

# The Merchants Trust PLC

Annual General Meeting

20 May 2015

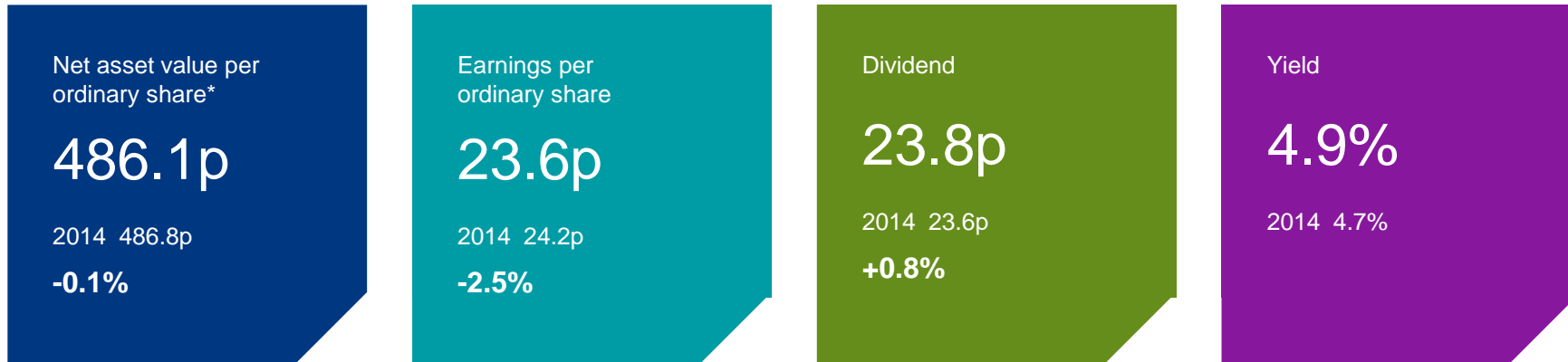
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# The Merchants Trust

