

# The Brunner Investment Trust PLC

Presentation to the Annual General Meeting

18<sup>th</sup> March 2010

*informed*  
**RCM**



## Representing RCM:

Mark Lovett, Fund Manager (UK Portfolio)

Lucy Macdonald, Fund Manager (Global Portfolio)

A company of **Allianz**   
Global Investors

**Information *advantage***

# Agenda

- The Brunner Investment Trust –background, recent developments and performance
- Equity portfolio positioning, examples, and equity market background
- Summary

## Brunner Investment Trust

**A bottom-up global stock-picking trust**

- Two portfolios managed on a 'bottom up' basis by Lucy Macdonald (Global) and Mark Lovett (UK)
- Stock-picking philosophy based on fundamental research
- Strong growth investment orientation
- £275 million (total assets)
- Discount of 11.3% (debt at fair value)
- Global growth sector

## Recent developments

- Move to a more focused approach - November 2004 (UK) and August 2005 (Global)
- Adoption of new benchmark (March 2008)

UK		
	Previous	Current
Number of Names	60 – 70	35 – 55

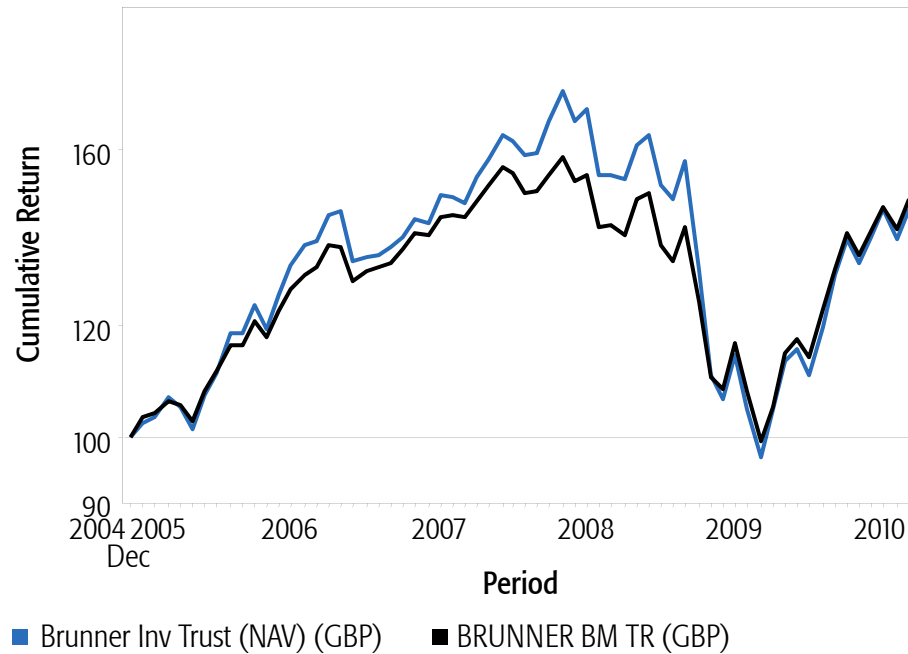
Global		
	Previous	Current
Number of Names	80 – 100	50 - 75

### Objectives

- Increase focus
- Increase target outperformance
- Greater global exposure (50:50 FTSE World ex UK: FTSE All Share)

