

# 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

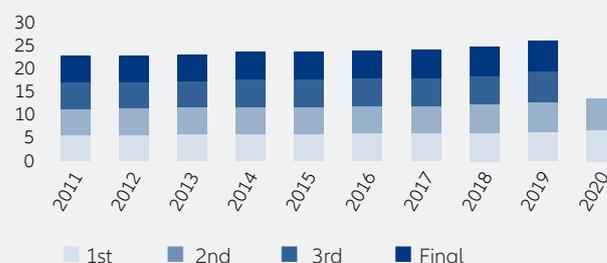
The Merchants Trust PLC was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, but now concentrates primarily on major UK 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
04.10.2019	12.11.2019	6.80p	2nd Quarterly
12.07.2019	20.08.2019	6.70p	1st Quarterly
12.04.2019	22.05.2019	6.60p	Final
01.02.2019	06.03.2019	6.50p	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** £676.2m

**Shares in Issue** 110,328,464 (Ordinary 25p)

**Market Cap** £543.1m

Share Price

**492.3p**

NAV per Share

**478.3p**

Premium/-Discount

**2.9%**

Dividend Yield

**5.4%**

Gearing

**19.9%**

**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

September saw a continuation of political uncertainty. There was no sign of an end to the rumbling US / Chinese trade tensions. In the UK, the Brexit situation remained fluid. The Conservative government prorogued parliament for several weeks, but this was ruled unlawful by the High Court, forcing a hasty return to Westminster. The questions of whether and how the UK would leave the EU by the end of October remained open with just a month to go, despite Parliament passing a bill to force the prime minister to seek a Brexit extension if no deal is agreed by mid-October.

Most major stock markets produced positive returns in the month with the FTSE All-Share Index up around 3%, but with significant volatility within the market. There was a sharp rotation from the perceived high quality, high growth stocks, which had been leading the market in prior months, into more lowly valued shares including higher yielding shares, which had lagged behind. Among the larger sectors in the UK life insurance, food retail, financial services, banks and real estate performed well, whilst personal goods, beverages, media and tobacco produced negative or – at best – flat returns.

The Merchants Trust's NAV gained 6.2%, well ahead of the benchmark return of 3%, reflecting in particular the portfolio bias to more lowly valued companies and sectors that outperformed. The biggest positive impacts came from Hammerson, where the shares rallied by 25% from a depressed level, and Standard Life Aberdeen, Tyman and IG Group, which all gave double digit returns. IG in particular responded well to a positive trading update. On the flipside, the biggest negative impacts came from Imperial Brands and Keller, which both had slightly disappointing trading updates,

**“ There was a sharp rotation from the perceived high quality, high growth stocks, which had been leading the market in prior months, into more lowly valued shares**

whilst Senior shares were also weak.

We added one new company to the portfolio. DFS is the UK's leading sofa retailer with over 30% of the sofa market under their brands; DFS, Dwell, Sofa Workshop and the recently acquired Sofology. The company is the clear market leader with a long history of market share gains and it has significant scale advantages in manufacturing, sourcing and distribution. The shares were lowly rated due to general concerns about consumer confidence and online disruption threats. However, sofa retailing is relatively well protected against pure online retailers, as the product is made to order so manufacturing efficiencies are critical, people like to touch and feel the product, and logistics is complex and costly. Whilst the end market is cyclical and economically sensitive, we see potential for a medium term improvement from here as consumer confidence



### 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.

is already weak and could benefit from any resolution to the Brexit situation. Furthermore, housing transactions are running at a low level and sofa purchases are often related to house moves. The company also stands to gain from cost savings from the Sofology integration and from renegotiating property leases.

Apart from this transaction, there was less activity in the portfolio than in recent months. We took some money out of TP ICAP, CRH, Meggitt and Informa, which had performed well, and added to WPP where there are some signs that the business restructuring is starting to lead to improved operational performance.