## Highlights



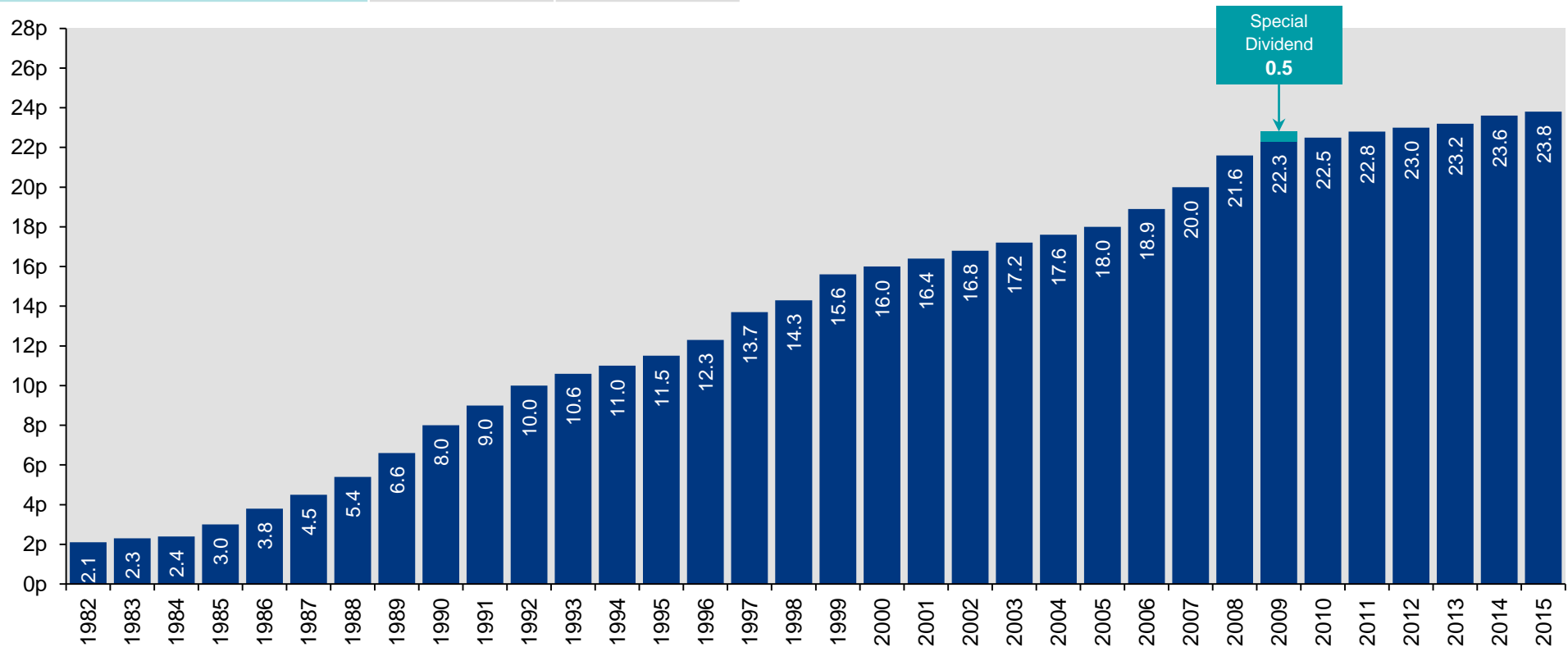
\* Debt at market value

- 33 years of dividend growth
- Portfolio return modestly behind benchmark after three strong years
- NAV broadly unchanged, held back by rising debt value
- Attractive yield, actively managed portfolio, low fee structure

