

# 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 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 40 years.

## 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
19.04.2022	24.05.2022	6.85p	Final
05.02.2022	15.03.2022	6.85p	3rd Interim
08.10.2021	11.11.2021	6.80p	2nd Interim
10.07.2021	20.08.2021	6.80p	1st Interim

Past performance is not a reliable indicator of future results.



Consideration of Environmental, Social and Governance (ESG) factors is fully integrated into The Merchants Trust's investment process. Visit [www.merchantstrust.co.uk/Integrated-ESG/](http://www.merchantstrust.co.uk/Integrated-ESG/) for more information.

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

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.

**Total Assets** £873.2m

**Shares in Issue** 133,969,887 (Ordinary 25p)

**Market Cap** £773.0m

Share Price

**577.0p**

NAV per Share

**579.6p**

Premium/-Discount

**-0.4%**

Dividend Yield

**4.7%**

Gearing

**10.9%**

**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.

## Fund Manager's Review

Inflationary pressures continued to build in the economy, due to the spike in energy and food prices, related to the Russian invasion of Ukraine, and continuing manufacturing supply disruptions in China due to the Covid-19 pandemic. In response to the rising cost of energy in particular, the Chancellor of the Exchequer announced a £15bn plan of support for UK households, to be partly funded by a "windfall" tax on oil & gas companies, although much of this can be recovered through investment tax allowances. He left open the possibility of a further "windfall" tax on electricity utilities.

Stock markets generally had a steadier month in May, with the FTSE All-Share index producing a small positive return, although small and mid-cap companies were a little weaker. Continuing strength in the oil price helped the oil & gas sector to record the strongest performance in the UK market, with BP and Shell both giving double digit returns, despite the UK windfall tax, which will only have a modest impact on these global businesses.

The other strong performing sectors tended to be those on modest valuations, such as telecommunications, banks and tobacco, as the "value" rally continued. The weakest large sectors included beverages, finance & credit services, electricity and media.

The portfolio outperformed in May. An agreed takeover bid for Homeserve at £12, compared to a market price under £7 in March, made that the biggest individual contributor to outperformance. Imperial brands was strong, and not owning Diageo also helped performance as that share pulled back. The main negative factor was the electricity sector, where Drax fell after strong recent gains, on fears of a potential windfall tax. IG group was also weak, and an underweight position in Shell had an impact on relative performance, as that share rallied. The NAV Total

### “ Volatility in the stock market has continued to create opportunities to find new investments that meet our criteria

Return for the month of May was 1.7%, comfortably ahead of the 0.7% return from the benchmark index.

Volatility in the stock market has continued to create opportunities to find new investments that meet our criteria. We added three new companies to the portfolio in May, although we have owned two of them previously.

CRH is the largest building materials and products supplier in North America and Europe. We had sold out of the shares a year ago, as we believed CRH to be fully valued, but the share price retreated to a level that once again offered good value. The company has a high exposure to infrastructure and renovation spending, where we see robust demand trends. CRH has an excellent record of adding value through acquisitions and disposals, in fragmented markets, and it has a strong balance sheet to pursue new opportunities. The company has plans to significantly reduce its environmental footprint, and already uses recycled materials for a quarter of its US road building activities.

National Express is one of the leading school bus operators in the USA, as well as having strong bus and coach operations in the UK, Spain and Morocco. The business is recovering from a period of extreme disruption during the pandemic. National Express also has a good record of organic expansion, supplemented by acquisitions. The shares were modestly valued based on an anticipated recovery in activity, and the company has indicated it is intending to resume dividend payments. In a typical economic downturn, the business model is defensive. However, these defensive qualities have been over-shadowed by the impact of the pandemic on travel, creating an opportunity as the shares were trading like a more cyclical business. The company also benefits structurally from government efforts to encourage greater use of public transport to cope with growing congestion and to reduce environmental pollution.



### 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. He is pictured here with Matthew Tillett, Senior Portfolio Manager. 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.

The third new investment is CLS Holdings. This is a medium sized real estate company, specialising in office investments in the UK, Germany and France. It has an excellent long-term record of opportunistically buying underperforming assets, refreshing them and improving the tenant mix to raise the valuation, and then recycling capital into new opportunities. With the office property investment market out of favour, we were able to buy the shares at an unusually large discount to the value of their assets, at a time when there are signs of an improvement in the underlying office rental market.

These purchases were funded by taking profits on certain "defensive" investments that had performed well in an uncertain environment, and were thus trading closer to fair value. These were the utilities Drax, SSE and National Grid, as well as BAE Systems and Imperial Brands.

