

# The Merchants Trust PLC

Annual General Meeting

16 May 2018

[www.merchantstrust.co.uk](http://www.merchantstrust.co.uk)

**Allianz** 

Global Investors

Simon Gergel, Portfolio Manager

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Investment trusts are quoted companies listed on the London Stock Exchange. Their share prices are determined by factors including the balance of supply and demand in the market, which means that the shares may trade below (at a discount to) or above (at a premium to) the underlying net asset value.

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.

Past performance is not a reliable indicator of future returns. You should not make any assumptions on the future on the basis of performance information. The value of an investment and the income from it can fall as well as rise as a result of market fluctuations and you may not get back the amount originally invested. This investment trust charges 65% of its annual management fee to the capital account and 35% to revenue. This could lead to a higher level of income but capital growth will be constrained as a result.

Merchants seeks to enhance returns for its shareholders through gearing in the form of long-term debentures. Gearing can boost the Trust's returns when investments perform well, though losses can be magnified when investments lose value. You should be aware that this Trust may be subject to sudden and large falls in value and you could suffer substantial capital loss. Derivatives are used to manage the trust efficiently. Covered call options are written to supplement the income generation of the portfolio. This may lead to an opportunity cost if options are exercised.

All data source Allianz Global Investors as at 31 March 2017 unless otherwise stated. This is a marketing communication issued by Allianz Global Investors GmbH, an investment company with limited liability, incorporated in Germany, with its registered office at Bockenheimer Landstrasse 42-44, D-60323 Frankfurt/M, registered with the local court Frankfurt/M under HRB 9340, authorised by Bundesanstalt für Finanzdienstleistungsaufsicht ([www.bafin.de](http://www.bafin.de)). Allianz Global Investors GmbH has established a branch in the United Kingdom, Allianz Global Investors GmbH, UK branch, 199 Bishopsgate, London EC2M 3TY, which is subject to limited regulation by the Financial Conduct Authority ([www.fca.org.uk](http://www.fca.org.uk)). Details about the extent of our regulation by the Financial Conduct Authority are available from us on request.

 Web site: [www.merchantstrust.co.uk](http://www.merchantstrust.co.uk)

## The Merchants Trust

### Result Highlights

- 36 years of dividend growth
- High dividend yield
- Strong total return
- Debt refinancing lowers borrowing costs
- Active portfolio management