# The Merchants Trust

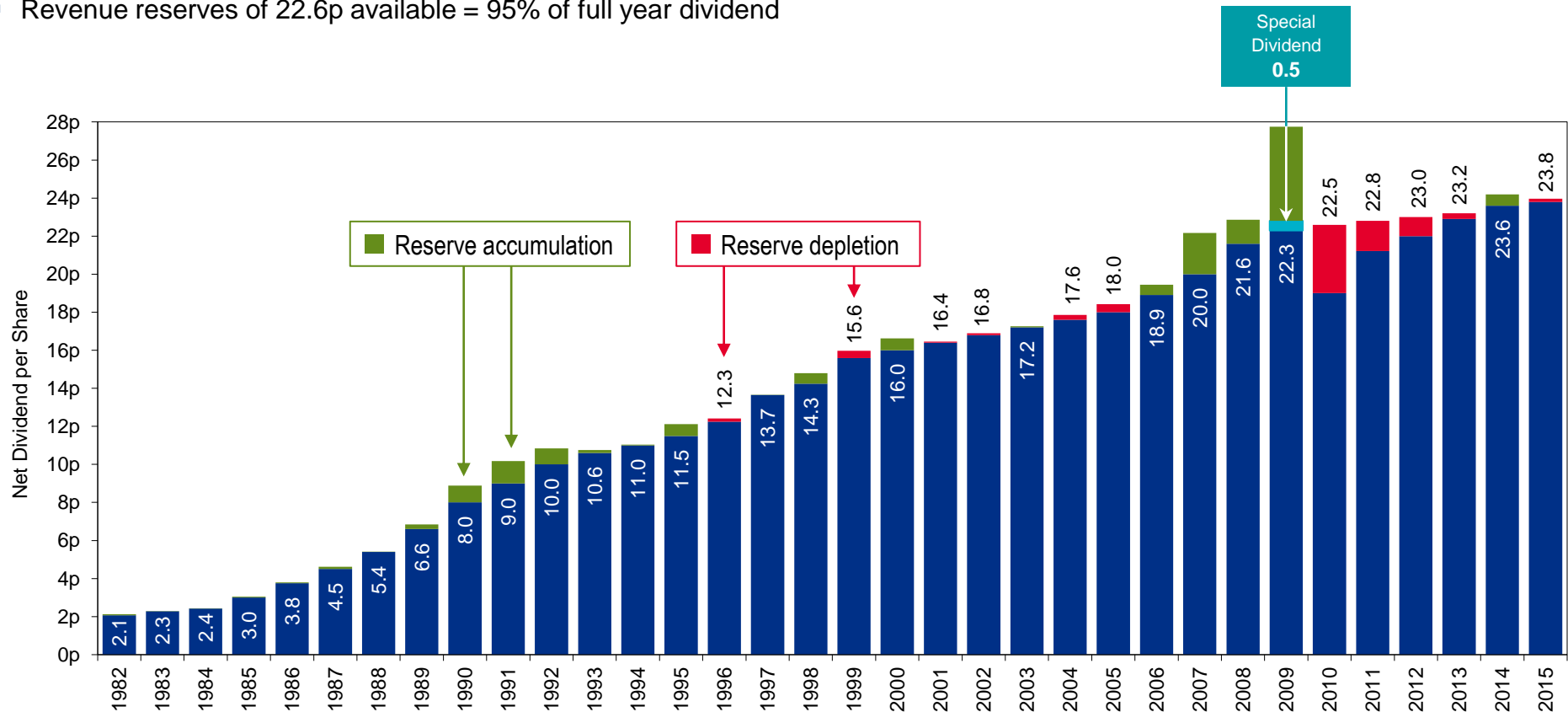
## 33 years of rising dividends

Year to January	2014	2015
Ordinary dividend	23.6p	23.8p



# The Merchants Trust

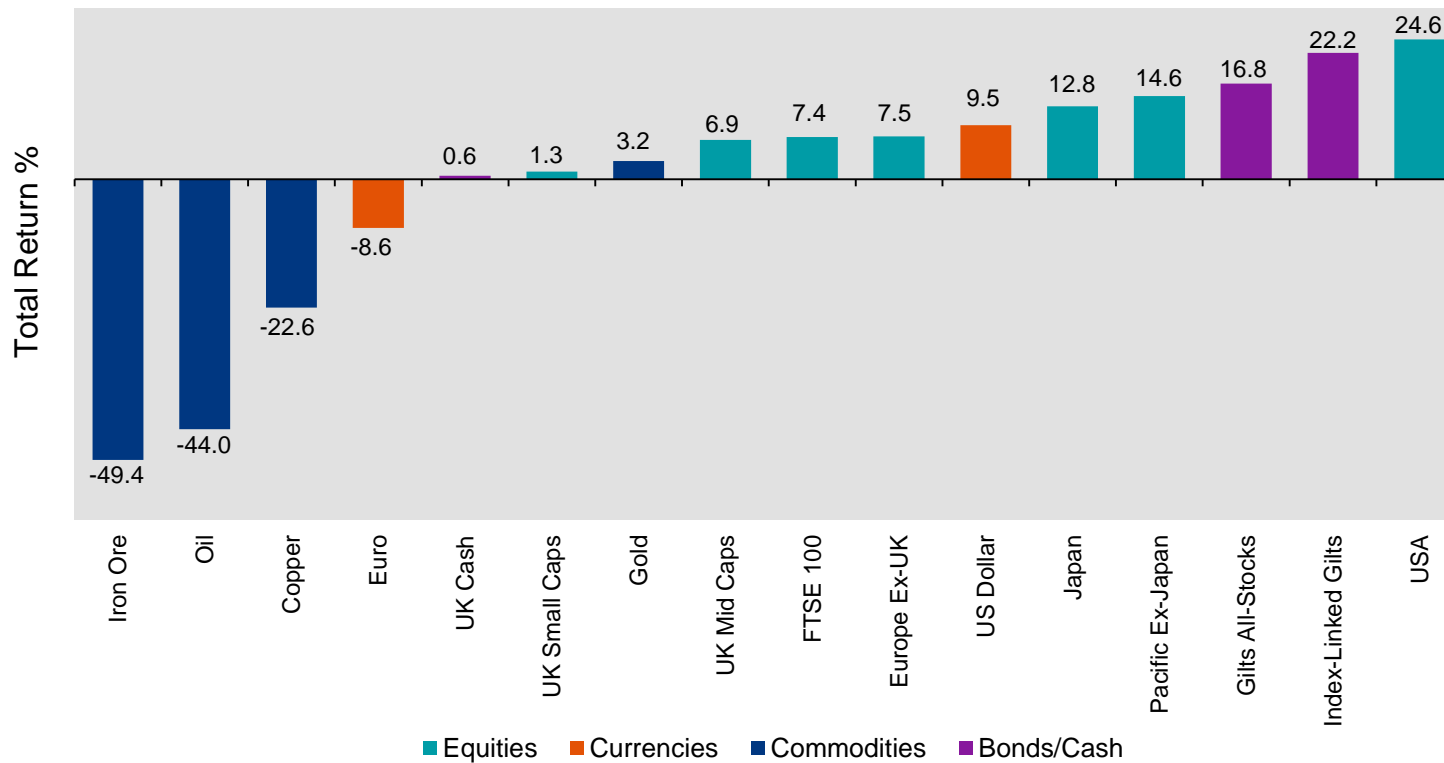
- Significant yield premium over sector and wider market
- Reserves built up in good years to offset pressures in difficult years
- Revenue reserves of 22.6p available = 95% of full year dividend



