

# The Merchants Trust PLC

## Annual General Meeting

21 May 2014



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

**Allianz**   
Global Investors

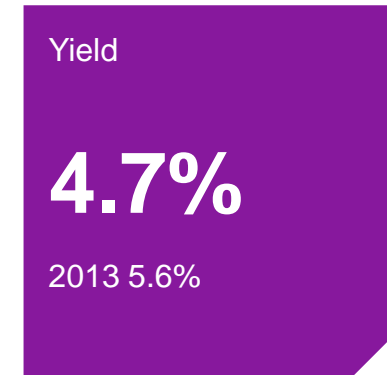


THE MERCHANTS TRUST PLC  
1889 – 2014

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## The Merchants Trust Highlights



\*Debt at market value.

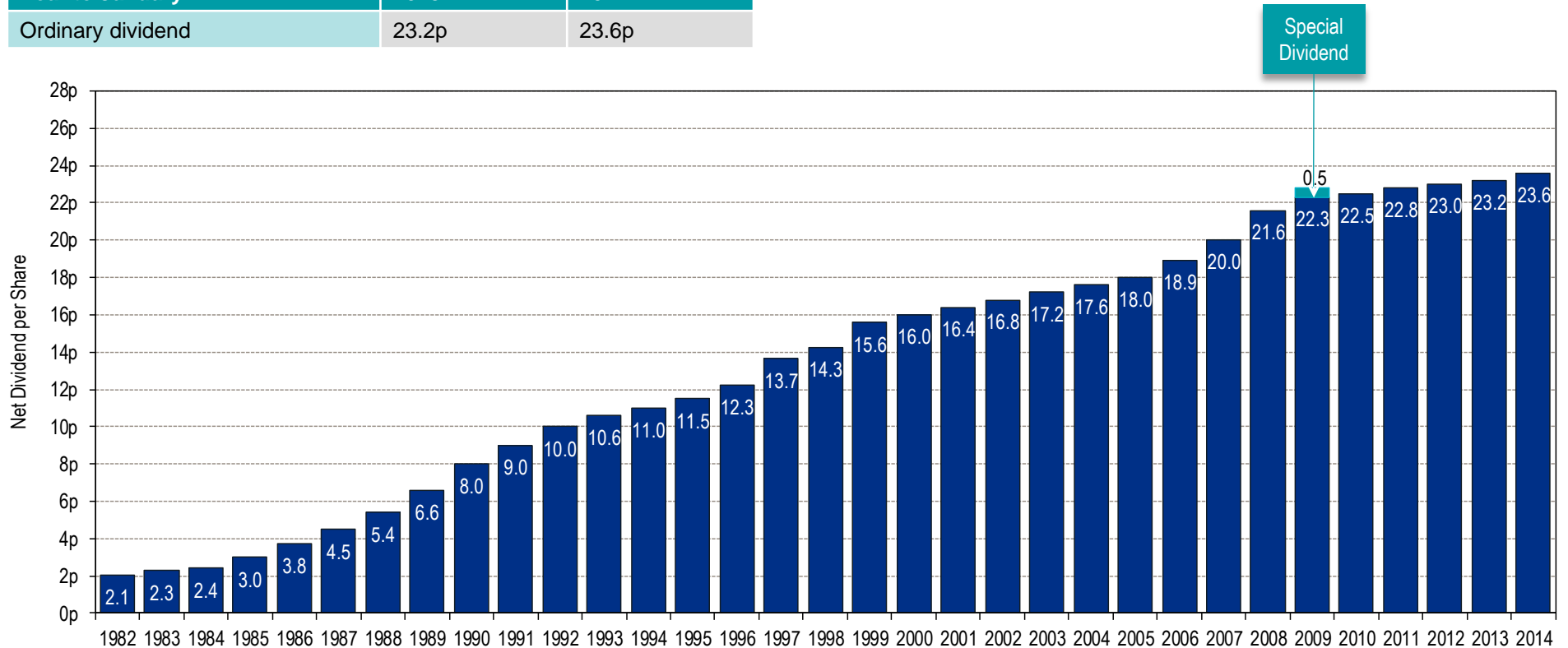
- 32 years of dividend growth
- Dividend covered again, supportive reserves position
- Strong outperformance by investment portfolio in a rising equity market
- NAV benefited from gearing and “pull to par” of debt value



