

# The Merchants Trust PLC

As focused on dividends as you are



## Aim

The Trust's objective is to provide an above average level of income, income growth and long-term growth of capital through a policy of investing mainly in higher yielding large UK companies.

## History

The Merchants Trust PLC was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, but now concentrates primarily on major UK companies with an above average rate of dividend yield.

## Trust Benefits

Merchants has for many years focused on a simple proposition to deliver a high and rising income together with capital growth for its shareholders. Simon Gergel has been managing the trust for over 15 years, investing in a diversified portfolio of large, well-established and well-known UK companies. Although past performance is no guide to the future, Merchants has paid increasingly higher dividends to its shareholders year on year for the last 42 years.

## Key Information

Launch Date	16 February 1889
AIC Sector	UK Equity Income
Benchmark	FTSE All-Share
Annual Management Fee	0.35%
Performance Fee	No
Ongoing Charges <sup>1</sup>	0.55%
Year End	31 January
Annual Report	Annual published in April, Half-yearly published in September
AGM	May
NAV Frequency	Daily
Dividends	March, May, August, November
Price Information	Financial Times, The Daily Telegraph, www. merchantstrust.co.uk
Company Secretary	Kirsten Salt   Kelly Nice
Investment Manager	Simon Gergel, CIO, UK Equities
Codes	RIC: MRCH.L SEDOL: 0580007

1. Source: AIC, as at the Trust's Financial Year End (31.01.2024). Ongoing Charges (previously Total Expense Ratios) are published annually to show operational expenses, which include the annual management fee, incurred in the running of the company but excluding financing costs.

This is a marketing communication. Please refer to the Key Information Document (KID) before making any final investment decisions.



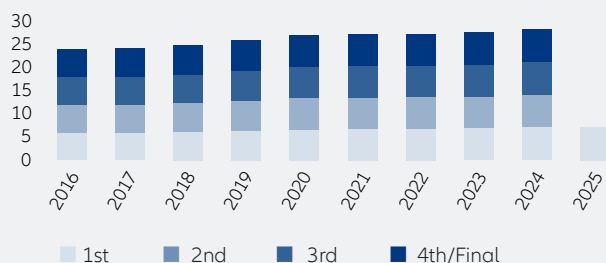
A ranking, a rating or an award provides no indicator of future performance and is not constant over time.

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The RSMR rating is designed for use by professional advisers and intermediaries as part of their advice process. This rating is not a recommendation to buy. If you need further information or are in doubt then you should consult a professional adviser.

## Ten Year Dividend History

Dividend Record in Pence per Share  
To Year End 31 January



## Last Four Dividend Payments per Share

Record Date	Pay Date	Dividend	Type
12.07.2024	22.08.2024	7.20p	1st Interim
19.04.2024	22.05.2024	7.10p	Final
02.02.2024	14.03.2024	7.10p	3rd Interim
06.10.2023	10.11.2023	7.10p	2nd Interim

Past performance is not a reliable indicator of future results.

**Total Assets** £983.4m

**Shares in Issue** 148,424,887 (Ordinary 25p)

**Market Cap** £881.6m

Share Price  
**594.0p**

NAV per Share  
**596.8p**

Premium/-Discount  
**-0.5%**

Dividend Yield  
**4.8%**

Gearing  
**13.9%**

## Fund Manager's Review

Over recent months, expectations about future interest rate policy have had a major influence on stock markets. At the start of August, the Bank of England made its highly anticipated first cut to interest rates this cycle. This was followed by strong hints from the US Federal Reserve that it will start cutting rates during September. In contrast, Japan has only recently started raising interest rates, after holding them for many years at the emergency sub-zero level. Further increases are expected in Japan.

This divergent path of interest rates was one of the factors behind a wild swing in the Japanese equity market. In the first three trading days of the month, the Nikkei 225 index of Japanese stocks fell by an extraordinary 20%, with the Yen also falling sharply. The exact cause of this is hard to know, but thin market volumes in the holiday season and computer driven trading algorithms may have exacerbated nervousness over the "Carry Trade", where investors have borrowed money at low interest rates in Japanese Yen to finance higher yielding assets elsewhere.

