

# 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

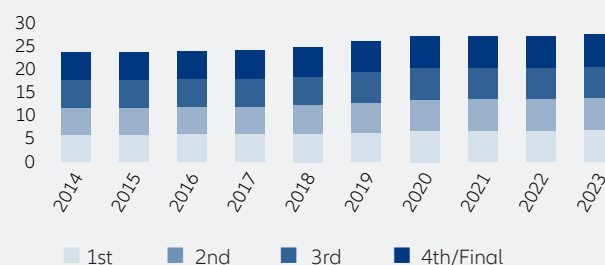
The Merchants Trust PLC was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, but now concentrates primarily on major UK 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 15 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 41 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
21.04.2023	26.05.2023	7.00p	Final
03.02.2023	15.03.2023	6.90p	3rd Interim
07.10.2022	10.11.2022	6.85p	2nd Interim
15.07.2022	24.08.2022	6.85p	1st Interim

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.

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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** £934.0m

**Shares in Issue** 144,789,887 (Ordinary 25p)

**Market Cap** £838.3m

Share Price

**579.0p**

NAV per Share

**575.9p**

Premium/-Discount

**0.5%**

Dividend Yield

**4.8%**

Gearing

**10.6%**

**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

After the collapse of Silicon Valley Bank and the rescue of Credit Suisse in March, the start of April saw more settled conditions in the banking industry. However, large deposit outflows at US bank First Republic, precipitated a loss of confidence and its share price collapsed, prompting US authorities to orchestrate a rescue takeover by JP Morgan Chase, at the beginning of May.

Despite the challenges in the US banking system, first quarter results for many businesses showed resilient trading. In the UK, the two large banks in Merchants' portfolio, Barclays and NatWest, both reported strong income growth, and there were also good trading results at GSK, Unilever, Morgan Advanced Materials and others.

The stock market made modest gains, with some of the strongest performances amongst more cyclical or financial sectors, including insurance, housebuilders and real estate. The weakest larger sectors were industrial transportation, metals & mining, and construction & materials. The portfolio modestly underperformed the benchmark index, with the main impact coming from mid-single digit percentage declines at Energean, WPP and CRH, even though recent news flow from all three companies has been good. On the positive side, housebuilder Redrow and insurer Admiral performed well, and the portfolio benefited from not owning Anglo American and Diageo, which both underperformed. The Net Asset Value Total Return for April was 4.4%, compared with 3.4% from benchmark index, the FTSE All-Share.

The main portfolio change in the month was the sale of BAE Systems. BAE is not only Britain's largest defence manufacturer, but also the country's largest manufacturing business altogether, as well as being a major US prime contractor. And it has some of the most advanced technology in the UK, if not the world. The business is trading well, has a large order book and has strong prospects. BAE has been in the portfolio for many years, and selling the shares brings mixed emotions. However, our job is not simply to own strong businesses on behalf of shareholders, we are looking

### “ The main portfolio change in the month was the sale of BAE Systems.

for exceptional investment opportunities. BAE shares have been very strong performers, with the share price doubling over the last two years, even excluding dividends. Our assessment was that the shares had moved up to a fair valuation, and therefore we decided to exit the position to fund more attractive situations. We wrote up the BAE Systems investment as a case study in the recent 2023 annual report, reflecting its strong contribution to last year's results.

We reallocated funds to build up existing positions where we see more potential upside, including several of the bank holdings, GSK, Drax, Keller and Morgan Advanced Materials.

We have not changed our outlook on the stock market, as explained in the recent annual report. We continue to find many opportunities to invest in strong businesses, that are soundly financed, at attractive valuations. We believe these companies, in aggregate, can continue to provide income and total returns commensurate with Merchants' objectives.



### Simon Gergel, Portfolio Manager

The Merchants Trust PLC is managed by Simon Gergel who is Chief Investment Officer, UK Equities at AllianzGI and has 32 years investment experience. 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.

### Side Note:

April has seen a resurgence of takeover activity in the UK, after a quieter period. Publicly disclosed approaches included Network International, a payment solutions company, Dechra Pharmaceuticals, which develops and markets veterinary products, THG, an online retailer of consumer goods, beauty and nutrition products and Wood Group, which agreed to engage with Apollo, after an earlier approach.

We are not surprised to see takeovers launched for UK businesses, given the modest valuation of much of the UK stock market, which has been under pressure from persistent outflows of investment funds. What has been more surprising, is that most of the recent bids have come from private equity houses, rather than other corporates. Stress in the banking system and higher interest rates, do not seem to have impacted the appetite of lenders to fund these types of acquisitions.

