

# The Merchants Trust PLC

Factsheet

30 September 2013

## 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, the US Federal Reserve surprised financial markets by deciding not to taper their asset purchase programme. A reduction in monthly bond purchases had been widely anticipated as part of their exit strategy from "quantitative easing". However the Fed had become concerned about rising bond yields pushing up mortgage costs and potentially slowing the US economy. Bond markets reacted well to this continuation of central bank buying with yields falling back.

The FTSE 100 Index traded within a narrow band during the month, with a +0.9% total return overall. Medium sized and more domestically orientated stocks outperformed with cyclical and financial sectors like Construction, General Industrials and Life Assurance generally doing well. More defensive sectors like Utilities, Pharmaceuticals and Food Producers lagged behind. Utilities were particularly affected in late September by a proposal from the leader of the Labour Party that they would freeze energy prices for a period if they won the next election. Elsewhere in corporate news, Vodafone confirmed plans to sell off their stake in Verizon Wireless for \$130 billion and the UK government announced the floatation of the Royal Mail.

The Trust's NAV fell by 0.12% over the month and performance was slightly behind the FTSE 100 Index. A profits warning at cruise company Carnival Corporation and weak performance from SSE and GlaxoSmithKline held back returns, although the portfolio benefited from good performance from Balfour Beatty, Ashmore and BAE Systems. We made few changes to the portfolio during September.

Despite recent signs of an upturn in the UK economy and a potential boost to the housing market from the government's "Help to Buy" scheme we expect growth to be muted in the medium term as high debt burdens are gradually worked off. As Lord Wolfson, Chief Executive of Next Plc, pointed out with their recent results, consumers' real earnings are declining and are likely to remain in negative territory for at least another year.

Despite a muted economic outlook, we can still find strong businesses to purchase which are trading on attractive valuations. The major oil companies are one such area which has lagged behind the wider market for some time. We also favour several recovery situations in industries such as Construction, Recruitment, Travel & Leisure and Industrial Real Estate.

## Performance (%)



## Cumulative Performance (%)

	3 Months	6 Months	1 Year	3 Years	5 Years
Share Price	7.8	17.1	39.4	55.9	100.3
NAV	5.8	7.6	26.2	50.6	85.2
FTSE 100	4.9	2.8	16.7	29.9	59.1

## Discrete Performance (%)

From To	30.09.08 30.09.09	30.09.09 30.09.10	30.09.10 30.09.11	30.09.11 28.09.12	28.09.12 30.09.13
Share Price	6.2	21.0	4.3	7.2	39.4
NAV	8.6	13.3	-2.2	22.0	26.2
FTSE 100	9.5	11.8	-4.4	16.4	16.7

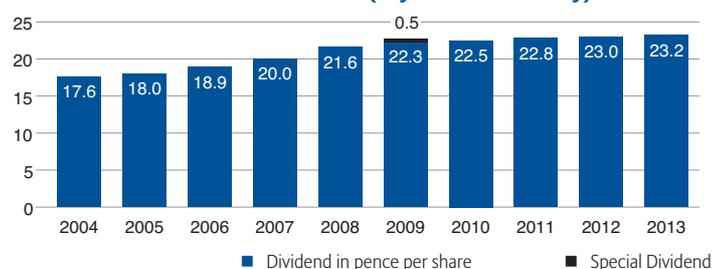
Source: Lipper, percentage growth, mid to mid, total return to 30.09.13. Benchmark: FTSE 100 Index.

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.

Copyright 2013 © 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.

## 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 30.09.13 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:	£640.5m
Gearing (net):	17.6%
Shares in Issue:	103,213,464 (Ordinary 25p)
Share Price <sup>1</sup> :	487.5p
Net Asset Value <sup>2</sup> :	497.5p (474.6p – debt at market value)
Premium/-Discount to NAV <sup>2</sup> :	-2.0% (2.7% – debt at market value)
NAV Frequency	Daily
Dividend Yield <sup>3</sup> :	4.80%

1. Source: Lipper as at 30.09.13, market close mid price.

2. Source: Datastream as at 30.09.13. 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 (%)

Financials	18.8	
Consumer Services	17.9	
Industrials	14.1	
Oil & Gas	14.0	
Utilities	9.8	
Telecommunications	6.7	
Health Care	6.6	
Consumer Goods	5.8	
Basic Materials	3.3	
Cash	3.0	

## Top Ten Holdings (%)

Royal Dutch Shell "B" Shares	8.2	BAE Systems	3.8
GlaxoSmithKline	6.6	BHP Billiton	3.3
HSBC	6.1	British American Tobacco	3.3
BP	5.8	Scottish & Southern Energy	3.2
Vodafone	4.2	Resolution	3.1
<b>Total Number of Holdings</b>	<b>49*</b>		

\*excludes derivatives

## Net Dividends

	Pay Date	Record Date	Payment
2nd quarterly dividend	12.11.13	11.10.13	5.9p per share
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

## 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**

e-mail: [investment-trusts@allianzgi.com](mailto:investment-trusts@allianzgi.com)

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

All data source Allianz Global Investors as at 30.09.13 unless otherwise stated.

Allianz Global Investors is the marketing name of RCM (UK) Ltd. Issued by RCM (UK) Ltd (Registered in England No 2014586), authorised and regulated by the Financial Conduct Authority (ref 122219). Registered office at 155 Bishopsgate, London EC2M 3AD. This is a marketing communication.

**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.