# The Merchants Trust

## A divergent year

Market Returns\* 12 months to 31 January 2015



- Divergence in economic growth, central bank policy and asset returns
- Financial markets boosted by low interest rates/QE
- Commodities hit by oversupply and falling demand growth

# The Merchants Trust

## Valuation summary

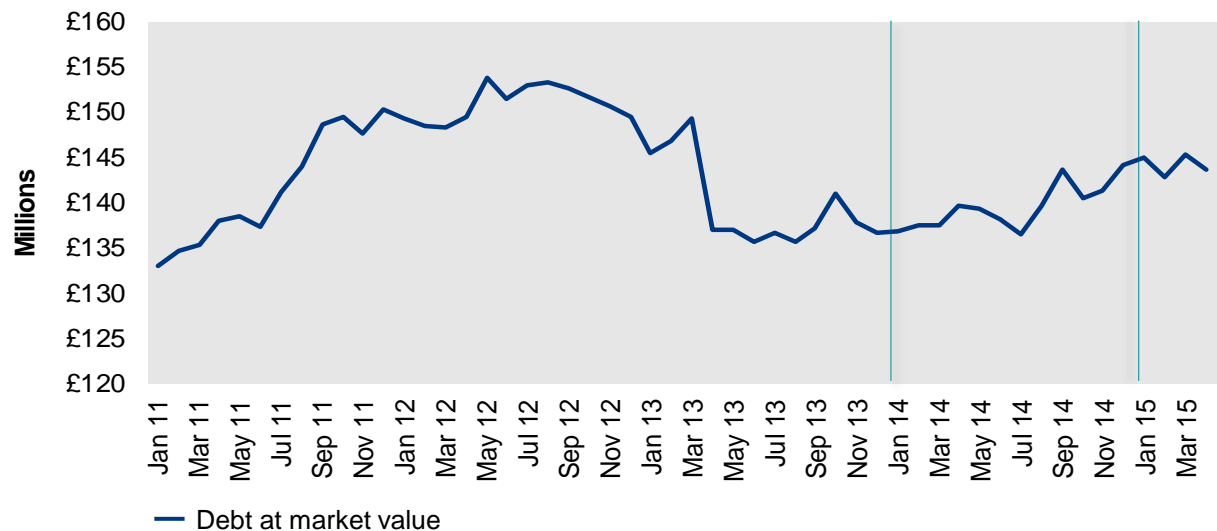
	31 January 2014	31 January 2015	Change (%)	8 May 2015	Change (%)
Total Assets	£640m	£672m	+5.1	£703m	+4.6
Net Assets Value Per Share (Debt at Market Value)	486.8p	486.1p	-0.1	514.3p	+5.8
Share Price	491.5p	484.0p	-1.5	494.8p	+2.2
Premium/(Discount) (Debt at Market Value)	1.0%	(0.4%)	-	(3.8%)	-

# The Merchants Trust Debt structure

## Debt and gearing structure

	31 Jan 2014		31 Jan 2015	
	£m	%	£m	%
Total Assets	640	100	672	100
Borrowings (Debt at book value)	111	17	110	16
Shareholder Funds	529	83	562	83
Average Maturity	8 yrs			
Average Interest Charge	8.5%			

