

# The Merchants Trust PLC

Factsheet

30 September 2012

## 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 UK FTSE 100 companies.

## History

The Trust 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, with the remainder held in Government securities and companies such as Castlemaine Brewery in Australia. The Trust now concentrates primarily on major UK companies with an above average rate of dividend yield.

## Fund Manager's Review



**Simon Gergel**

In September we saw the latest round of increasingly dramatic and desperate policy action by central banks to try to resolve the Eurozone crisis and to reignite economic growth. The ECB voted to introduce "Outright Monetary Transactions" to potentially make unlimited purchases of short dated Eurozone government bonds, whilst the US Federal Reserve announced potentially unlimited quantitative easing.

These and other actions supported equity markets in September despite generally weak economic data and lacklustre confidence surveys, notably within the Eurozone. The FTSE 100 Index produced a +0.7% return, with medium sized companies performing better and rising about 3%. The stock market was led by the more cyclical sectors with mining, construction and banks posting strong returns, whilst many defensive sectors like tobacco, mobile telecoms and integrated oils were weak. A profit warning at luxury goods stock, Burberry, also depressed the personal goods sector. Two portfolio companies attracted interest from potential merger partners, with defence company, BAE Systems, talking to Airbus owner EADS and the soft drinks business, Britvic, in discussions with AG Barr.

The Trust's NAV (+1.10%) outperformed the FTSE 100 Index despite having limited exposure to mining and banks which led the stock market in the month. Key positive contributors were Britvic, Sainsbury and construction company Balfour Beatty. The portfolio also gained relative performance from not owning Burberry or BG which were both weak. On the flip side, not owning Lloyds, Royal Bank of Scotland and Rio Tinto were the three largest negative performance contributors as these stocks rallied. There were a number of transactions in the month. We took profits on certain defensives which had performed well and looked fully valued, in particular reducing Compass and Unilever positions as call options were exercised. We also trimmed BAE Systems and UBM into strength. We added to existing positions in a number of companies which have strong competitive positions and but still offered good value and attractive dividend yields, such as Premier Farnell, Smiths Group and Ashmore.

We remain cautious on the outlook for economic growth as high government and consumer debt levels are gradually reduced. However, aggregate stock market valuations are reasonable and many companies are trading well despite the difficult environment. Whilst most defensive shares now look fully valued, we continue to find attractive opportunities elsewhere to invest in strong businesses with robust balance sheets and sound long term prospects.

## Performance (%)



## Cumulative Performance (%)

	3 Months	6 Months	1 Year	3 Years	5 Years
Share Price	2.3	0.1	7.2	35.3	1.1
NAV	6.8	4.9	22.0	35.1	-0.4
FTSE 100	4.1	1.6	16.4	24.4	7.4

## Discrete Performance (%)

From To	28.09.07 30.09.08	30.09.08 30.09.09	30.09.09 30.09.10	30.09.10 30.09.11	30.09.11 28.09.12
Share Price	-29.6	6.2	21.0	4.3	7.2
NAV	-32.2	8.6	13.3	-2.2	22.0
FTSE 100	-21.2	9.5	11.8	-4.4	16.4

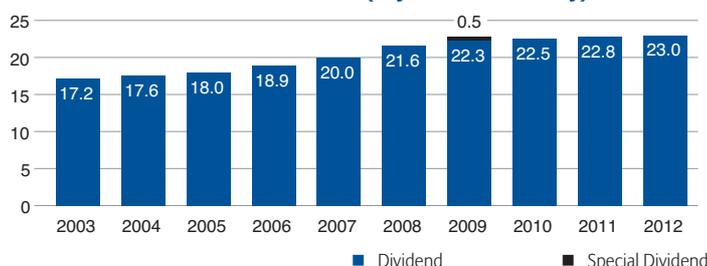
Source: Lipper, share price calculation percentage growth, mid to mid, total return to 30.09.12.

Benchmark: FTSE 100 Index;

Past performance is not a reliable indicator of future performance. 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. Your capital could also decrease if income paid out of capital exceeds the growth rate of the trust.