# The Merchants Trust

## Results Highlights

Dividend

**24.8p**

2017 24.2p

**+2.5%**

Yield

**5.2%**

2017 5.3%

Net Asset Value\*

**523.9p**

2017 478.9p

**+9.4%**

Revenue eps

**25.5p**

2017 24.1p

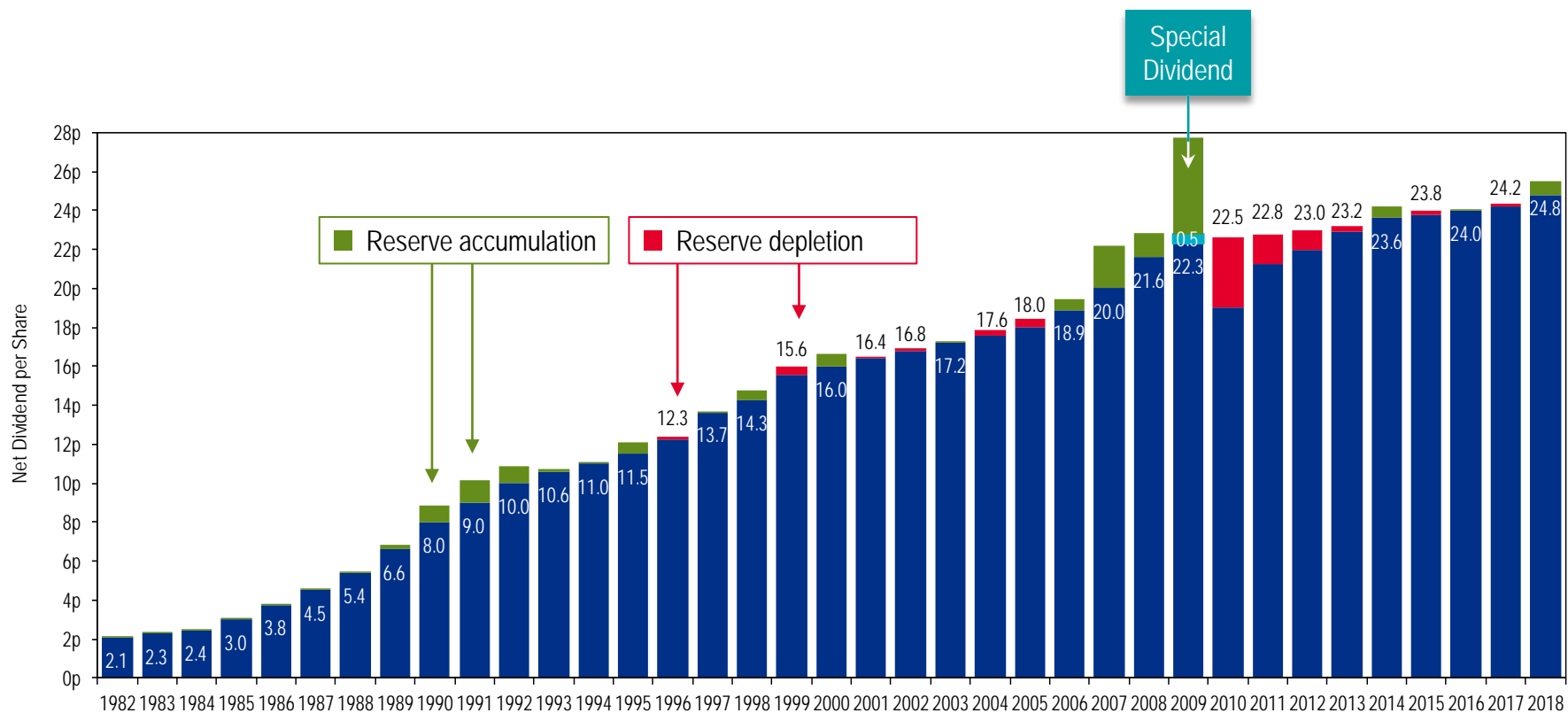
**+5.8%**

\*Debt at market value.

Source: Merchants Trust 2018 Annual Report & Accounts.

# The Merchants Trust

- 36 years of dividend growth
- Reserves built up in good years to offset pressures in difficult years
- Revenue reserves of 23.8p available = 96% of full year dividend



Past performance is not a reliable indicator of future results.

Source: AllianzGI, STET.

## The Merchants Trust Valuation summary

- A strong year for UK equities
- Investment portfolio ahead of the benchmark

	31 January 2017	31 January 2018	Change (%)
Total Assets	£655m*	£704m	+7.5
Net Assets Value Per Share (Debt at Market Value)	478.9p	523.9p	+9.4
Share Price	452.5p	488.0p	+7.8
Premium/(Discount) (Debt at Market Value)	(5.5%)	(6.9%)	-
FTSE All Share	3858	4138	+7.3

\* Adjusted for £34m loan payable in 1 year.

Source: Merchants Trust 2017/2018 Report & Accounts, AllianzGI.

