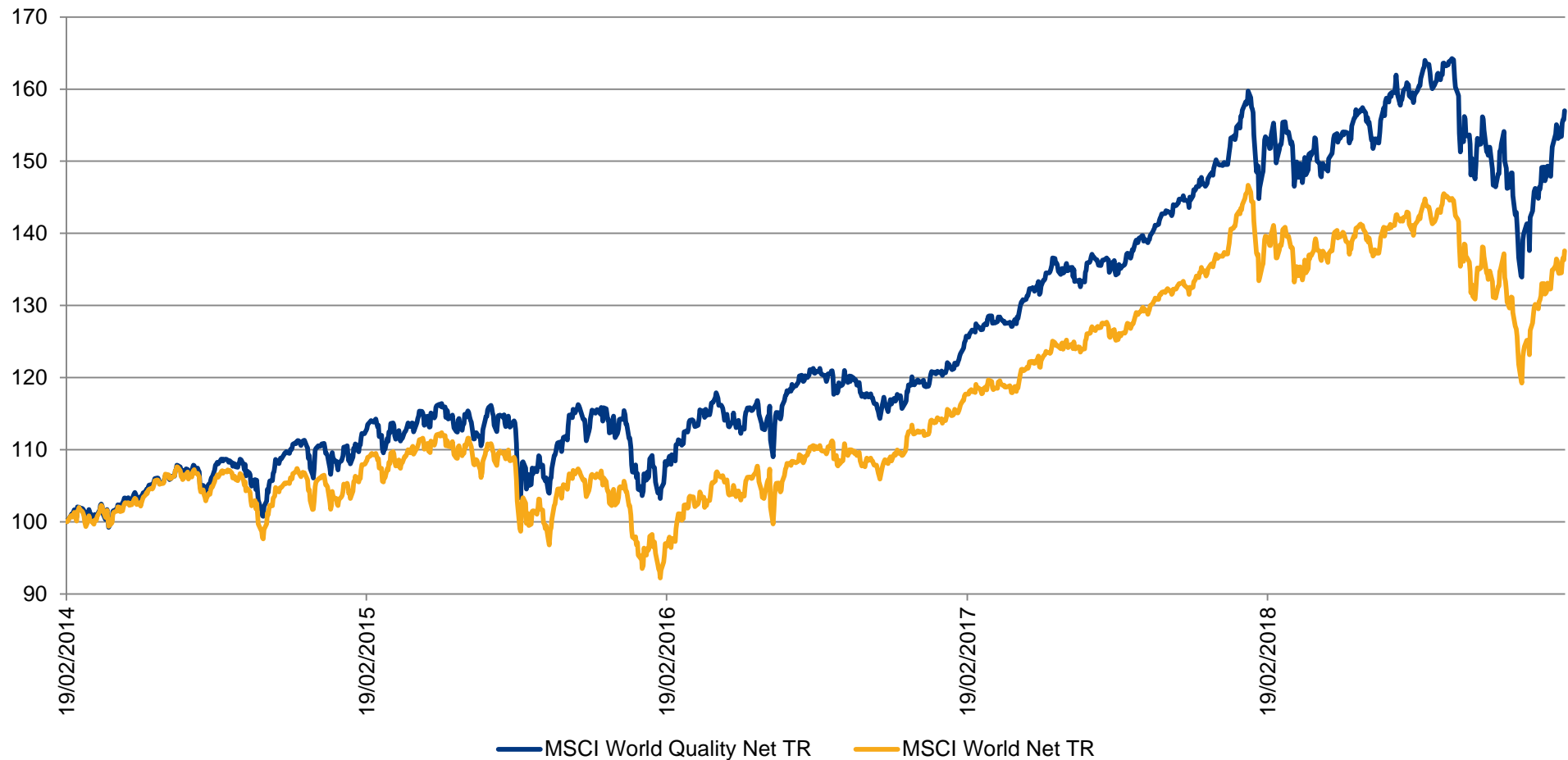


Even after peak liquidity, the ECB and Bank of Japan have only slightly adjusted their accommodative monetary policy. The Federal Reserve may also close to the end of its hiking cycle and intends to stop quantitative tightening by September 2019.



