

# 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

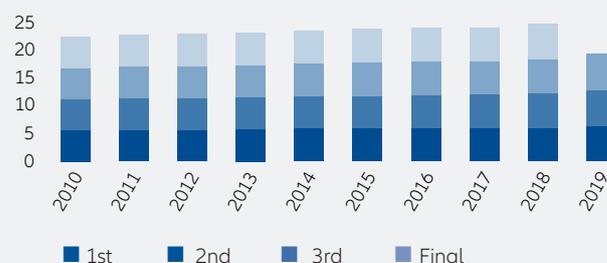
The Merchants Trust PLC was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, but now concentrates primarily on major UK 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 36 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
01.02.2019	06.03.2019	6.50p	3rd Quarterly
05.10.2018	15.11.2018	6.50p	2nd Quarterly
13.07.2018	22.08.2018	6.40p	1st Quarterly
20.04.2018	30.05.2018	6.30p	Final

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** £610.8m

**Shares in Issue** 108,728,464 (Ordinary 25p)

**Market Cap** £499.1m

Share Price

**459.0p**

Source: Lipper

NAV per Share

**427.7p**

Premium/-Discount

**7.3%**

Dividend Yield

**5.5%**

Gearing

**22.9%**

**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

December was a poor month for financial markets, with several negative factors weighing on sentiment. There were concerns about the risks of a slowdown in global economic growth caused by trade tensions between the US and China, a higher oil price (although this reversed) and rising interest rates in the USA, as well as the potential impact of an end to quantitative easing in Europe. Brexit was not the main driver of stock market weakness, even though the UK Prime Minister, Theresa May, decided not to put the UK Withdrawal Bill to parliament, and she had to fight, and survive, a Conservative party confidence vote.

Over the month, the FTSE All-Share fell by 3.7% (total return) with overseas markets even weaker, notably the USA, which had held up better earlier in the year. December rounded off a difficult calendar year for markets which has seen the FTSE All-Share index down by just under 10% (total return), with all of the decline happening in the last quarter. There was a similar picture in most of the major international equity markets.

There were sharp moves at the sector and stock level, with a mixture of cyclical and defensive sectors among outperformers and underperformers. Metals and mining were the best performing sectors in December, and the only ones to produce positive total returns. Beverages, support services and electricity also outperformed. The worst performing sectors included oil services, general retailers, telecommunications and life insurance.

Portfolio performance was behind the benchmark in the month, with the Trust's NAV falling by 6.7% over the month, driven by a large number of relatively modest positive and negative individual stock contributions.

**“ Share price moves, especially on the downside, have been quite extreme, and in many cases seem out of proportion to the fundamental drivers of the shares**

Share price moves, especially on the downside, have been quite extreme, and in many cases seem out of proportion to the fundamental drivers of the shares in our view, especially at the smaller market cap level.

Senior Engineering shares fell back, after a trading statement at the end of November was taken poorly by the market. Marks & Spencer shares also retreated, amid poor sentiment towards the retail sector, and Keller shares continued to decline, despite an extremely depressed valuation. On the other hand, BHP shares performed well, partly due to the announcement of a special dividend. The portfolio's relative performance also benefitted from not holding British American Tobacco and Vodafone, which both underperformed the weak market.

We made one significant change to the portfolio. We sold Lloyds Bank, reflecting increasing signs that the UK economy might be slowing down, due to global factors and continual uncertainty over Brexit. Although



### 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.

Lloyds is well capitalised and trades on a low valuation, its profitability is closely linked to the strength of the domestic economy. We reinvested part of the proceeds into Barclays, which has more self-help potential, but most was invested outside the banks sector. One larger purchase was an additional investment into Imperial Brands, which is lowly priced, but has lower economic sensitivity.

We also made a number of smaller trades, to take advantage of the considerable volatility in the markets in recent weeks. We generally rotated money out of shares that had outperformed, and where we felt the upside was more limited, and reinvested into shares that were more depressed, many of which we believed offered compelling value. Such trades included reducing BHP, Tate & Lyle and TP ICAP, and adding to CRH, IG Group, BAE Systems, Senior, Keller, GVC and St James's Place.

Recent market movements, together with transactions in the portfolio, mean that the valuation of many of the Trust's shareholdings is now quite compelling on a long term view. We have been able to identify a collection of strong businesses, with sound prospects, trading on attractive valuations. These companies generally pay a high dividend yield, and we believe they are well placed to deliver returns consistent with the objectives of The Merchants Trust, including above average income and income growth, and with long term capital growth.

**Simon Gergel**  
**2 January 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 (%)



### 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	-8.5	-11.2	-3.1	24.4	16.1
NAV (debt at fair value)	-15.2	-18.2	-13.4	11.9	11.4
Benchmark	-10.2	-11.0	-9.5	21.6	20.9

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

	2018	2017	2016	2015	2014
Share Price	-3.1	15.7	10.9	-3.3	-3.5
NAV (debt at fair value)	-13.4	14.2	13.2	2.4	-2.8
Benchmark	-9.5	12.8	19.1	-1.3	0.7

Source: Thomson Reuters DataStream, percentage growth, mid to mid, total return to 31.12.18. Copyright 2018 © 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.

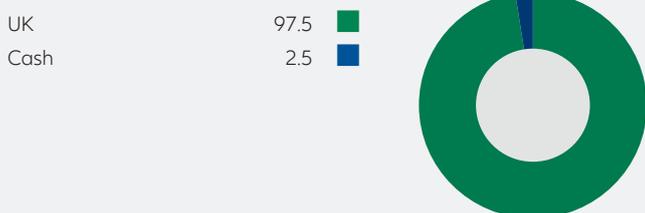
Past performance is not a reliable indicator of future returns. You should not make any assumptions on the future on the basis of performance information. The value of an investment and the income from it can fall as well as rise as a result of market fluctuations and you may not get back the amount 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	29.7	<div style="width: 29.7%;"></div>
Industrials	17.5	<div style="width: 17.5%;"></div>
Consumer Services	11.3	<div style="width: 11.3%;"></div>
Oil & Gas	10.9	<div style="width: 10.9%;"></div>
Consumer Goods	8.2	<div style="width: 8.2%;"></div>
Utilities	6.9	<div style="width: 6.9%;"></div>
Basic Materials	5.9	<div style="width: 5.9%;"></div>
Health Care	5.7	<div style="width: 5.7%;"></div>
Telecommunications	1.4	<div style="width: 1.4%;"></div>
Cash	2.5	<div style="width: 2.5%;"></div>

### Geographic Breakdown (%)



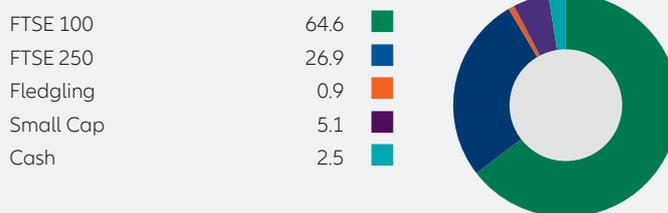
### Top Ten Holdings (%)

Royal Dutch Shell 'B' Shares	6.8
GlaxoSmithKline	5.7
HSBC Holdings	4.5
Imperial Brands	4.5
BP	4.1
BHP Group	4.1
BAE Systems	3.3
Legal & General	3.2
Standard Life Aberdeen	3.0
Scottish & Southern Energy	2.7

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>	0.59%
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 (31.01.2018). 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



## 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 31.12.18 unless otherwise stated.**

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