# Performance since adoption of focused approach

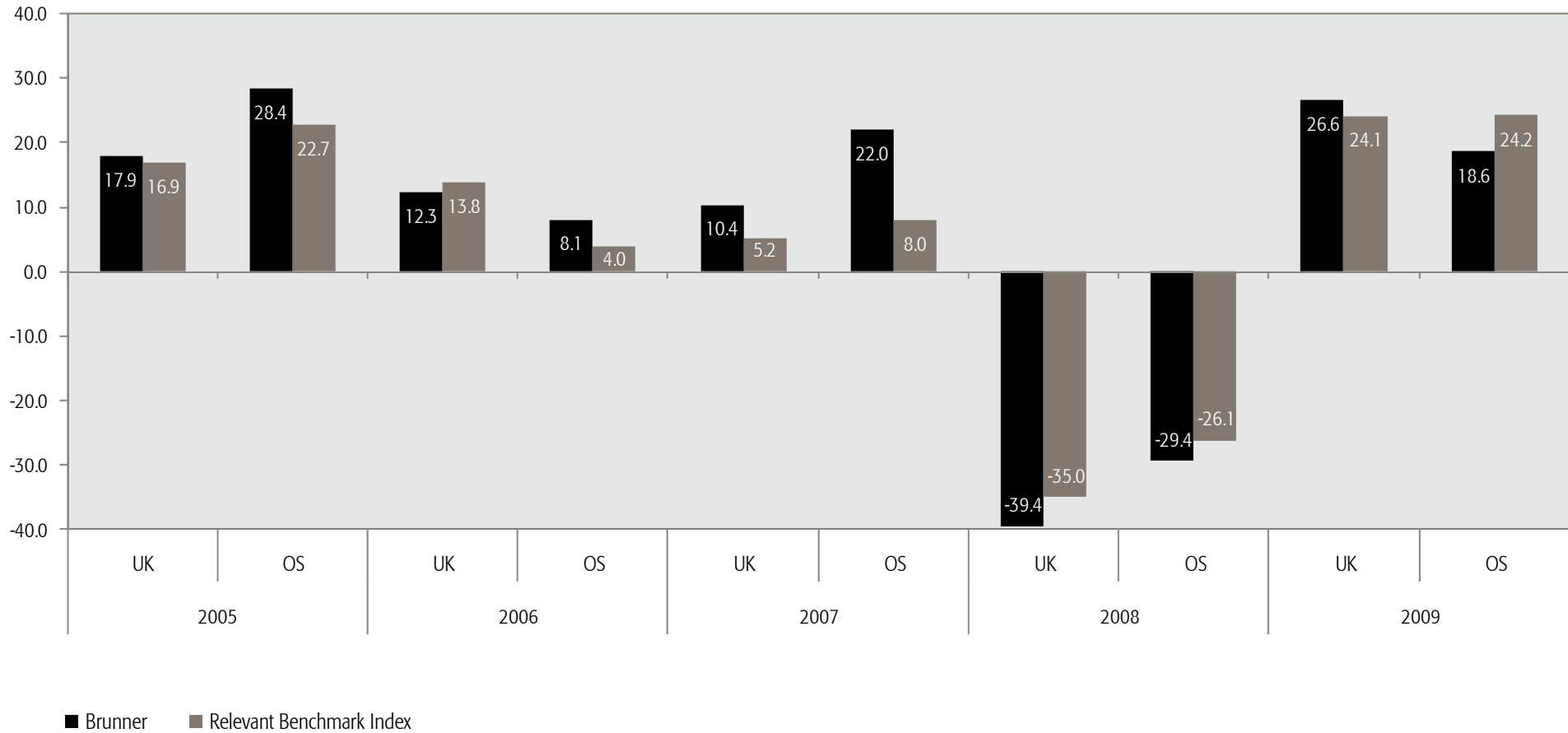
1 December 2004 to 28 February 2010



Source: Mellon Analytical Solutions, as at 28 February 2010.

# Brunner performance 2005 to 2009

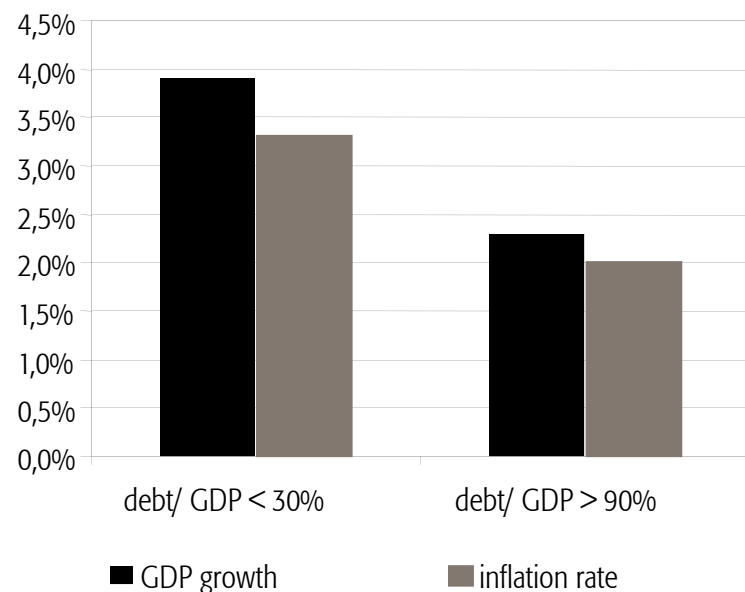
## UK and Overseas (OS) portfolio returns



