

# 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

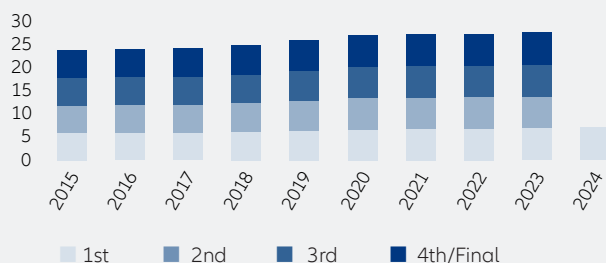
The Merchants Trust PLC was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, but now concentrates primarily on major UK 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
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
07.10.2022	10.11.2022	6.85p	2nd 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** £879.2m

**Shares in Issue** 147,019,887 (Ordinary 25p)

**Market Cap** £789.5m

Share Price  
**537.0p**

NAV per Share  
**532.4p**

Premium/-Discount  
**0.9%**

Dividend Yield  
**5.2%**

Gearing  
**14.3%**

## Fund Manager's Review

August was a fairly quiet month, with only a few companies reporting over the summer period. The UK inflation rate continued to ease back from recent high levels, although the latest number was slightly higher than expected, and surveys of manufacturing and services confidence deteriorated, with the Chartered Institute of Procurement & Supply (CIPS) composite Purchasing Managers' Index (PMI) survey falling below 50, indicating a potential contraction in the economy.

The UK stock market was weak, with thin trading volumes, mirroring the weakness in other major markets. Within the stock market, the best performing larger sectors included aerospace & defence, non-life insurance and oil & gas. The laggards included life insurance, banks and metals & mining.

Portfolio performance was a little behind the benchmark, driven largely by individual share price moves. On the positive side, Admiral shares rallied, as their results showed the benefits of higher car insurance pricing starting to feed through into a recovery in profitability. This is consistent with our positive investment case for the stock. Performance also benefitted from not owning certain large companies, where share prices fell back, contributing to the market's decline, notably HSBC and AstraZeneca. HSBC was particularly weak, reversing some of its previous outperformance of the other major UK listed banks, as conditions continued to worsen in the Chinese property market, where HSBC has significant operations.

On the negative side, marketing service company WPP's shares declined following second quarter results that showed lower than expected growth, with particular softness among their US technology clients that had pulled back marketing spending. Also, Close Brothers was weak, but on little news, and not owning Rolls Royce held back relative performance as those shares rallied by 20%.

We added a new stock to the portfolio, XP Power. XP designs and

“ **the gap between growth and value stocks is around the widest it has been in 50 years** ”

manufacturers power supply units, an essential component in most electronic machinery. XP Power's customers are generally major manufacturers of electronic equipment, across a broad range of industrial, semiconductor and healthcare markets. XP's products are often critical components that represent a small cost to the equipment manufacturer, but are generally designed-in for specific applications, allowing XP to make high margins and good returns. The company has an excellent growth record and normally commands a high valuation. However, the company has been through a difficult period, with supply chain problems and other company specific issues, and investors have been nervous about a downturn in the semiconductor cycle. These factors had taken the shares down to an unusually modest valuation for the business, which is also paying a dividend yield of over 4%.

We sold the investment in BMW, the manufacturer of the eponymous cars, as well as the Rolls Royce and Mini brands. BMW has been a strong performer and has paid significant dividends, despite a challenging



### 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.

consumer backdrop more broadly, as the industry has benefitted from high new and used car prices, due to constraints on vehicle supply during and after the pandemic. As those supply constraints start to ease, and with consumer budgets remaining tight, we decided to take profits to fund other ideas.

Elsewhere, the main activity was to add to St James's Place, as we thought that the recent fall in the share price was an over-reaction to July's pricing announcements, which we discussed last month. We also continued to reduce the CRH position, after strong performance has reduced the upside potential.

