

# The Merchants Trust PLC

Factsheet

30 November 2012

## 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.

## Fund Manager's Review



Simon Gergel

November saw the re-election of President Obama in the USA for a second term but a continuation of the impasse between Republicans and Democrats over solving the "Fiscal Cliff" which threatens spending cuts, higher taxes and ultimately lower growth in 2013. Economic growth expectations in the UK and Europe have generally been downgraded and company profits forecasts followed this trend. Aggregate earnings are now expected to be modestly down in 2012, primarily due to profit declines in commodity producers. Dividends are still forecast to grow this year.

Despite a generally weak economic background, the UK stock market continued its rally towards the top of this year's trading range, just below 6000 on the FTSE 100 Index. The FTSE has now given a 9% total return in 2012 to date. The market was generally led by cyclical sectors such as technology, chemicals, life insurance and banks although tobacco and fixed line telecoms also performed well. The worst performing sectors included defensive sectors like mobile telecoms, oil & gas, and electricity as well as the more cyclical mining and construction sectors.

The Trust's share price (+3.08%) outperformed the benchmark (+1.90%) whilst the NAV (+1.27%) slightly underperformed. Key positive performers were Daily Mail & General Trust, Resolution and Britvic (which agreed a merger with AG Barr) and the trust also benefitted from not owning BG or Anglo American which both declined. Notable negative factors included poor performance from Balfour Beatty and ICAP, which both had weak trading statements, and not owning the banks Lloyds or Barclays which performed well.

The main investment activity in the month was to take profits in strong performers as valuations reached less attractive levels, eg. Unilever, Reed Elsevier and Interserve. The proceeds were recycled into increased holdings in Balfour Beatty, ICAP and Vodafone after they had been de-rated.

We remain cautious on the outlook for economic growth as high government and consumer debt levels are gradually addressed. There is a possibility that markets react well to some policy action in the USA to address or at least delay the "Fiscal Cliff". However even a clear agreement will only defer the problem of how to ultimately deal with high debt levels, and markets have already been fairly strong in anticipation.

Having said that, aggregate stock market valuations remain reasonable and we continue to find opportunities to invest into high quality business franchises at attractive long term levels. Increasingly the best value is to be found outside of the most defensive sectors which have generally performed well, but also away from the most cyclical sectors or the most leveraged financials which carry higher risks. Favoured areas include consumer sectors such as media and travel & leisure and industrial sectors like aerospace & defence. Ultimately investment decisions are driven by individual stock specific considerations rather than sector drivers.

## Performance (%)



## Cumulative Performance (%)

	3 Months	6 Months	1 Year	3 Years	5 Years
Share Price	6.3	14.5	10.6	40.2	10.6
NAV	4.5	17.6	16.1	39.2	5.4
FTSE 100	3.5	12.4	10.7	25.7	10.4

## Discrete Performance (%)

From To	28.09.07 30.09.08	30.09.08 30.09.09	30.09.09 30.09.10	30.09.10 30.09.11	30.09.11 28.09.12
Share Price	-29.6	6.2	21.0	4.3	7.2
NAV	-32.2	8.6	13.3	-2.2	22.0
FTSE 100	-21.2	9.5	11.8	-4.4	16.4

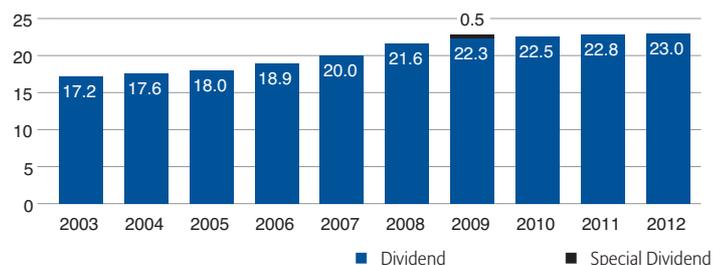
Source: Lipper, percentage growth, mid to mid, total return to 30.11.12. Benchmark: FTSE 100 Index; .

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. Your capital could also decrease if income paid out of capital exceeds the growth rate of the trust.

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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 30.11.12 unless otherwise stated.

Allianz Global Investors, 155 Bishopsgate, London EC2M 3AD

**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.**

**Allianz**   
Global Investors

## Capital Structure

Total Assets:	£559.6m
Gearing (net):	23.2%
Shares in Issue:	103,213,464 (Ordinary 25p)
Share Price <sup>1</sup> :	382.0p
Net Asset Value <sup>2</sup> :	422.4p (386.2p – debt at market value)
Premium/-Discount to NAV <sup>2</sup> :	-9.6% (-1.1% – debt at market value)
NAV Frequency	Daily
Dividend Yield <sup>3</sup> :	6.07%

1. Source: Lipper as at 30.11.12, market close mid price.

2. Source: Datastream as at 30.11.12. 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 Equity Income	
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 including Annual Management Fee and the market value of the debt (gearing).

## 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, fixed rate 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 (%)

Financials	17.9	
Consumer Services	15.7	
Oil & Gas	15.1	
Industrials	12.0	
Consumer Goods	11.5	
Telecommunications	8.4	
Utilities	8.3	
Health Care	6.9	
Basic Materials	2.4	
Cash	1.8	

## Top Ten Holdings (%)

Royal Dutch Shell "B" Shares	8.5	British American Tobacco	3.7
HSBC	7.2	BAE Systems	3.6
GlaxoSmithKline	6.9	Scottish & Southern Energy	3.1
BP	6.6	Reed Elsevier	3.0
Vodafone	5.1	National Grid	3.0
<b>Total Number of Holdings</b>	<b>67</b>		

## Net Dividends (Financial Year to Date)

	Pay Date	XD Date	Payment
1st quarterly dividend	15.8.12	13.7.12	5.8p per share
2nd quarterly dividend	12.11.12	5.10.12	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 or from the AIC at [www.theaic.co.uk](http://www.theaic.co.uk)

## Contact Us

If you have any queries regarding our investment trusts our Investor Services team can be contacted on:

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

All data source Allianz Global Investors as at 30.11.12 unless otherwise stated.

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