# Portfolio positioning – economic outlook

## Historical relationship between Government debt, growth and inflation

### Government debt, growth, inflation in developed economies



- Historically, economies with high public debt/ GDP ratios tended to have **relatively low real growth rates** in comparison with economies with low debt levels, as highly indebted Governments tend to hike taxes and cut public spending. High debt levels have not always lead to rising inflation. However, in the US, they have done
- The current rise in public debt levels is likely to weigh on economic growth going forward, as Governments will be forced to tighten their belts

Legend: 20 developed economies, period 1946-2009  
Source: Reinhart & Rogoff

# Active positions

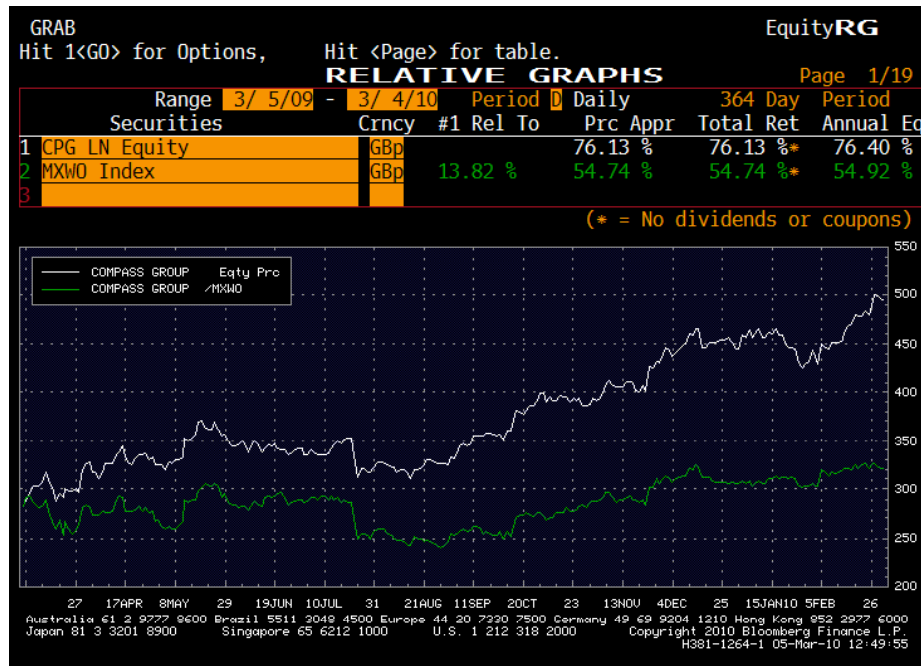
## Top Ten Active Weights UK

	%
Cobham	3.4
Compass Group	2.9
Glaxosmithkline	2.8
BG Group	2.6
Melrose	2.4
International Power	2.2
International Personal Finance	2.2
Informa	2.2
Unilever	2.1
Telecity	1.9



# Compass Group – corporate spending

Compass Group operates an international foodservice group, which provides contract and concession catering to businesses in over 90 countries.



Analyst Profile

## Bianca Schnieder, European Consumer Research Associate

Bianca Schnieder is a Research Associate on the European Consumer team. She joined the European Research department in 2008 from the RCM global graduate program. Bianca's work experience prior to joining the graduate program included positions at Martin Currie Investment Management and Bankhaus Hallbaum.



### Initial investment case – key drivers

- **Growth:** The long-term structural trend for outsourcing remains intact. The company sees further room to expand in under penetrated areas like healthcare and education as well as soft support services.
- **Quality:** Strong track record of containing food price inflation via purchase and supply chain efficiency. Strong management on track to push through margin expansion.
- **Valuation:** Company is attractively valued, with the in-house analyst signalling a price target 26% higher than current market price.