# Quality rising in importance as liquidity recedes

## MSCI Quality vs. MSCI World – 5 years

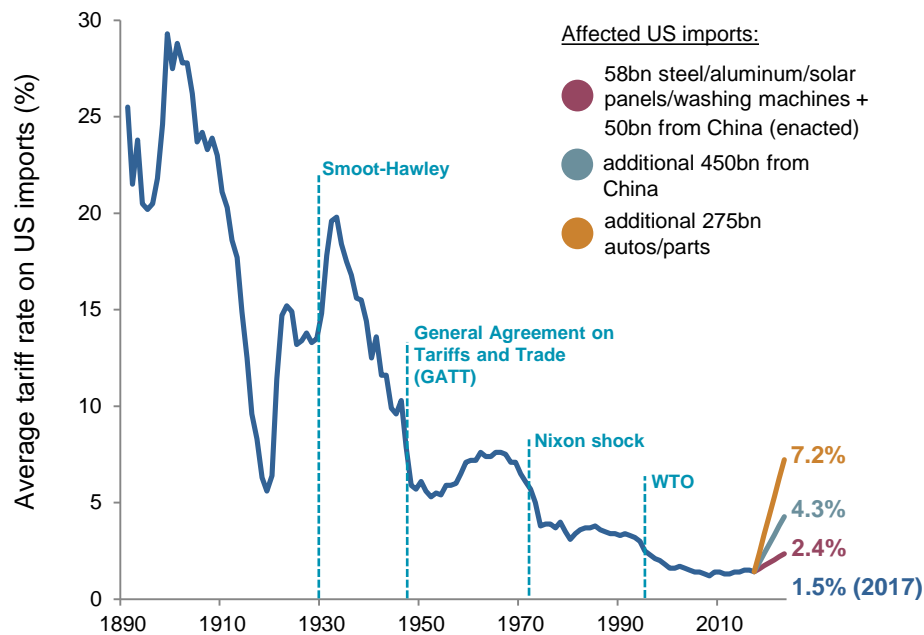


**NB:** The MSCI Quality index aims to capture the performance of quality growth stocks by identifying stocks with high quality scores based on three main fundamental variables: high return on equity (ROE), stable year-over-year earnings growth and low financial leverage.

Source: Bloomberg, as of February 18, 2019. Past performance is not a reliable indicator of future results.

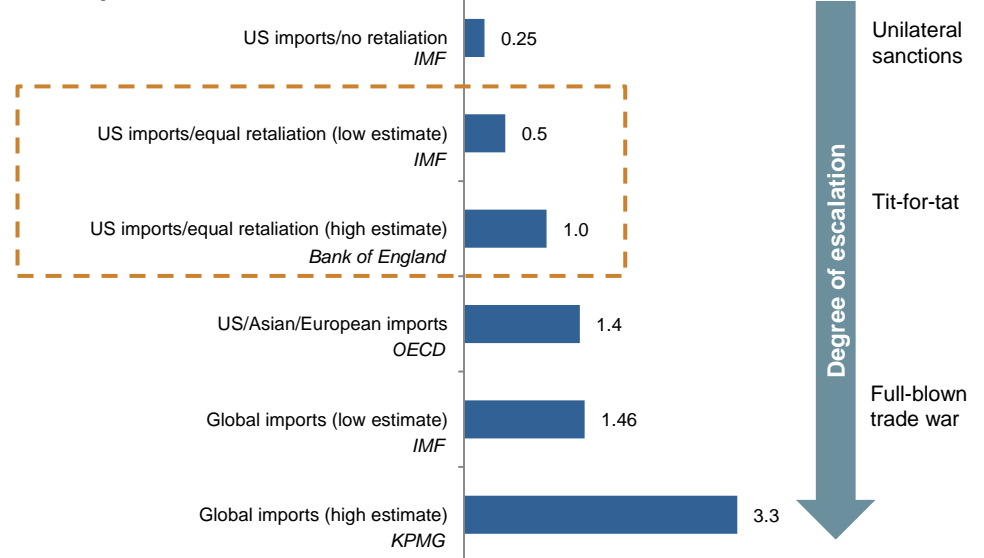
# Trade conflicts placing strain on the global economy