## Debt at market value



- Value of debt rose during this year

# The Merchants Trust

## Performance of UK equities portfolio

Total Return Periods to 31 January 2015 %	1 Year	2 Years p.a.	3 Years p.a.	5 Years p.a.	10 Years p.a.
Merchants' Portfolio	7.0	10.5	13.6	12.1	8.1
FTSE100 Index	7.4	7.5	9.9	9.2	7.2
Outperformance	-0.3	+3.0	+3.8	+2.9	+0.9

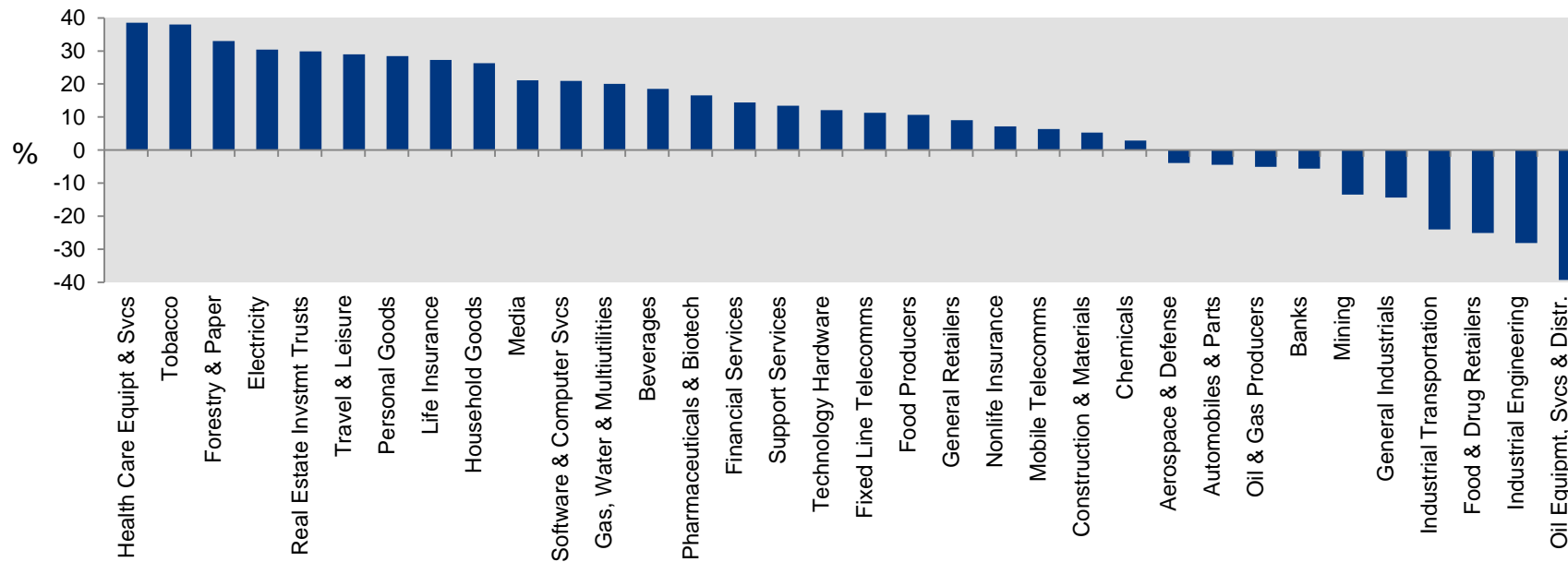
- Disciplined process to pick high yielding cheap stocks
- High conviction, actively managed portfolio
- Good performance record



# The Merchants Trust

## A divergent year – 2

Sector Total Return – 12 months to 31 January 2015



- Sharp divergence in returns
- Defensive sectors, bond proxies and consumer cyclicals strong
- Resources, industrial cyclicals and food retail weak

