

Investment Rationale

Investing in large UK companies, The Merchants Trust PLC aims to provide an above average level of income which increases over time. The Trust is managed by Simon Gergel, a Director at RCM with 23 years' investment experience.

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 UK FTSE 100 companies.

History

The Trust was incorporated in February 1889, making it the oldest of the investment trusts in the RCM stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, with the remainder held in Government securities and companies such as Castlemaine Brewery in Australia. The Trust now concentrates primarily on major UK companies with an above average rate of dividend yield.

Fund Manager's Review

Simon Gergel



The Merchants Trust portfolio comprises predominantly high yielding, large capitalisation UK equities to match the objectives of delivering a high and rising level of income, together with capital growth. The structure of the portfolio has been defensively positioned for some time, with limited positions in cyclical natural resources and industrial businesses but with a higher exposure to less economically sensitive sectors such as food producers, telecommunications and utilities. This reflects both a cautious view about the prospects for economic growth in much of the developed world as well as the fundamental merits and valuation attractions of the companies we have selected.

The stock market traded in a fairly narrow range throughout April, producing a total return of -0.2%. The company results season started fairly well but concerns grew about the sustainability of the US economic recovery as employment data disappointed expectations. Furthermore, the political and economic difficulties in the Eurozone came to the fore with impending elections in France and Greece. The strongest performing sectors included beverages, utilities, mining and engineering, whilst the laggards included fixed line telecoms, life assurance and general retail.

The Trust returned -0.94% (NAV TR) which was marginally behind the index in the month (-0.28%). The biggest contributing factors were a low weighting in the strong mining sector, a disappointing update from Resolution in the life assurance sector, and small pull-backs from media stocks Reed Elsevier and Daily Mail & General Trust. On the flipside the low weighting and good selection in the banks sector were positive and BAE Systems and National Grid outperformed.

Investment activity was limited to taking some profits in Compass after very strong performance as the price approached fair value, and adding to the BAE Systems shareholding at an extremely depressed level.

We retain an overall bias towards strong business franchises with robust balance sheets that are not overly sensitive to economic growth, especially within Continental Europe. However after a period in which "lower risk" stocks have outperformed significantly, we are finding opportunities to buy into more cyclical businesses with strong competitive positions at prices which offer good medium term value, even in a difficult economic environment. Conversely there are opportunities to take profits in several of the Trust's defensive companies that are approaching a full valuation.

Performance (%)



Cumulative Performance (%)

	3 Months	6 Months	1 Year	3 Years	5 Years
Share Price	5.1	2.9	-5.7	61.6	-3.3
NAV	2.9	4.6	-2.3	64.7	-7.9
FTSE 100	2.3	5.5	-2.0	50.4	7.2

Discrete Performance (%)

From	30.03.07	31.03.08	31.03.09	31.03.10	31.03.11
To	31.03.08	31.03.09	31.03.10	31.03.11	30.03.12
Share Price	-18.7	-39.3	64.3	21.5	-1.4
NAV	-15.4	-40.7	67.5	10.7	3.5
FTSE 100	-6.3	-28.2	50.4	7.4	1.2

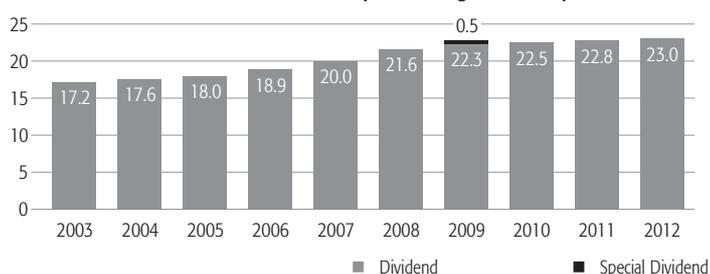
Source: Lipper, share price calculation percentage growth, mid to mid, total return to 30.04.12.

Benchmark: FTSE 100 Index; .

