

# 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

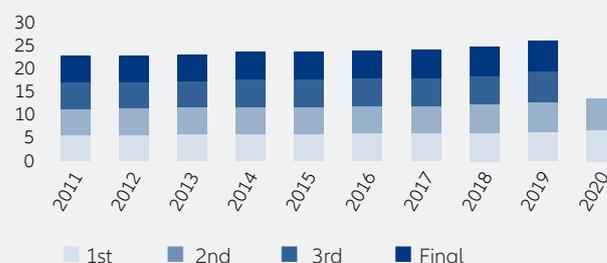
The Merchants Trust PLC was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, but now concentrates primarily on major UK 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
04.10.2019	12.11.2019	6.80p	2nd Quarterly
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

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** £736.6m

**Shares in Issue** 111,403,464 (Ordinary 25p)

**Market Cap** £621.6m

Share Price

**558.0p**

NAV per Share

**533.5p**

Premium/-Discount

**4.6%**

Dividend Yield

**4.8%**

Gearing

**16.8%**

**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

The key market event in December was the UK general election on 12<sup>th</sup> December, at which Boris Johnson's Conservative party secured a convincing victory and a majority of 80 seats. This will allow him to push his EU Withdrawal Bill through parliament, so that the UK can leave the European Union at the end of January 2020. This result lifted sentiment towards UK assets, with the pound and stock markets both rallying. There were two main reasons for this response. Firstly, there is now more clarity on the Brexit process which has been mired in uncertainty since June 2016's referendum. This should allow businesses and consumers to plan with a bit more certainty, although the future trading arrangements with the EU are yet to be agreed. Secondly, Jeremy Corbyn's Labour party performed poorly in the election. Investors had been nervous about their fairly radical left wing agenda, which included nationalisations, higher business taxation and a substantial increase in public spending. With a clear majority in Parliament, the Conservatives can now pursue a more market friendly agenda, which had been difficult under the previous gridlock.

There were also positive developments in the ongoing trade dispute between the USA and China, with the USA agreeing to roll back certain tariffs and China agreeing to purchase specific US goods and services as well as agreeing to structural reforms.

The stock market had a strong finish to a strong year, with a 3.3% total return on the FTSE All-Share index. Medium and smaller sized companies, which tend to be more domestically exposed, outperformed, reacting to the election result. The best performing sectors included utilities, as the possibility of renationalisation receded, and several of the more cyclical

**“ This should be a good environment for stock picking.**

and financial sectors, as well as tobacco. The weakest sectors included defensive industries like mobile communications, aerospace & defence, oil & gas producers and beverages.

The portfolio outperformed the stock market, driven by double digit total returns from a number of medium and smaller sized companies, such as Balfour Beatty, Keller, Bovis Homes and Pennon. There were fewer negative contributors, but BAE Systems, Senior and National Express underperformed. The Trust's NAV consequently rose by 6.9% in December, well ahead of the benchmark return of 3.3%.

We made a new small investment in Norcros, which designs, manufactures and sells showers, taps, tiles, adhesives and other bathroom related products in the UK and South Africa. Key brands include Triton, the UK market leader in electric showers, Vado taps and Johnson Tiles. In recent years the business has been built by acquisitions of businesses selling complementary products, enabling the company to benefit from sharing overheads and cross-selling. The company has a strong record of earnings and dividend growth, helped by market share gains, as they have shifted the business mix from DIY towards trade suppliers and large



### 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.

housebuilders. However, like many smaller UK companies exposed to the domestic consumer, the shares have been out of favour and traded on a very lowly valuation. We thought that the low valuation did not reflect the favourable prospects for the business, even allowing for a large pension liability.

We sold the remaining holding in TP ICAP, the financial trading company, which performed well in 2019 and became fully valued. Elsewhere, we continued to add to attractively priced shares like Stock Spirits and PZ Cussons and we made small reductions to some of the domestic and financial stocks that had a strong rally into and after the general election, such as Legal & General, Standard Life Aberdeen and Bovis Homes.

