

As focused on dividends as you are

# The Merchants Trust PLC

Factsheet

31 October 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

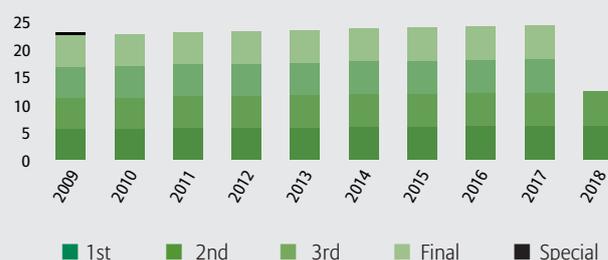
The Merchants Trust PLC was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, but now concentrates primarily on major UK 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
06.10.2017	16.11.2017	6.20p	2nd Quarterly
14.07.2017	11.08.2017	6.10p	1st Quarterly
21.04.2017	18.05.2017	6.10p	Final
27.01.2017	23.02.2017	6.10p	3rd Quarterly

Past performance is not a reliable indicator of future results.

**Total Assets** £697.9m    **Shares in Issue** 108,728,464 (Ordinary 25p)    **Market Cap** £526.8m

Share Price

484.5p

Source: Lipper

NAV per Share

506.3p

Premium/-Discount

-4.3%

Dividend Yield

5.1%

Gearing

20.2%

**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

Merchants has priced a new £35 million, 35 year, private placement note at a 2.96% fixed interest rate. This new debt will refinance a 30 year loan taken out in 1987 that matures in early January 2018. This is an important development for the Trust as it secures long term financing at an attractive interest rate. The lower cost of debt will benefit the Trust's income and capital account in the future.

Discussions between the UK and the EU on Brexit continued in October, although there were few tangible signs of progress. Elsewhere, Catalonia held a controversial referendum and declared independence at the end of the month, followed by the immediate imposition of direct rule by the Madrid government. The events in Spain seemed to have little impact on broader European activity, with economic recovery continuing to gain strength, and markets remained remarkably calm.

There was an extremely low level of volatility in the UK stock market over the month, with the FTSE All-Share index closing each day between 4050 and 4146, an astonishing range of only 2.4%. The contrast with October 1987 could not be starker. However, within the market there were many significant share price and sector moves. The strongest large sector was Oil & Gas Producers, up almost 6% in response to the oil price breaking the US\$60 mark. Beverages, Travel & Leisure and Mining were also strong. Utilities were weak as the government announced price caps on energy suppliers, whilst fixed line Telecommunications and Pharmaceuticals were also weak.

The Trust's NAV return in October was +2.14% compared with a total return of 1.86% on the FTSE All-Share Index. A disappointing

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outlook comment from GlaxoSmithKline, accompanying their third quarter figures, pushed the share price down by almost 9% on the month. Property group Kier was weak, reflecting poor sentiment in the UK construction sector. Not owning British American Tobacco also impacted relative performance, as the shares rose on the back of an investor day focused on their new products. On the positive side, fund managers Ashmore and Man Group both reacted well to positive trading results, with double digit share price total returns. BP was also strong, helped by an announcement with their Q3 results, to start a share buy-back to offset dilution from scrip issues. This is an important milestone for the major oil companies, suggesting that they have adjusted their cost bases to cope with a lower oil price environment.

There were no material changes to the portfolio in the month, although we did take advantage of the stock level volatility. We added to several positions where shares had been unjustifiably weak, such as National Express, Greene King and FirstGroup, and we reduced strong performers as they moved closer to fair value, such as TP ICAP, SThree and Standard Life Aberdeen. We continued to take profits on Equiniti, although partly to take up the rights issue to fund their US acquisition.

Whilst the UK stock market has risen a long way since the great financial crisis, and there are certain sectors and companies that look expensive, we continue to find many attractive investment opportunities. The big oil companies, for example, are starting to demonstrate that they can operate effectively with an oil price around US\$50-\$60 per barrel, and generate substantial cash flows. Many domestically businesses are lowly priced in a historic context, and some offer good value even if we encounter a more difficult economic environment. There are also opportunities to buy into



### 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.

recovery situations where the stock market is under-pricing future potential cash flows.

As a consequence, Merchants holds a diversified portfolio of companies offering a high dividend yield, with the potential for strong capital returns in the medium to long term. This underpins the board's confidence in securing long term debt, at a low interest cost, to refinance existing debt and to invest in the stock market.

*Simon Gergel  
1 November 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	4.2	6.5	21.5	20.4	69.5
NAV	2.1	6.4	14.1	27.1	61.3
Benchmark	2.8	5.9	13.1	29.6	57.6

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

	2013	2014	2015	2016	2017
Share Price	45.2	-3.1	-2.0	1.1	21.5
NAV	30.3	-2.6	1.7	9.6	14.1
Benchmark	20.7	0.7	0.8	13.7	13.1

Source: Lipper, percentage growth, mid to mid, total return to 31.10.17. 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.

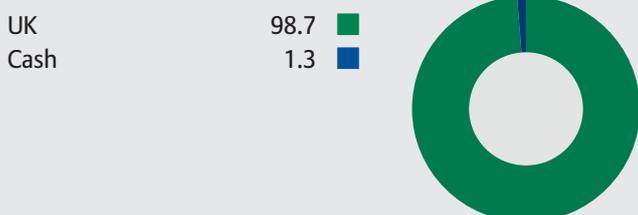
Past performance is not a reliable indicator of future returns. You should not make any assumptions on the future on the basis of performance information. The value of an investment and the income from it can fall as well as rise as a result of market fluctuations and you may not get back the amount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

Royal Dutch Shell 'B' Shares	8.2
GlaxoSmithKline	5.9
BP	5.8
HSBC	4.7
Lloyds Banking Group	3.9
Standard Life Aberdeen	3.4
BHP Billiton	3.3
UBM	3.1
Prudential	2.9
Legal & General	2.8

### Total number of holdings\* 46

\*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 31.10.17 unless otherwise stated.**

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