The UK stock market today, seems to offer exceptional opportunities for investors. According to Goldman Sachs, the UK stock market is trading close to its lowest absolute valuation in the last 20 years, in terms of price to earnings ratio, at the same time that the USA is trading close to its highest level. That is unusual in itself. But, in addition, the dispersion of valuations across the UK stock market (the gap between growth and value stocks) is around the widest it has been in 50 years, according to Morgan Stanley. These are conditions that I don't remember seeing before in my career. Many sound businesses are trading on depressed valuations, offering the potential to make very healthy capital and income returns.

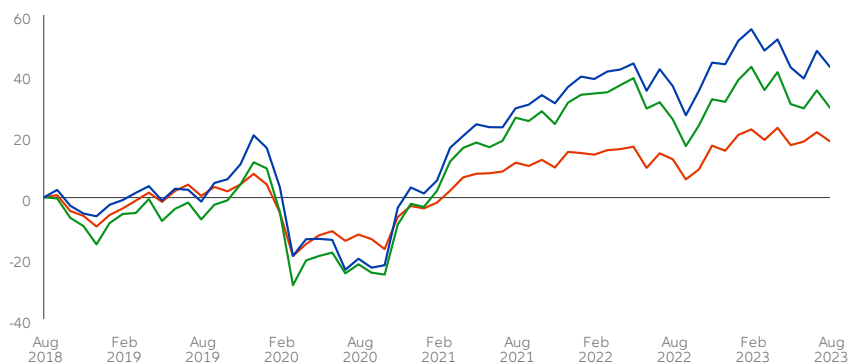
We are excited about the prospects for Merchants' portfolio. It is diversified across industries and geographic exposure, as well as between defensive and more cyclical businesses. But it is a portfolio of strong businesses, trading on very modest valuations, and paying an income stream well in excess of the broader stock market.

**Simon Gergel**  
**25 September 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	0.1	-8.0	4.6	79.1	42.9
NAV (debt at fair value)	0.2	-8.4	4.2	73.9	35.5
Benchmark	1.1	-3.2	5.2	34.9	18.4

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

	2023	2022	2021	2020	2019
Share Price	4.6	5.6	62.0	-19.1	-1.4
NAV (debt at fair value)	4.2	3.3	61.7	-15.9	-7.3
Benchmark	5.2	1.0	26.9	-12.6	0.4

Source: Thomson Reuters Refinitiv DataStream, percentage growth, mid to mid, total return to 31.08.23. 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.

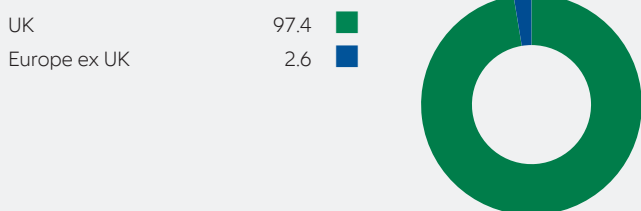
Past performance does not predict future returns. Investing involves risk. The value of an investment and the income from it may fall as well as rise and investors might not get back the full amount invested. This investment trust charges 65% of its annual management fee to the capital account and 35% to revenue. This could lead to a higher level of income but capital growth will be constrained as a result.

## Portfolio Breakdown

### Sector Breakdown (%)

Sector	Percentage (%)
Financials	21.1
Industrials	17.5
Consumer Staples	13.7
Consumer Discretionary	13.0
Energy	12.3
Health Care	7.6
Utilities	6.8
Materials	3.8
Real Estate	2.8
Cash	1.4

### Geographic Breakdown\* (%)



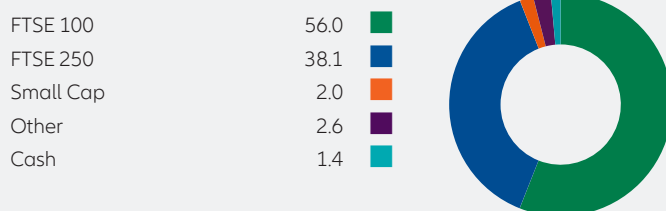
### Top Ten Holdings (%)

GSK	4.8
Shell	4.7
British American Tobacco	3.7
BP	3.4
Rio Tinto	3.1
DCC	3.0
IG Group	2.9
Scottish & Southern Energy	2.8
Energiean	2.8
WPP	2.7

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 31.08.23 unless otherwise stated.**

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