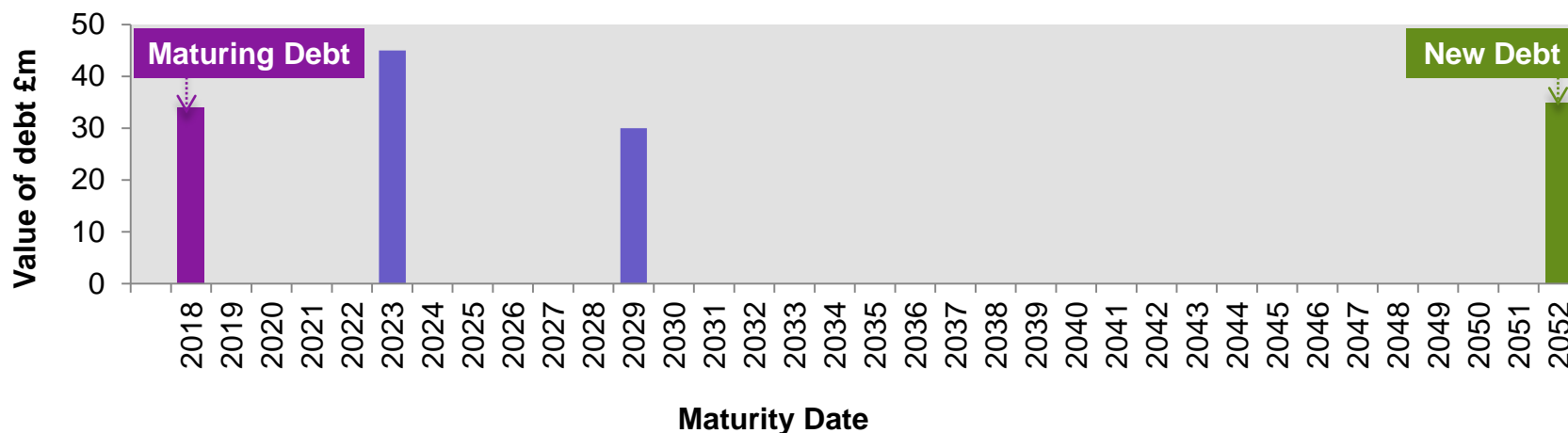
# The Merchants Trust Debt Refinancing

## Refinancing secures long term, low cost finance

Financial year ending 31 January	2017	2018
Gross debt	£110 m	£110m
Average interest rate*	8.5%	6.1%
Average Duration*	7.2 years	16.8 years
First Maturity	Jan 2018	May 2023

- £35m private placement to refinance £34m Jan 2018 debenture
- 35 year notes at 2.96% fixed rate
- Secures long term financing
- Significant reduction in interest cost
- Enhances earnings per share

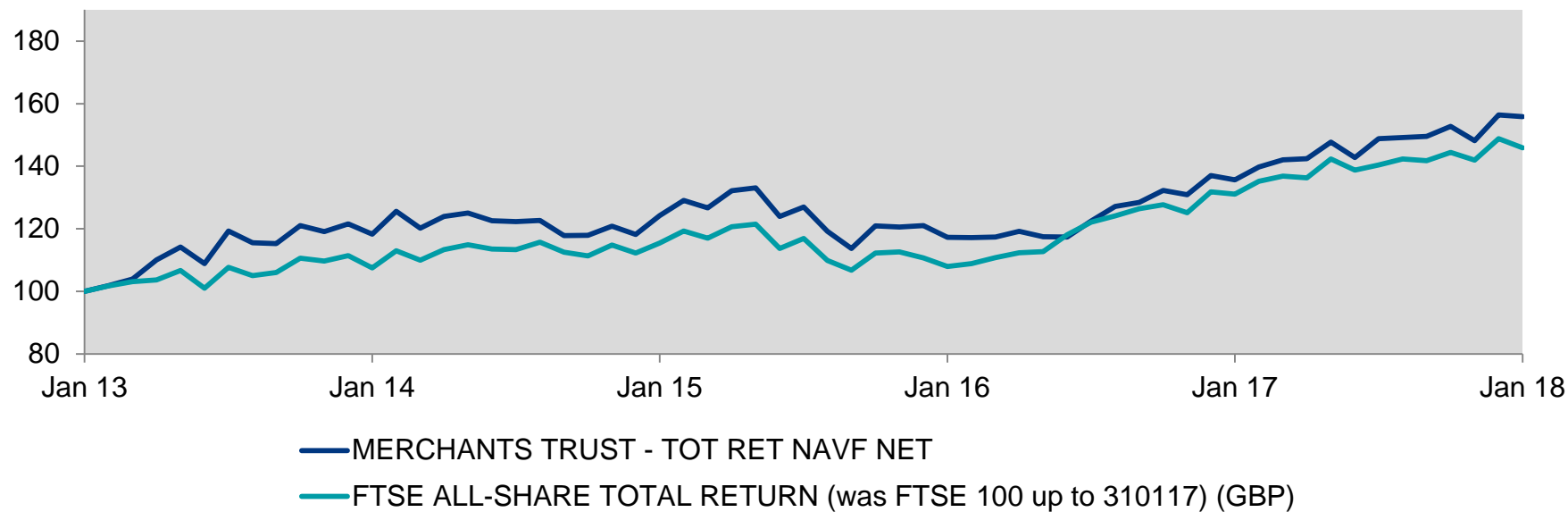
\* Effective interest rate - Excludes perpetual debt



