

As focused on dividends as you are

# The Merchants Trust PLC

Factsheet

31 May 2018

## 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

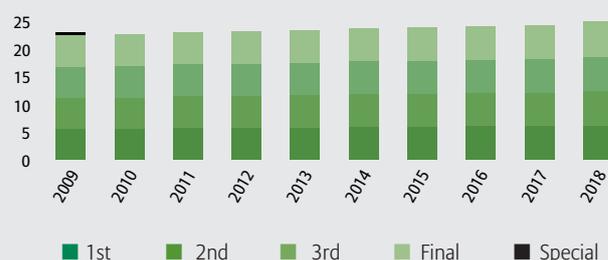
The Merchants Trust PLC was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, but now concentrates primarily on major UK 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 36 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
20.04.2018	30.05.2018	6.30p	Final
26.01.2018	02.03.2018	6.20p	3rd Quarterly
06.10.2017	16.11.2017	6.20p	2nd Quarterly
14.07.2017	11.08.2017	6.10p	1st Quarterly

Past performance is not a reliable indicator of future results.

**Total Assets** £731.5m    **Shares in Issue** 108,728,464 (Ordinary 25p)    **Market Cap** £574.1m

Share Price

528.0p

Source: Lipper

NAV per Share

537.2p

Premium/-Discount

-1.7%

Dividend Yield

4.7%

Gearing

18.7%

**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

Political risk within the Eurozone returned to the fore in May, as two populist parties in Italy, the League and the Five Star Movement, reached agreement to form a new government after a long impasse. Their initial proposal for a Eurosceptic finance minister was controversially blocked by the President of Italy, Sergio Mattarella, prompting fears for disruptive new elections and shocking financial markets. Italian bonds and bank shares fell sharply, causing bond yields to rise. However markets recovered somewhat after a less controversial candidate for finance minister was accepted by the President, allowing the new government to take power. Meanwhile the Spanish Prime Minister was close to being forced out of office at the end of the month, following a corruption scandal, though this had less impact on financial markets.

The UK stock market rose in the first half of the month, but gave back some of its gains as the Italian situation unfolded. The best performing large sectors included several industrial and natural resources sectors as well as more defensive sectors like beverages and pharmaceuticals. The weakest sectors included telecommunications, with both BT and Vodafone falling on annual results publication, as well as life insurance and tobacco.

The Trust's NAV rose by 2.85% this month, marginally ahead of the benchmark return of 2.79%. The largest positive performance driver was Tate & Lyle, where robust full year results and a new strategic focus lifted the shares. The portfolio also benefitted from not owning Vodafone and British American Tobacco which were both weak and pulled back the index return. On the other hand, poor

**“ Despite the UK stock market returning to near peak levels, valuations in aggregate are still reasonable, and we can find many attractively priced companies with robust business franchises.**

results from FirstGroup made that company the largest negative performer in the portfolio, with Standard Life Aberdeen and Ashmore also weak.

There was a relatively high level of activity in the month. We bought a new position in Imperial Brands, the producer of cigarettes, tobacco and vaping products. We have not owned Imperial for nearly five years, nor any tobacco company for almost a year, on concerns about high valuations and structural changes to the industry from new products like e-cigarettes. However, after a period of weak performance, the sector has de-rated significantly. Imperial Brands is now lowly valued, with a dividend yield of around 7% and strong cash flow. Whilst there are changes taking place in the industry, Imperial has a strong suite of next generation products and the company's portfolio has been streamlined, with an improved focus on stronger brands in recent years.

We sold the position in NEX Group, the electronic exchange and financial information and services business, which is being taken over by the American CME Group at a high valuation, reflecting its strategic value and growth potential. There were a number of smaller transactions over the month, predominantly where we reduced shares that had performed well and reinvested in cheaper alternatives. In particular, we reduced the large positions in the oil majors BP and Royal Dutch Shell, which have been exceptional performers over the last 2 years. Whilst they both still pay high dividend yields, they are more fairly valued, as investor perceptions of big oil stocks have improved significantly.

Despite the UK stock market returning to near peak levels, valuations in aggregate are still reasonable, and we can find many attractively priced companies with robust business franchises. We



### 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.

believe that volatility within the market can create opportunities for patient and disciplined investors. In early 2016, Royal Dutch Shell had a dividend yield of over 8% and Imperial Brands yielded less than 5%. Now, just over two years later, the share price of Royal Dutch Shell has risen so much that the dividend yield is just over 5%, despite no dividend growth in that period. Conversely, Imperial Brands has underperformed and now pays a yield of around 7%.

*Simon Gergel  
7 June 2018*

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	13.3	14.0	13.9	25.7	43.5
NAV	10.8	11.4	10.8	22.1	42.1
Benchmark	7.4	6.7	6.5	24.7	42.1

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

	2014	2015	2016	2017	2018
Share Price	12.6	1.3	-13.2	27.1	13.9
NAV	9.5	6.3	-12.0	25.1	10.8
Benchmark	7.8	5.7	-7.2	26.2	6.5

Source: Lipper, percentage growth, mid to mid, total return to 31.05.18. Copyright 2018 © 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.

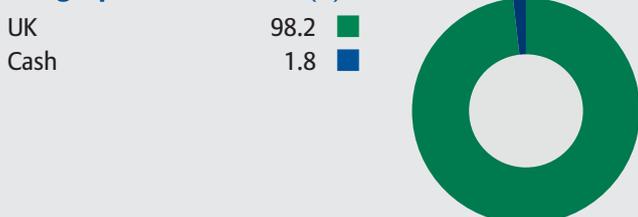
Past performance is not a reliable indicator of future returns. You should not make any assumptions on the future on the basis of performance information. The value of an investment and the income from it can fall as well as rise as a result of market fluctuations and you may not get back the amount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



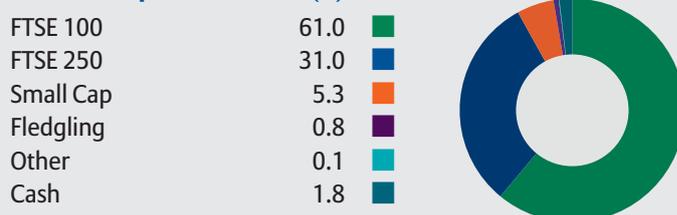
### Top Ten Holdings (%)

Royal Dutch Shell 'B' Shares	7.0
GlaxoSmithKline	6.4
UBM	4.4
HSBC Holdings	4.2
BHP Billiton	4.0
BP	3.9
Legal & General	3.1
BAE Systems	3.1
Standard Life Aberdeen	3.1
Lloyds Banking Group	3.1

### Total number of holdings\* 49

\*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 <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, 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 (31.01.2018). 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](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.



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**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 31.05.18 unless otherwise stated.**

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