## More than 1/3 of all US imports under threat of higher tariffs



## Further trade conflict may spill over to the world economy

### Negative impact on global GDP (over 2-3 years) of a 10% point increase in tariffs on:

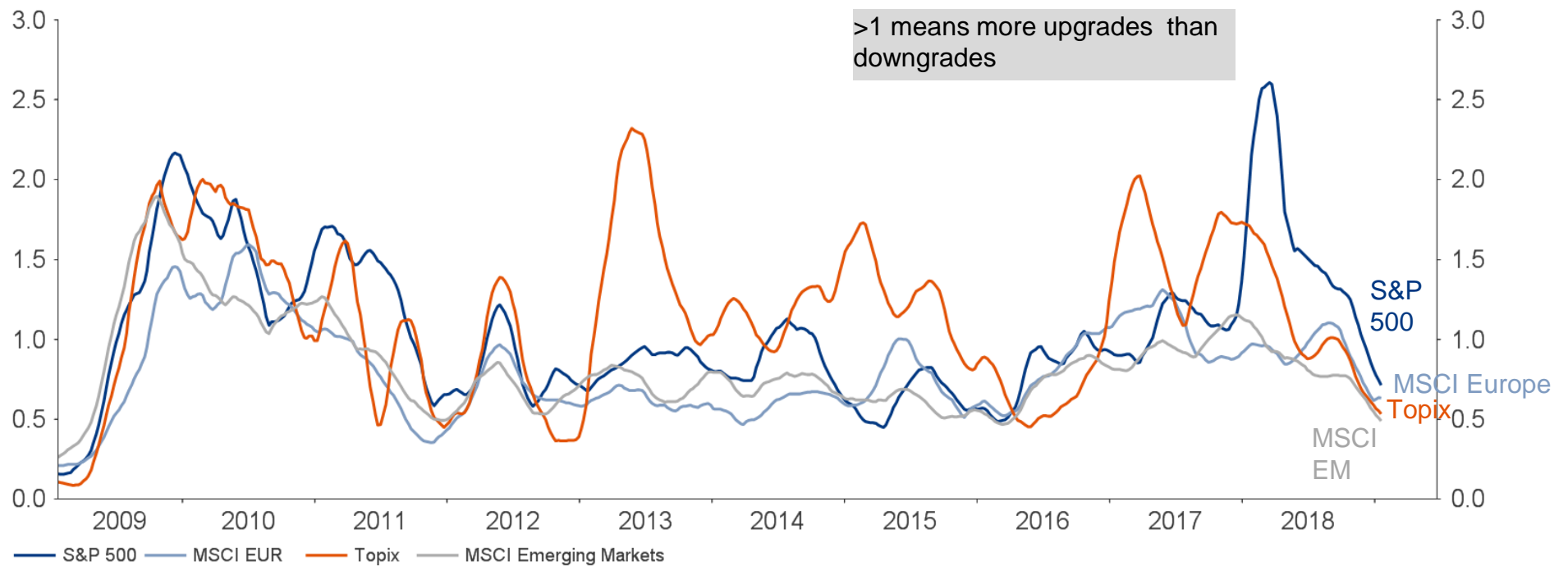


Trade conflicts are unlikely to cause a global recession on their own. But souring sentiment, disrupted supply chains and tighter financial conditions may do additional harm.

<sup>1</sup>In case of a 25% (instead of 10%) duty imposed on an additional 450bn USD worth of imports from China, the maximum average tariff rate would rise to 10.1% instead of 7.2%.  
Source: Allianz Global Investors Global Economics & Strategy, IMF, OECD, Bank of England, KPMG, U.S. International Trade Commission

