

CELEBRATING 130 YEARS

and looking to the future

The Merchants Trust was established in 1889 – the same year the Eiffel Tower was opened, no less – so this year the Trust celebrates its 130th birthday. If we judge longevity as a measure of success it's fair to say that the Merchants story is a compelling one, particularly when we consider that the Trust has navigated all manner of market conditions and many international conflicts over its 130 year lifetime.



Longevity is a recurring theme. My tenure as Merchants portfolio manager began in 2006 following the retirement of my predecessor, Nigel Lanning, after some 22 years at the helm. Such stability, alongside Merchants' own illustrious history,

should be reassuring to investors. And, arguably, the ability to adapt to market needs over time is another indicator of success. The Merchants Trust of today is very different to the one that was set up in 1889 but its aims are remarkably similar: to deliver healthy growth of both capital and income for the ordinary investor, just as it did at launch.

Changing the portfolio over time

The Trust was established during an ‘investment trust boom’ at the end of the 19th century, setting out to provide investors with an opportunity to benefit from some of the growth industries of the day. The initial focus was on railway expansion in the United States, Canada and South America. Right from the start, however, the Trust diversified its portfolio across continents, countries and industries and this approach has been fundamental to its longevity – the ability to adapt to a changing world. Merchants has endured innumerable global crises and market crashes over its life but its spread of investments and its evolving strategy has enabled it to weather such storms and move forward.

Whilst the present-day Merchants invests solely in UK companies, it is notable that many of these companies are multinational businesses, with the majority of the portfolio’s underlying sales and profits still coming from abroad. So, investors have exposure to global markets whilst benefiting from the UK’s leading corporate governance standards. Generating a high income has always been part of Merchants’ make-up and we are proud to have paid increasingly higher dividends year-on-year for the last 36 years. This makes Merchants one of the Association of Investment Companies’ ‘dividend heroes’, as well as one of the highest yielding trusts in its sector. This is precisely why so many present-day private investors hold the Trust.

Focus on the fundamentals

Our criteria for deciding which shares we buy focuses on the fundamentals of a business, including its cash flows, balance sheets, product range and market position. We’re looking for companies that are well run, whose share prices do not fully reflect the quality of their businesses and which, importantly, have the potential to pay attractive dividends. These are the companies that we believe are able to grow their sales over time or cut costs. This enables them, in general, to maintain and increase their dividends over time – crucial for a high income-seeking fund like ours.

When market sentiment swings occur, as they did in 2018, we treat this as a potential

opportunity to buy some really good companies at attractive prices, and to let go of others or reduce positions where valuations have held up better. Does this make us contrarian investors? Well, inevitably if we’re trying to buy decent companies on low valuations, these opportunities usually arise when companies are somewhat out of favour, and people are worried about one risk or another. So, in that respect, we do tend to be quite contrarian in our approach. By really getting to the bottom of what’s going on, we can sometimes identify companies that are fundamentally sound and in a supportive environment. In these cases, we just think the market may have got it wrong.

Reaching 130 provides a sense of perspective

It’s a great privilege for me to be the fund manager of Merchants as it turns 130 years old. Recent market ups and downs have challenged investors, but reaching this milestone is a remarkable achievement of longevity, in a world obsessed with short-term market movements, political and economic risks. Having survived through two world wars, the great depression, the 1970s inflationary shock and the global financial crisis, somehow today’s uncertainties over Brexit and Donald Trump’s trade spat with China don’t seem quite so threatening.

In the future we are absolutely resolute in our aim to continue growing the Merchants dividend every year and providing a good home for investors’ money. We are helped in this aim by the investment trust structure which allows us to take a long-term investment perspective and not get buffeted around too much by short term ‘noise’. Above all, we wish to reassure our current and future investors that we understand their needs and that the Trust’s focus on long-term capital and income growth is as relevant today as it was 130 years ago. ■

To find out more about Simon Gergel’s investment philosophy, visit www.merchantstrust.co.uk.



Simon Gergel

Portfolio Manager
The Merchants Trust PLC

Simon Gergel is CIO of UK Equities at Allianz Global Investors and is Portfolio Manager of The Merchants Trust PLC. Merchants has for many years focused on a simple proposition to deliver a high and rising income together with capital growth for its shareholders. Although past performance is no guide to the future, Merchants has paid a rising dividend to shareholders for 36 consecutive years.

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