There was, however, one notable corporate acquisition announced at the end of the month. Deutsche Bank agreed to buy Numis Corporation, a UK corporate broking and research business. Ironically, it was the paucity of transactions through much of 2022 that had impacted profitability and made Numis vulnerable to takeover.

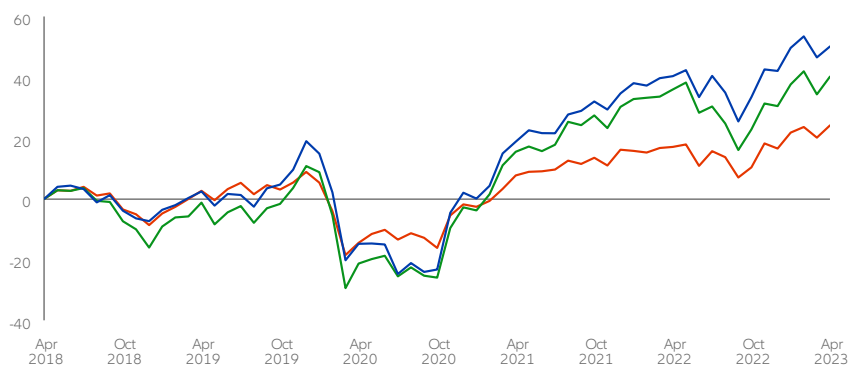
The statement from Deutsche states "The UK is the largest investment banking market in Europe and Deutsche Bank has been evaluating how to accelerate the growth of its business in the UK". Clearly, Deutsche expect more corporate activity to follow over the next few years.

Simon Gergel  
22 May 2023

**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 (%)



■ Share Price ■ NAV (debt at fair value)

■ Benchmark: With effect from 1 February 2017 the benchmark changed from the FTSE 100 to the FTSE All-Share Index

## 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	0.3	12.5	7.0	76.3	50.1
NAV (debt at fair value)	1.9	14.1	6.9	84.6	45.2
Benchmark	1.9	12.5	6.0	45.2	24.2

### Discrete 12 Month Returns to 30 April (%)

	2023	2022	2021	2020	2019
Share Price	7.0	18.2	39.5	-16.8	2.4
NAV (debt at fair value)	6.9	17.6	46.8	-20.3	-1.3
Benchmark	6.0	8.7	25.9	-16.7	2.6

Source: Thomson Reuters Refinitiv DataStream, percentage growth, mid to mid, total return to 30.04.23. Copyright 2023 © 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.

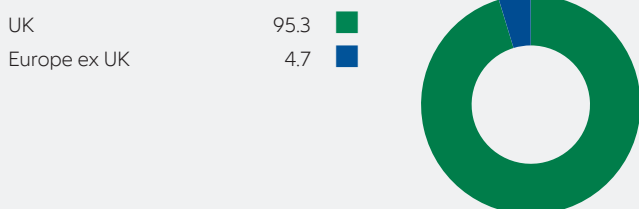
Past performance is not a reliable indicator of future returns. You should not make any assumptions on the future on the basis of performance information. The value of an investment and the income from it can fall as well as rise as a result of market fluctuations and you may not get back the amount 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	21.4	
Consumer Staples	14.9	
Consumer Discretionary	14.4	
Industrials	13.5	
Energy	11.3	
Health Care	7.2	
Utilities	6.9	
Materials	3.6	
Real Estate	2.9	
Communication Services	1.1	
Cash	2.8	

### Geographic Breakdown\* (%)



### Top Ten Holdings (%)

Shell	4.4
GSK plc	4.3
British American Tobacco	3.9
BP	3.2
DCC	3.2
Rio Tinto	3.0
IG Group	2.9
Tate & Lyle	2.8
Scottish & Southern Energy	2.8
Imperial Brands	2.6

Total number of holdings\*\* 53

\*\*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.

\*Excludes Cash

## Key Information

Launch Date	16 February 1889
AIC Sector	UK Equity Income
Benchmark	FTSE All-Share
Annual Management Fee	0.35%
Performance Fee	No
Ongoing Charges <sup>1</sup>	0.56%
Year End	31 January
Annual Financial Report	Final published in April, Half-yearly published in September
AGM	May
NAV Frequency	Daily
Dividends	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 (31.01.2023). Ongoing Charges (previously Total Expense Ratios) are published annually to show operational expenses, which include the annual management fee, incurred in the running of the company but excluding financing costs.

## Board of Directors

Colin Clark (Chairman)  
Timon Drakesmith (Chairman of the Audit Committee)  
Karen McKellar  
Mary Ann Sieghart  
Sybella Stanley (Senior Independent Director)

## 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 30.04.23 unless otherwise stated.**

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