## Dividend History

### Ten Year Net Dividend Record in Pence (to year end 31 January)



## Capital Structure

Total Assets:	£553.1m
Gearing (net):	23.3%
Shares in Issue:	103,213,464 (Ordinary 25p)
Share Price <sup>1</sup> :	369.5p
Net Asset Value <sup>2</sup> :	414.4p (376.7p – debt at market value)
Premium/-Discount to NAV <sup>2</sup> :	-10.8% (-1.9% – debt at market value)
NAV Frequency	Daily
Dividend Yield <sup>2</sup> :	6.28%

1. Source: Lipper as at 30.09.12, market close mid price.

2. Source: Datastream as at 30.09.12. Calculated using the latest full year dividend divided by the current share price.

3. A trust's Net Asset Value (NAV) 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. In line with current industry best practice NAVs are now shown to take into account the 'fair value' of debt. This means NAVs are calculated after allowing for the valuation of debt at fair value or current market price, rather than at final repayment value. NAVs with debt at market value provide a more realistic impact of the cost of debt, and thus a more realistic discount. It is the capital NAV that is shown, which excludes any income.

## Key Information

Launch Date:	16 February 1889
AIC Sector:	UK Growth and Income
Benchmark:	FTSE 100 Index
Annual Management Charge:	0.35%
Performance Fee:	No
On-going Charges <sup>4</sup> :	0.64%
Year end:	31 January
Annual Financial Report:	Final posted in April, Half-yearly posted in September
AGM:	May
Dividends:	February, May, August, November
Price Information:	Financial Times, The Daily Telegraph, www.merchantstrust.co.uk

Board of Directors:  
Simon Fraser (Chairman), Mike McKeon (Chairman of the Audit Committee), Henry Staunton (Senior Independent Director), Paul Yates

Company Secretary: Kirsten Salt

Investment Manager: Simon Gergel, CIO, UK Equity Income

Codes:  
RIC: MRCH  
SEDOL: 0580007

4. Source: AIC, as at the Trust's Financial Year End. On-going Charges (previously Total Expense Ratios) are published annually to show operational expenses including Annual Management Fee and the market value of the debt (gearing).

## Risks & 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, which means that the shares may trade below (at a discount to) or above (at a premium to) the underlying net asset value.

Merchants seeks to enhance returns for its shareholders through gearing, in the form of long-term, fixed rate debentures. Gearing 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 are used to manage the trust efficiently.

## Sector Breakdown (%)

Financials	17.6	
Oil & Gas	15.5	
Consumer Services	15.1	
Consumer Goods	12.0	
Industrials	11.2	
Telecommunications	8.4	
Utilities	8.3	
Health Care	7.5	
Basic Materials	2.4	
Cash	2.0	

## Top Ten Holdings (%)

Royal Dutch Shell "B" Shares	8.7	British American Tobacco	3.6
GlaxoSmithKline	7.4	BAE Systems	3.6
BP	6.7	Reed Elsevier	3.3
HSBC	6.6	Scottish & Southern Energy	3.0
Vodafone	5.0	National Grid	2.9
<b>Total Number of Holdings</b>	<b>59</b>		

## Net Dividends (Financial Year to Date)

	Pay Date	XD Date	Payment
1st quarterly dividend	15.8.12	13.7.12	5.8p per share
2nd quarterly dividend	12.11.12	5.10.12	5.8p per share

## How to Invest

The Trust is a UK public limited company traded openly on the stock market. You can purchase shares through a stock broker. Shares in the Trust can be held within an ISA and/or savings scheme and a number of providers offer this facility. A list of suppliers is available on our website or from the AIC at [www.theaic.co.uk](http://www.theaic.co.uk)

## Contact Us

If you have any queries regarding our investment trusts our Investor Services team can be contacted on:

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website: [www.merchantstrust.co.uk](http://www.merchantstrust.co.uk)

All data source Allianz Global Investors as at 30.09.12 unless otherwise stated.

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