

As focused on dividends as you are

# The Merchants Trust PLC

Factsheet

31 May 2017

## 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

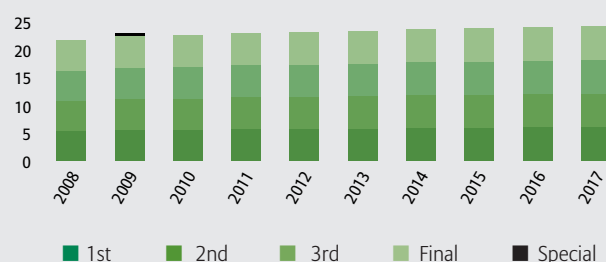
The Merchants Trust PLC was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, but now concentrates primarily on major UK 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 35 years.

## Ten Year Dividend History

Net Dividend Record in Pence per Share to year end 31 January



## Last Four Net Dividend Payments per Share

Record Date	Pay Date	Dividend	Type
21.04.2017	18.05.2017	6.10p	Final
27.01.2017	23.02.2017	6.10p	3rd Quarterly
07.10.2016	10.11.2016	6.00p	2nd Quarterly
15.07.2016	12.08.2016	6.00p	1st Quarterly

Past performance is not a reliable indicator of future results.

**Total Assets** £698.9m    **Shares in Issue** 108,728,464 (Ordinary 25p)

Share Price

**487.6p**

Source: Lipper

NAV per Share

**501.9p**

Premium/-Discount

**-2.8%**

Dividend Yield

**5.0%**

Gearing

**15.3%**

**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 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

As the UK general election campaign moved up to full speed, Theresa May tried to convince the electorate that the Conservatives would provide a "strong and stable" government, even as she had to make an embarrassing change to a manifesto policy on social care funding. The Conservatives lead over Labour in the polls narrowed significantly during the month.

Equity markets were strong and (relatively) stable over the month, with extremely low volatility, despite a downward revision to the UK's first quarter economic growth rate to only 0.2%. Emmanuel Macron won the French presidential election, which helped sentiment, at a time when European economic growth seemed to be accelerating.

The best performing sectors in May were defensive areas such as mobile telecommunications, personal goods, utilities and healthcare, whilst the weakest sectors included cyclicals such as oil equipment & services, mining and industrial engineering.

The Trust's NAV rose by 3.7% over the month, slightly behind the FTSE All-Share Index benchmark return of 4.4%. The biggest positive stock contributions to the relative return came from good performance at GlaxoSmithKline, and not owning Glencore or Imperial Brands, which were both weak. The biggest negative contributions were from Kier and Ladbrokes, which underperformed, and from not owning Vodafone, which rallied.

There was a relatively high level of activity within the month, in response to recent share price movements, which created a number of investment opportunities. We built a new position in WPP, a global media business with a broad spread of activities.

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The company has a leading position in the faster growing digital and new media sectors, as well as in emerging markets. Recent underperformance, in response to disappointing trading updates, had brought the valuation down to an attractive level, which does not reflect the growth potential, in our view.

In contrast, we sold the remaining small position in British American Tobacco, leaving Merchants with no tobacco exposure for the first time in many years. BAT has been a very strong performer and is now highly valued on almost any measure. The industry faces unprecedented change, with healthier e-cigarettes and next generation tobacco products disrupting the traditional cigarette business. Whilst these innovations are not necessarily negative for the companies, the outlook is more unpredictable than in recent years, and both the large UK tobacco companies carry considerable debt on their balance sheets.

It is instructive to compare the valuations of these two companies, as it demonstrates the premium that stock market investors are today willing to pay for companies with perceived security and stability, compared to companies with more cyclical risks. For many years, BAT was a lowly rated company. However, taking Bloomberg consensus forecast forecasts as at 6 June, BAT is trading on a 20x price to earnings ratio versus 14x at WPP. On an EV/EBITDA<sup>1</sup> (a cash flow ratio used to measure the value of a company) BAT trades at 17x versus 10x at WPP. And BAT offers a lower dividend yield of 3.3% versus 3.6% at WPP.