# The Merchants Trust

## Attribution:

31 January 2014 -  
31 January 2015

Portfolio  
Underperformance -0.3%



## Top and bottom contributors

Top Contributors	Active Contribution
Glencore*	0.6%
Pennon	0.6%
BAE Systems	0.5%
Inmarsat	0.5%
Man Group	0.5%
SSE	0.5%
Barclays*	0.5%
Lloyds*	0.5%
Standard Chartered*	0.5%
Rolls-Royce*	0.4%

Bottom Contributors	Active Contribution
Amec Foster Wheeler	-0.9%
Sainsbury (J)	-0.8%
AstraZeneca*	-0.6%
Shire*	-0.6%
Prudential*	-0.5%
Balfour Beatty	-0.5%
Imperial Tobacco*	-0.5%
SABMiller*	-0.4%
Reckitt Benckiser*	-0.4%
De La Rue	-0.4%

# The Merchants Trust

## High conviction portfolio

### Key portfolio changes – Financial year to 31 January 2015

New additions	Disposals
Standard Life	Tesco
Tate & Lyle	Tyman
AMEC Foster Wheeler	Vodafone
Diageo	Daily Mail & General Trust
Kier	BBA Aviation
Brammer	De La Rue
Legal & General	Reed Elsevier

- Active stock selection, driven by opportunities
- 7 additions, 7 disposals within 44 stock portfolio
- New purchases focused on:
  - **Recovery situations:** Tate & Lyle, Kier, Brammer
  - **Pensions/savings growth:** Standard Life, Legal & General
  - **Quality at fair price:** Diageo
  - **Low valuation/merger savings:** Amec Foster Wheeler
- Sales driven by:
  - **Full valuation:** Reed Elsevier, BBA Aviation, DMGT, Tyman, Vodafone
  - **Change of view:** Tesco, De La Rue

# The Merchants Trust

## Economic and market outlook

- UK Economy recovering though mixed picture overseas
- Growth will be restrained by high debt burden
- “Tail Risks” of inflation accelerating or slowing growth need to be considered
- Corporates generally in good shape, balance sheets repaired
- Markets likely to remain volatile
- Best value in Mega Caps and recovery situations

# The Merchants Trust

## Key portfolio themes

### Investment Themes

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



- Earnings growth** is hard to achieve: Favour **growth** stocks on reasonable valuations



- Exposure to emerging market consumer spending growth



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



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



- Turnaround situations**



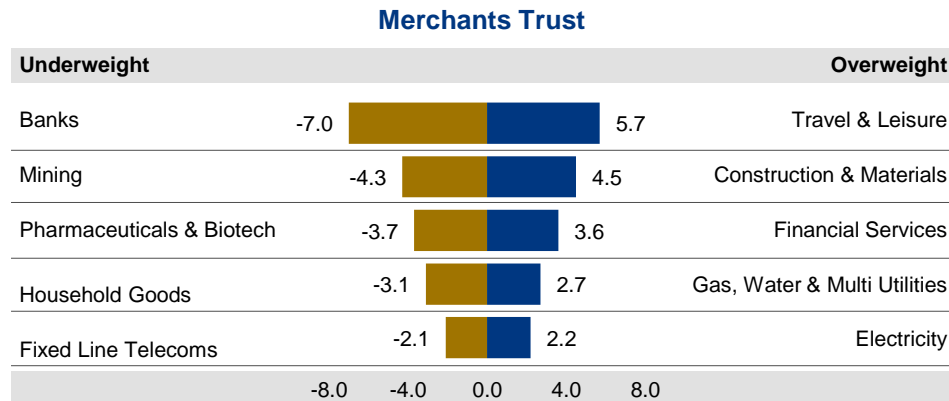
- Financials**: exposure to rising interest rates/volatility



