

# The Merchants Trust PLC

Factsheet

31 January 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

The stock market rally accelerated in January 2013 with the FTSE 100 Index breaking through the 6000 level decisively for the first time since 2008. Overall the FTSE produced a total return of +6.5%, bringing the 12 months return, corresponding to Merchants' financial year, up to +14.8%. Medium sized companies lagged this performance, with a return of +5.4%. However over 12 months mid-caps produced a +24.6% total return. Within the stock market the best performing sectors included banks, telecommunications, food & beverages and healthcare. The weakest sectors included basic resources, utilities and retail.

The Trust's NAV returned +8.20% outperforming the index and was significantly above the Index over the financial year to end January. During the month the performance was aided by a rally in Britvic and from not owning the miners Rio Tinto or Anglo American which lagged the market's gains. On the negative side, performance was impacted by flat or slightly negative performance from Sainsbury as well as from not owning Barclays which rose significantly.

We took advantage of the strong performance from many medium sized companies in 2012 to trim exposure to a number of such positions where the upside potential has reduced. We also added two new companies to the portfolio, retailer Marks and Spencer and water and waste company Pennon. We anticipate a medium term improvement in cash-flow at M&S as many years of high investment come to an end, whilst the underlying profitability should continue to be relatively robust. A 4.5% dividend yield and modest valuation provide an attractive entry point.

Pennon offers exposure to secure regulated returns in the water industry as well as potential growth from several large "Energy from Waste" projects they are building. The shares were depressed by a profits warning in their traditional waste recycling business providing the opportunity to buy at a reasonable level.

Recent developments in the US have not significantly changed our central view that high debt levels will constrain growth rates for much of the developed world. If anything the strong rally in stock markets raises the risk of a short term pull-back, although equities still represent reasonable value in the long term.

Although we have modestly reduced exposure to certain medium sized companies, the key themes in the portfolio have not changed. There are attractive investment opportunities in many sectors, including for example media, travel & leisure and aerospace & defence but decisions are ultimately driven by stock specific considerations.

## Performance (%)



## Cumulative Performance (%)

	3 Months	6 Months	1 Year	3 Years	5 Years
Share Price	12.9	16.7	20.8	50.1	33.9
NAV	10.5	16.6	22.9	49.2	28.0
FTSE 100	9.2	13.2	14.8	34.6	29.3

## Discrete Performance (%)

From To	31.01.08 30.01.09	30.01.09 29.01.10	29.01.10 31.01.11	31.01.11 31.01.12	31.01.12 31.01.13
Share Price	-29.1	25.8	31.4	-5.4	20.8
NAV	-35.0	31.9	23.4	-1.6	22.9
FTSE 100	-26.3	30.4	16.8	0.4	14.8

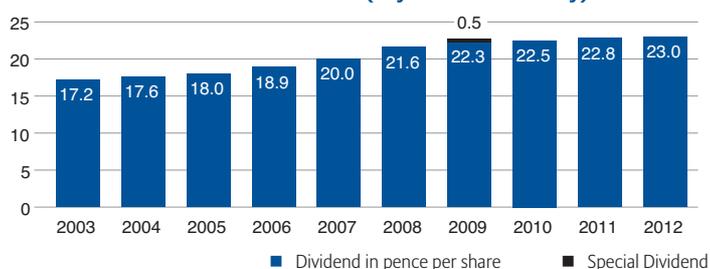
Source: Lipper, percentage growth, mid to mid, total return to 31.01.13. Benchmark: FTSE 100 Index; .

Past performance is not a reliable indicator of future performance. 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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## Dividend History

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



All data source Allianz Global Investors as at 31.01.13 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:	£587.6m
Gearing (net):	21.2%
Shares in Issue:	103,213,464 (Ordinary 25p)
Share Price <sup>1</sup> :	412.7p
Net Asset Value <sup>2</sup> :	455.2p (422.8p – debt at market value)
Premium/-Discount to NAV <sup>2</sup> :	-9.3% (-2.4% – debt at market value)
NAV Frequency	Daily
Dividend Yield <sup>3</sup> :	5.62%

1. Source: Lipper as at 31.01.13, market close mid price.

2. Source: Datastream as at 31.01.13. 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. 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.

## Sector Breakdown (%)

Consumer Services	17.0	
Financials	16.5	
Oil & Gas	15.9	
Industrials	11.4	
Consumer Goods	10.8	
Utilities	9.8	
Telecommunications	8.4	
Health Care	7.6	
Basic Materials	2.5	
Cash	0.1	

## Top Ten Holdings (%)

Royal Dutch Shell "B" Shares	9.0	British American Tobacco	4.0
GlaxoSmithKline	7.5	BAE Systems	3.5
BP	6.7	Scottish & Southern Energy	3.4
HSBC	6.3	National Grid	3.0
Vodafone	5.1	Resolution	2.8
<b>Total Number of Holdings</b>	<b>48*</b>		

\*excludes derivatives

## Net Dividends (Financial Year to Date)

	Pay Date	Record Date	Payment
1st quarterly dividend	15.08.12	13.07.12	5.8p per share
2nd quarterly dividend	12.11.12	05.10.12	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**

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

All data source Allianz Global Investors as at 31.01.13 unless otherwise stated.

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