

As focused on dividends as you are

The Merchants Trust PLC

Factsheet

30 November 2017

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

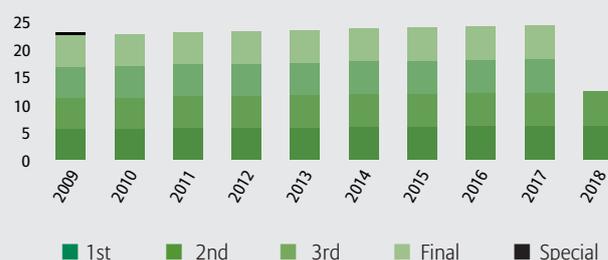
The Merchants Trust PLC was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, but now concentrates primarily on major UK 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 35 years.

Ten Year Dividend History

Net Dividend Record in Pence per Share to year end 31 January



Last Four Net Dividend Payments per Share

Record Date	Pay Date	Dividend	Type
06.10.2017	16.11.2017	6.20p	2nd Quarterly
14.07.2017	11.08.2017	6.10p	1st Quarterly
21.04.2017	18.05.2017	6.10p	Final
27.01.2017	23.02.2017	6.10p	3rd Quarterly

Past performance is not a reliable indicator of future results.

Total Assets £682.6m **Shares in Issue** 108,728,464 (Ordinary 25p) **Market Cap** £516.5m

Share Price

475.0p

Source: Lipper

NAV per Share

491.2p

Premium/-Discount

-3.3%

Dividend Yield

5.2%

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.

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Fund Manager's Review

The Conservative government unveiled its first budget since the general election. The Chancellor was somewhat constrained by a downgrade to medium term economic growth expectations, from the Office for Budgetary Responsibility. However, he found money to support key priorities such as health and housing, at the expense of a slower reduction in the deficit. The main political objective was possibly to avoid any embarrassing policy U-turns for an administration under intense scrutiny as it deals with the Brexit negotiations. These negotiations took a small step forwards, towards the end of the month, when it appeared that agreement had been reached, in principle, on a financial settlement with the EU.

The Trust's NAV returned -2.9% compared to the FTSE All-Share Index which pulled back a little less, with a total return of -1.7%. The fall was partly due to a stronger pound which reduced the value of overseas profits and dividends at UK companies. But there continued to be a very wide range of returns from individual stocks in response to news flow. Among the larger sectors, the best performers were mobile telecommunications, food retail and life insurance, whilst the worst performers were aerospace & defence, construction and household goods.

Within the portfolio there was also a wide range of share price returns, with the overall portfolio modestly underperforming the market in November. There were strong performances from UBM, Tate & Lyle and Ladbrokes Coral, offset by weakness in Inmarsat and Centrica, whilst Vodafone, which is not in the portfolio, performed well.

“ We are increasingly excited about the opportunities we are seeing in many different sectors of the market. We are equally clear that there remain large sectors with few attractively priced shares. ”

Two stocks merit particular mention. On the positive side, Royal Dutch Shell, the largest holding in the portfolio, announced an end to its policy of offering “scrip” shares instead of dividends. This reflects the significant improvement in cash flow that the company is delivering and forecasting, after a period of driving efficiency in response to lower oil prices; it also reflects the benefits of the BG acquisition. This helped the share price recover to the level it traded at before the oil price collapse, whilst the Company's high dividend yield has been maintained throughout. We trimmed the holding into this strength.

On the negative side, Centrica had a profit warning, citing competitive pressures and lower margins in both its UK retail and its US businesses. Although the company has committed to this year's dividend, the cover is now running quite thin. More fundamentally, we have reassessed our level of conviction in the investment case. There should be significant scale advantages in energy supply, coming from operational efficiencies and the use of a strong balance sheet to hedge commodity costs. However, a combination of government policies that favour smaller suppliers, intense media encouraging switching and political pressure for price caps, have undermined the competitive advantages of scale. We have therefore sold the position, despite a low headline valuation. We reinvested part of the proceeds into SSE, which is also cheaply rated due to political uncertainty, but importantly, earns the bulk of returns from regulated assets rather than competitive commodity markets.