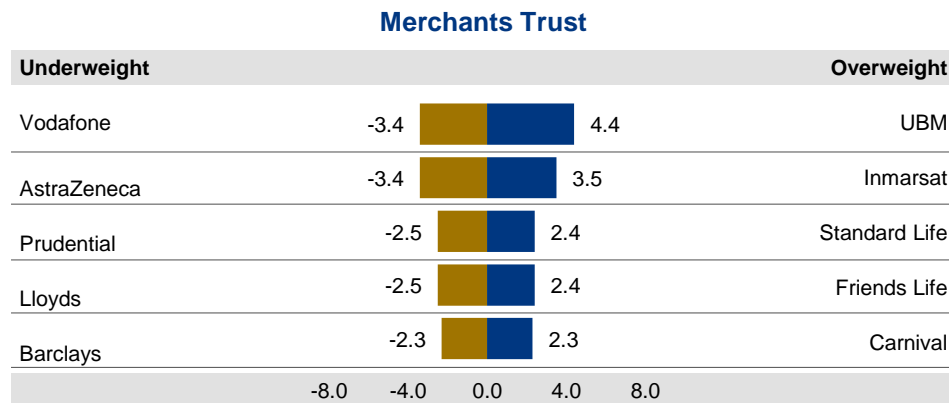
# The Merchants Trust

## Different to other UK equity income trusts

### Sector View



### Stock Views



% position relative to FTSE 100 Index

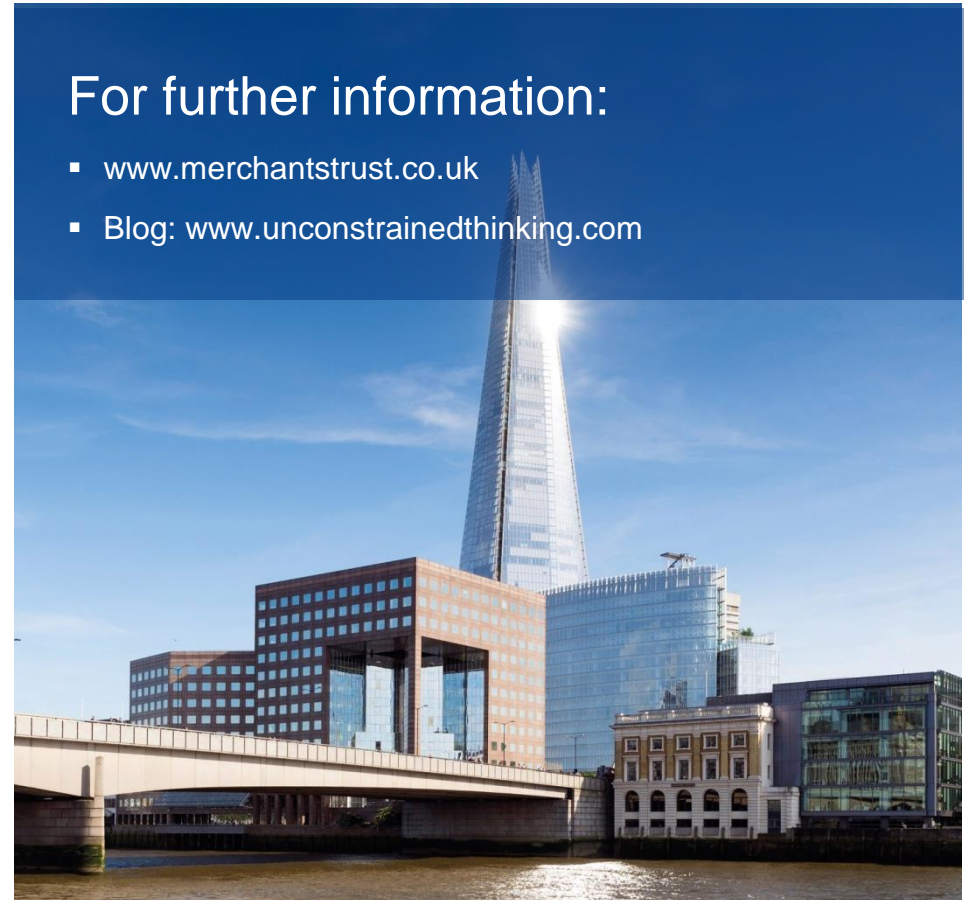
- Strong valuation discipline
- Opportunities in recovery situations:
  - Travel and leisure
  - Construction and materials
  - Financial services
- Limited exposure to expensive defensives

# The Merchants Trust

- Strong performance track record
- Active, value driven, stock selection approach
- 33 years of dividend growth
- High yield supported by significant reserves
- Merchants is well positioned for the future
- Low management fee

