

# 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

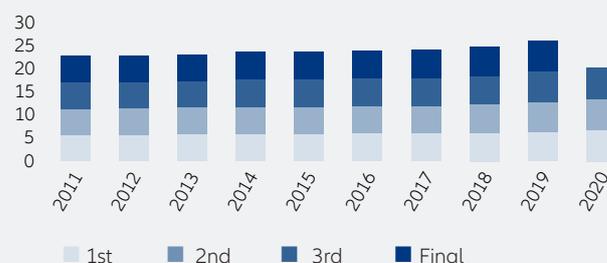
The Merchants Trust PLC was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, but now concentrates primarily on major UK 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
31.01.2020	11.03.2020	6.80p	3rd Quarterly
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

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** £707.8m

**Shares in Issue** 112,878,464 (Ordinary 25p)

**Market Cap** £600.5m

Share Price

**532.0p**

NAV per Share

**517.3p**

Premium/-Discount

**2.8%**

Dividend Yield

**5.0%**

Gearing

**16.50%**

**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

Investor sentiment was positive in early January, as the US and China moved towards a limited trade agreement in the middle of the month. Survey data and comments from companies suggested improving trading conditions in certain domestic industries, such as housebuilding and commercial property, in the wake of the Conservative general election victory in December. However, the positive investor sentiment was short lived as the outbreak of the coronavirus spread rapidly in China. By the end of January it had claimed over 200 lives and led to the lock-down of several large cities affecting tens of millions of people. Apart from the tragic human cost, markets reacted to the possible economic cost in terms of slower growth and restricted travel and trade.

The UK stock market fell in the second half of the month with a drop of over 3% for January. Bond yields also declined as economic growth expectations came down. The best performing sectors were generally defensive sectors, such as tobacco and utilities, although housebuilders were also strong. The biggest falls were mostly seen in cyclical industries such as oil and mining, as commodity prices fell, with banks, retail and travel & leisure also weak.

The Trust's NAV fell by 1.8% in January, but ended the month ahead of the benchmark which fell 3.3% as the portfolio outperformed the falling market. The biggest contribution to this outperformance came from BAE Systems as the stock market reacted enthusiastically to two acquisitions it made of high technology defence businesses in the USA. Pennon shares also rallied as press articles suggested it had been offered a high price for its Viridor waste and recycling business and Keller continued its recent share price recovery. There were fewer negative contributors,

### “ UK shares remain cheaper than most other markets and there is still a sharp polarisation of valuations

but shopping centre owner Hammerson's shares fell back as its peer Intu continued to have financial troubles, and many retailers reported poor Christmas sales. WPP shares were also weak, but on little news. Not owning Unilever also held back relative performance as the shares outperformed in a more defensive market environment.

We added the UK's 5<sup>th</sup> largest housebuilder, Redrow, to the portfolio, increasing the portfolio's exposure to this sector. Redrow builds over 6,000 homes in England and Wales each year and has a strong record of growth and the shares were trading at a modest valuation. Although Redrow's shares and the housebuilding sector generally have performed well in recent weeks, and especially since the election, we see prospects for the industry remaining good. There is a structurally constrained supply of housing in the UK but plenty of new land available due to changes in the planning system. Consumer demand is strong and seems to be improving.



### 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.

The government remains committed to supporting the sector and we would expect a new scheme to replace the current Help-to-Buy scheme for first time buyers once the current scheme ends. We partly funded the investment by reducing the shareholding in Vistry (formerly Bovis Homes) to diversify the sector exposure. Vistry shares have performed exceptionally well especially since its fundraising in November which we supported.

We sold the investment in industrial property company Hansteen in January as the shares were fully valued after the company received a takeover bid last year. Elsewhere, we took some profits in strong performers like Pennon and Meggitt to fund additions in more attractively priced businesses like WPP, Royal Bank of Scotland and SSE.