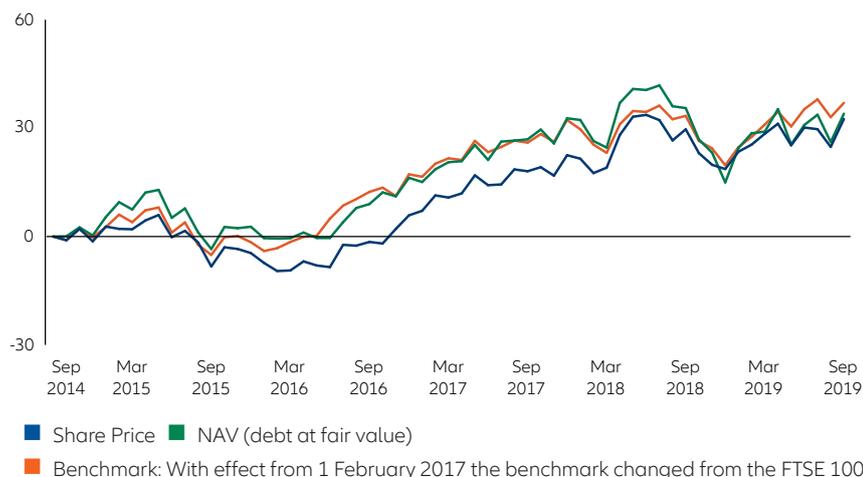
We have previously written about the extreme polarisation in the stock market between those stocks perceived to be better quality and offering high growth, which are generally very highly rated, and more cyclical stocks and financial companies which are often very cheap. Whilst Merchants has benefitted from a sharp rotation of the stock market from the former to the latter category in September, the gap between the two areas remains unusually large. We continue to see excellent value in many of the companies in the portfolio and we have only modestly changed its composition. We believe that the portfolio companies have potential to deliver both a high income stream and a good total return in line with Merchants' objectives.

**Simon Gergel**  
**15 October 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	1.8	3.2	2.2	34.5	32.5
NAV (debt at fair value)	2.4	3.8	-1.1	22.9	34.0
Benchmark	1.3	4.6	2.7	21.9	37.0

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

	2019	2018	2017	2016	2015
Share Price	2.2	9.8	19.9	7.4	-8.3
NAV (debt at fair value)	-1.1	6.8	16.4	12.9	-3.5
Benchmark	2.7	5.9	12.1	18.4	-5.1

Source: Thomson Reuters DataStream, percentage growth, mid to mid, total return to 30.09.19. 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.

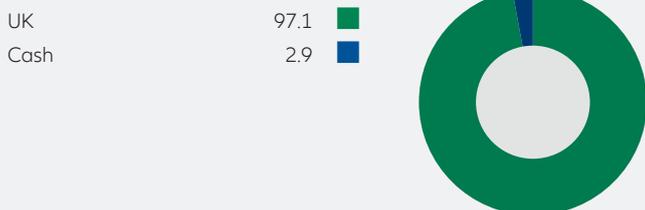
Past performance is not a reliable indicator of future returns. You should not make any assumptions on the future on the basis of performance information. The value of an investment and the income from it can fall as well as rise as a result of market fluctuations and you may not get back the amount 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	19.2	
Consumer Goods	12.5	
Consumer Services	12.0	
Oil & Gas	8.3	
Utilities	7.6	
Health Care	5.8	
Basic Materials	4.1	
Cash	2.9	

### Geographic Breakdown (%)



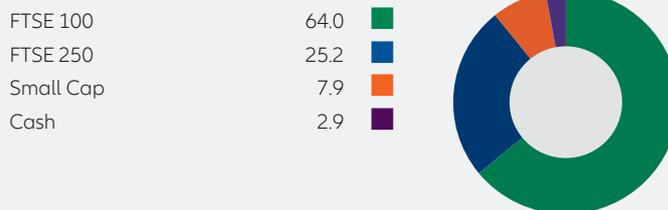
### Top Ten Holdings (%)

Royal Dutch Shell - B Shares	5.9
GlaxoSmithKline	5.8
Imperial Brands	3.8
BAE Systems	3.7
HSBC Holdings	3.7
British American Tobacco	3.6
Standard Life Aberdeen	3.0
Legal & General	2.9
Barclays	2.8
Scottish & Southern Energy	2.8

Total number of holdings\* 46

\*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

Colin Clark (Chairman)  
Timon Drakesmith (Chairman of the Audit Committee)  
Mary Ann Sieghart  
Sybella Stanley (Senior Independent Director)  
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 30.09.19 unless otherwise stated.**

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