The Mail ON SUNDAY

Wealth

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UK trust that delivers income AND growth

FUND FOCUS

By **Jeff Prestridge**

INVESTMENT trust Merchants, a £700 million fund investing in UK equities, is enjoying something of a purple patch and proving that a fund can deliver an attractive income as well as generate strong overall returns.

With its financial year just ended, the trust is on course to produce its 38th consecutive year of annual dividend increases. Although the final quarterly dividend for last year has yet to be announced, the annual increase is likely to be in the order of 4.2 per cent, meaning total shareholder income for the year of just above 27p on shares that finished last week trading at below £5.40.

The trust's dividend yield of 4.8 per cent is also attractive when compared to rival UK equity income trusts.

All in all, a good 12 months for the trust's shareholders, resulting in overall returns (capital plus income) of just over 21 per cent. By way of comparison, the average UK equity income trust and the FTSE All-Share Index have both registered returns a shade above 11 per cent. Only three rival UK equity income trusts – BMO UK High Income, Dunedin Income Growth and Murray Income – have delivered better total returns over the past year.

Furthermore, manager Simon Gergel, who works for investment group Allianz Global Investors, hopes the trust can continue its good run, despite concerns over the dent in global economic growth that could result from the recent breakout of the coronavirus in China.

He believes there are enough encouraging signs in the UK economy – such as a recent pickup in commercial property sales and greater activity in the housing market – to suggest the domestic economic boost promised in the wake of the Conservatives' Election victory is beginning to materialise. Although Merchants' income bent means the 45-strong portfolio comprises many big dividend-friendly companies (such as Shell, BAT and Legal & General), it does have a good smattering of domestic stocks.

Last year, ahead of the Election, new positions were built in furniture giant DFS, bathrooms accessories supplier Norcros and banks Royal Bank of Scotland and Barclays. Gergel has also been adding to the trust's exposure to housebuilding. It holds shares in Vistry (Bovis as was) while a new position in a rival builder is slowly being compiled. 'Maybe the housing market will get a fillip in next month's Budget with further reform of stamp duty,' he says.

Disposals include holdings in Marks & Spencer, emerging markets specialist Ashmore, City financial firm TP ICAP and HSBC.

Gergel describes himself as an 'active' investor which means he is not frightened to buy shares and then sell them when he thinks they have reached 'fair' value.

Two additional factors should work in shareholders' favour this year. First, like many investment trusts, Merchants has borrowed money to increase the fund's exposure to UK stocks. Two years ago, these borrowings were costly at 8 per cent-plus a year. But now, the £93 million of loans have been refinanced, resulting in an average cost of 3.75 per cent. Second, the trust's total annual charges are just 0.58 per cent – low compared with many other trusts and funds.

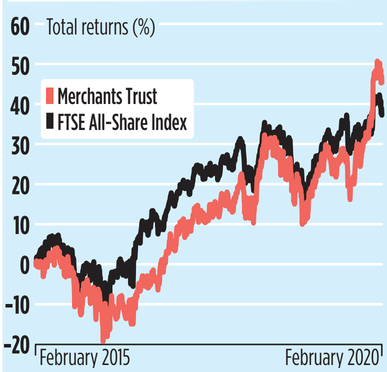
London Stock Exchange identification numbers: Merchants (0580007); Dunedin Income Growth (0340609); BMO UK High Income (B1N4G29); Murray Income (0611112).

TOP TEN HOLDINGS (%)

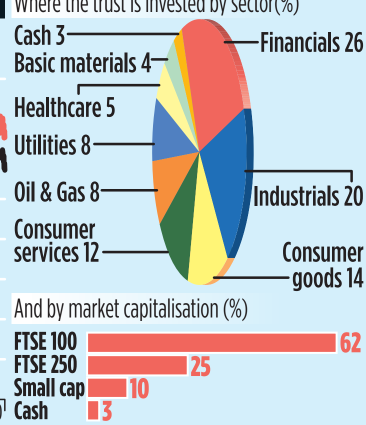
Royal Dutch Shell	5.4
GlaxoSmithKline	5.4
Barclays	3.9
Imperial Brands	3.6
British American Tobacco	3.5
BAE Systems	3.5
Land Securities	3.1
Legal & General	3.0
Standard Life Aberdeen	2.9
St James's Place	2.9

MERCHANTS TRUST

Good times for the fund ahead... hopefully



Where the trust is invested by sector(%)



Source: FINANCIAL EXPRESS