## The Merchants Trust Net Asset Value Performance

- Net Asset Value (NAV) ahead of benchmark over 5 years
- Gearing amplifies performance though falling bond yields, rising values, have held back NAV

### Merchants Trust NAV vs FTSE 100: 5 years to 31 January 2018



Past performance is not a reliable indicator of future results.

Source: Thomson Reuters Datastream/AllianzGI, as at 31 January 2018.



## The Merchants Trust Portfolio Performance

- Portfolio return ahead of benchmark in 2018
- Strong long-term returns, ahead of benchmark

### Merchants Portfolio and Total Return vs Benchmark

Total Return Periods to 31 <sup>st</sup> January 2018 %	1 Year	3 Years	5 Years p.a.	10 Years p.a.
Merchants' <b>Portfolio</b> (excludes gearing)	13.6	7.7	8.8	7.3
Benchmark	11.3	8.1	7.8	6.6
Difference	2.3	-0.5	0.9	0.8

Past performance is not a reliable indicator of future results.

Source: Thomson Reuters Datastream/AllianzGI, as at 31 January 2018.

## The Merchants Trust Stock Performance Contributions 2017/18

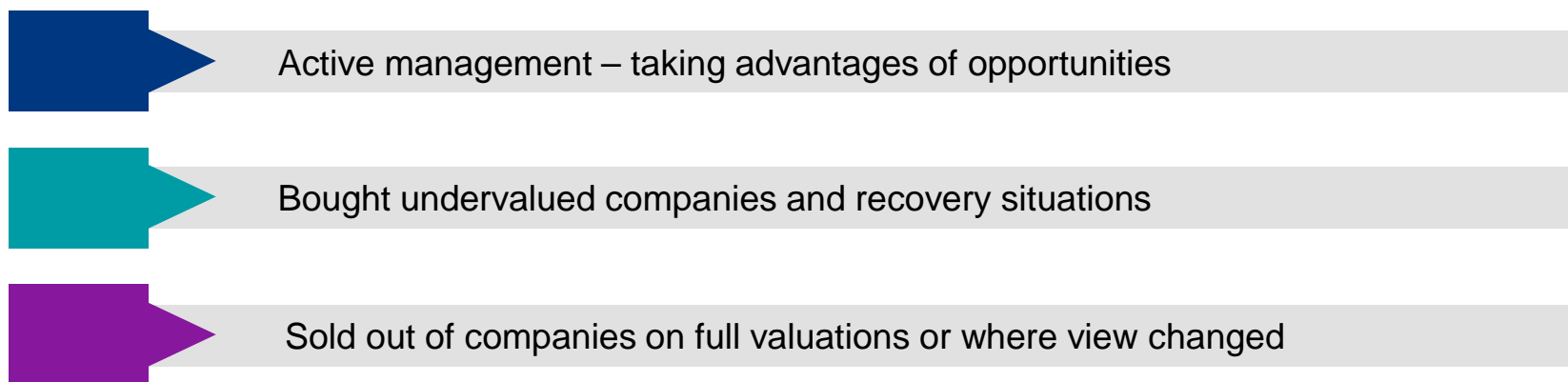
- Portfolio total return +13.6%, 2.3% ahead of benchmark
- Benefitted from takeovers – UBM, Ladbroke's Coral
- Strong stock selection among mid caps
- Main negatives; utilities and domestic cyclical companies