The economic outlook remains finely balanced between the positive drivers of a recovery from 2021, which was impacted by Covid-19 restrictions on activity, low interest rates, supportive government spending and low unemployment, set against the negative drivers of surging energy, food and other prices, rising interest rates, geopolitical uncertainty, supply chain disruptions and rising wage costs for companies. The stock market has reflected this uncertainty by de-rating economically cyclical businesses, in general, and re-rating more defensive businesses. Although we maintain a balance in the portfolio, given the difficulty of forecasting the economic outlook, we are making gradual moves into more cyclical companies, when valuations are compelling.

### Side Note

For the first time in 3 years The Merchants Trust held a physical Annual General Meeting (AGM) in May. It was great to see many familiar faces again, after such a long time. And it was a privilege to speak to shareholders about the investment portfolio, performance and forty years of dividend growth.

The following day I attended the London Value Investor Conference, which was also being held in person for the first time in 3 years. There were over 400 people there interested in value investing, in all its various forms.

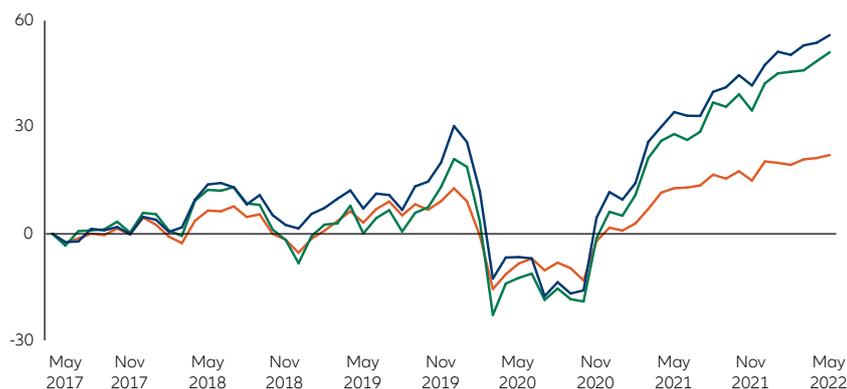
It does seem as if, finally, the long shadow of the Covid-19 pandemic is starting to lift in the UK, and activity is returning towards normal. Although it would be premature to say we are completely out of the woods.

**Simon Gergel**  
16 June 2022

**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	3.7	10.0	16.1	45.6	55.9
NAV (debt at fair value)	3.8	12.2	18.0	50.7	50.9
Benchmark	2.3	6.2	8.3	18.4	22.2

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

	2022	2021	2020	2019	2018
Share Price	16.1	43.7	-12.8	-5.9	13.9
NAV (debt at fair value)	18.0	46.0	-12.5	-10.9	12.4
Benchmark	8.3	23.1	-11.2	-3.2	6.5

Source: Thomson Reuters DataStream, percentage growth, mid to mid, total return to 31.05.22. Copyright 2022 © 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 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.

## Portfolio Breakdown

### Sector Breakdown (%)

Financials	22.0
Consumer Staples	15.9
Industrials	13.9
Consumer Discretionary	13.3
Energy	10.1
Utilities	7.0
Health Care	6.4
Materials	3.8
Communication Services	2.9
Real Estate	2.6
Cash	2.1

### Geographic Breakdown\* (%)



### Top Ten Holdings (%)

GlaxoSmithKline	5.0
British American Tobacco	4.3
Shell	4.2
Imperial Brands	4.1
BP	3.1
Rio Tinto	3.1
HomeServe	2.9
IG Group	2.9
Vodafone	2.9
BAE Systems	2.8

Total number of holdings\*\* 50

\*\*Excludes derivatives

### Market Cap Breakdown (%)



The data shown is not constant over time and the allocation may change in the future. Totals may not sum to 100.0% due to rounding.

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\*Excludes Cash

## 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 Financial Report	Final 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, <a href="http://www.merchantstrust.co.uk">www.merchantstrust.co.uk</a>
Company Secretary	Kirsten Salt
Investment Manager	Simon Gergel, CIO, UK Equities
Codes	RIC: MRCH.L SEDOL: 0580007

1. Source: AIC, as at the Trust's Financial Year End (31.01.2022). 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.

## Board of Directors

Colin Clark (Chairman)  
Sybella Stanley (Senior Independent Director)  
Mary Ann Sieghart  
Timon Drakesmith (Chairman of the Audit Committee)  
Karen McKellar

## 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.



**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.

**All data source Allianz Global Investors as at 31.05.22 unless otherwise stated.**

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