We made a new investment in Barclays Bank. The company is finally emerging from a long period of restructuring following the financial crisis. The sale of most of the African business has strengthened the balance sheet and Barclays has a clear plan to



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.

improve returns, which should lead to a re-rating from a low 0.7x book value, as well as allowing higher dividend payments in due course.

Elsewhere, we sold just over half of the Hansteen position into a tender offer. Hansteen has exploited the property cycle well, as the management team built, and has now sold, a large industrial property portfolio in Germany and the Netherlands. The tender offer returned the proceeds of this sale to shareholders, leaving Hansteen as a predominantly UK industrial property business.

There is increasing polarisation of valuations within the stock market. According to research from Exane BNP Research*, there are a record number of UK companies trading on price to earnings ratio of over 20x, whilst there are also an above-average number trading below 10x. This is highly unusual and reflects a number of factors. There is extreme caution about companies exposed to the risks to the UK economy from Brexit, in sectors like leisure, construction and real estate. There are fears about disruptive technology change in sectors such as retail and media. We are also seeing a high level of crowding into shares delivering positive earnings momentum and growth, possibly driven by certain Exchange Traded Fund strategies. This is creating an environment where individual shares are prone to sharp swings, particularly on earnings disappointments. Shares that had been highly valued with positive earnings momentum can struggle to find a buyer if they disappoint; they may have been priced well above the level at which “value” oriented investors are likely to come in to support the shares as the “growth” investors exit.

Whilst this environment can lead to particularly sharp individual share price movements, it can also create significant pricing anomalies and it is a fertile environment for a value investor. We are increasingly excited about the opportunities we are seeing in many different sectors of the market. We are equally clear that there remain large sectors with few attractively priced shares.

Simon Gergel
6 December 2017

*20 years to 2017

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 (with debt at par)
 ■ 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	-1.5	-0.1	14.5	14.4	61.2
NAV	-1.3	-0.5	12.1	20.1	54.4
Benchmark	-0.2	-0.2	13.5	23.7	52.1

Discrete 12 Month Returns (%) to 30 November

	2013	2014	2015	2016	2017
Share Price	37.3	2.6	-5.5	5.7	14.5
NAV	26.2	1.9	-1.1	8.3	12.1
Benchmark	17.5	4.7	-1.9	11.1	13.5

Source: Lipper, percentage growth, mid to mid, total return to 30.11.17. Copyright 2017 © Lipper, a Thomson Reuters company. All rights reserved. Lipper shall not be liable for any errors or delays in the content, or for any actions taken in reliance thereon.

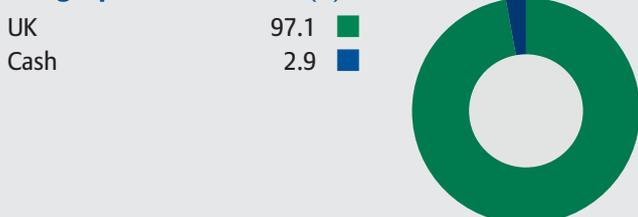
Past performance is not a reliable indicator of future returns. You should not make any assumptions on the future on the basis of performance information. The value of an investment and the income from it can fall as well as rise as a result of market fluctuations and you may not get back the amount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



Geographic Breakdown (%)



Top Ten Holdings (%)

Royal Dutch Shell 'B' Shares	7.8
BP	5.8
GlaxoSmithKline	5.7
HSBC	4.9
Lloyds Banking Group	3.9
Standard Life Aberdeen	3.5
UBM	3.4
BHP Billiton	3.3
Scottish & Southern Energy	3.1
Prudential	3.0

Total number of holdings* 46

*Excludes derivatives

Market Cap Breakdown (%)



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 ¹	0.63%
Year End	31 January
Annual Financial Report	Final posted in April, Half-yearly posted in September
AGM	May
NAV Frequency	Daily
Dividends	February, May, August, November
Price Information	Financial Times, The Daily Telegraph, www.merchantstrust.co.uk
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 (31.01.2017). 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

E-mail: 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.



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All data source Allianz Global Investors as at 30.11.17 unless otherwise stated.

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