### What has happened recently?

- The company released an upbeat Q1 trading statement ahead of their AGM, stating that organic revenue line has improved from -3% in Q4 2009 to -1.7% in Q1 2010, with all geographies contributing to performance..
- The company sees strong growth in new business wins, with retention rates remaining high.

### What we believe will happen next

- Approximately 50% of the group's revenues are accounted by Business & Industry and Sports & Leisure sectors and thus the company is exposed to cyclical swings. Yet, we believe B&I volumes are likely to improve in H2 2010 and the company looks well on track for its guidance of flat revenues this year. We expect positive margin momentum to continue.

### Risks going forward

- Any serious weakening in the macroeconomic environment would lead to a downturn in sales in the company's cyclical businesses i.e. Business & Industry and Sports & Leisure

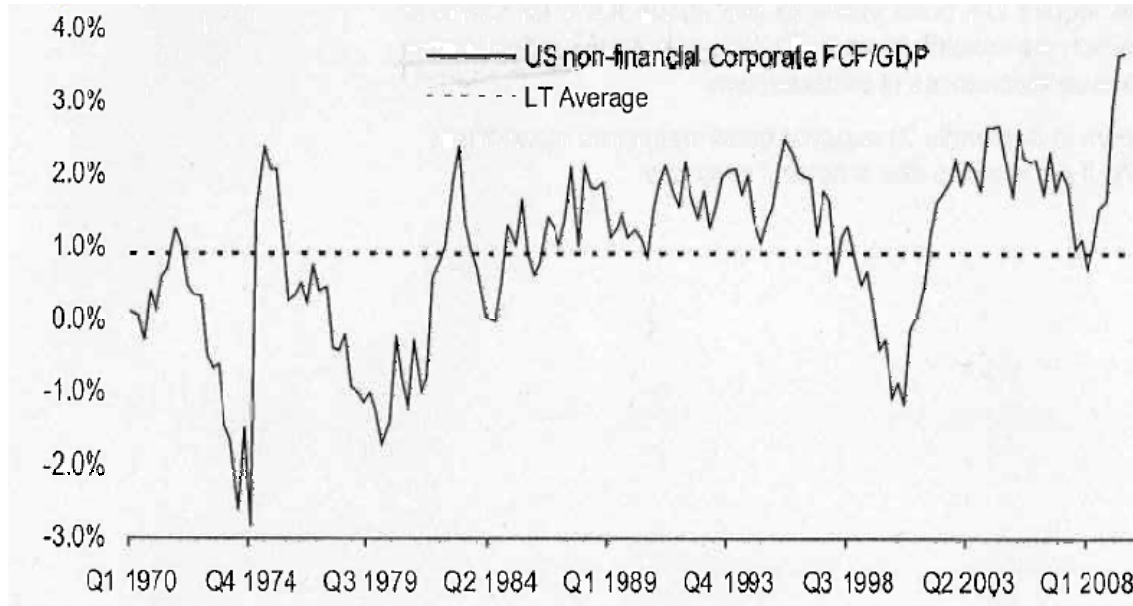
# Portfolio positioning

## **In a below trend growth environment we are focused on three specific areas:**

- **Organic growth:** Companies with the ability to grow organically, companies such as Amazon and Google
- **Restructuring candidates:** Companies such as Starbucks, Estee Lauder, Wells Fargo, BNP Paribas and Suncor that are going through a period of restructuring and are able to help improve their own business models and profits within a weak macro-economic environment
- **Corporate spending beneficiaries:** Ranging from pick-up in advertising (which could benefit companies such as Google) to technology upgrades which could affect businesses such as Hewlett-Packard, Intel and Canon