# The Merchants Trust

## 32 years of rising dividends

Year to January	2013	2014
Ordinary dividend	23.2p	23.6p

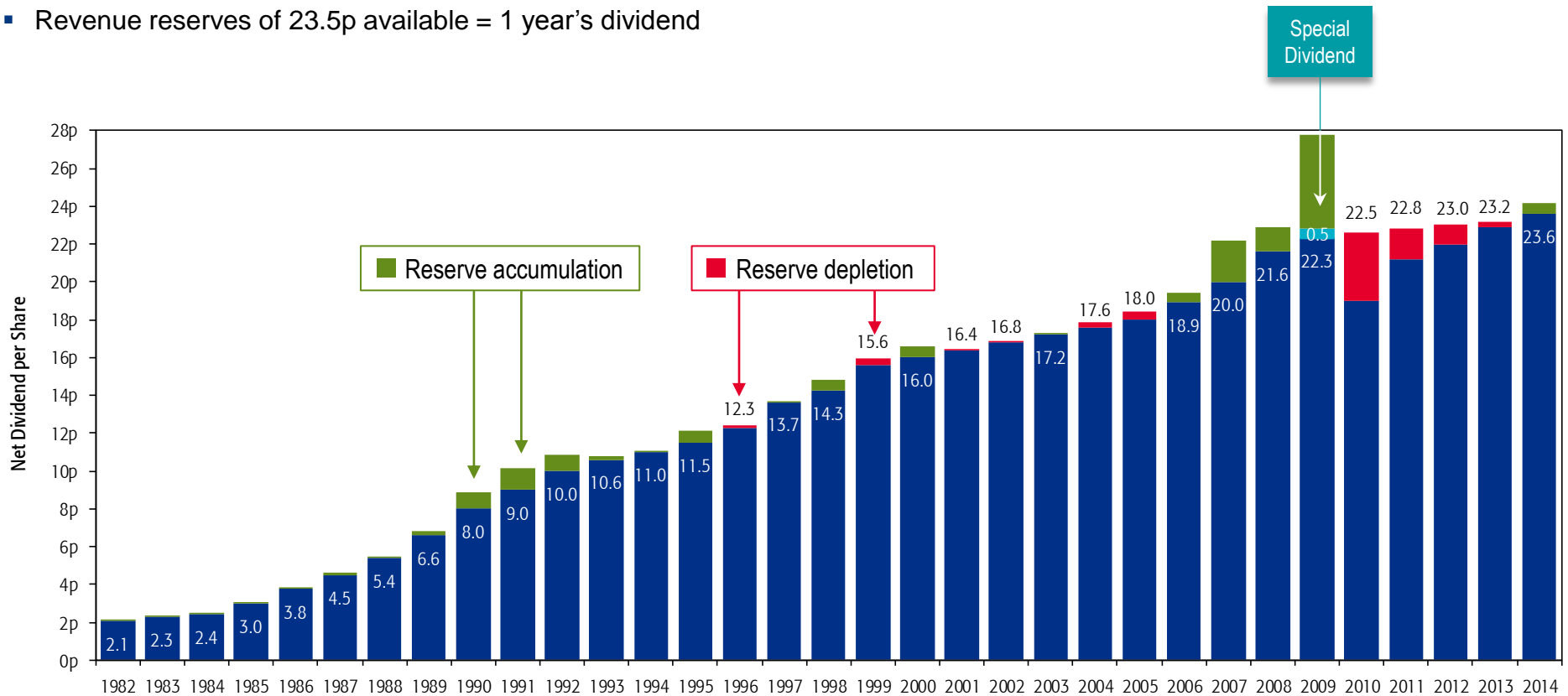


Source: AllianzGI. \*Excludes dividends declared but not paid at year end.



# The Merchants Trust

- Dividend covered by earnings again
- Reserves built up in good years to offset pressures in difficult years
- Revenue reserves of 23.5p available = 1 year's dividend



Source: AllianzGI, as at May 2014.



