

# 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

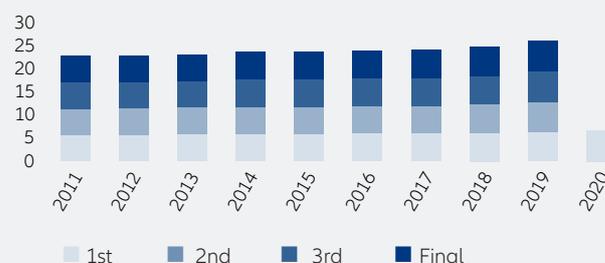
The Merchants Trust PLC was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, but now concentrates primarily on major UK 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
12.07.2019	20.08.2019	6.70p	1st Quarterly
12.04.2019	22.05.2019	6.60p	Final
01.02.2019	06.03.2019	6.50p	3rd Quarterly
05.10.2018	15.11.2018	6.50p	2nd Quarterly

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** £673.9m

**Shares in Issue** 110,028,464 (Ordinary 25p)

**Market Cap** £530.1m

Share Price

**481.8p**

NAV per Share

**477.2p**

Premium/-Discount

**1.0%**

Dividend Yield

**5.4%**

Gearing

**18.4%**

**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

Boris Johnson became the new Prime Minister in the UK, and took decisive action to try to ensure the UK leaves the European Union at the end of October, expressing a desire for a deal with the EU, but stressing that the country would be prepared to leave "without a deal" if necessary. The pound weakened notably against the dollar, on fears of "no deal" but this helped to support the stock market.

The stock market made steady progress, supported by hopes of a US interest rate cut, which came on the last day of the month. Whilst the overall stock market was steady, there was a high degree of polarisation at the sector and company level. In general, the best performing sectors were those with significant overseas earnings and more defensive cash flows, such as mobile telecommunications, aerospace & defence, tobacco and pharmaceuticals. The worst performing sectors were more cyclical, including software, chemicals, mining and real estate.

The Trust's NAV rose 7.4% though the portfolio lagged behind the stock market return, with a number of large individual stock moves in both directions. Many companies in the portfolio reported interim results in July. Trading statements were generally reassuring, with good dividend growth at STthree, National Express and Informa amongst others. However, among the key negative performance contributors, St James's Place shares were weak on slightly disappointing interim figures, despite robust fund flows which support long term growth. The most disappointing announcement was at Tyman, where the new Chief Executive has had to deal with problems caused by a factory consolidation exercise and a new product introduction in America. Tyman shares underperformed, but were supported by a depressed valuation and confidence in the recovery

**“ In general, the best performing sectors were those with significant overseas earnings and more defensive cash flows**

plan. Hammerson shares also fell on results, amid investor concern about the general retail property environment, although the company made an encouraging asset sale, which supports the balance sheet.

On the positive side, Imperial Brands shares produced a double digit total return as they rebounded from depressed levels. The company announced that it would change its dividend strategy to a progressive policy, from next year, after paying another 10% increase this year, and it also announced a share buy-back. This was well received, against a background where investors had questioned the sustainability of 10% annual dividend increases from a starting yield of over 9%. Meggitt shares were strong performers, helped by takeover activity in the aerospace sector, which highlighted the value of the business. BAE Systems also produced a double digit return, supported by solid operating results and confidence in increasing defence spending.

We added a new company to the portfolio. Stock Spirits is a London listed Eastern European spirits company, primarily focused on Vodka but with several other complementary brands and distribution arrangements. The company is the market leader in the Czech Republic and number two in the much larger Polish market. The company is benefitting from consumers trading up to premium spirits. Our proprietary market research highlighted the strength of its Polish market position and explains why Stock Spirits has been gaining market share. The shares are modestly valued, with strong cash generation.



### 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.

Elsewhere, we continued to add to lowly valued companies that had lagged the market like Inchcape, Imperial Brands and STthree. We also switched part of the HSBC holding into Barclays on valuation grounds. The purchases were funded by selling down stronger performing shares that were more fully valued, including Informa, BHP and TP ICAP.

Despite the rally in the stock market this year, the market remains extremely polarised. There are many lowly priced companies offering high dividend yields with scope for significant capital appreciation. Share prices are being driven by two opposing forces. On the one hand, central bank policies of low, or in some cases negative interest rates, are forcing investors to take money out of bonds and cash to place into riskier assets, in order to generate a decent return. This money is inflating certain types of companies that are seen as relatively safe and defensive. The outperformance of these "quality" and "growth" companies is fuelling further investor money flows into these successful investment styles, and exacerbating this trend. On the other hand, investors are concerned about multiple risks, ranging from US / China trade tensions and Brexit to geopolitical risks. This is putting investors off investing in more cyclical companies and many UK domestic and smaller companies. Outflows from funds exposed to these factors and into passive investments is further amplifying this trend too. There is therefore a large and growing gap between these types of investments and the stock market is not performing its normal function of arbitraging the difference. Benjamin Graham famously described the stock market as a voting machine in the short term but a weighing machine in the long term. Currently investors voting with their money are overpowering the weighting process.

