

# The Merchants Trust PLC

Factsheet

31 October 2015

## 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 UK FTSE 100 companies.

## History

The Trust 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, with the remainder held in Government securities and companies such as Castlemaine Brewery in Australia. The Trust now concentrates primarily on major UK companies with an above average rate of dividend yield.

## Fund Manager's Review



Simon Gergel

Equity markets staged a strong rally in October from a relatively depressed level. Further reflection on the US Federal Reserve Board decision not to raise interest rates in September, and an early rally in the oil price at the start of the month, supported share prices. Most stock markets posted mid to high single digit total returns, with the FTSE 100 Index giving a return of 5.17%.

Within the stock market, the best performing sectors included oil producers (where BP rose by over 15%), fixed line telecommunications, life insurance and financial services. The worst sectors included health care equipment, industrial transportation and aerospace & defence, which all posted small negative returns. There was a wide divergence of stock returns within the FTSE 100 Index, with two mining shares, Glencore and Fresnillo returning over 20%, whilst profits warnings at Meggitt and Pearson caused them to fall by over 20%.

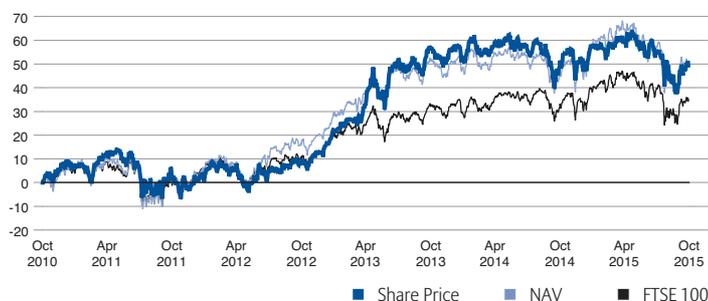
The Trust's net asset value returned 5.95% for the month of October, slightly outperforming the benchmark at 5.17%. The portfolio benefitted from strong performance at GlaxoSmithKline, UBM and Standard Life. The large BP shareholding also made an important contribution to the overall return, though it only had a small impact on the relative return as it is a large constituent of the index. The main negative contribution came from not owning several shares that performed well, including BT, Unilever, BG and Glencore.

We added one new company to the portfolio, buying into Hostelworld Plc on its market flotation. It is the market leader in online youth hostel booking around the world, owning the Hostelworld, Hostelbookers and Hostels.com brands. Our proprietary Grassroots<sup>SM</sup> research highlighted the strength of the business franchise, with complementary comments from hostel owners. The business has good opportunities to benefit from a growing hostel market, further penetration of their mobile phone App and various pricing initiatives. The initial valuation is modest for an online market leader with a high expected dividend yield.

Elsewhere, we took profits on part of the British American Tobacco holding, after strong performance. We also added to BAE Systems, which offers good value after concerns about a delay to future Eurofighter Typhoon orders for Saudi Arabia brought the share price down from their levels earlier in the year.

As we write this report, strong employment data out of the USA has raised expectations about a US interest rate increase before the end of the year. Market sentiment is swinging around from week to week, but our central view remains that Western economies are recovering. However growth is likely to remain muted due

## Performance (%)



## Cumulative Performance (%)

	3 Months	6 Months	1 Year	3 Years	5 Years
Share Price	-4.5	-7.1	-2.0	38.0	48.5
NAV	-5.1	-9.2	1.7	29.0	49.6
FTSE 100	-3.9	-6.9	0.8	22.6	34.3

## Discrete Performance (%)

From To	29.10.10 31.10.11	31.10.11 31.10.12	31.10.12 31.10.13	31.10.13 31.10.14	31.10.14 30.10.15
Share Price	2.7	4.8	45.2	-3.1	-2.0
NAV	2.6	13.1	30.3	-2.7	1.7
FTSE 100	1.0	8.5	20.7	0.7	0.8

Source: Lipper, percentage growth, mid to mid, total return to 31.10.15. Benchmark: FTSE 100 Index.

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.

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## Fund Manager's Review (continued)

to financial repression, which is addressing the high debt burden post the financial crisis. This should provide a favourable background for high yielding equity strategies.

Despite recent strength in the oil majors, notably BP, we continue to see good value in several "mega-caps" as we have previously reported. We also see opportunities amongst recovery situations, where investors are not willing to look through shorter term issues. However we are mindful that there remain challenges in specific industries and geographies and we remain vigilant.

All data source Allianz Global Investors as at 31.10.15 unless otherwise stated.