# Growth: earnings revisions slowing

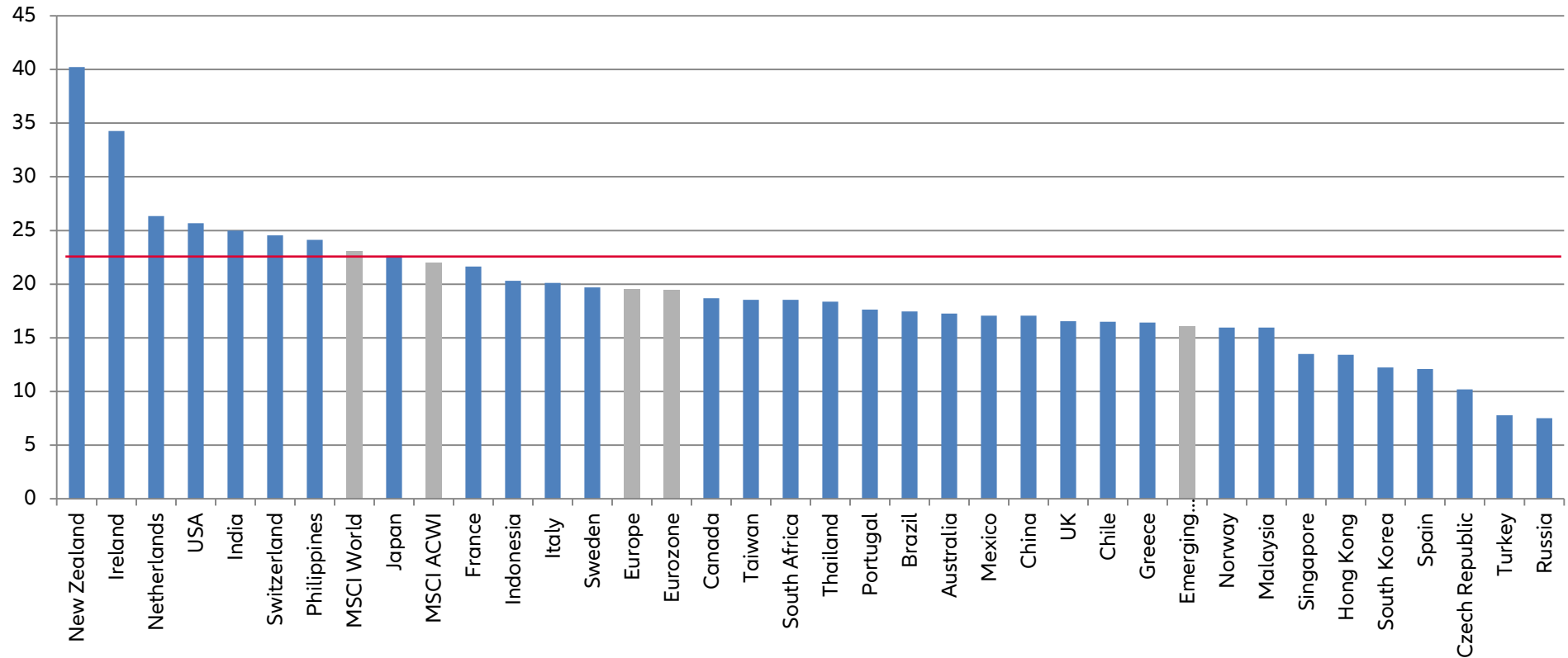
## Earnings revisions momentum (ratio of up/down estimates, 3months moving average)



Analysts are reducing earnings estimates as US tax cut impact fades and leading indicators cool.

# Valuation: Cyclically Adjusted PE Ratios

Index price to 10 year average real earnings per share



Valuations are recovering from Q4 but could be running ahead of earnings.

Source: AllianzGI, Bloomberg, as of April 01, 2019. All data taken from MSCI Indices except USA which uses S&P 500. Real EPS is computed by adjusting Earnings per Share for Ratios by the country's Consumer Price Index (CPI). 10 year average real EPS is computed using 40 quarters, or 20 semi-annual periods or 10 annual figures.

# Market outlook

## Liquidity

- Ten years after the financial crisis, central banks have tentatively begun to normalise monetary policy
- Liquidity removal will eliminate and slowly reverse the main driver of asset returns over that period

## Growth

- US fiscal stimulus has powered economic and earnings growth upwards but the incremental benefits are fading
- Economic indicators have been weakening, particularly in Europe and China, but may be stabilising at low levels
- Tariffs are negatively impacting global growth; domestic political pressure is growing in China and US to avoid further escalation
- Digitalisation is a long term structural change leading to increasing divergence in growth and stock performance

## Valuation

- Valuations have become more attractive but remain higher than average historic range, particularly vs sales
- Higher volatility is offering opportunities to add to favoured stocks
- Balance sheet quality and strong cash-flow are regaining importance as the cost of leverage rises



Active management is required to navigate an increasingly uncertain market environment

# The Cooper Companies

Specialist healthcare manufacturing



**Description:** A medical devices company, made up of Cooper Vision and Cooper Surgical. These specialise in the production of contact lenses and women's fertility devices, respectively.