By the end of the month, the plunge in the Japanese market had been almost completely reversed. However, this volatility should serve as a warning sign of the underlying risks and vulnerabilities in modern, highly complex financial markets. Overall in August, the major equity markets generally produced modest gains or losses, in local currencies, with trading volumes quite light. However, the Japanese currency remained well off its July high point, impacting returns for non-Japanese investors.

In the UK, the stock market eked out a modest gain, led by large companies, with medium sized companies down a couple of percent. Despite the modest change in the market index, there were large sector divergences. Economically defensive sectors like pharmaceuticals, personal care and beverages performed well, as well as some interest rate sensitive sectors such as finance & credit services and retail. On the other hand, natural resources sectors were weak, as well as real estate, media and banks.

### “ Our focus, as always, remains on identifying attractive individual companies to own in the portfolio

Portfolio performance was in line with the index return. The Net Asset Value (NAV) total return for August was -0.50%, versus 0.45% from the benchmark index. The strong pharmaceutical sector lifted GlaxoSmithKline, which helped, but also AstraZeneca, which is not in the portfolio, impacting relative returns. Another notable gainer was ground engineering firm Keller, which continued a strong rally. Relative performance also benefitted from having underweight positions in HSBC and Shell, which both underperformed. On the negative side, OneSavingsBank fell, after warning about short term margin pressure, whilst Morgan Advanced Material gave up some of its recent gains, as it reported interim results.

We made several changes to the portfolio, as we continue to find attractive investment opportunities. We bought a new holding in Whitbread, owner of the UK's largest hotel chain, Premier Inn, which has 85,000 rooms in the UK and over 10,000 in Germany. The business has an excellent long term growth record. It has key competitive advantages, such as a low-cost operating model, ownership of the freeholds on half its hotels and its direct selling model to consumers in the UK, cutting out the online travel agents. After a strong recovery in Whitbread's shares after the pandemic, the share price has fallen back this year. This partly reflects British holiday makers favouring foreign holidays, which we see as a one-off normalisation of activity. But it also reflects Whitbread's decision to restructure its restaurant estate which has a short-term cost for a longer term benefit. We believe the stock market is not recognising the benefits of this restructuring, or the value of the company's rapidly growing position in the large and fragmented German market, which is just turning profitable.

Another new purchase was Harbour Energy, an oil & gas company that is being transformed by a major acquisition from BASF. This deal creates a FTSE 100 business with hydrocarbon production of around 20% of the size



### Simon Gergel, Portfolio Manager

The Merchants Trust PLC is managed by Simon Gergel who is Chief Investment Officer, UK Equities at AllianzGI and has 32 years investment experience. Simon joined AllianzGI in April 2006 from HSBC Halbis Partners where he managed over £900m in high income funds as well as core institutional and life UK equity portfolios. Prior to joining HSBC, Simon worked for 14 years at Phillips & Drew Fund Management / UBS Asset Management.

of Shell or BP. Although historically Harbour was largely a UK North Sea producer, where taxation policy is increasingly harsh, it will now have large producing assets in attractive countries like Norway and Germany, as well as considerable resources in Latin America and elsewhere. These can earn the company substantial cash flows, and pay healthy dividends, for well over a decade into the future. The terms of the deal with BASF were particularly attractive, with BASF being paid in shares valued well above the prevailing Harbour share price.

As well as these new investments, we increased the position in the gambling company Entain, where we saw the first promising signs from the new management's turnaround strategy.

We sold the remaining small position in Diversified Energy, a US gas producer. Whilst we believe that Diversified energy has an attractive asset base, we had some concerns about the company's capital allocation strategy. After several meetings with executives and engagements with the company chairman, we decided to exit the shares and reinvest elsewhere, where we have higher conviction.