Allianz Global Investors GmbH, UK Branch, 199 Bishopsgate, London EC2M 3TY

**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.**

Allianz   
Global Investors

## Capital Structure

Total Assets:	£630.7m
Gearing (net):	19.6%
Shares in Issue:	108,728,464 (Ordinary 25p)
Share Price <sup>1</sup> :	439.9p
Net Asset Value <sup>2</sup> :	466.3p <sup>3</sup> (445.27p <sup>4</sup> – debt at market value)
Premium/-Discount to NAV:	-5.7% (-1.3% – debt at market value)
NAV Frequency	Daily
Dividend Yield <sup>5</sup> :	5.46%

<sup>1</sup>Gearing in form of two long-term debentures.

1. Source: Lipper as at 31.10.15, market close mid price.

2. 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.

3. Capital net asset value per ordinary share based on the par value of the company's long term debt and preference shares.

4. Capital net asset value per ordinary share based on the fair/market value of the company's long term debt and preference shares. This allows for the valuation of debt at fair value or current market price, rather than at final repayment value.

5. Source: Datastream as at 31.10.15. Calculated using the latest full year dividend divided by the current share price.

## Key Information

Launch Date:	16 February 1889
AIC Sector:	UK Equity Income
Benchmark:	FTSE 100 Index
Annual Management Charge:	0.35%
Performance Fee:	No
Ongoing Charges <sup>6</sup> :	0.59%
Year end:	31 January
Annual Financial Report:	Final posted in April, Half-yearly posted in September
AGM:	May
Dividends:	February, May, August, November
Price Information:	Financial Times, The Daily Telegraph, www.merchantstrust.co.uk

Board of Directors:  
Simon Fraser (Chairman), Mike McKeon (Chairman of the Audit Committee and Senior Independent Director), Mary Ann Sieghart, Sybella Stanley, Paul Yates

Company Secretary	Kirsten Salt	
Investment Manager	Simon Gergel, CIO, UK Equities	
Codes:	RIC:	MRCH.L
	SEDOL:	0580007

6. Source: AIC, as at the Trust's Financial Year End (31.01.2015). Ongoing Charges (previously Total Expense Ratios) are published annually to show operational expenses incurred in the running of the company but excluding financing costs.

## Risks & 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.

## Sector Breakdown (%)

Financials	25.2
Consumer Services	17.0
Oil & Gas	13.8
Industrials	12.6
Utilities	9.7
Consumer Goods	7.9
Health Care	7.0
Telecommunications	3.2
Basic Materials	2.9
Cash	0.7

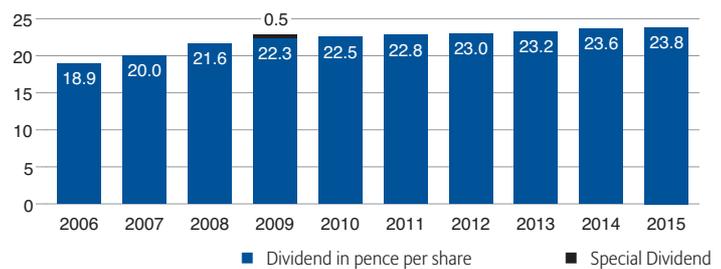
## Top Ten Holdings (%)

GlaxoSmithKline	7.0	Lloyds Banking Group	3.7
Royal Dutch Shell "B" Shares	6.7	Inmarsat	3.1
HSBC	6.0	BAE Systems	2.8
BP	4.8	British American Tobacco	2.8
UBM	4.5	Centrica	2.5
Total Number of Holdings	47*		

\*excludes derivatives

## Dividend History

### Ten Year Net Dividend Record in Pence (to year end 31 January)



Past performance is not a reliable indicator of future results.

## Net Dividends

	Pay Date	Record Date	Payment
2nd quarterly dividend	12.11.15	09.10.15	6.0p per share
1st quarterly dividend	14.08.15	17.07.15	6.0p per share
final dividend	22.05.15	24.04.15	6.0p per share
3rd quarterly dividend	25.02.15	30.01.15	6.0p per share

## How to Invest

The Trust is a UK public limited company traded openly on the stock market. You can purchase shares through a stock broker. Shares in the Trust can be held within an ISA, JISA, SIPP and/or savings scheme and a number of providers offer this facility. A list of suppliers is available on our website.

## Contact Us

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

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All data source Allianz Global Investors as at 31.10.15 unless otherwise stated.

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