## Positive outlook – corporate spending

### Record Free Cash Flow allows corporates to spend without increasing borrowing



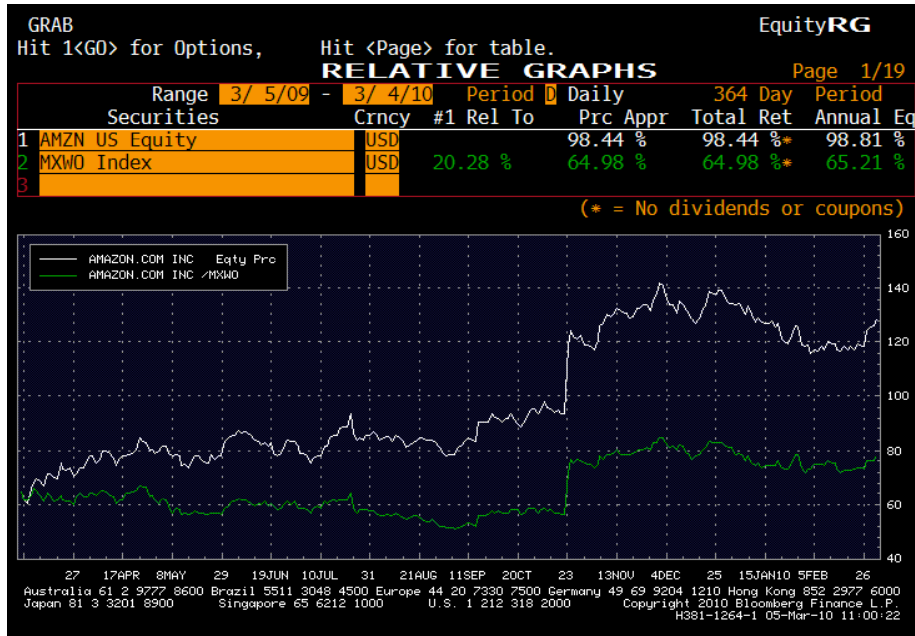
# Active positions

## Top Ten Active Weights Overseas

	%
BNP Paribas	1.9
Nestle	1.8
Fresenius SE	1.7
Eutelsat	1.6
Tyco International	1.6
Vinci	1.6
Disney	1.6
Estee Lauder	1.6
Bayer	1.6
Abbott Labs	1.6

# Amazon.com Inc.- organic growth

Amazon.com is an online retailer, selling such products as books, music, videotapes, audiotapes.



Sebastian Thomas, U.S. Technology Analyst

Analyst Profile

Sebastian Thomas joined RCM in July 2003, and is responsible for Large and Midcap Software technology companies. He has seven years of experience in research including positions at Roger Engemann & Associates, a Phoenix Investment Partners company, Fidelity Management and Research, Morgan Stanley, and the Federal Reserve Board of Governors. In addition, he has several years experience designing, developing, and managing software applications. He received his MBA in Finance and Strategy from the University of Chicago, his BA in economics from Pomona College..

## Initial investment case – key drivers

- **Growth:** Amazon has been succeeding in gaining market share against both offline retail and online retail as the company expands into different product ranges. The company's electronic reading book, Kindle, is also proving positive for sales.
- **Quality:** The management continue to drive the company forward within a complex business model assisted by its world class inventory management system.
- **Valuation:** The stock trades at a high PE multiple of 47x 2010, but we believe this is justified given the unique business model of the company and the high barriers to entry, and our analyst currently sees approximately large upside to the name.

## What has happened recently?

- The stock has performed well into the end of 2009. In October the company announced strong earnings figures and a healthy outlook for the Christmas period and the stock rose by 27%.

## What we believe will happen next

- We believe that the company should be able to deliver on its guidance and we expect a strong beat in its January report.
- We look for further operating margin expansion from its current 6% to double digit margins over the next decade as the company expands its selection of third party items.
- Also we expect to see continued strength in cash flow generation as the company gains in scale in these new categories of products