**Quality:** CooperVision operates within a regulated, oligopolistic industry and has the leading market share in speciality lenses. Combined with its silicone hydrogel and daily lenses portfolio, Vision has consistently outperformed, gaining +1% market share annually since 2011. Although much smaller, CooperSurgical is using its scale and distribution capacity to consolidate and corner a relatively fragmented market. Result is two attractively growing businesses with good profitability.

**Growth:** COO has delivered 7% organic revenue growth and 12% adjusted EPS growth over the past five years. Contact lens market has grown 5-6% p.a. due to population growth, aging, aesthetics and pricing. By combining legacy gyno products with rapidly growing fertility segment, Surgical division expects c.4-5% growth. Overall steady growth of 5-6%.

**Valuation:** At the time of acquisition, COO traded at 17x next year's PE. This was low vs historic range due to competitive concerns. Given positive earnings revisions, we believe these are overdone.

# Compass Group

International Food Service Provider



**Description:** Compass is the world's largest food service provider. The company operates internationally, with a strong presence in the US and Europe. Serving public sector and business clients, Compass also runs franchises like Starbucks and Burger King under licence.

**Quality:** Compass has a track record of above-industry growth and profit margins thanks to its scale, superior execution and strategic reinvestments into profitable geographies and sub-segments. It also has first-mover advantage in the industry's most attractive market – the US. Efficiency improvements are steadily driving higher returns and the balance sheet is solid, with 1.5x net debt/EBITDA.

**Growth:** Outsourced food service is an underpenetrated market. Cost-cutting pressures in both corporate and public sectors is driving steady growth for large players, particularly in the US where 75% of the food service market is still fragmented. Historically, Compass has grown 4-6% p.a. thanks to organic growth and M&A.

**Valuation:** At the time of purchase, the stock was valued at c.17x next year's earnings. This valuation was depressed due to investor concern about a management transition. However, we believed this was misplaced, thus making for a good entry point.

# Informa

Global leader in exhibitions and media



**Description:** Informa's key business operations are in events and exhibitions, business intelligence and academic publishing. In January 2018, Informa announced its acquisition of UBM, creating the world's largest exhibitions company.

**Quality:** Exhibitions and Events are scalable high returns businesses with significant incumbent advantages. The combined entity should continue to reap the benefits of consolidating a fragmented industry with high barriers to entry. And, due to its capital-light business model, CFROI will be high at 40-50%.

**Growth:** The combination of UBM and Informa is expected to give organic revenue growth of 3-4%, with operating margins of c.32%. Exhibitions, which will drive 60% of Informa's post-UBM business, are free from structural risks and expected to grow at over 5% p.a. There are additional synergy benefits of c.£60m. Informa is also investing in its entire digital offering, such as SupplySide Connect or the New Hope Network. These services use Informa's extensive customer knowledge to deliver planning and consultancy, creating new revenue streams and customer insights for the business.

**Valuation:** When the deal was announced, shareholders were sceptical. Valuation was also depressed by scepticism over Informa's sector and domicile. As a result, Informa was added to the portfolio at around 15x P/E.



# Agilent Technologies

Global leader in life sciences and applied chemical markets



**Description:** Agilent provides core bio-analytical and electronic measurement solutions to the communications, electronics, life sciences, and chemical analysis industries.

**Quality:** Significant ongoing restructuring across Agilent divisions with a renewed emphasis on capital allocation and alignment with shareholder remuneration since appointment of new CEO in 2015.

**Growth:** Expected to grow around 5-6% towards USD5.1b revenues in 2020; CrossLab (laboratory productivity and mission-critical systems support, compliance) and diagnostics and genomics expected to be the strongest contributors. China +7% growth and international geographies are also growth contributors.

**Valuation:** On a valuation dispersion basis against instrumentation competitors Agilent remains slightly undervalued given the level of CFROI generation. On an intrinsic value basis, further revenue acceleration accompanied by margin expansion is anticipated for Agilent.

## Ecolab services

International water, hygiene and energy



**Description:** Ecolab provides solutions and on-site services to companies in a range of sectors. These range from the food and hospitality industry, to hospitals and energy companies.

**Quality:** Operating in a logistically and chemically complex sector creates high barriers to entry. Customer relationships are solid, with 90% of revenues on a recurring basis. Returns on capital are also consistently around 15% or higher.

