

# The Merchants Trust PLC

Factsheet

31 July 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

The Greek people voted "No" in their referendum on the Troika's proposed bailout terms early in the month but, just over a week later their government agreed to a similar package with creditors to avoid a default and possible Euro exit. This supported European equity markets in July. The emergency budget from the new government was the first purely Conservative budget for many years but had a limited overall impact on the stock market.

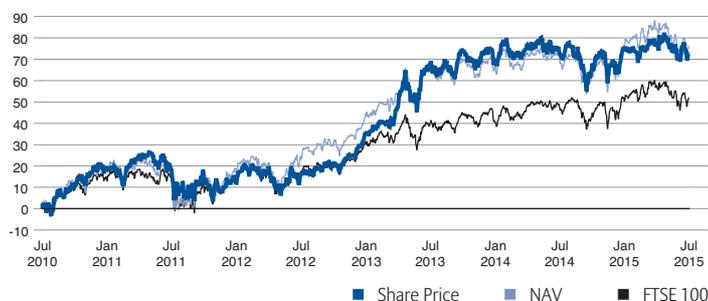
However, concerns over slowing growth in China led to heavy falls in commodity prices and a continuing slide in the Chinese stock market despite the authorities taking measures to stem the decline, such as banning large shareholders from selling.

The UK stock market rose, with the +2.8% return on the FTSE 100 Index ahead of the mid-cap FTSE 250 Index return of +1.0%. There was a wide dispersion of returns within the market with defensive sectors, such as food producers, tobacco and healthcare equipment posting double digit returns, along with Non-life insurance after a bid approach for RSA. On the other hand, cyclical and commodity exposed sectors like mining and industrial engineering fell sharply.

The Trust's NAV (+2.54%) slightly lagged the market return. The biggest negative stock contributions were split between companies that the Trust does not own which performed well, such as Reckitt Benckiser, AstraZeneca and Shire, and stocks the Trust owns which performed poorly, notably the distributor Premier Farnell, which had a profit warning, and the copper miner Antofagasta. The main positive contributions came from Carnival Corporation which raised their quarterly dividend, Tate & Lyle which had a robust trading statement and Cineworld, as well as from not owning Glencore and Rio Tinto that were weak.

We made a significant investment into domestic banks in July with the purchase of Lloyds and a smaller position in Barclays. HSBC was the only significant bank investment in the portfolio for some time, as the industry has been through a challenging period. Banks have been restructuring and adjusting to a tighter regulatory environment and higher capital requirements. They have also had to deal with legacy costs from issues such as PPI mis-selling compensation. However, they are gradually emerging from this difficult period. Lloyds is on a firmer footing, making a decent operating return once again and resuming dividend payments, with the government's stake reduced. Barclays' restructuring has further to go but it has attractive businesses, including Barclaycard, its UK retail bank and its African

## Performance (%)



## Cumulative Performance (%)

	3 Months	6 Months	1 Year	3 Years	5 Years
Share Price	-2.8	-1.2	-0.3	49.3	72.5
NAV	-4.3	0.7	3.7	43.4	76.3
FTSE 100	-3.1	1.2	3.1	32.4	52.1

## Discrete Performance (%)

From To	30.07.10 29.07.11	29.07.11 31.07.12	31.07.12 31.07.13	31.07.13 31.07.14	31.07.14 31.07.15
Share Price	18.6	-2.6	45.4	3.0	-0.3
NAV	18.1	4.1	35.2	2.3	3.7
FTSE 100	14.2	0.7	22.0	5.3	3.1

Source: Lipper, percentage growth, mid to mid, total return to 31/07/2015  
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)

franchise. Although bank valuations have partially recovered since the recession, we think they should re-value further in the medium term.

We funded the banks investment by profit taking in shares where valuations have become less attractive due to strong performance. Several of these were consumer stocks such as Marks & Spencer, Carnival, Cineworld and William Hill, but we also reduced financials, including IG Group, Standard Life and ICAP.

Other notable transactions were selling the remaining holding in Unilever which has re-rated to a valuation we can no longer justify, and adding further to the large holding in GlaxoSmithKline. At Glaxo, the recently completed asset swap with Novartis significantly improves the quality of the business with leading global positions in vaccines and consumer health and opportunities to improve financial returns materially.

**Allianz**   
Global Investors

All data source Allianz Global Investors as at 31/07/2015 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.**

## Capital Structure

Total Assets:	£661.4m
Gearing (net) <sup>1</sup> :	20.3%
Shares in Issue:	108,728,464 (Ordinary 25p)
Share Price <sup>1</sup> :	466.8p
Net Asset Value <sup>2</sup> :	497.6p <sup>3</sup> (473.7p <sup>4</sup> – debt at market value)
Premium/-Discount to NAV:	-6.2% (-1.5% – debt at market value)
NAV Frequency	Daily
Dividend Yield <sup>5</sup> :	5.12%

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

1. Source: Lipper as at 31/07/2015, 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 31/07/2015. 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	23.8
Consumer Services	17.3
Oil & Gas	14.2
Industrials	13.5
Utilities	9.4
Consumer Goods	9.4
Health Care	6.7
Basic Materials	2.9
Telecommunications	2.7
Cash	0.1

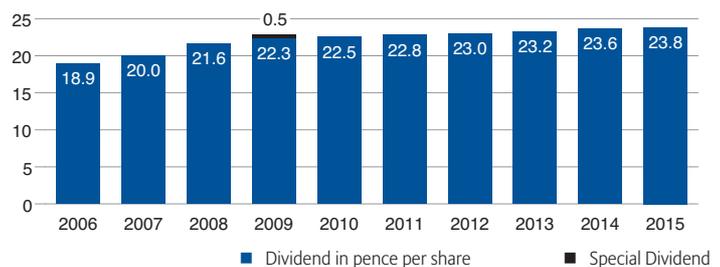
## Top Ten Holdings (%)

Royal Dutch Shell "B" Shares	7.0	UBM	4.5
GlaxoSmithKline	6.6	Lloyds Banking Group	3.0
HSBC	6.6	Inmarsat	2.7
BP	4.7	National Grid	2.6
British American Tobacco	4.6	BAE Systems	2.4
<b>Total Number of Holdings</b>	<b>48*</b>		

\*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
1st quarterly dividend	14.08.15	17.07.15	6.0p per share
4th quarterly dividend	22.05.15	24.04.15	6.0p per share
3rd quarterly dividend	25.02.15	30.01.15	6.0p per share
2nd quarterly dividend	11.11.14	10.10.14	5.9p 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 31/07/2015 unless otherwise stated.

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