Elsewhere, we sold the remaining position in Hostelworld, as it reached a full valuation and we took profits on several strong performing companies, including FirstGroup, NEX Group, Tate & Lyle, Senior and National Grid. The proceeds were reinvested into the engineering companies Meggitt and Morgan Advanced



### 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.

Materials, as well as National Express, all of which we believe offer good value. We also added to the mining company, BHP Billiton, which has an attractive mix of assets and improving cash flow, as capital expenditure is reduced.

Speculation in the run-up to the UK General Election raised short term uncertainty about the political leadership in the UK and economic policy as we enter critical Brexit negotiations. However, ultimately, share prices will reflect long term prospects for economic growth and corporate profitability, which may not be significantly impacted. Furthermore, the UK stock market is heavily exposed to multinational companies which are less exposed to domestic issues and benefit from any sterling weakness. Whilst there are risks, we can find many attractive investments in sensibly valued UK companies that offer exposure to a diverse range of industries and geographies, which benefit from the UK's leading standards of corporate governance and regulation.

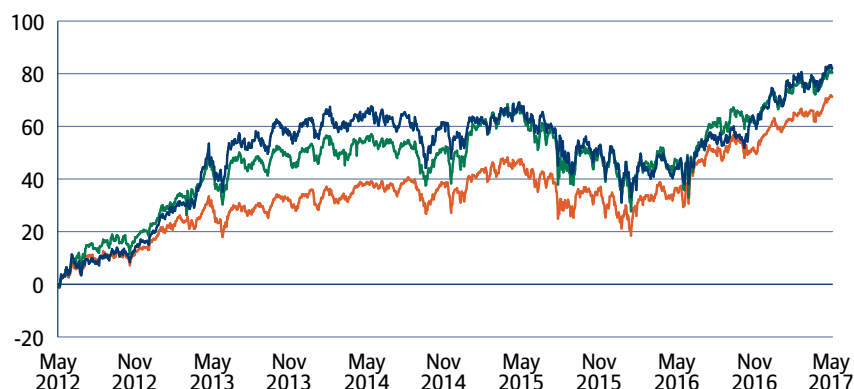
<sup>1</sup>Enterprise Value to Earnings Before Interest, Taxes, Depreciation and Amortisation

Simon Gergel  
9 June 2017

**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	5.0	14.5	27.1	11.8	84.8
NAV	5.5	12.7	25.1	17.1	82.6
Benchmark	5.3	13.7	26.2	23.8	71.3

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

	2013	2014	2015	2016	2017
Share Price	46.7	12.6	1.3	-13.2	27.1
NAV	42.4	9.5	6.3	-12.0	25.1
Benchmark	28.4	7.8	5.7	-7.2	26.2

Source: Lipper, percentage growth, mid to mid, total return to 31.05.17. Copyright 2017 © 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.

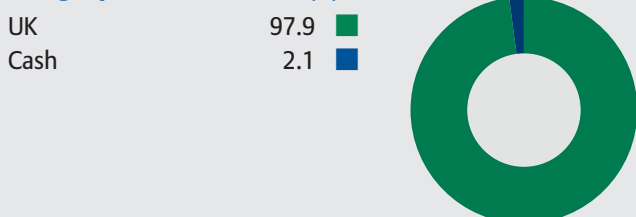
Past performance is not a reliable indicator of future returns. You should not make any assumptions on the future on the basis of performance information. The value of an investment and the income from it can fall as well as rise as a result of market fluctuations and you may not get back the amount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

GlaxoSmithKline	7.7
Royal Dutch Shell 'B' Shares	7.3
HSBC	5.7
BP	5.4
Lloyds Banking Group	3.3
UBM	3.3
Standard Life	2.9
Scottish & Southern Energy	2.8
Prudential	2.7
BHP Billiton	2.6

## Total number of holdings\* 48

\*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>	0.63%
Year End	31 January
Annual Financial Report	Final posted in April, Half-yearly posted in September
AGM	May
NAV Frequency	Daily
Dividends	February, 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 (31.01.2017). 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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**All data source Allianz Global Investors as at 31.05.17 unless otherwise stated.**

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