

# The Merchants Trust PLC

Factsheet

31 August 2015

## 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

August saw a sharp drop in equity markets and other risky assets such as oil. The immediate cause was ascribed to China's decision to let its currency devalue against the US dollar, with a realisation that economic trends have been deteriorating in China for some time. Concern over a first US interest rate rise for this cycle, perhaps as early as September, may also have been a factor.

The FTSE 100 Index fell by 5.9% (total return) over the month with considerable volatility and a wide dispersion of stock returns. Medium sized companies outperformed with the FTSE 250 mid cap index down only 2.9%. The weakest sectors included food retail, personal goods, banks, mining and many cyclical sectors. The best performing included construction & materials, non-life insurance, food producers, travel & leisure and utilities.

The Trust's UK Equity portfolio (-4.6%) outperformed the falling market but the impact of gearing resulted in -6.26% fall in NAV terms. Key stock contributions included Inmarsat, which was the top performer in the FTSE 100 Index, on optimism about their new satellite communications network. Balfour Beatty also performed well after results, which reassured on cash flow in particular. The Trust benefited from the wide spread of returns within the mining sector. Copper miner Antofagasta had a strong bounce, whilst performance was also helped by not owning Glencore, which was the worst FTSE 100 performer. There were no individual stocks that made a significant negative performance contribution, although weakness at SThree, Icap and William Hill had minor impacts.

The Trust made a new investment in Prudential. This company has an exceptional growth record and an attractive position in the fast growing Asian life insurance market, as well strong businesses in UK and American life insurance and fund management. The shares have been weak performers in recent months on macro concerns about Asian growth, as well as specific regulatory concerns in the USA and the UK. We believe these concerns are exaggerated and so took advantage of a rare drop in the company's valuation to buy a position.

We sold two companies out of the portfolio during the month. Shares in the Cinema company, Cineworld, have performed very strongly over the last few years. Their expansion of the business both into new sites in the UK and by acquisition into Eastern Europe and Israel has been well received. Trading has been robust and the consumer environment supportive. The company has been re-rated to a high valuation that we felt fully reflects the future growth potential, so we sold the remaining position for a good profit. We also sold the small position in South32, a

## Performance (%)



## Cumulative Performance (%)

	3 Months	6 Months	1 Year	3 Years	5 Years
Share Price	-7.2	-3.7	-5.3	44.3	67.9
NAV	-10.8	-8.4	-3.5	31.4	65.9
FTSE 100	-9.6	-7.9	-5.0	21.9	43.2

## Discrete Performance (%)

From To	31.08.10 31.08.11	31.08.11 31.08.12	31.08.12 30.08.13	30.08.13 29.08.14	29.08.14 31.08.15
Share Price	13.5	2.5	41.0	8.0	-5.3
NAV	8.7	16.1	27.8	6.6	-3.5
FTSE 100	6.7	10.1	16.6	10.1	-5.0

Source: Lipper, percentage growth, mid to mid, total return to 31.08.15. 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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## Fund Manager's Review (cont.)

mining company spun off from BHP Billiton. Whilst the company has some attractive, low cost assets, we did not have a positive view on the company's prospects.

We see the recent fall in the stock market more as an opportunity for picking up bargains than as an indication that the macro-economic environment has dramatically changed. The FTSE 100 index now offers good value in aggregate but there is still a wide divergence between stocks. Several of the mega-caps, which have led the market decline, offer exceptional value, with BP, Royal Dutch Shell, GlaxoSmithKline and HSBC all yielding over 6%. There are also interesting opportunities elsewhere in the financial sectors, oil services and amongst recovery situations more broadly. However, many defensive companies trade on high valuations and may be exposed once interest rates start to rise.

All data source Allianz Global Investors as at 31.08.15 unless otherwise stated.

Allianz Global Investors GmbH, UK Branch, 199 Bishopsgate, London EC2M 3TY

**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:	£632.4m
Gearing (net):	20.1%
Shares in Issue:	108,728,464 (Ordinary 25p)
Share Price <sup>1</sup> :	452.0p
Net Asset Value <sup>2</sup> :	466.4p <sup>3</sup> (444.6p <sup>4</sup> – debt at market value)
Premium/-Discount to NAV:	-3.1% (1.7% – debt at market value)
NAV Frequency	Daily
Dividend Yield <sup>5</sup> :	5.29%

<sup>1</sup>Gearing in form of two long-term debentures.

1. Source: Lipper as at 31.08.15, market close mid price.

2. 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.

3. Capital net asset value per ordinary share based on the par value of the company's long term debt and preference shares.

4. Capital net asset value per ordinary share based on the fair/market value of the company's long term debt and preference shares. This allows for the valuation of debt at fair value or current market price, rather than at final repayment value.

5. Source: Datastream as at 31.08.15. Calculated using the latest full year dividend divided by the current share price.

## Key Information

Launch Date:	16 February 1889
AIC Sector:	UK Equity Income
Benchmark:	FTSE 100 Index
Annual Management Charge:	0.35%
Performance Fee:	No
Ongoing Charges <sup>6</sup> :	0.59%
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 and Senior Independent Director), Mary Ann Sieghart, Sybella Stanley, Paul Yates

Company Secretary	Kirsten Salt
Investment Manager	Simon Gergel, CIO, UK Equities
Codes:	RIC: MRCH.L SEDOL: 0580007

6. Source: AIC, as at the Trust's Financial Year End (31.01.2015). Ongoing 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.

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.

## Sector Breakdown (%)

Financials	24.9
Consumer Services	15.9
Oil & Gas	13.7
Industrials	13.1
Utilities	9.5
Consumer Goods	8.2
Health Care	6.7
Basic Materials	3.3
Telecommunications	3.1
Cash	1.6

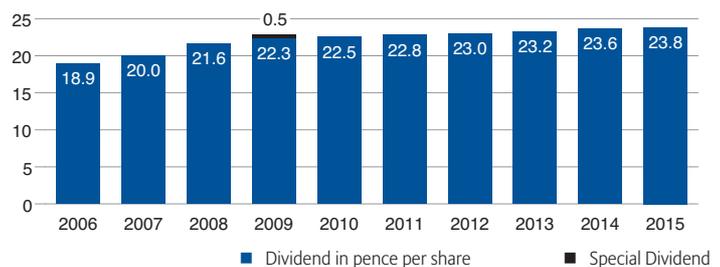
## Top Ten Holdings (%)

Royal Dutch Shell "B" Shares	6.8	Lloyds Banking Group	3.9
GlaxoSmithKline	6.7	British American Tobacco	3.5
HSBC	6.2	Inmarsat	3.1
BP	4.6	National Grid	2.8
UBM	4.4	BAE Systems	2.4
Total Number of Holdings	47*		

\*excludes derivatives

## Dividend History

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



Past performance is not a reliable indicator of future results.

## Net Dividends

	Pay Date	Record Date	Payment
1st quarterly dividend	14.08.15	17.07.15	6.0p per share
4th quarterly dividend	22.05.15	24.04.15	6.0p per share
3rd quarterly dividend	25.02.15	30.01.15	6.0p per share
2nd quarterly dividend	11.11.14	10.10.14	5.9p 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, JISA, SIPP 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:

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All data source Allianz Global Investors as at 31.08.15 unless otherwise stated.

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