Top Contributors	Bottom Contributors
United Business Media	Centrica
Ladbroke's Coral	GlaxoSmithKline
Shire *	Kier
Equiniti	Greene King
Man Group	SSE

\* = Not owned

# The Merchants Trust

## Active Management: New Holdings/Complete Disposals



New Holding	Rationale
Bovis Homes	▶ Recovery Situations
Barclays	
Meggitt	
Morgan Advanced Materials	
WPP	▶ Undervalued
National Express	
Landsec	

Total Disposals	Rationale
Carnival	▶ Full valuation
Aviva	
British American Tobacco	
Hostelworld	▶ Change of investment view
Mothercare	
Centrica	

# The Merchants Trust Stock Example – Bovis Homes

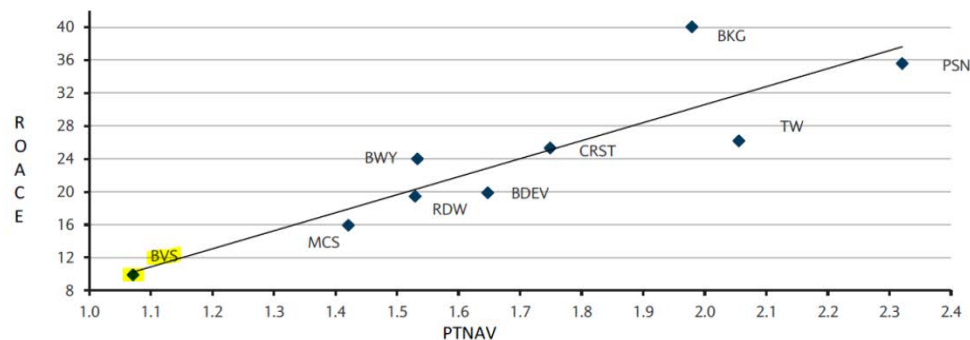
**Fundamentally attractive assets, depressed profitability and valuation, positive thematic environment**

## Fundamentals

- Builder of c.3,500 homes p.a.
- 4 year+ landbank. 39% from cheaper strategic land
- 78% South England biased (not London). 84% Greenfield
- 86% 3-5 bed houses
- Net cash on balance sheet
- New management 2017 (ex Galliford Try) recruited to turn around business

**The cheapest UK housebuilder, reflecting depressed profitability**

**Figure 1**  
PTNAV (x) vs. ROACE (%) – 2017E



Source: Barclays Research estimates.

## Valuation

- Shares far cheaper than sector (see chart) due to depressed profits.
- p/e 10.5x 2018, yield 4.8%, 1.1x book value
- Takeover approaches from Redrow and Galliford Try support land bank valuation

## Themes

- + Recovery: Depressed profits due to poor quality control and execution – new management
- + Growth: Structural shortage of UK housing, improving land availability
- + Supportive policy : Help-to-Buy, low interest rates
- Cyclical: Sensitive to consumer confidence, economic cycle
- Execution risk: poor quality / service, availability & cost of labour / materials

# The Merchants Trust

## Economic and Market Outlook – Long Term Themes

- 1** **Brexit uncertainty to continue:** Trade policy, investment, consumer spending uncertain, with fiscal spending to increase. Interest rate increases muted due to high debt burden.

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- 2** **Large companies geographically diversified:** Corporates generally in good shape, balance sheets repaired

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- 3** **Best value in domestic stocks and recovery situations:** safe defensive stocks and bond proxies expensive

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# The Merchants Trust

## Investment Themes

Large core holdings in well financed **global, “mega” caps** with strong franchises and good yields



