

# 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 ten 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 37 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
12.04.2019	22.05.2019	6.60p	Final
01.02.2019	06.03.2019	6.50p	3rd Quarterly
05.10.2018	15.11.2018	6.50p	2nd Quarterly
13.07.2018	22.08.2018	6.40p	1st 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** £649.7m

**Shares in Issue** 109,828,464 (Ordinary 25p)

**Market Cap** £517.8m

Share Price

**471.5p**

NAV per Share

**454.2p**

Premium/-Discount

**3.8%**

Dividend Yield

**5.5%**

Gearing

**18.8%**

**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

Politics once again dominated market sentiment in May. In particular, the escalating trade dispute between the USA and China was a focus for investors, as higher import tariffs started to come into effect. Sentiment in the technology sector was impacted by the US targeting Chinese telecoms giant Huawei, and concern over a potential Chinese response. At the end of the month, the US also threatened to raise tariffs on Mexico, further raising the risks to global trade flows.

In the UK, prime minister Theresa May announced that she would resign in June, after realising that she could not get her Brexit Withdrawal Bill passed in Parliament, and ahead of the European Parliamentary elections on May 23rd. These elections demonstrated the extreme polarisation of British attitudes towards EU membership. The newly formed Brexit Party, led by former UKIP leader Nigel Farage was the overall winner, with 29 seats, on a clear "Leave" stance, whilst the Liberal Democrats came second with 16 seats, with a clear call for a "People's vote" or second referendum to remain in the EU. The traditionally dominant UK parties, Labour, and especially the Conservatives, performed poorly, reflecting voters' dissatisfaction with their stance on Brexit.

Stock markets were weak during May, primarily on concerns about the potential impact of the escalating trade dispute on economic growth prospects; sentiment in the UK was also impacted by political uncertainty. Sterling weakened, as there is a rising chance of the next Conservative prime minister pursuing a hard Brexit.

The UK stock market fell by 3% in total return terms over the month. Sector returns were quite broadly spread. As we discuss below, the market has

**“ The stock market is polarised between high quality and faster growing businesses on the one hand, and more cyclical or in some cases challenged businesses on the other.**

been favouring "higher quality" companies in recent months and that pattern was further extended in May. Healthcare equipment and services, beverages and pharmaceuticals were among the strongest performers, whilst telecommunications, tobacco, life insurance and several cyclical industrial sectors were very weak.

Merchants' portfolio underperformed the weak stock market during the month with the Trust's NAV falling by 7.2%. Imperial Brands had the biggest impact as its share price fell by 20%, despite a low starting valuation and half year results that matched expectations and actually led to modest upgrades to earnings forecasts. At the month end, the shares carried a dividend yield of over 10%, which is extraordinary for a company which generates strong cash flows and has just raised its interim dividend by 10%. Other poor performing shares included ITV and Antofagasta. The biggest positive impact to performance came from IG Group whose shares rallied in response to a robust trading statement, after several peers had warned over profits. Performance also benefitted from not owning Glencore, Lloyds and Vodafone, which were all weak shares, with Vodafone notably suffering from cutting its dividend.

We made one new addition to the portfolio, buying Inchcape, a leading distributor and retailer in the luxury automotive sectors. Inchcape has long standing relationships with car manufacturers and holds exclusive licenses to distribute their brands in specific territories, where it acts as the brand ambassador. Overall, the company operates in over 30 markets. The company has a strategy to broaden its distribution business further



### 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 Tillet, UK equity 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.

into emerging markets and with more brands, consolidating a fragmented global industry. The shares offered good value after a difficult period in the global car industry, and in some of Inchcape's territories.

We sold out of the emerging market fund manager Ashmore. The shares have been very strong performers over the last three years, benefitting from healthy asset flows, as investor sentiment has improved towards emerging markets, and Ashmore's funds have performed well. In our view, the high share valuation was fully reflecting the attractive long term growth prospects for the business and so we sold the position. We also sold the Inmarsat holding after the announcement of an agreed bid for the business from private equity bidders and two Canadian pension funds.

Elsewhere, we put additional money into shares that had fallen back and looked particularly cheap, such as Imperial Brands, Landsec, ITV and National Express. We also sold a reasonable part of the Tate & Lyle position after strong performance lifted the shares closer to fair value.

Polarisation is not just a feature of politics. The stock market is polarised between high quality and faster growing businesses on the one hand, and more cyclical or in some cases challenged businesses on the other. Morgan Stanley calculates that "high quality" companies are currently priced at a 40% premium to their long run average, across Europe, and close to the level they reached at the top of the Technology, Media and Telecoms bubble at the end of the 1990s. Benjamin Graham, who is often referred to as the father of value investing, said that in the short term the market is like a voting machine, but in the long term it is a weighing machine. As in politics, the stock market is voting for extremes at the moment. Because of the flows of money into perceived higher quality companies, many perfectly sound businesses are being neglected and are trading at exceptionally attractive levels. By building a portfolio of these companies, we believe that we can generate a high level of income for shareholders and strong total returns over the medium term.