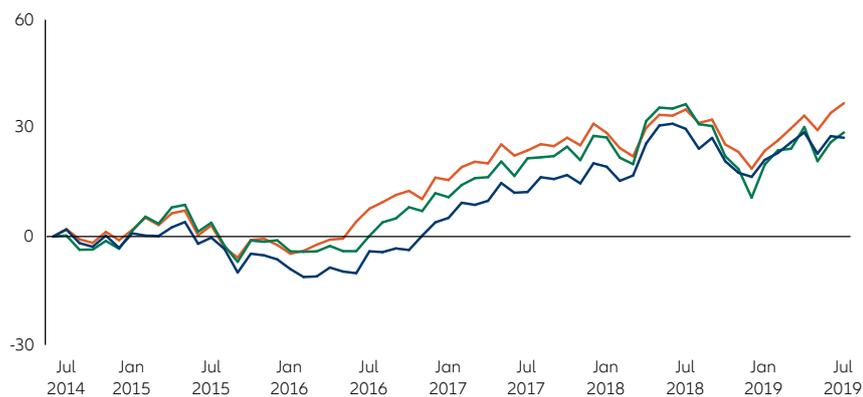
Whilst this trend in the stock market has made shorter term performance difficult for our investment style, it is providing numerous opportunities for us to invest in good companies trading at exceptional prices. We believe the portfolio can provide a high and growing income stream, along with superior long term returns.

**Simon Gergel**  
**13 August 2019**

**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 (debt at fair value)

■ 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	-1.2	5.1	-1.9	32.8	27.3
NAV (debt at fair value)	-1.1	7.4	-5.7	28.6	28.8
Benchmark	2.6	10.6	1.3	27.1	36.9

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

	2019	2018	2017	2016	2015
Share Price	-1.9	15.6	17.1	-3.8	-0.3
NAV (debt at fair value)	-5.7	12.3	21.4	-3.5	3.8
Benchmark	1.3	9.2	15.0	4.5	3.1

Source: Thomson Reuters DataStream, percentage growth, mid to mid, total return to 31.07.19. Copyright 2019 © 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.

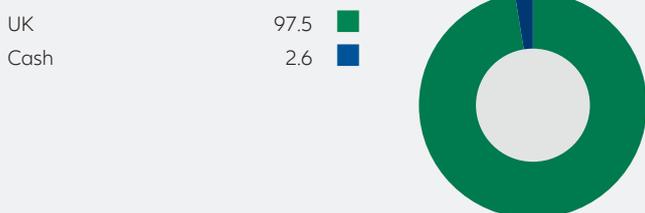
Past performance is not a reliable indicator of future returns. You should not make any assumptions on the future on the basis of performance information. The value of an investment and the income from it can fall as well as rise as a result of market fluctuations and you may not get back the amount 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	27.5	
Industrials	19.7	
Consumer Goods	12.7	
Consumer Services	11.2	
Oil & Gas	9.0	
Utilities	6.9	
Health Care	5.9	
Basic Materials	4.5	
Cash	2.6	

### Geographic Breakdown (%)



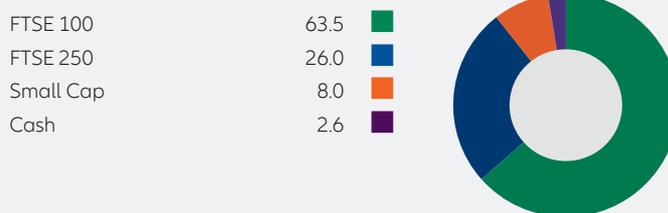
### Top Ten Holdings (%)

Royal Dutch Shell - B Shares	6.3
GlaxoSmithKline	5.9
Imperial Brands	4.3
HSBC Holdings	3.9
BAE Systems	3.8
British American Tobacco	3.5
Standard Life Aberdeen	3.1
Legal & General	3.0
Barclays	2.8
CRH	2.6

Total number of holdings\* 45

\*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

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. Colin Clark joined the board on 30 June 2019.



## 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 31.07.19 unless otherwise stated.**

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