Past performance is not a reliable indicator of future performance. 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. Your capital could also decrease if income paid out of capital exceeds the growth rate of the trust.

Dividend History

Ten Year Net Dividend Record in Pence year ending 31 January 2012



Net Dividends Paid (financial year to date)

	Pay Date	XD Date	Payment
1st quarterly dividend	17.08.11	15.07.11	5.7p per share
2nd quarterly dividend	11.11.11	7.10.11	5.7p per share
3rd quarterly dividend	23.02.12	27.01.12	5.8p per share
Final dividend	14.05.12	13.04.12	5.8p per share



Capital Structure

Total Assets:	£531.7m
Gearing (net):	24.7%
Shares in Issue:	103,213,464 (Ordinary 25p)
Share Price ¹ :	376.5p
Net Asset Value ² :	397.0p (363.2p – debt at market value)
Premium/-Discount to NAV ³ :	-5.2% (3.7% – debt at market value)
NAV Frequency	Daily
Dividend Yield ² :	6.13%

1. Source: Lipper as at 30.04.12, market close mid price.

2. Source: Datastream as at 30.04.12. Calculated using the latest full year dividend divided by the current share price.

3. A trust's net asset value (NAV) 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. In line with current industry best practice NAVs are now shown to take into account the 'fair value' of debt. This means NAVs are calculated after allowing for the valuation of debt at fair value or current market price, rather than at final repayment value. NAVs with debt at market value provide a more realistic impact of the cost of debt, and thus a more realistic discount. It is the capital NAV that is shown, which excludes any income.

Key Information

Launch Date:	16 February 1889
AIC Sector:	UK Growth and Income
Benchmark:	FTSE 100 Index
Annual Management Charge:	0.35%
Performance Fee:	No
Total Expense Ratio: ⁴	0.47%
Year end:	31 January
Annual Financial Report:	Final posted in April, Half-yearly posted in September
AGM:	May
Dividends:	February, May, August, November
Price Information:	Financial Times, The Daily Telegraph, www.rcm.com/investmenttrusts

Board of Directors:
Simon Fraser (Chairman), Mike McKeon (Chairman of the Audit Committee),
Henry Staunton (Senior Independent Director), Paul Yates

Company Secretary	Kirsten Salt
Investment Manager	Simon Gergel, Director, UK Equity
Codes:	RIC: MRCH SEDOL: 0580007 ISIN: GB0005800072

4. Source: Annual Financial Report as at 31 January 2012

Risks & 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, which means that the shares may trade below (at a discount to) or above (at a premium to) the underlying net asset value.

Merchants seeks to enhance returns for its shareholders through gearing, in the form of long-term, fixed rate debentures. Gearing 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 are used to manage the trust efficiently.

Portfolio Analysis

Top Ten Holdings	(%)	(%)	
GlaxoSmithKline	7.6	British American Tobacco	3.7
Royal Dutch Shell "B" Shares	7.4	BAE Systems	3.6
HSBC	6.5	Scottish & Southern Energy	3.5
BP	6.5	National Grid	3.2
Vodafone	5.5	Unilever	3.1
Total Number of Holdings		60	

Sector Breakdown	(%)
Financials	17.1
Oil & Gas	14.1
Consumer Services	13.9
Consumer Goods	13.6
Industrials	11.7
Utilities	9.4
Telecommunications	8.8
Health Care	7.7
Cash	2.0
Basic Materials	1.7

HOW TO INVEST?

The Trust is a UK public limited company traded openly on the stock market. You can purchase shares through a stock broker. Shares in the Trust can be held within an ISA and/or savings scheme and a number of providers offer this facility. A list of suppliers is available on our website or from the AIC at www.theaic.co.uk

CONTACT US

To download the Annual Financial Report, Trust brochure or watch an interview with the fund manager, please visit us online at www.rcm.com/investmenttrusts



If you have any queries regarding our investment trusts our Investor Services team can be contacted on:

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All data source RCM (UK) Limited as at 30.04.12 unless otherwise stated.

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