

# 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

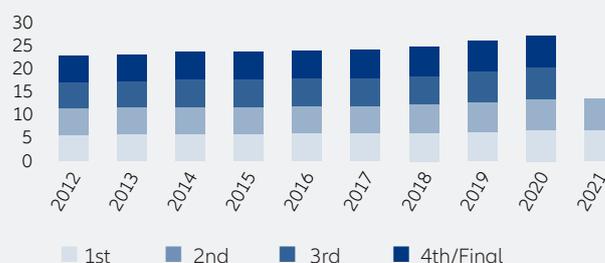
The Merchants Trust PLC was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, but now concentrates primarily on major UK 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
09.10.2020	12.11.2020	6.80p	2nd Quarterly
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

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** £611.6m

**Shares in Issue** 120,219,887 (Ordinary 25p)

**Market Cap** £502.5m

Share Price

**418.0p**

NAV per Share

**411.2p**

Premium/-Discount

**1.7%**

Dividend Yield

**6.5%**

Gearing

**14.1%**

**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

November was one of the strongest ever months for the UK stock market. Positive news on several potential Covid-19 vaccines gave investors confidence that world economies can recover into 2021 and move back towards normality after a prolonged period of extensive disruption during the pandemic. This news overshadowed Joe Biden's US presidential election victory, which was seen as a relatively neutral outcome for stock markets with a balance of power split between the President and the Senate.

The other major feature of the month was a sharp rotation from "growth" stocks towards much cheaper "value" stocks, reversing the prior trend and partially reducing the extreme polarisation within the market. This was driven by increased confidence in the outlook for cyclical stocks due to the vaccine news. There was particularly strong performance from the so-called "re-opening" stocks, those most impacted by coronavirus restrictions such as airlines, travel and leisure companies. The FTSE All-Share Index gave a total return of 12.7% with sectors such as oil producers, aerospace & defence, life insurance and travel & leisure up by 24% or more. On the other hand, gas & water utilities produced a small negative total return, whilst pharmaceuticals and general retailers only rose modestly, although there was a wide dispersion within the retail sector.

Merchants' performance was significantly ahead of the benchmark benefitting from the portfolio's exposure to many lowly priced "value" companies which rallied. The Trust's NAV total return over November was 22.0%. The biggest positive contribution to performance came from RSA Insurance, which announced a takeover approach at the start of the month at around a 50% premium to the share price at that point. Other

### “ the removal of uncertainty can make a big difference to the way investors perceive an issue

key contributors included Legal & General and BAE Systems, with both shares up by over 25%. Not owning AstraZeneca also helped relative performance, as the shares underperformed significantly. There were fewer negative performance contributors, but National Grid and PZ Cussons both produced modest negative returns, whilst not owning HSBC impacted results as that share rose in a strong sector.

We made several changes to the portfolio in the November rally. We sold RSA Insurance after the takeover bid took the shares up to a full valuation. We sold out of the construction firm Balfour Beatty, which we believed offered limited upside following outperformance over the last year. We also took advantage of the sharp rally in share prices of companies most directly exposed to the pandemic. We reduced exposure to those companies where dividend payments are likely to be limited in the medium term, selling their shares at better prices than has been possible over the summer. This included reducing the investment in transport company National Express and selling out of the aerospace and engineering company Senior, although we retained much of the exposure in the aerospace industry by adding to Meggitt.



### Simon Gergel, Portfolio Manager

The Merchants Trust PLC is managed by Simon Gergel who is Chief Investment Officer at AllianzGI and has 32 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 used money from sales and new share issuance to fund additional investments in existing portfolio holdings where we saw good value and had high conviction. This included Royal Dutch Shell, GlaxoSmithKline, GVC, National Grid and IG Group.