## The Merchants Trust Valuation summary

	31 January 2013	31 January 2014	Change (%)	9 May 2014	Change (%)
Total Assets	£592m	£640m	+8.1	£662m	+3.4
Net Assets Value Per Share (Debt at Market Value)	434.1p	486.8p	+12.1	498.5p	+2.4
Net Assets Value Per Share (Debt at Book Value)	466.5p	510.8p	+9.5	514.5p	+0.7
Share Price	412.7p	491.5p	+19.1	501p	+1.9
Premium/(Discount) (Debt at Market Value)	(4.9%)	1.0%	-	0.5%	
Premium/(Discount) (Debt at Book Value)	(11.5%)	(3.5%)	-	(2.6%)	

Source: 2013/2014 Accounts/JP Morgan Cazenove at 9 May 2014/Winterflood 9 May 2014.



## The Merchants Trust Investment portfolio performance

<b>Total Return</b> Periods to 31 January 2014 %	<b>1 Year</b>	<b>2 Years p.a.</b>	<b>3 Years p.a.</b>	<b>5 Years p.a.</b>	<b>10 Years p.a.</b>
Merchants' Portfolio	14.02	17.04	11.74	15.60	9.27
FTSE100 Index	7.55	11.11	7.41	13.54	7.86
Outperformance	+6.47	+5.93	+4.33	+2.06	+1.41

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

Source: AllianzGI/Merchants Trust, as at 31 January 2014.



## The Merchants Trust Performance attribution 2014

- Strong stock selection
- Medium sized companies and recovery situations performed well
- Aerospace and defence, life insurance and beverages were the top sectors
- Negative contributors were mainly stocks not owned in the portfolio or “underweight” positions

Top Contributors	Active Contribution
Resolution Ltd	0.9%
Britvic	0.9%
Daily Mail & General Trust	0.8%
BAE Systems	0.7%
Standard Chartered*	0.7%
BBA Aviation	0.5%
Anglo American*	0.5%
Firstgroup	0.4%
IG Group	0.4%
Hansteen	0.4%

\* = underweight.

Bottom Contributors	Active Contribution
Lloyds Banking Group*	-0.8%
Astrazeneca*	-0.6%
Vodafone*	-0.6%
Ladbrokes	-0.5%
BT*	-0.4%
Prudential*	-0.4%
UBM	-0.3%
Shire*	-0.3%
De La Rue	-0.3%
Legal & General*	-0.2%

\* = underweight.



# The Merchants Trust

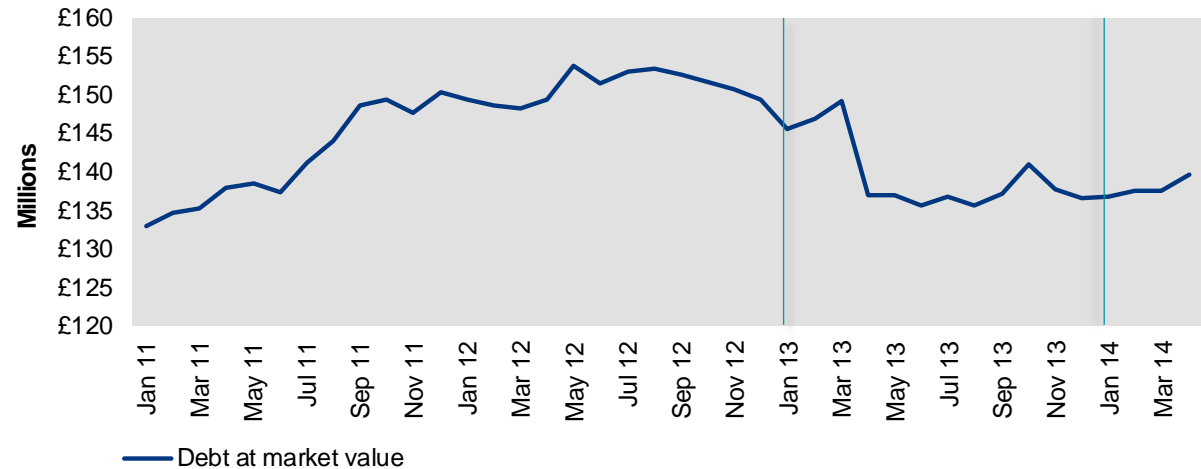
## Debt structure

### Debt and gearing structure

	31 Jan 2013		31 Jan 2014	
	£m	%	£m	%
Total Assets	592	100	640	100
Borrowings	111	19	111	17
Shareholder Funds	481	81	529	83
Average Maturity	9 years			
Average Interest Charge	8.5%			

