

# 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

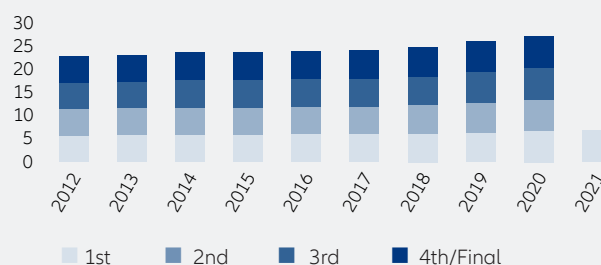
The Merchants Trust PLC was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, but now concentrates primarily on major UK 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 14 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 38 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
10.07.2020	19.08.2020	6.80p	1st Quarterly
24.04.2020	29.05.2020	6.80p	4th Quarterly
31.01.2020	11.03.2020	6.80p	3rd Quarterly
04.10.2019	12.11.2019	6.80p	2nd Quarterly

Past performance is not a reliable indicator of future results.



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** £544.8m

**Shares in Issue** 118,894,887 (Ordinary 25p)

**Market Cap** £418.5m

Share Price

**352.0p**

NAV per Share

**354.6p**

Premium/-Discount

**-0.7%**

Dividend Yield

**7.7%**

Gearing

**19.3%**

**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

August saw confirmation that the UK economy had officially entered recession earlier this year, with a record 20% fall in economic output recorded in the second quarter as many activities were halted under lockdown. However, there were also the first signs of a sharp economic rebound emerging from the depressed level, with June's manufacturing production up over 10% compared to May and construction output up over 20%.

The stock market was less volatile in August than earlier in the year and registered a small gain, although most overseas stock markets were much stronger. Bond markets were weaker with the yield on the 10-year UK gilt trebling to 0.3% from its depressed level at the end of July. This resulted from hopes for improving economic activity, as well as comments from the chairman of the US Federal Reserve Board that they would target "average inflation" of 2% and allow inflation to run above their target level for some time.

The FTSE All-Share Index gave a total return of 2.4% in August, led by medium sized and smaller companies and several cyclical sectors. Among the larger sectors the strongest performers included travel & leisure, general retail and media. The weakest performing sectors produced negative returns and these tended to be defensive sectors including beverages, utilities and pharmaceuticals.

The portfolio outperformed the overall market benefitting from double digit gains at WPP, which announced a resumption of dividend payments along with reassuring results, GVC, which reported robust trading, and Inchcape, which benefitted from improving confidence as the automotive

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industry emerges from lockdown. Not owning Diageo also helped relative performance as that share fell back, and held back the index return, in response to poor trading news. On the other hand, utilities SSE and National Grid were poor performers. National Express disappointed the market with results and Hammerson fell back as it announced a rights issue and an asset disposal to shore up the balance sheet. The NAV also outperformed the benchmark, returning 3.2%, ahead of the 2.4% return of the benchmark

Investment activity was more limited in August. We reduced positions in two stocks, Standard Life Aberdeen and St James's Place, which both have high sensitivity to market levels. Both have outperformed the broader UK stock market over the last 12 months and it seemed prudent to reduce large exposures to fund other investments.



### Simon Gergel, Portfolio Manager

The Merchants Trust PLC is managed by Simon Gergel who is Chief Investment Officer at AllianzGI and has 27 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.

We added to BAE Systems after the company announced robust interim results in July and reinstated its 2019 dividend, which had been deferred earlier in the year. The shares were trading on a very modest multiple, which we believe undervalues their defensive characteristics. We also added a small amount to several existing positions that have underperformed and trade on very depressed valuations. The most significant was housebuilder Redrow, where we are encouraged by reports of strong demand and robust pricing for new homes as the industry emerges from lockdown.