It is unusual for a month to make a difference to the outlook for the portfolio, but the sharp rally in the market and strong rotation has undoubtedly reduced the upside in certain of the companies within the portfolio, especially those in the financial or cyclical areas. However, whilst the polarisation between "growth" and "value" stocks has closed somewhat, it remains far wider than normal. We can still identify many companies that meet our investment criteria; strong businesses, trading on attractive valuations, with limited structural risks, and offering a decent dividend yield either now or within a reasonable timeframe.

The UK stock market remains one of the cheapest major markets and continues to suffer from a "Brexit discount". We anticipate that once we move into 2021 the uncertainty over Brexit will gradually reduce. As happened with the vaccine announcements this month, the removal of uncertainty can make a big difference to the way investors perceive an issue. We believe that as investors look beyond the short-term issues with Brexit, they will see the UK once again as an interesting place to allocate capital. A combination of reducing risk and modest valuations could attract significant investment flows and lead to a further re-rating of UK companies, especially those in the more cyclical or domestic industries. Merchants' portfolio is well positioned for that scenario, but we do retain a balance across cyclical and defensive businesses to reflect continuing economic uncertainties.

**Simon Gergel**  
17 December 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	21.0	11.8	-13.0	4.6	26.6
NAV (debt at fair value)	16.7	12.7	-12.7	-1.6	21.0
Benchmark	6.6	6.9	-10.3	-1.9	23.7

### Discrete 12 Month Returns to 30 November (%)

	2020	2019	2018	2017	2016
Share Price	-13.0	17.1	2.6	14.5	5.7
NAV (debt at fair value)	-12.7	15.1	-2.0	13.2	8.6
Benchmark	-10.3	11.0	-1.5	13.5	11.1

Source: Thomson Reuters DataStream, percentage growth, mid to mid, total return to 30.11.20. 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.

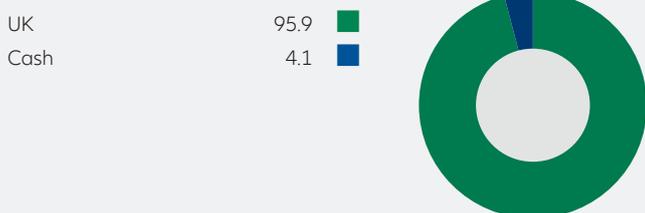
Past performance is not a reliable indicator of future returns. You should not make any assumptions on the future on the basis of performance information. The value of an investment and the income from it can fall as well as rise as a result of market fluctuations and you may not get back the amount 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	22.4	<div style="width: 22.4%;"></div>
Financials	19.9	<div style="width: 19.9%;"></div>
Industrials	18.2	<div style="width: 18.2%;"></div>
Oil & Gas	8.1	<div style="width: 8.1%;"></div>
Consumer Services	7.0	<div style="width: 7.0%;"></div>
Utilities	7.0	<div style="width: 7.0%;"></div>
Health Care	5.7	<div style="width: 5.7%;"></div>
Telecommunications	4.3	<div style="width: 4.3%;"></div>
Basic Materials	3.3	<div style="width: 3.3%;"></div>
Cash	4.1	<div style="width: 4.1%;"></div>

### Geographic Breakdown (%)



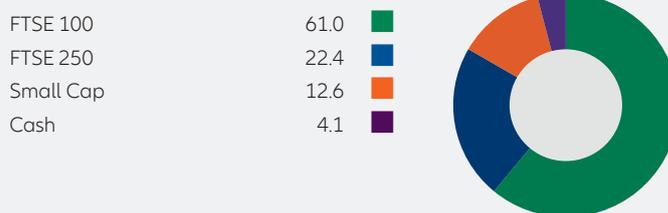
### Top Ten Holdings (%)

GlaxoSmithKline	5.6
Imperial Brands	4.6
British American Tobacco	4.2
BAE Systems	3.9
Barclays	3.8
Scottish & Southern Energy	3.7
Royal Dutch Shell - B Shares	3.7
BP	3.2
National Grid	3.2
IG Group	3.2

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>	0.59%
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 30.11.20 unless otherwise stated.**

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