**Recovery situations:** Industries recovering, companies on modest valuations



Exposure to emerging market consumer spending growth



**Financials:** exposure to rising interest rates/volatility



**Inflation “tail risk”:** Real assets, inflation-linked revenues attractive



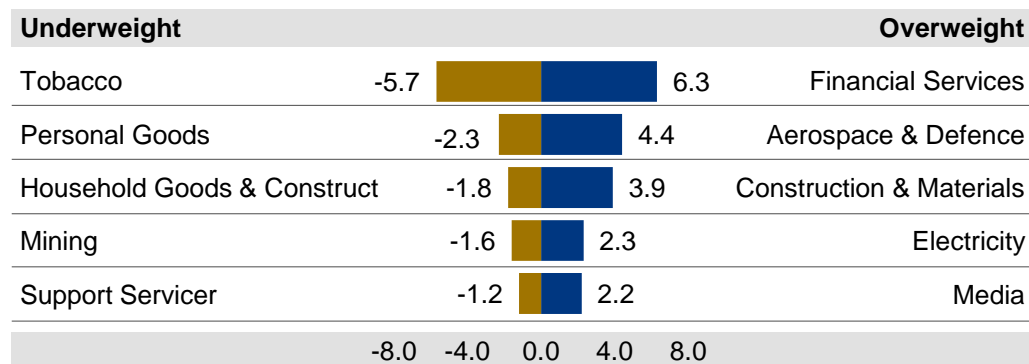
**Digitalisation:** Beneficiaries of new technology



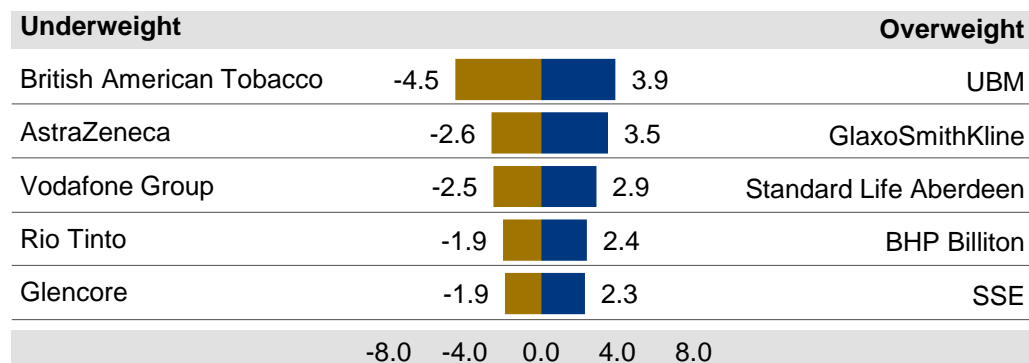
# The Merchants Trust High Conviction Positioning

## Sector Views

### Merchants Trust



## Stock Views

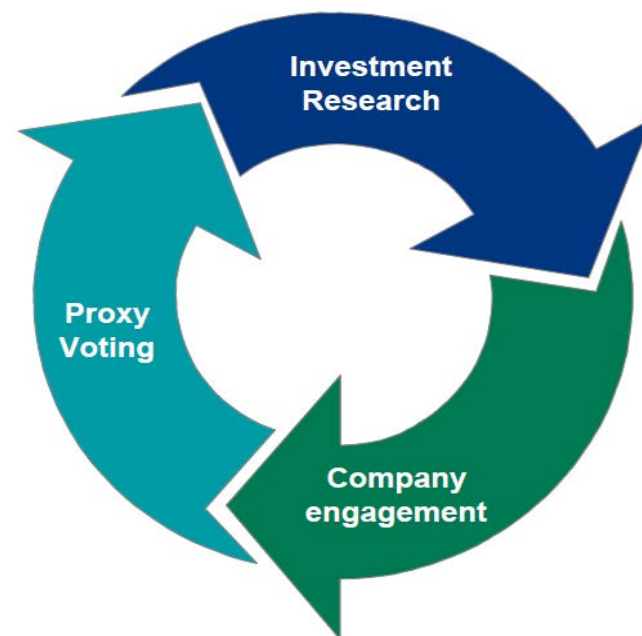


% position relative to FTSE All-Share

- Strong valuation discipline
- Favour recovery situations
- Specific stock selection opportunities in:
  - Financial services
  - Construction and materials
  - Aerospace and defence
- Limited exposure to expensive defensives