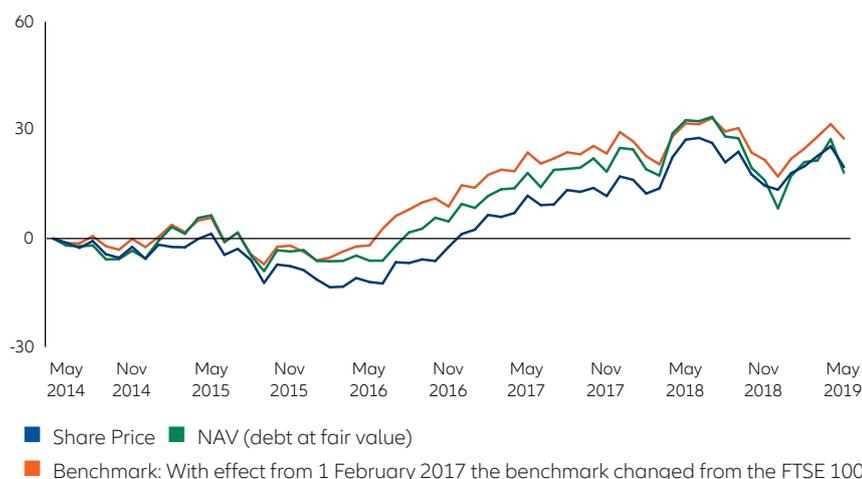
*"High Quality" companies are normally defined as those with higher than average returns on capital employed and low volatility of earnings.*

Simon Gergel  
11 June 2019

**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 (%)



### 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	-0.2	4.5	-5.9	36.2	19.8
NAV (debt at fair value)	-2.4	1.8	-10.9	26.0	18.2
Benchmark	2.3	4.9	-3.2	30.2	27.7

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

	2019	2018	2017	2016	2015
Share Price	-5.9	13.9	27.1	-13.2	1.3
NAV (debt at fair value)	-10.9	12.4	25.9	-11.8	6.4
Benchmark	-3.2	6.5	26.2	-7.2	5.7

Source: Thomson Reuters DataStream, percentage growth, mid to mid, total return to 31.05.19. Copyright 2019 © 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	27.6	
Industrials	19.3	
Consumer Services	11.6	
Consumer Goods	11.2	
Oil & Gas	9.0	
Utilities	7.0	
Health Care	5.5	
Basic Materials	4.4	
Cash	4.4	

### Geographic Breakdown (%)



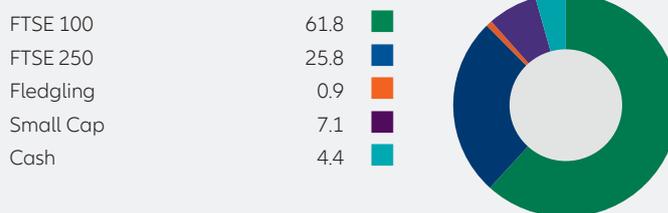
### Top Ten Holdings (%)

Royal Dutch Shell 'B' Shares	6.3
GlaxoSmithKline	5.5
HSBC Holdings	4.2
Imperial Brands	3.7
British American Tobacco	3.4
BAE Systems	3.3
Legal & General	3.1
Standard Life Aberdeen	2.9
St James's Place	2.9
BHP Group	2.7

Total number of holdings\* 44

\*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>	0.58%
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 (31.01.2019). 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

Directors from left to right: Mary Ann Sieghart, Timon Drakesmith (Chairman of the Audit Committee), Simon Fraser (Chairman), Sybella Stanley (Senior Independent Director) and Paul Yates



## 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 31.05.19 unless otherwise stated.**

This is a marketing communication issued by Allianz Global Investors GmbH, an investment company with limited liability, incorporated in Germany, with its registered office at Bockenheimer Landstrasse 42-44, D-60323 Frankfurt/M, registered with the local court Frankfurt/M under HRB 9340, authorised by Bundesanstalt für Finanzdienstleistungsaufsicht ([www.bafin.de](http://www.bafin.de)). Allianz Global Investors GmbH has established a branch in the United Kingdom, Allianz Global Investors GmbH, UK branch, which is subject to limited regulation by the Financial Conduct Authority ([www.fca.org.uk](http://www.fca.org.uk)). This communication has not been prepared in accordance with legal requirements designed to ensure the impartiality of investment (strategy) recommendations and is not subject to any prohibition on dealing before publication of such recommendations. 814721