- Market value of debt fell by £8.8m during year
- “Pull to Par” boosted NAV (market) by 1.6%

### Debt at market value



Source: AllianzGI/JP Morgan Cazenove/Datastream, as at 6 May 2014.





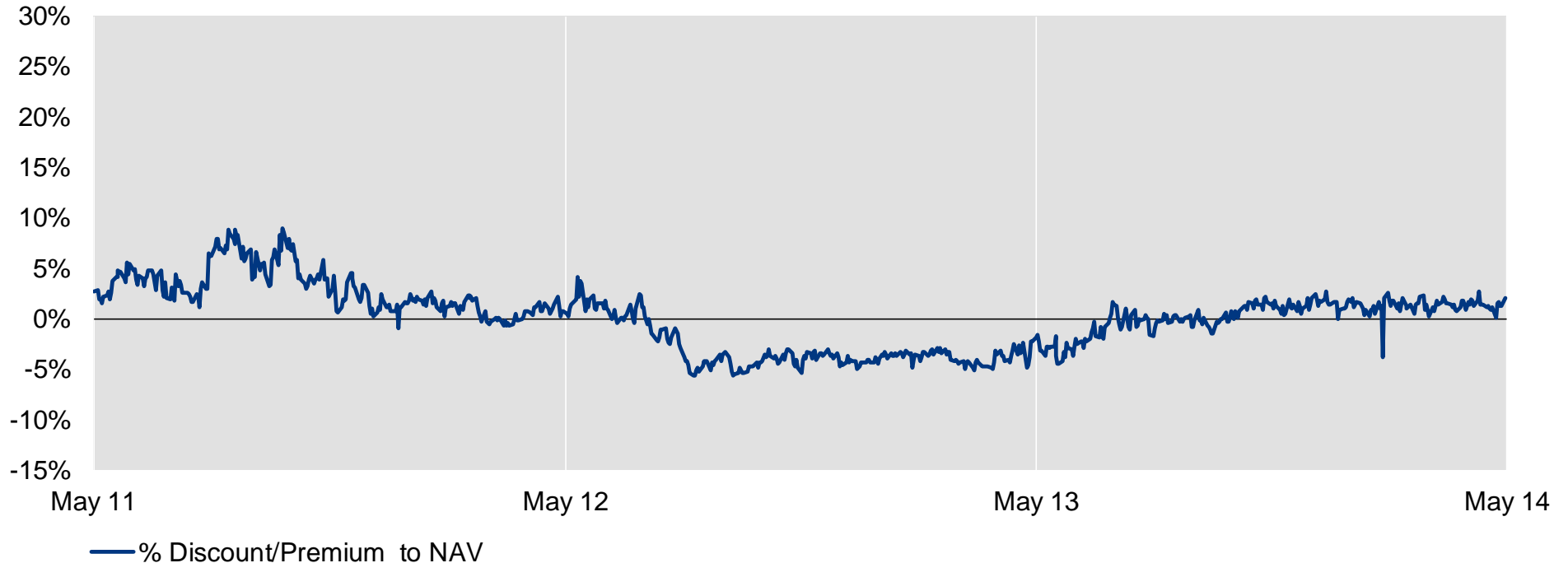
# The Merchants Trust

## Discount to NAV – Merchants has traded in a tight range

### Merchants Investment Trust

% Discount/Premium to NAV (Fair Value Including Revenue)

3 Years to 6th May 2014



Source : Datastream/AllianzGI.