Elsewhere, we also took profits on several shares which had performed well, reducing positions to fund new investments. These included Keller, IG Group, Grafton, Inchcape and Unilever. In addition, the building products company Tyman was taken over. In return, the trust received cash as well as a modest holding in the purchaser, US-listed Quanex Building Products.

Although the UK stock market has performed well in the last year, there are still reasons to be optimistic about the future. The UK should now be in a period of political stability, inflation has returned close to the Bank of England's target, economic growth has picked up, even if it is not strong, and interest rates have started to come down. This will moderate mortgage bills and corporate debt costs in due course. The UK stock market remains lowly priced, especially compared to other leading markets and we are seeing a large number of share buybacks from companies, as well as a high level of takeover activity.

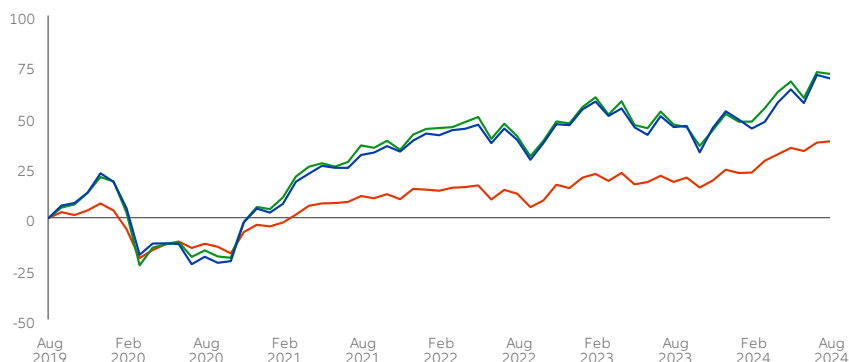
Our focus, as always, remains on identifying attractive individual companies to own in the portfolio. We want companies that we believe can deliver a high income yield and strong total returns for investors, over the next three to five years. We continue to find many compelling opportunities. Not only is the overall UK stock market lowly valued, but the dispersion between individual company valuations remains high. This environment has provided new opportunities, like Whitbread and Harbour Energy, mentioned above, but we also see material further upside in most of the existing holdings in the portfolio.

Simon Gergel  
13 September 2024

**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.**

## Performance Track Record

### Five Year Performance (%)



■ Share Price ■ NAV (debt at fair value)

■ Benchmark: With effect from 1 February 2017 the benchmark changed from the FTSE 100 to the FTSE All-Share Index

## Risk & Features

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.

Merchants seeks to enhance returns for its shareholders through gearing which 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 may be used to manage the Trust efficiently.

### Cumulative Returns (%)

	3M	6M	1Y	3Y	5Y
Share Price	3.3	17.2	16.6	28.8	69.0
NAV (debt at fair value)	2.2	16.0	17.1	26.0	71.2
Benchmark	2.4	12.6	17.0	24.4	37.9

### Discrete 12 Month Returns to 31 August (%)

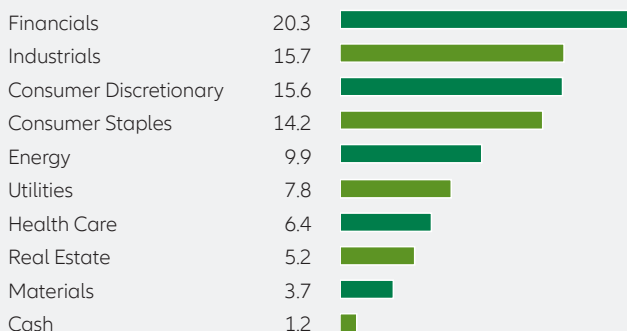
	2024	2023	2022	2021	2020
Share Price	16.6	4.6	5.6	62.0	-19.1
NAV (debt at fair value)	17.1	4.2	3.3	61.7	-15.9
Benchmark	17.0	5.2	1.0	26.9	-12.6

Source: Thomson Reuters Refinitiv DataStream, percentage growth, mid to mid, total return to 31.08.24. Copyright 2024 © DataStream, a Thomson Reuters company. All rights reserved. DataStream shall not be liable for any errors or delays in the content, or for any actions taken in reliance thereon.