## Risks going forward

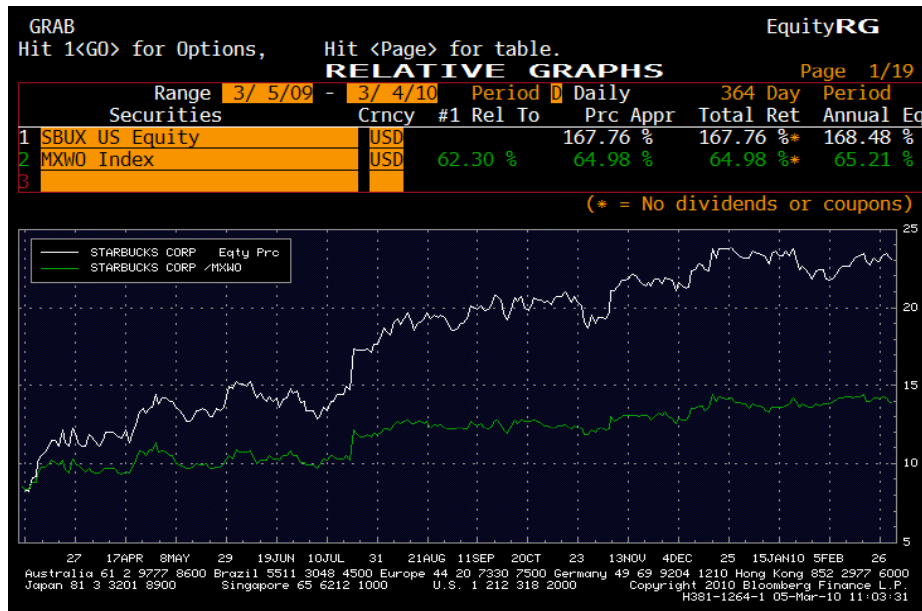
- Ecommerce data less compelling post Christmas means that the company may find it harder to beat previous figures as comparison's become harder into 2010.

## Grassroots® Research

- We have used Grassroots since 2003 to evaluate sales and consumer demand trends for the company. Our Grassroots analyst determines popularity of Amazon as a shopping destination compared with competitors. We have also launched a report on E-Book Reader trends across the globe.

# Starbucks Corp - restructuring.

Starbucks retails, roasts, and provides its own brand of specialty coffee. The company operates retail locations worldwide and sells whole bean coffees through its sales group, supermarkets and over the internet. Starbucks also produces and sells bottled coffee drinks and a line of ice creams



Analyst Profile

## Jon Wolfenbarger, U.S. Consumer Analyst

Jon joined RCM in August 1997 in the Consumer Discretionary Group. His primary research responsibilities include restaurant, food/drug retail, lodging, leisure, and education companies. Prior to joining RCM, he earned his MBA from Duke University's Fuqua School of Business. While attending business school, he worked as an Associate in the Investment Banking Division of Merrill Lynch in New York. For three years prior to business school, Jon worked as an Investment Banking Analyst at JP Morgan Chase evaluating merger, equity and debt transactions. He received his BBA in Honors Business with a concentration in Finance from the University of Texas in 1992.



## Initial investment case – key drivers

- **Growth:** Same-store sales growth improving from recent negative results and have turned positive; growth of high margin packaged goods business.
- **Quality:** Margin/ROIC improvement from slowing unit growth, closing unprofitable stores, reducing capex and cutting stores. Cutting costs by \$170mm in FY10.
- **Valuation:** Current price target of \$26 based on 18x calendar year 2011 estimated earning per share.

## What has happened recently?

- Company posted strong 1Q FY10 EPS figures of \$0.33, beating consensus by 5 cents.
- Same store sales up 4% in US and International business also beat expectations.
- FY10 (ending September) guidance was raised ahead of consensus, too.
- Turnaround firmly showing positive momentum with threat from McDonald's coffee not materialising as feared.
- Encouraging Grassroots study on US customers' perception of Starbucks for its higher quality and 'experience'.

## What we believe will happen next

- Improving economic conditions to help same store sales stabilise
- Cost reduction plans continue to be implemented including headcount reductions in HQ and improvement in supply chain and store level efficiencies.
- Low-single-digit unit growth rather than too fast growth in 2007.
- Expect them to announce a share repurchase program around their March Board meeting.
- Focus on improving International operations and margins.
- Roll out a new point-of-sale system in FY10, which should increase the speed of service and improve order accuracy, with benefits to flow into FY11.

## Risks going forward

- Global macro environment does not improve as hoped thereby restricting the same store sales and top line growth.

