

# 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

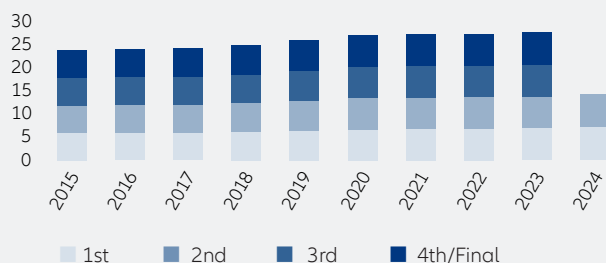
The Merchants Trust PLC was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, but now concentrates primarily on major UK 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 over 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
06.10.2023	10.11.2023	7.10p	2nd Interim
07.07.2023	24.08.2023	7.10p	1st Interim
21.04.2023	26.05.2023	7.00p	Final
03.02.2023	15.03.2023	6.90p	3rd Interim

Past performance is not a reliable indicator of future results.

## 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, www.merchantstrust.co.uk
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.



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** £885.5m

**Shares in Issue** 147,069,887 (Ordinary 25p)

**Market Cap** £792.7m

Share Price  
**539.0p**

NAV per Share  
**537.0p**

Premium/-Discount  
**0.4%**

Dividend Yield  
**5.2%**

Gearing  
**15.4%**

## Fund Manager's Review

In recent months many commentators have attempted to justify the low valuation of the UK stock market by citing a weak economic recovery from the pandemic, and high and sticky inflation compared to other large economies. September brought positive news which challenges this narrative. At the start of the month, the Office for National Statistics significantly upgraded their estimate of UK economic growth in 2020 and 2021, implying that the UK's recovery since the pandemic has actually been similar to other European countries. There was further positive news at the end of the month, with second quarter 2023 growth reported at +0.6% compared to year ago. This is not strong, but comfortably higher than the +0.4% consensus expectation.

The news on inflation was also much better than expected, with the core consumer price inflation rate coming in at 6.2%, well below the 6.8% expected. This lower inflation rate encouraged the Bank of England to hold interest rates at 5.25% in their September meeting, on a narrow 5-to-4 vote, providing some relief to mortgage holders after 14 consecutive increases at the Bank's previous meetings.

Despite these positive economic developments, declines in many major overseas stock markets, notably the USA, pegged back the UK stock market's advance to just under 2%. Within the UK, medium and smaller sized companies continued to lag the performance of larger companies, as they have done for much of the year, despite medium sized companies generally having a greater exposure to the domestic economy. The strongest performing sectors included oil & gas, which benefitted from a strong oil price, banks and metals & mining. The weakest large sectors included beverages and travel & leisure.

Portfolio performance lagged behind the market advance, driven mainly by company specific news. The biggest impact came from power generator Drax, where the share price fell sharply. Drax is a controversial stock, with a volatile share price history, but the company plays a critical role in the UK electricity industry. The latest concerns reflect debt factoring,

**“ The recent more encouraging news, on both inflation and growth, should help address a perception that the UK has a particularly difficult economic outlook**

which Drax has used to finance higher receivables as energy prices have risen. However, Drax is expected to generate extremely strong cash flows in the next few years, with much of its output hedged at favourable prices (a hedge is a financial strategy to protect against the risk of adverse price movements), so we saw this recent share price weakness as unjustified. A major catalyst for Drax's share price to perform is likely to be any confirmation that it has secured government approval and a funding framework for carbon capture and storage from its biomass power generation (BECCS) towards the end of this decade. There have been encouraging comments from the government in recent months, but investors are likely to remain nervous until there is a definitive announcement. As we believed Drax represented good value at those reduced levels even in the unlikely event that no further support is offered to its renewable power generation in the UK, given the US biomass operations, hydroelectric power, and other assets, we took advantage of the share price weakness to add to the holding.

Pets At Home shares also fell as the Competition and Markets Authority (CMA) launched an investigation into the veterinary industry, where the



### 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.

company is a major operator though its Vets for Pets chain. We do not see a significant risk from the CMA enquiry for Pets at Home as it has a unique profile. Their local vets have considerable autonomy over pricing and service offerings, as most are in a joint venture structure, whilst there is clear national branding. However, there will be an overhang for some time. Performance was also impacted by not owning HSBC and Glencore, which were strong.

On the positive side Redrow shares responded well to full year results, which were ahead of expectations. Whilst conditions for housebuilders are difficult, Redrow has a strong financial profile and a differentiated proposition, which has the potential to put it in a strong position when the housing market recovers. The biopharma company GSK also performed well with strong initial demand for the company's novel vaccine against Respiratory Syncytial Virus, and the company held a capital markets event to talk about its HIV business. DCC shares also responded well to an investor event. In addition, performance benefited from not owning Diageo which underperformed.

