

# The Merchants Trust PLC

Factsheet

31 July 2013

## Fund Manager's Review



**Simon Gergel**

The stock market rallied in July, recovering its losses from June. The stock market took reassurance from improving confidence indicators and other signs that UK economic growth is recovering, led by a stronger housing market. In addition, comments from the US Federal Reserve and the new Governor of the Bank of England that monetary policy was likely to stay stimulative helped equity

investors to regain their poise after a difficult June. Bond markets did not see a discernible recovery with UK and US government bond yields remaining broadly unchanged and well above levels seen earlier in the year.

The FTSE 100 Index produced a total return of 6.6% over the month. The strongest gains came from several of the consumer cyclical sectors such as Retailing, Media and Travel & Leisure, as well as from Basic Materials and Financials. The weakest sectors were generally the more defensive areas like Tobacco, Food & Beverages, Healthcare and Oil & Gas Producers.

The Trust's NAV increased by 9.6% over the month. The Trust's UK equity portfolio performance was modestly ahead of the rising market. Double digit returns from BAE Systems, Resolution, Hansteen and Reed Elsevier were the main positive factors, whilst the main negatives were Inmarsat, GlaxoSmithKline and IG Group.

There was one new investment added to the portfolio, the bookmaker and gaming group Ladbrokes. The company has had a disappointing track record with their online gaming operations in particular, despite having a relatively strong brand name within the industry. This business is now being restructured under new management in partnership with Playtech and offers significant medium term potential. Ladbrokes is also growing its betting office estate which provides a more dependable profits stream.

We sold out of Imperial Tobacco which is currently experiencing tough trading conditions. Cigarette volume sales are declining sharply in Europe as consumers struggle to balance tight household budgets with rising cigarette prices. On top of this, we are increasingly concerned about the long term threat from e-cigarettes where our \*Grassroots<sup>SM</sup> Research has highlighted a growing acceptance and usage of these products by smokers in the UK and USA.

As we pass the halfway stage of the Merchants Trust fiscal year, we continue to see a prolonged period of modest economic growth ahead as the high debt burdens at the consumer and government level are gradually worked off. Certain parts of the stock market, notably defensive sectors, have re-rated to slightly expensive levels. However, we still see good value amongst some of the very largest companies in sectors like Oil & Gas and Pharmaceuticals, as well as in the middle ground between defensive stocks and deep-cyclical Industrials or highly-gearred Financials.

\*Grassroots<sup>SM</sup> Research is a division within the Allianz Global Investors group of companies that commissions investigative research for asset management professionals. Research data used to generate Grassroots<sup>SM</sup> Research reports are received from reporters and field force investigators who work as independent, third party research providers, supplying research that is paid for by commissions generated by trades executed on behalf of clients.

## Performance (%)



## Cumulative Performance (%)

	3 Months	6 Months	1 Year	3 Years	5 Years
Share Price	14.2	24.5	45.4	67.9	81.8
NAV	8.4	15.9	35.2	66.2	69.2
FTSE 100	3.9	7.7	22.0	40.2	47.7

## Discrete Performance (%)

From To	31.07.08 31.07.09	31.07.09 30.07.10	30.07.10 29.07.11	29.07.11 31.07.12	31.07.12 31.07.13
Share Price	-15.4	27.9	18.6	-2.6	45.4
NAV	-17.1	22.8	18.1	4.1	35.2
FTSE 100	-10.9	18.2	14.2	0.7	22.0

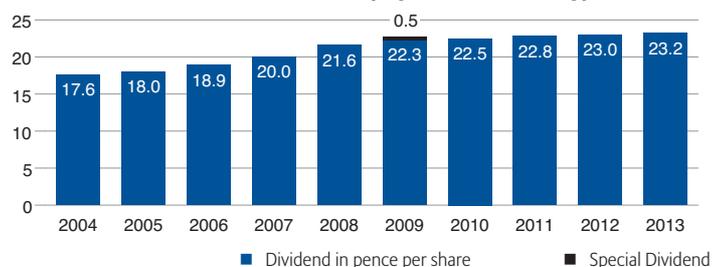
Source: Lipper, percentage growth, mid to mid, total return to 31.07.13. Benchmark: FTSE 100 Index.

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.

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## Dividend History

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



Past performance is not a reliable indicator of future results.

All data source Allianz Global Investors as at 31.07.13 unless otherwise stated.

Allianz Global Investors, 155 Bishopsgate, London EC2M 3AD

**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.**

**Allianz**   
Global Investors

## Capital Structure

Total Assets:	£652.4m
Gearing (net):	19.2%
Shares in Issue:	103,213,464 (Ordinary 25p)
Share Price <sup>1</sup> :	501.0p
Net Asset Value <sup>2</sup> :	515.2p (491.3p – debt at market value)
Premium/-Discount to NAV <sup>2</sup> :	-2.8% (2.0% – debt at market value)
NAV Frequency	Daily
Dividend Yield <sup>3</sup> :	4.65%

1. Source: Lipper as at 31.07.13, market close mid price.

2. Source: Datastream as at 31.07.13. 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 that 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 Equities	
Codes:	RIC:	MRCH
	SEDOL:	0580007

4. Source: AIC, as at the Trust's Financial Year End (31.01.2013). On-going Charges (previously Total Expense Ratios) are published annually to show operational expenses incurred in the running of the company but excluding financing costs.

## 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 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. Covered call options are written to supplement the income generation of the portfolio. This may lead to an opportunity cost if options are exercised.

## Sector Breakdown (%)

Consumer Services	19.2	
Financials	19.1	
Oil & Gas	14.8	
Industrials	12.9	
Utilities	10.1	
Health Care	7.6	
Consumer Goods	6.4	
Telecommunications	6.1	
Basic Materials	2.4	
Cash	1.4	

## Top Ten Holdings (%)

Royal Dutch Shell "B" Shares	8.7	BAE Systems	3.6
GlaxoSmithKline	7.5	British American Tobacco	3.4
HSBC	6.7	Scottish & Southern Energy	3.4
BP	5.9	Resolution	3.1
Vodafone	3.7	UBM	2.6
<b>Total Number of Holdings</b>	<b>48*</b>		

\*excludes derivatives

## Net Dividends

	Pay Date	Record Date	Payment
1st quarterly dividend	14.08.13	12.07.13	5.9p per share
4th quarterly dividend	15.05.13	12.04.13	5.8p per share
3rd quarterly dividend	27.02.13	01.02.13	5.8p per share
2nd quarterly dividend	12.11.12	05.10.12	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.

## Contact Us

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

**0800 389 4696**

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

All data source Allianz Global Investors as at 31.07.13 unless otherwise stated.

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