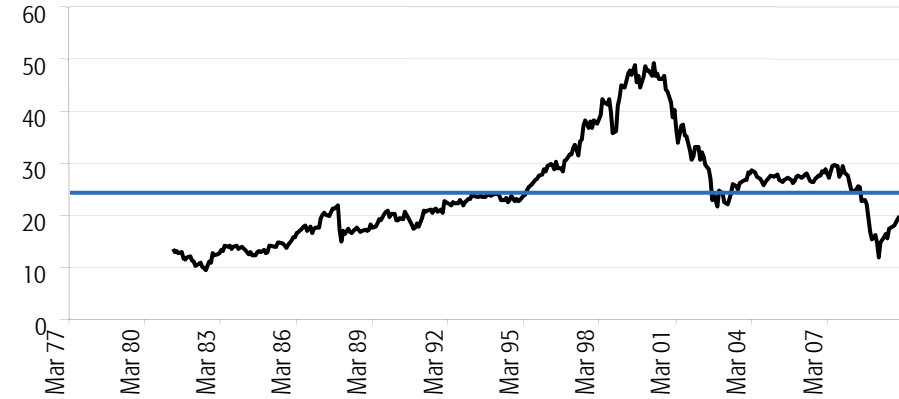
# Graham-Dodd P/E (10y average earnings)

## Europe



Source: RCM.

## USA



Source: RCM.

## Japan



Source: RCM.

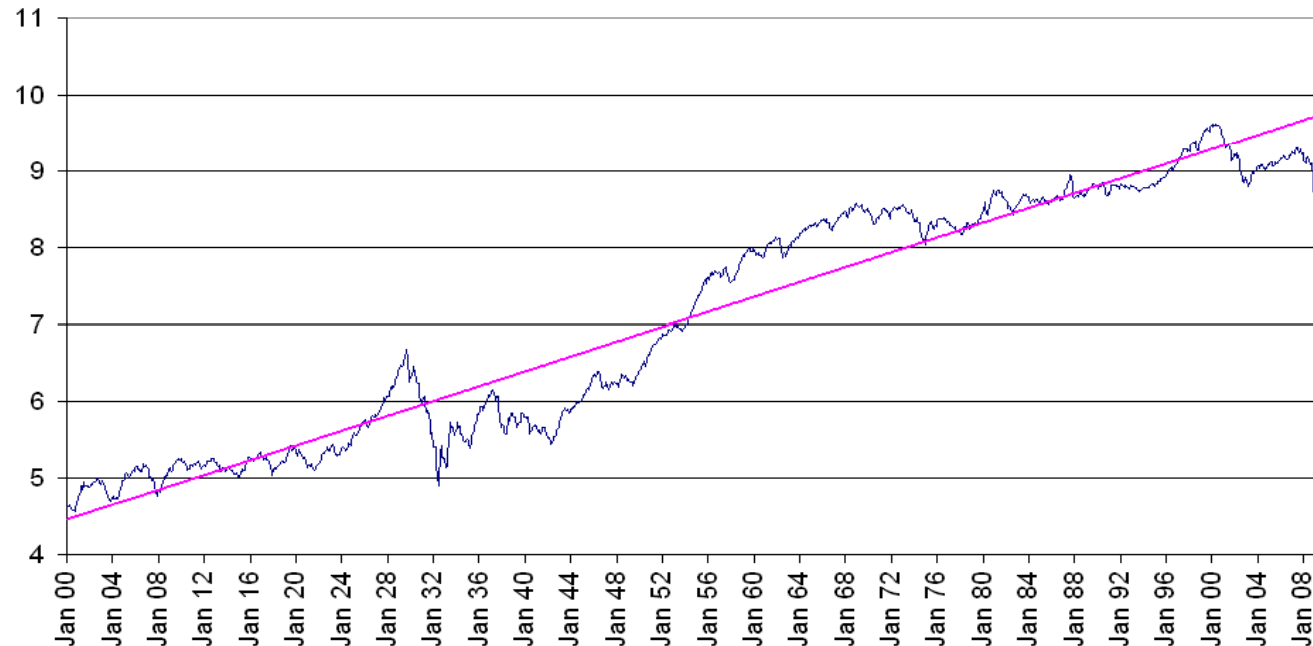
## S&P 500 Shiller P/E



Source: R..Shiller

# Relative performance equities vs. bonds relative to trend

**US S&P 500 (TR) vs AAA long bond return since 1990**



- Equities have underperformed the broad long-bond market (measured by AAA bonds) since the late 1990s. The relative performance is as far away from the long-term trend as in the early 1930s. This does not necessarily imply an outperformance from here on, but the risk-reward for long-term investors is clearly tilted in favour of equities



## Summary

- Overhang of debt in developed economics – will lead to a subdued economic recovery
- Earnings growth will largely be driven by self-help or secular sales growth
- Equities continue to look good value relative to bonds and cash: fair value against their own history
- Brunner will remain focused on bottom-up research to identify genuine growth opportunities