Past performance does not predict future returns. Investing involves risk. The value of an investment and the income from it may fall as well as rise and investors might not get back the full amount 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.

## Portfolio Breakdown

### Sector Breakdown (%)



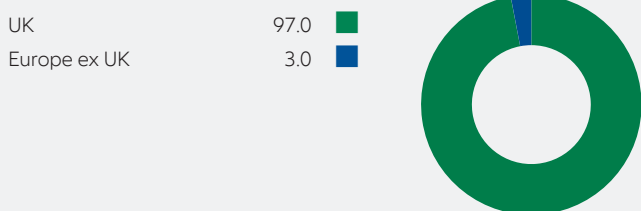
### Top Ten Holdings (%)

GSK	4.9
British American Tobacco	4.4
Shell	3.7
Scottish & Southern Energy	3.1
Barclays	3.1
Lloyds Banking Group	3.0
Inchcape	3.0
BP	2.9
Tate & Lyle	2.9
WPP	2.8

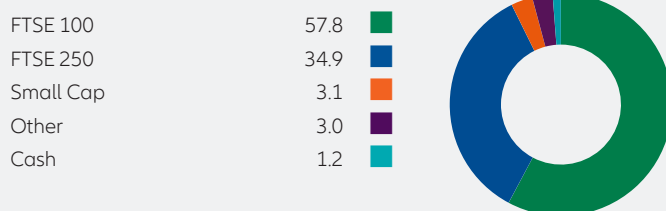
Total number of holdings\*\* 54

\*\*Excludes derivatives

### Geographic Breakdown\* (%)



### Market Cap Breakdown (%)



This is for guidance only and not indicative of future allocation. Totals may not sum to 100.0% due to rounding.

This is no recommendation or solicitation to buy or sell any particular security.

\*Excludes Cash

## Board of Directors

Colin Clark (Chairman)

Timon Drakesmith (Chairman of the Audit Committee)

Lisa Edgar

Karen McKellar (Senior Independent Director)

Mal Patel

## Glossary

**Share Price** is the price of a single ordinary share, as determined by the stock market. The share price above is the mid-market price at market close.

**Net Asset Value (NAV) per Share** 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.

The NAV figure above is based on the fair/market value cum income of the company's long-term debt and preference shares (known as debt at market value). This allows for the valuation of long-term debt and preference shares at fair value or current market price, rather than at final repayment value (known as debt at par).

**Premium/Discount.** Since investment company shares are traded on a stock market, the share price that you get may be higher or lower than the NAV. The difference is known as a premium or discount.

**Dividend Yield** is calculated using the latest full year dividend divided by the current share price.

**Gearing** is a measure of a company's financial leverage and shows the extent to which its operations are funded by lenders versus shareholders.

## How to invest

You can buy shares in the Trust through:

- A third party provider - see 'How to Invest' on our website, where you will find links to a range of these platforms, many of which allow you to hold the shares within an ISA, Junior ISA, SIPP and/or savings scheme.
- A stockbroker.
- A financial adviser.

## Contact us

If you have any queries regarding our investment trusts our Investor Services team can be contacted on:

0800 389 4696

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

**E-mail: [investment-trusts@allianzgi.com](mailto:investment-trusts@allianzgi.com)**

You will find much more information about The Merchants Trust on our website.

Please note that we can only offer information and are unable to provide investment advice. You should contact your financial adviser before making any investment decision.



**Past performance does not predict future returns. 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 statements contained herein may include statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. We assume no obligation to update any forward-looking statement. 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. For further information contact the issuer at the address indicated below.

**All data source Allianz Global Investors as at 31.08.24 unless otherwise stated.**

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