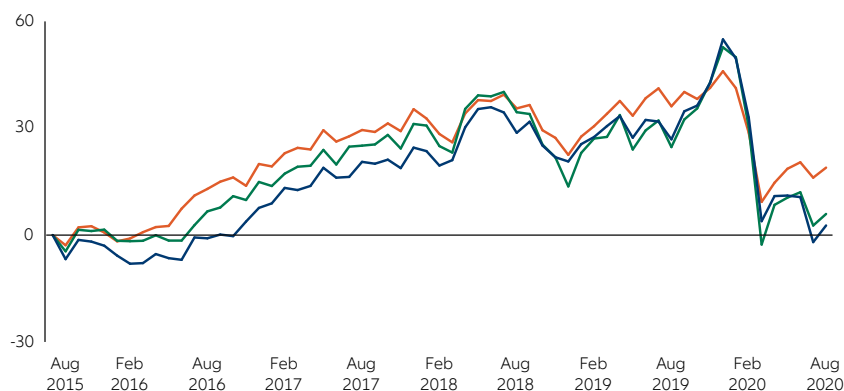
As we have noted several times, the stock market has been very polarised for some time now with a large gap between perceived quality and growth companies and many of the other companies. We find many compelling investment opportunities to buy fundamentally sound businesses trading on exceptionally low valuations, assuming quite a cautious economic scenario. We have actually been encouraged by the speed of recovery in several of the industries that the portfolio is exposed to such as housebuilding, construction, furniture retail, car sales, gambling and advertising. In some cases we are also seeing the reinstatement of dividends that had previously been deferred, or the resumption of dividend payments as at WPP this month.

**Simon Gergel**  
**16 September 2020**

**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	-7.6	-22.8	-19.1	-14.8	2.7
NAV (debt at fair value)	-4.1	-18.7	-16.6	-16.8	4.0
Benchmark	0.3	-7.6	-12.6	-8.2	18.9

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

	2020	2019	2018	2017	2016
Share Price	-19.1	-1.4	6.8	21.7	-0.9
NAV (debt at fair value)	-16.6	-7.3	7.5	17.3	6.7
Benchmark	-12.6	0.4	4.7	14.6	13.0

Source: Thomson Reuters DataStream, percentage growth, mid to mid, total return to 31.08.20. Copyright 2020 © 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.

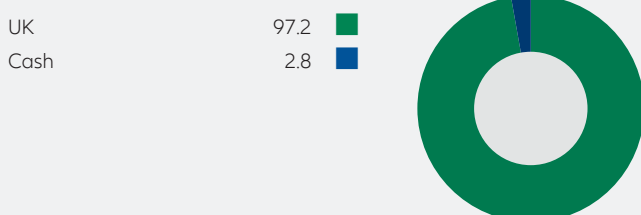
Past performance is not a reliable indicator of future returns. You should not make any assumptions on the future on the basis of performance information. The value of an investment and the income from it can fall as well as rise as a result of market fluctuations and you may not get back the amount 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 (%)

Consumer Goods	20.5	
Financials	20.3	
Industrials	18.7	
Consumer Services	8.7	
Utilities	8.5	
Oil & Gas	6.3	
Health Care	6.0	
Basic Materials	4.6	
Telecommunications	3.6	
Cash	2.8	

### Geographic Breakdown (%)



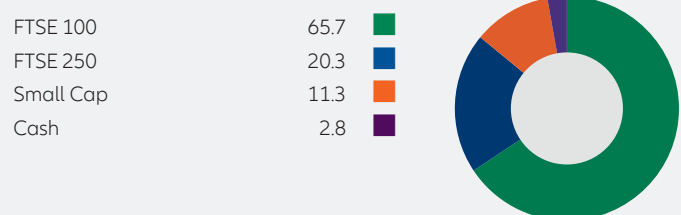
### Top Ten Holdings (%)

GlaxoSmithKline	5.9
British American Tobacco	4.6
Imperial Brands	4.5
BAE Systems	4.5
IG Group	3.7
Scottish & Southern Energy	3.6
BHP Group	3.5
Tate & Lyle	3.4
National Grid	3.3
Barclays	3.3

Total number of holdings\* 47

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

## Key Information

Launch Date	16 February 1889
AIC Sector	UK Equity Income
Benchmark	FTSE All-Share
Annual Management Charge	0.35%
Performance Fee	No
Ongoing Charges <sup>1</sup>	0.59%
Year End	31 January
Annual Financial Report	Final published in April, Half-yearly published in September
AGM	May
NAV Frequency	Daily
Dividends	February/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 (31.01.2020). Ongoing Charges (previously Total Expense Ratios) are published annually to show operational expenses incurred in the running of the company but excluding financing costs.

## Board of Directors

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

## 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 31.08.20 unless otherwise stated.**

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