

## 34 years of dividend increases... we're the Merchants of boom



**INVESTMENT trust**  
**Merchants** remains one of the industry's most popular vehicles among investors searching for high and growing income.

With a yield of more than five per cent, it offers a more attractive income than most other UK equity income oriented funds, which average 3.6 per cent. It has also managed to increase its payouts for 34 years running.

Last week, its board announced a small rise in next month's quarterly dividend. Provided there are no nasty surprises before April, when it will confirm the final dividend payment for the current financial year, it means that 34 will become 35.

Understandably, longstanding manager Simon Gergel is proud of the trust's impressive record.

'It is our focus,' he says. 'We are income seekers and we make no apology for buying shares that provide the high yield we require. It's why so many private investors hold the trust.'

Its biggest investors are those who have bought shares through fund platforms Alliance and Hargreaves Lansdown and via stockbroker Brewin Dolphin.

Gergel, who works for asset manager Allianz Global Investors, is unfazed by Prime Minister Theresa May's vow last week to

### FACTS AT A GLANCE

**SIZE AND RETURNS:**  
 £646million. One year, +22%; three years, +5%; five years, +72%.

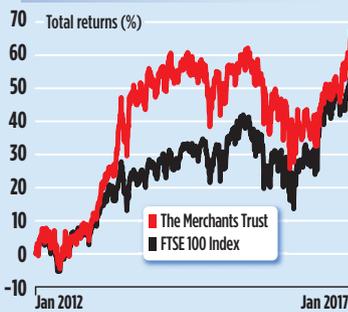
**MANAGER AND TENURE:**  
 Simon Gergel since April 2006.

**THE BIG RIVALS:**  
 They include UK equity income trusts Edinburgh, JP Morgan Claverhouse, Lowland, Murray Income and The City of London.

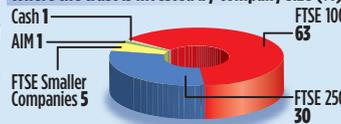
**HOW TO INVEST:**  
 The trust is best bought through an online fund supermarket. The ongoing charge is 0.58%. A platform fee may also apply.

### THE MERCHANTS TRUST

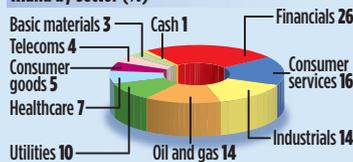
Fund beats FTSE100 over five years



Where the trust is invested by company size (%)



...and by sector (%)



take Britain out of the European single market. He says that if the economy is hit by the march towards Brexit, he believes the make-up of the trust's portfolio will shield it from the worst effects.

'The trust is more than 60 per cent exposed to FTSE 100 firms,' he says. 'Most of these are not dependent on the UK economy. They derive most of their earnings abroad. So they should be protected from any fallout.'

Merchants has stakes in 44 companies. Its biggest holdings are in businesses renowned for being dividend friendly, such as oil giants BP and Royal Dutch

Shell and bank HSBC. But it also has positions in firms that are normally off the radar of income-seeking fund managers. Among its top ten holdings are exhibitions organiser UBM and satellite specialist Inmarsat.

'UBM is a super business,' says Gergel. 'It does not absorb vast amounts of capital, it gets paid in advance and its exhibitions have longevity, getting bigger every year. The high barriers to entry mean its cash flow is not threatened by competitors.'

Among the company's longest running exhibitions is the Hong Kong Jewellery and Gem Fair, one of Asia's top fine jewellery events.

Inmarsat, he says, is booming on the back of strong demand for satellites from the marine and aviation industries and governments worldwide.

Though Merchants' income record is beyond reproach, its relative overall performance is a little disappointing. Over the past one and three years, it has underperformed its benchmark, the FTSE 100 Index. In the past year, it returned 22 per cent against the Footsie's 28 per cent.

Gergel's retort is to point to the trust's outperformance over the past five years and, of course, the higher yield Merchants offers - 5.1 per cent compared with the

Footsie's 3.6 per cent. From next month, the trust will use the FTSE All-Share Index as its benchmark, reflecting its increasing exposure to stocks outside the FTSE 100.

Two additional features should reassure investors contemplating Merchants as a home for their money. One is the trust's low ongoing charge of 0.58 per cent. The other is just under a year's worth of income in reserve, which can be drawn upon if the trust at any stage has to top up payments to shareholders in order to keep the growing dividend record heading towards 40 years.

■ Jeff Prestridge



**RIGHT SIGNALS:** Satellite specialist Inmarsat, top, is among fund manager Simon Gergel's leading holdings