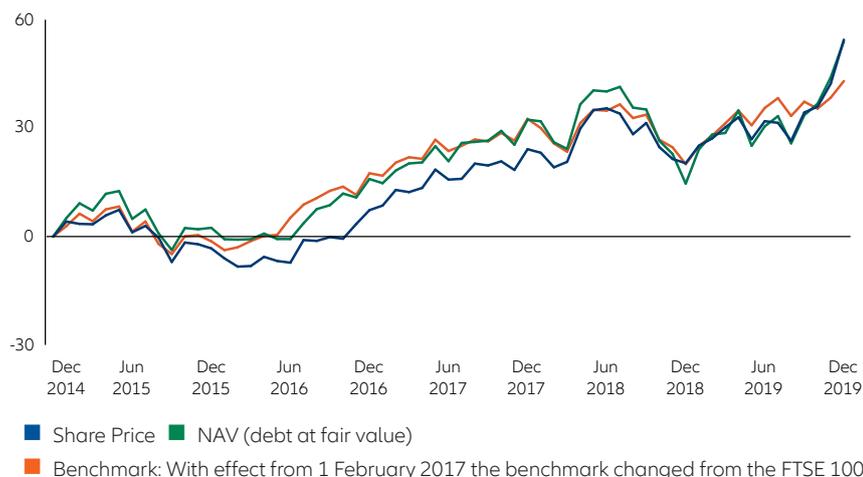
As we enter 2020, some of the political uncertainty that has plagued the UK since the Brexit referendum in June 2016, has been removed. We now have a government with a clear majority and a much clearer path towards Brexit at the end of this month, although the important issue of the future trading relationship between the UK and EU remains unclear and could lead to volatility in the months ahead. We should be entering a more normal period for equity investors. The fundamental qualities of companies, such as the strength of their competitive positions and their growth prospects, should matter more than whether they are domestic or internationally focused, and whether they are large or small. This should be a good environment for stock picking. The portfolio comprises many strong businesses, paying high and growing dividends, in aggregate, and trading on attractive valuations.

**Simon Gergel**  
**16 January 2020**

**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 (%)



### 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	15.0	17.1	28.4	44.0	54.5
NAV (debt at fair value)	14.3	15.9	32.0	30.5	51.3
Benchmark	4.2	5.5	19.2	21.7	43.0

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

	2019	2018	2017	2016	2015
Share Price	28.4	-3.1	15.7	10.9	-3.3
NAV (debt at fair value)	32.0	-13.4	14.2	13.2	2.4
Benchmark	19.2	-9.5	12.8	19.1	-1.3

Source: Thomson Reuters DataStream, percentage growth, mid to mid, total return to 31.12.19. 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.

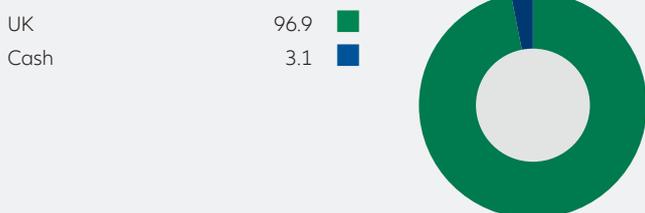
Past performance is not a reliable indicator of future returns. You should not make any assumptions on the future on the basis of performance information. The value of an investment and the income from it can fall as well as rise as a result of market fluctuations and you may not get back the amount 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	26.5	
Industrials	19.6	
Consumer Goods	14.1	
Consumer Services	11.6	
Oil & Gas	7.8	
Utilities	7.7	
Health Care	5.4	
Basic Materials	4.2	
Cash	3.1	

### Geographic Breakdown (%)



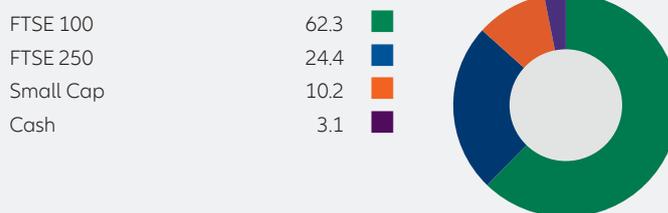
### Top Ten Holdings (%)

Royal Dutch Shell - B Shares	5.4
GlaxoSmithKline	5.4
Barclays	3.9
Imperial Brands	3.6
British American Tobacco	3.5
BAE Systems	3.5
Land Securities	3.1
Legal & General	3.0
Standard Life Aberdeen	2.9
St James's Place	2.9

Total number of holdings\* 46

\*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

Colin Clark (Chairman)  
Timon Drakesmith (Chairman of the Audit Committee)  
Mary Ann Sieghart  
Sybella Stanley (Senior Independent Director)  
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](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 31.12.19 unless otherwise stated.**

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