## The Merchants Trust Company Engagement

- Enriches investment analysis and decision making
- Helps assess company leadership and culture and build trust
- Active involvement from portfolio managers and sector analysts in company engagements
- Inclusive transparent process and multiple pressure points from within AllianzGI
- Focus on material issues: case-by-case approach
- Organic link to Proxy Voting decisions



Engagement success is part of delivering investment performance



# The Merchants Trust

## Company Engagement Activities in the year – by sector

- Engaged 23 times with 14 companies

Sector	Topics and engagements by sector						
	Strategy / Business Model	Capital management	Operational performance	Corporate governance	Environmental risks/impacts	Business conduct & culture	Transparency and disclosure
Materials		2		1	1		
Technology				1			
Health		1					
Real Estate				1			
Financials				2		1	
Telecoms				1			
Industrials	1	1	1	3			1
Utilities				1			
Consumer Staples				1			
Consumer Discretionary	1			1		1	

## The Merchants Trust Conclusion

- 2018 was a good year for performance
- 36 years of dividend growth
- High yield supported by significant reserves
- Well positioned to exploit investment opportunities

For further information:

- [www.merchantstrust.co.uk](http://www.merchantstrust.co.uk)
- Blog: [www.unconstrainedthinking.com](http://www.unconstrainedthinking.com)



A detailed view of an industrial refinery or chemical plant. The scene is filled with complex machinery, including large cylindrical storage tanks, intricate piping systems, and multiple levels of metal walkways and ladders. The lighting is bright, highlighting the metallic surfaces. A large blue rectangular overlay is positioned on the left side of the image, containing the text 'Q&A'.

Q&A

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## Annual General Meeting, 16 May 2018

### Resolution 1:

To receive and adopt the Annual Report

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
28,371,275	141,834	38,241	34,439

# The Merchants Trust PLC

## Annual General Meeting, 16 May 2018

### Resolution 2:

To declare a final dividend

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
28,408,602	144,334	8,031	24,822

# The Merchants Trust PLC

## Annual General Meeting, 16 May 2018

### Resolution 3:

To re-elect Simon Fraser as a director

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
27,841,308	140,731	378,631	225,119

# The Merchants Trust PLC

## Annual General Meeting, 16 May 2018

### Resolution 4:

To re-elect Timon Drakesmith as a director

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
27,785,023	140,731	388,962	271,073



# The Merchants Trust PLC

## Annual General Meeting, 16 May 2018

### Resolution 5:

To re-elect Mary Ann Sieghart as a director

For	Discretion	Against	Withheld
27,474,698	138,481	772,333	200,277

# The Merchants Trust PLC

## Annual General Meeting, 16 May 2018

### Resolution 6:

To re-elect Sybella Stanley as a director

For	Discretion	Against	Withheld
27,773,682	140,731	470,870	200,506

# The Merchants Trust PLC

## Annual General Meeting, 16 May 2018

### Resolution 7:

To re-elect Paul Yates as a director

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
27,761,634	140,731	409,183	274,241

# The Merchants Trust PLC

## Annual General Meeting, 16 May 2018

### Resolution 8:

To approve the Directors' Remuneration Implementation Report

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
26,426,510	175,134	1,396,507	587,638

# The Merchants Trust PLC

## Annual General Meeting, 16 May 2018

### Resolution 9:

To appoint BDO LLP as Auditors

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
27,686,130	146,450	456,804	296,405

# The Merchants Trust PLC

## Annual General Meeting, 16 May 2018

### Resolution 10:

To authorise the directors to determine the remuneration of the Auditors

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
27,579,756	143,715	236,572	625,746

# The Merchants Trust PLC

## Annual General Meeting, 16 May 2018

### Resolution 11:

To authorise the directors to allot ordinary shares

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
27,562,334	210,099	581,814	231,542

# The Merchants Trust PLC

## Annual General Meeting, 16 May 2018

### Resolution 12:

To disapply pre-emption rights

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
26,592,196	211,574	1,277,106	504,913



# The Merchants Trust PLC

## Annual General Meeting, 16 May 2018

### 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>
27,709,517	216,339	592,205	67,728

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