

# The Merchants Trust PLC

Factsheet

31 October 2013

## 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**

In mid-October, US politicians agreed a deal to fund the US government and raise the debt ceiling, at least for a few months, reducing some of the recent uncertainty. It was a strong month in financial markets with equities rallying ahead of and after this deal.

There was a wide range of individual share performances in the month, often driven by trading results, with a diverse list of sectors outperforming and underperforming. The strongest sectors were financial services, life insurance and fixed line telecoms. The weakest sectors were personal goods, electricity and technology hardware.

The Trust's NAV rose by 5.33% over the month, ahead of the FTSE 100 Index which was up by 4.34%. On the positive tack, there were double digit percentage gains in the holdings in Resolution and Ladbrokes and overall performance benefitted from having no exposure to the domestic banks sector. Disappointing trading statements at global events-led marketing and communications services business UBM and De La Rue and continuing weakness in utilities were the biggest negative factors.

After strong performance from medium and smaller sized companies in recent months, we took profits on a number of such holdings which we believe are now fully valued. Conversely we added to certain large companies like Royal Dutch Shell and GlaxoSmithKline which look undervalued, in our view. Elsewhere we made a small investment in the privatisation of Royal Mail Group although we have been surprised by just how strong the shares have been subsequently.

Although the UK economy is showing increasing strength we remain cautious about medium term growth prospects due to the massive debt overhang at the consumer and government level. After strong performance from many smaller companies, we see some of the best value amongst "mega" caps, as well as specific recovery situations where we are prepared to take a longer term view than the stock market.

## Performance (%)



## Cumulative Performance (%)

	3 Months	6 Months	1 Year	3 Years	5 Years
Share Price	3.3	17.9	45.2	56.3	142.8
NAV	1.7	10.3	30.3	51.1	124.2
FTSE 100	2.7	6.7	20.7	32.3	85.5

## Discrete Performance (%)

From To	31.10.08 30.10.09	30.10.09 29.10.10	29.10.10 31.10.11	31.10.11 31.10.12	31.10.12 31.10.13
Share Price	19.2	30.3	2.7	4.8	45.2
NAV	23.5	20.1	2.6	13.1	30.3
FTSE 100	20.4	16.5	1.0	8.5	20.7

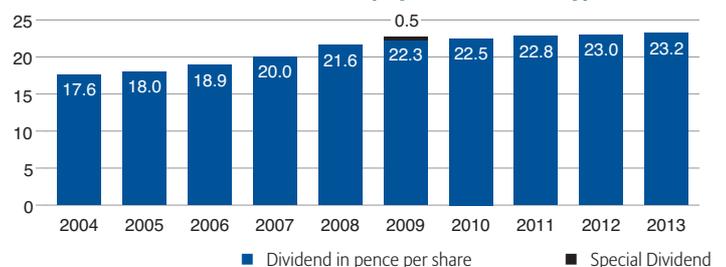
Source: Lipper, percentage growth, mid to mid, total return to 31.10.13. Benchmark: FTSE 100 Index.

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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## Dividend History

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



Past performance is not a reliable indicator of future results.

All data source Allianz Global Investors as at 31.10.13 unless otherwise stated.

Allianz Global Investors, 155 Bishopsgate, London EC2M 3AD

**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:	£659.0m
Gearing (net):	18.9%
Shares in Issue:	103,413,464 (Ordinary 25p)
Share Price <sup>1</sup> :	511.0p
Net Asset Value <sup>2</sup> :	517.8p (492.0p – debt at market value)
Premium/-Discount to NAV <sup>2</sup> :	-1.3% (3.9% – debt at market value)
NAV Frequency	Daily
Dividend Yield <sup>3</sup> :	4.58%

1. Source: Lipper as at 31.10.13, market close mid price.

2. Source: Datastream as at 31.10.13. Calculated using the latest full year dividend divided by the current share price.

3. 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.

## Key Information

Launch Date:	16 February 1889
AIC Sector:	UK Growth and Income
Benchmark:	FTSE 100 Index
Annual Management Charge:	0.35%
Performance Fee:	No
On-going Charges <sup>4</sup> :	0.64%
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), Henry Staunton (Senior Independent Director), Paul Yates

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

4. Source: AIC, as at the Trust's Financial Year End (31.01.2013). On-going 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, which means that the shares may trade below (at a discount to) or above (at a premium to) the underlying net asset value.

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.

All data source Allianz Global Investors as at 31.10.13 unless otherwise stated.

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## Sector Breakdown (%)

Financials	18.2	
Consumer Services	17.9	
Oil & Gas	14.9	
Industrials	14.2	
Utilities	9.9	
Health Care	7.8	
Telecommunications	6.2	
Consumer Goods	6.0	
Basic Materials	3.4	
Cash	1.5	

## Top Ten Holdings (%)

Royal Dutch Shell "B" Shares	8.5	BAE Systems	3.6
GlaxoSmithKline	7.7	BHP Billiton	3.4
BP	6.2	Resolution	3.4
HSBC	6.0	British American Tobacco	3.3
Vodafone	3.7	Scottish & Southern Energy	3.0
<b>Total Number of Holdings</b>	<b>50*</b>		

\*excludes derivatives

## Net Dividends

	Pay Date	Record Date	Payment
2nd quarterly dividend	12.11.13	11.10.13	5.9p per share
1st quarterly dividend	14.08.13	12.07.13	5.9p per share
4th quarterly dividend	15.05.13	12.04.13	5.8p per share
3rd quarterly dividend	27.02.13	01.02.13	5.8p 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 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:

**0800 389 4696**

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