## The Merchants Trust

### Key portfolio changes – financial year to 31 January 2014

New additions	Disposals
De La Rue	BT
First Group	Catlin
Hammerson	Close Brothers
Hansteen	Cobham
Ladbrokes	Compass
Segro	Hiscox
SThree	Imperial Tobacco
Tyman	London Metric Properties
William Hill	Marston's
	Meggitt
	Reckitt Benckiser

- Active stock selection, driven by opportunities
- 9 additions, 11 disposals within 44 stock portfolio
- New purchases focused on:
  - Recovery situations
  - Industrial property
  - Bookmakers
- Sales driven by shares reaching full valuation:
  - Lloyd's insurers and general financials
  - Consumer defensives
  - Aerospace & defence
  - Telecommunications



# The Merchants Trust

## Current views

### **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 as risks persist
- Best value in Mega Caps and recovery situations



# The Merchants Trust

## Broad 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



## Sector Themes

- Recovery situations** industries near cyclical troughs or restructuring companies, on modest valuations



- Consumer stocks** – conditions stable, operational improvements



- Financials:** opportunities in non-bank, strongly financed businesses

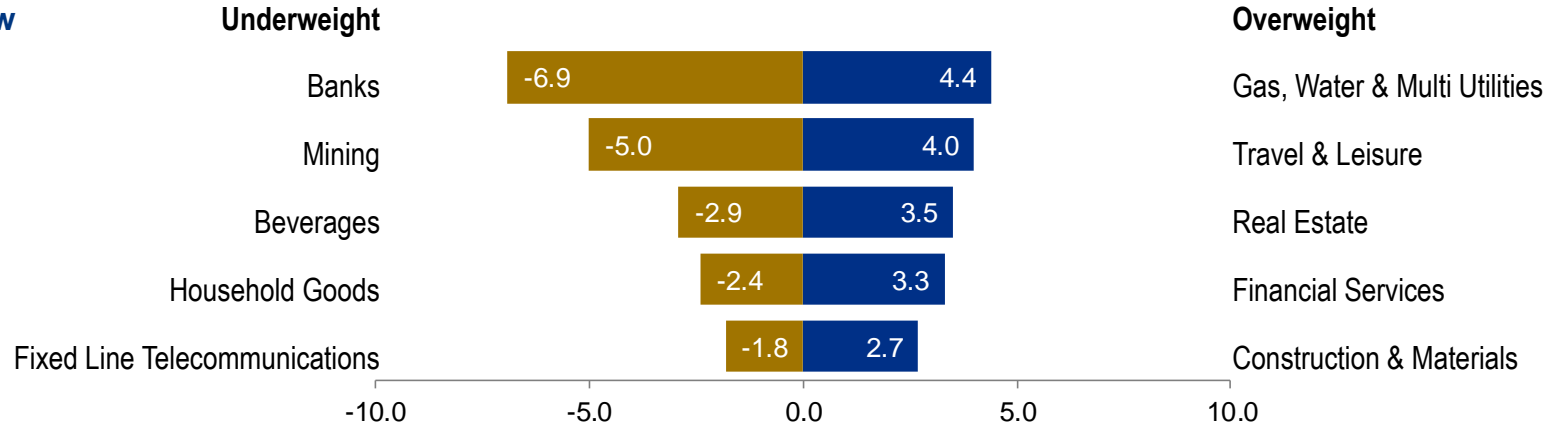


- Limited exposure to **mining** (muted recovery)