There were no changes to the list of portfolio holdings, though we took some money out of resources stocks Rio Tinto and Shell, to fund additions to companies that offered good value, such as Lloyds, Legal & General and Drax.

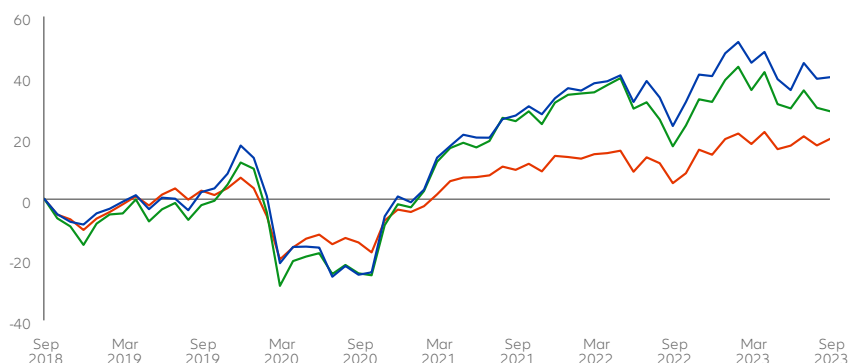
We have talked previously about the exceptional opportunities we see within the UK stock market, especially among medium and smaller sized companies. The recent more encouraging news, on both inflation and growth, should help address a perception that the UK has a particularly difficult economic outlook. This may provide a catalyst for foreign and domestic investors to look again at the UK. Even if this does not happen in the short term, we are confident that the companies in the portfolio should be able to deliver a high income stream and capital returns in the medium term, in line with Merchants' objectives.

Simon Gergel  
12 October 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	3.1	-3.3	13.0	86.6	40.0
NAV (debt at fair value)	0.3	-4.1	11.0	78.7	34.8
Benchmark	1.9	1.4	13.8	39.8	19.7

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

	2023	2022	2021	2020	2019
Share Price	13.0	-2.7	69.8	-26.6	2.2
NAV (debt at fair value)	11.0	-3.1	66.1	-22.9	-2.1
Benchmark	13.8	-4.0	27.9	-16.6	2.7

Source: Thomson Reuters Refinitiv DataStream, percentage growth, mid to mid, total return to 30.09.23. 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.

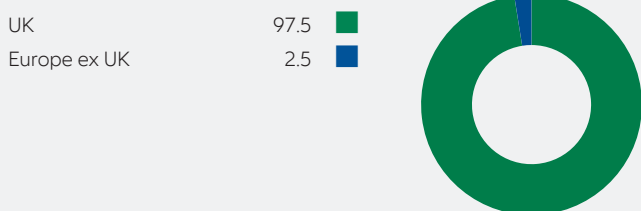
Past performance does not predict future returns. Investing involves risk. The value of an investment and the income from it may fall as well as rise and investors might not get back the full amount invested. This investment trust charges 65% of its annual management fee to the capital account and 35% 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	21.8	
Industrials	17.7	
Consumer Staples	13.2	
Consumer Discretionary	12.6	
Energy	12.0	
Health Care	8.0	
Utilities	6.7	
Materials	3.2	
Real Estate	2.7	
Cash	2.1	

### Geographic Breakdown\* (%)



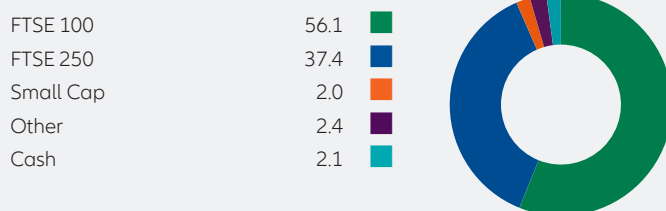
### Top Ten Holdings (%)

GSK	5.1
Shell	4.5
BP	3.7
British American Tobacco	3.6
DCC	3.2
Scottish & Southern Energy	2.7
IG Group	2.7
Inchcape	2.7
Energiean	2.6
WPP	2.6

Total number of holdings\*\* 52

\*\*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

## Board of Directors

Colin Clark (Chairman)

Timon Drakesmith (Chairman of the Audit Committee)

Karen McKellar

Mary Ann Sieghart

Sybella Stanley (Senior Independent Director)

## Glossary

**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.

## 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. For further information contact the issuer at the address indicated below.

**All data source Allianz Global Investors as at 30.09.23 unless otherwise stated.**

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