**Growth:** Ecolab is a key beneficiary of a growing and aging global population. Its customers currently spend less than 1% of their budgets on cleaning and hygiene. It has also made \$600m of investment over the past 5 years in customer facing, field devices and infrastructure. This includes digitised online ordering and customer service. Expecting \$200m of efficiency savings by 2021 on top of customer knowledge from the data.

**Valuation:** At the time of purchase, the company was facing headwinds from a weak energy sector and rising input costs. Longer-term management expect to generate high single digit sales growth and double digit EPS growth. Over time, the company can use its brand strength to supplement this with acquisitions.

## Why Brunner?



One of the highest yielding trusts in its sector with over 46 years of consecutive dividend growth

Long term outperformance vs benchmark

Optimal balance of global diversification and high conviction stock selection

An experienced team with a robust investment process

A discount that has narrowed thanks to debenture redemption, and potential for further reductions

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A trust's Net Asset Value (NAV) is calculated as available shareholders' funds divided by the number of shares in issue, with shareholders' funds taken to be the net value of all the company's assets after deducting liabilities. In line with current industry best practice NAVs are now shown that take into account the 'fair value' of debt. This means NAVs are calculated after allowing for the valuation of debt at fair value or current market price, rather than at final repayment value. NAVs with debt at market value provide a more realistic impact of the cost of debt, and thus a more realistic discount. It is the capital NAV that is shown, which excludes any income.

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# The Brunner Investment Trust PLC

Annual General Meeting  
4 April 2019

Lucy Macdonald  
Matthew Tillett



Value. Shared.



**Allianz**   
Global Investors

# The Brunner Investment Trust PLC

## Annual General Meeting, 4 April 2019

### Resolution 1:

To receive and adopt the annual financial report

For	Discretion	Against	Withheld
16,385,126	31,612	0	5,724

# The Brunner Investment Trust PLC

## Annual General Meeting, 4 April 2019

### Resolution 2:

To declare a final dividend

For	Discretion	Against	Withheld
16,387,792	31,612	0	3,058



# The Brunner Investment Trust PLC

## Annual General Meeting, 4 April 2019

### Resolution 3:

To re-elect Vivian Bazalgette as a Director

For	Discretion	Against	Withheld
15,912,990	33,442	315,176	160,854

# The Brunner Investment Trust PLC

## Annual General Meeting, 4 April 2019

### Resolution 4:

To re-elect Ian Barlow as a Director

For	Discretion	Against	Withheld
16,169,122	33,442	127,509	92,389

# The Brunner Investment Trust PLC

## Annual General Meeting, 4 April 2019

### Resolution 5:

To re-elect Peter Maynard as a Director

For	Discretion	Against	Withheld
16,163,104	33,442	75,728	150,188

# The Brunner Investment Trust PLC

## Annual General Meeting, 4 April 2019

### Resolution 6:

To approve the Directors' Remuneration Implementation Report

For	Discretion	Against	Withheld
16,163,523	33,442	116,935	108,562

# The Brunner Investment Trust PLC

## Annual General Meeting, 4 April 2019

### Resolution 7:

To re-appoint PricewaterhouseCoopers LLP as Auditor

For	Discretion	Against	Withheld
16,139,851	33,442	223,308	25,861

# The Brunner Investment Trust PLC

## Annual General Meeting, 4 April 2019

### Resolution 8:

To authorise the directors to determine the remuneration of the Auditor

For	Discretion	Against	Withheld
16,298,089	33,442	44,742	46,189

# The Brunner Investment Trust PLC

## Annual General Meeting, 4 April 2019

### Resolution 9:

To renew the directors' authority to allot ordinary shares

For	Discretion	Against	Withheld
16,297,011	34,368	68,455	22,628

# The Brunner Investment Trust PLC

## Annual General Meeting, 4 April 2019

### Resolution 10:

To disapply pre-emption rights

For	Discretion	Against	Withheld
15,839,307	34,368	476,470	72,317



# The Brunner Investment Trust PLC

## Annual General Meeting, 4 April 2019

### Resolution 11:

To authorise the company to make market purchases of ordinary shares

For	Discretion	Against	Withheld
16,100,607	33,538	240,605	47,712

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