An environment favouring quality, growth stock picking

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18<sup>th</sup> March 2010

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The Brunner Investment Trust PLC  
**Annual General Meeting, 18<sup>th</sup> March 2010**

**Resolution 1** - to receive and adopt the Annual Financial Report

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
<b>20,483,592</b>	<b>23,208</b>	<b>0</b>	<b>40,517</b>

The Brunner Investment Trust PLC  
**Annual General Meeting, 18<sup>th</sup> March 2010**

**Resolution 2** - to declare and approve a final dividend

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
<b>20,523,039</b>	<b>23,208</b>	<b>1,070</b>	<b>0</b>

The Brunner Investment Trust PLC  
**Annual General Meeting, 18<sup>th</sup> March 2010**

**Resolution 3** - to re-elect Mr K E Percy as a Director

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
<b>20,213,788</b>	<b>23,208</b>	<b>232,378</b>	<b>77,943</b>

The Brunner Investment Trust PLC  
**Annual General Meeting, 18<sup>th</sup> March 2010**

**Resolution 4** - to re-elect Mr V P Bazalgette as a Director

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
<b>20,210,305</b>	<b>23,208</b>	<b>238,919</b>	<b>74,885</b>

The Brunner Investment Trust PLC  
**Annual General Meeting, 18<sup>th</sup> March 2010**

**Resolution 5** - to re-elect Mr W R Worsley as a Director

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
<b>20,230,464</b>	<b>23,208</b>	<b>216,460</b>	<b>77,185</b>



The Brunner Investment Trust PLC  
**Annual General Meeting, 18<sup>th</sup> March 2010**

**Resolution 6** - to re-elect Mr I E Barlow as a Director

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
<b>20,205,533</b>	<b>23,208</b>	<b>223,874</b>	<b>94,702</b>

The Brunner Investment Trust PLC  
**Annual General Meeting, 18<sup>th</sup> March 2010**

**Resolution 7** - to approve the Directors' Remuneration Report

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
<b>20,110,200</b>	<b>26,633</b>	<b>320,982</b>	<b>89,502</b>

The Brunner Investment Trust PLC  
**Annual General Meeting, 18<sup>th</sup> March 2010**

**Resolution 8** - to re-appoint Deloitte LLP as Auditors

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
<b>20,221,224</b>	<b>25,708</b>	<b>11,004</b>	<b>289,381</b>

The Brunner Investment Trust PLC  
**Annual General Meeting, 18<sup>th</sup> March 2010**

**Resolution 9** - to authorise the Directors to determine the remuneration of the Auditors

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
<b>20,453,461</b>	<b>36,633</b>	<b>4,223</b>	<b>53,000</b>

The Brunner Investment Trust PLC  
**Annual General Meeting, 18<sup>th</sup> March 2010**

**Resolution 10** - to approve and adopt new Articles of Association

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
<b>20,310,160</b>	<b>28,894</b>	<b>58,121</b>	<b>150,142</b>

The Brunner Investment Trust PLC  
**Annual General Meeting, 18<sup>th</sup> March 2010**

**Resolution 11** - to renew the Directors' authority to allot Ordinary Shares

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
<b>20,465,294</b>	<b>28,894</b>	<b>53,129</b>	<b>0</b>

The Brunner Investment Trust PLC  
**Annual General Meeting, 18<sup>th</sup> March 2010**

**Resolution 12** - to disapply pre-emption rights

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
<b>20,293,904</b>	<b>28,894</b>	<b>205,763</b>	<b>18,756</b>

The Brunner Investment Trust PLC  
**Annual General Meeting, 18<sup>th</sup> March 2010**

**Resolution 13** - to authorise the Company to make market purchases of Ordinary Shares

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
<b>20,430,651</b>	<b>28,894</b>	<b>81,939</b>	<b>5,833</b>



The Brunner Investment Trust PLC  
**Annual General Meeting, 18<sup>th</sup> March 2010**

**Resolution 14** - to enable the Company to convene a meeting on not less than 14 days' clear notice

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
<b>20,063,067</b>	<b>28,894</b>	<b>361,815</b>	<b>93,541</b>

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