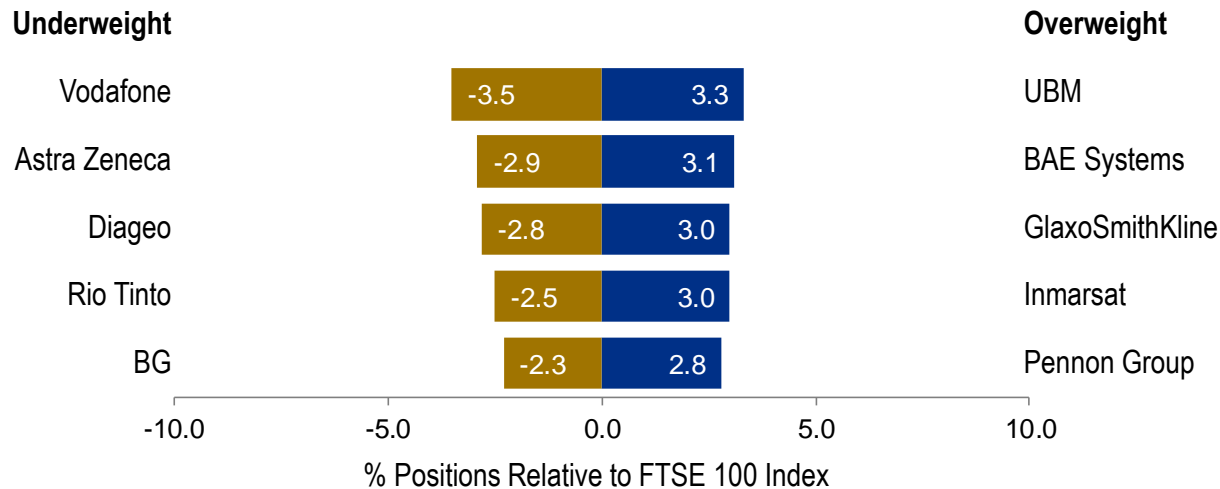


## The Merchants Trust – different to other UK equity income funds

### Sector View



### Stock Views



Source: AllianzGI, as at 31 March 2014.



## The Merchants Trust

- Strong performance track record
- Active, value driven, stock selection approach
- 32 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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# Questions



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# The Merchants Trust PLC

## Presentation to the Annual General Meeting

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## The Merchants Trust PLC Annual General Meeting, 21 May 2014

### Resolution 1:

To receive the annual report

For	Discretion	Against	Withheld
29,906,099	264,706	57,293	6,606



# The Merchants Trust PLC

## Annual General Meeting, 21 May 2014

### Resolution 2:

To declare a final dividend

For	Discretion	Against	Withheld
29,967,228	263,556	3,200	720



## The Merchants Trust PLC Annual General Meeting, 21 May 2014

### Resolution 3:

To re-elect Simon Fraser as a director

For	Discretion	Against	Withheld
29,243,912	253,634	267,897	469,261



## The Merchants Trust PLC Annual General Meeting, 21 May 2014

### Resolution 4:

To re-elect Mike McKeon as a director

For	Discretion	Against	Withheld
29,133,078	253,635	358,417	489,574



## The Merchants Trust PLC Annual General Meeting, 21 May 2014

### Resolution 5:

To re-elect Henry Staunton as a director

For	Discretion	Against	Withheld
29,261,014	254,893	263,145	455,651



## The Merchants Trust PLC Annual General Meeting, 21 May 2014

### Resolution 6:

To re-elect Paul Yates as a director

For	Discretion	Against	Withheld
29,052,212	259,143	392,159	531,190



## The Merchants Trust PLC Annual General Meeting, 21 May 2014

### Resolution 7:

To approve the Directors' Remuneration Policy Report

For	Discretion	Against	Withheld
27,906,594	253,909	1,204,522	869,678





## The Merchants Trust PLC Annual General Meeting, 21 May 2014

### Resolution 8:

To approve the Directors' Remuneration Implementation Report

For	Discretion	Against	Withheld
27,833,001	257,909	1,257,971	885,824



# The Merchants Trust PLC

## Annual General Meeting, 21 May 2014

### Resolution 9:

To re-appoint PricewaterhouseCoopers LLP as Auditors

For	Discretion	Against	Withheld
28,912,754	264,972	747,084	309,894



## The Merchants Trust PLC Annual General Meeting, 21 May 2014

### Resolution 10:

To authorise the directors to determine the remuneration of the Auditors

For	Discretion	Against	Withheld
29,193,642	270,395	423,013	347,654



## The Merchants Trust PLC Annual General Meeting, 21 May 2014

### Resolution 11:

To authorise the directors to allot ordinary shares

For	Discretion	Against	Withheld
29,269,551	343,758	437,146	184,249



## The Merchants Trust PLC Annual General Meeting, 21 May 2014

**Resolution 12:**  
To disapply pre-emption rights

For	Discretion	Against	Withheld
28,314,982	348,980	958,170	592,571



## The Merchants Trust PLC Annual General Meeting, 21 May 2014

### Resolution 13:

To authorise the company to make market purchases of ordinary shares

For	Discretion	Against	Withheld
29,426,381	353,615	342,427	112,281

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