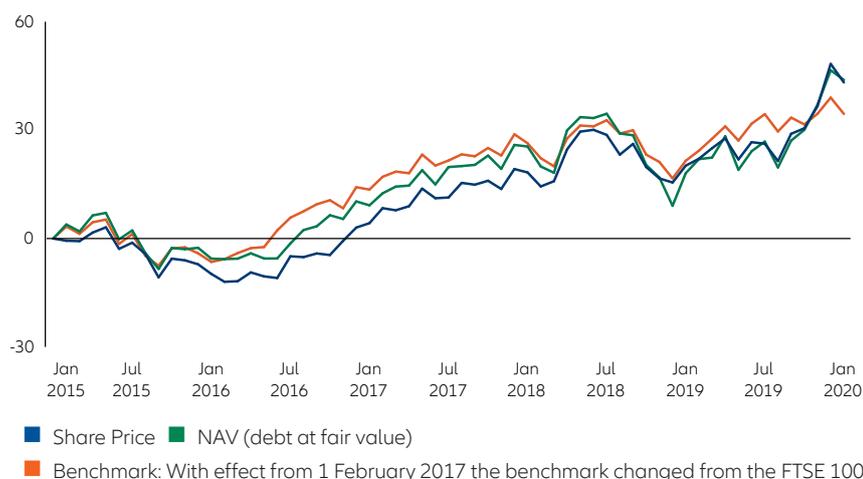
The Merchants Trust financial year ended at the end of January. The stock market and the portfolio have performed well over the last 12 months and the UK stock market is now close to its long-term average valuation. However, UK shares remain cheaper than most other markets and there is still a sharp polarisation of valuations across different sectors. We continue to find many strong businesses offering above average dividend yields that we can buy on attractive valuations. Our portfolio is differentiated from the overall stock market and we believe that it can continue to offer the combination of a high and rising dividend together with long term capital growth in line with Merchants' objectives.

Simon Gergel  
1 February 2020

**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	9.7	13.4	19.2	37.4	43.2
NAV (debt at fair value)	10.6	11.4	19.7	29.4	41.3
Benchmark	2.2	0.1	10.7	18.4	34.5

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

	2020	2019	2018	2017	2016
Share Price	19.2	1.6	13.5	15.6	-9.8
NAV (debt at fair value)	19.7	-5.9	14.9	15.6	-5.6
Benchmark	10.7	-3.8	11.3	21.4	-6.5

Source: Thomson Reuters DataStream, percentage growth, mid to mid, total return to 31.01.20. Copyright 2020 © 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	25.5	<div style="width: 25.5%;"></div>
Industrials	20.9	<div style="width: 20.9%;"></div>
Consumer Goods	15.8	<div style="width: 15.8%;"></div>
Consumer Services	11.7	<div style="width: 11.7%;"></div>
Utilities	8.2	<div style="width: 8.2%;"></div>
Oil & Gas	7.7	<div style="width: 7.7%;"></div>
Health Care	5.7	<div style="width: 5.7%;"></div>
Basic Materials	4.0	<div style="width: 4.0%;"></div>
Cash	0.5	<div style="width: 0.5%;"></div>

### Geographic Breakdown (%)



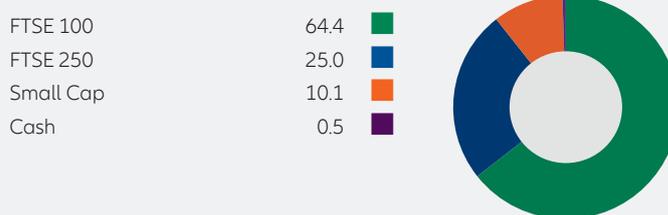
### Top Ten Holdings (%)

GlaxoSmithKline	5.6
Royal Dutch Shell - B Shares	5.3
BAE Systems	4.0
Imperial Brands	3.8
Barclays	3.8
British American Tobacco	3.7
Legal & General	3.1
Land Securities	3.0
St James's Place	3.0
Scottish & Southern Energy	3.0

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 31.01.20 unless otherwise stated.**

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