## For further information:

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



# Disclaimer

**This is no recommendation or solicitation to buy or sell any particular security. Any security mentioned above will not necessarily be comprised in the portfolio by the time this document is disclosed or at any other subsequent date.**

**Investing involves risk. The value of an investment and the income from it may fall as well as rise and investors may not get back the full amount invested.** The views and opinions expressed herein, which are subject to change without notice, are those of the issuer and/or its affiliated companies at the time of publication. The data used is derived from various sources, and assumed to be correct and reliable, but it has not been independently verified; its accuracy or completeness is not guaranteed and no liability is assumed for any direct or consequential losses arising from its use, unless caused by gross negligence or wilful misconduct. The conditions of any underlying offer or contract that may have been, or will be, made or concluded, shall prevail.

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.

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Thank You.  
Any Questions?

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Presentation to the Annual General  
Meeting

20 May 2015

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# The Merchants Trust PLC

## Annual General Meeting, 20 May 2015

### Resolution 1:

To receive the annual report

For	Discretion	Against	Withheld
34,680,786	296,645	64,775	47,416

# The Merchants Trust PLC

## Annual General Meeting, 20 May 2015

### Resolution 2:

To declare a final dividend

For	Discretion	Against	Withheld
34,796,404	287,185	6,033	0

# The Merchants Trust PLC

## Annual General Meeting, 20 May 2015

### Resolution 3:

To re-elect Simon Fraser as a director

For	Discretion	Against	Withheld
33,935,177	298,843	512,162	343,440

# The Merchants Trust PLC

## Annual General Meeting, 20 May 2015

### Resolution 4:

To re-elect Mike McKeon as a director

For	Discretion	Against	Withheld
33,854,691	298,844	548,084	388,003

# The Merchants Trust PLC

## Annual General Meeting, 20 May 2015

### Resolution 5:

To elect Mary Ann Sieghart as a director

For	Discretion	Against	Withheld
33,406,103	298,479	683,325	701,715

# The Merchants Trust PLC

## Annual General Meeting, 20 May 2015

### Resolution 6:

To elect Sybella Stanley as a director

For	Discretion	Against	Withheld
33,578,554	298,479	504,434	708,155



# The Merchants Trust PLC

## Annual General Meeting, 20 May 2015

### Resolution 7:

To re-elect Paul Yates as a director

For	Discretion	Against	Withheld
33,790,086	298,844	513,687	487,005

# The Merchants Trust PLC

## Annual General Meeting, 20 May 2015

### Resolution 8:

To approve the Directors' Remuneration Implementation Report

For	Discretion	Against	Withheld
31,900,187	330,595	1,600,883	1,257,957

# The Merchants Trust PLC

## Annual General Meeting, 20 May 2015

### Resolution 9:

To re-appoint PricewaterhouseCoopers LLP as Auditors

For	Discretion	Against	Withheld
33,584,894	296,427	984,747	223,554

# The Merchants Trust PLC

## Annual General Meeting, 20 May 2015

### Resolution 10:

To authorise the directors to determine the remuneration of the Auditors

For	Discretion	Against	Withheld
34,204,759	292,249	321,561	271,053

# The Merchants Trust PLC

## Annual General Meeting, 20 May 2015

### Resolution 11:

To authorise the directors to allot ordinary shares

For	Discretion	Against	Withheld
33,960,528	333,533	610,632	184,929

# The Merchants Trust PLC

## Annual General Meeting, 20 May 2015

### Resolution 12:

To disapply pre-emption rights

For	Discretion	Against	Withheld
32,762,709	353,034	1,000,851	973,028

# The Merchants Trust PLC

## Annual General Meeting, 20 May 2015

### Resolution 13:

To authorise the company to make market purchases of ordinary shares

For	Discretion	Against	Withheld
33,878,516	336,784	580,841	293,481

# The Merchants Trust PLC

## Annual General Meeting, 20 May 2015

**Resolution 14:**  
To adopt new Articles of Association

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
33,315,193	387,602	517,869	868,958



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