

As focused on dividends as you are

The Merchants Trust PLC

Factsheet

30 June 2017

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

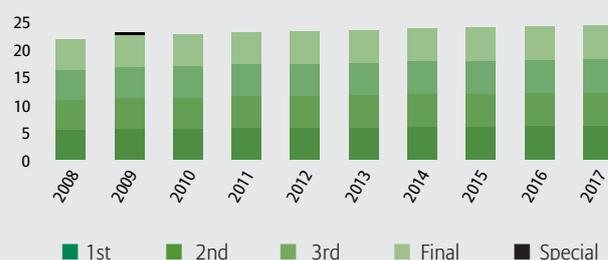
The Merchants Trust PLC was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, but now concentrates primarily on major UK 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 ten 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 35 years.

Ten Year Dividend History

Net Dividend Record in Pence per Share to year end 31 January



Last Four Net Dividend Payments per Share

Record Date	Pay Date	Dividend	Type
14.07.2017	11.08.2017	6.10p	1st Quarterly
21.04.2017	18.05.2017	6.10p	Final
27.01.2017	23.02.2017	6.10p	3rd Quarterly
07.10.2016	10.11.2016	6.00p	2nd Quarterly

Past performance is not a reliable indicator of future results.

Total Assets £680.3m **Shares in Issue** 108,728,464 (Ordinary 25p)

Share Price

476.3p

Source: Lipper

NAV per Share

485.2p

Premium/-Discount

-1.8%

Dividend Yield

5.1%

Gearing

16.5%

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 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.

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Fund Manager's Review

The UK general election on 8 June left the Conservative party as the largest party, but without an overall majority. This was a major setback for Prime Minister Theresa May, who called the election to cement her position ahead of Brexit negotiations. She had been targeting an increased majority, in the belief that there was a weak Labour opposition, led by Jeremy Corbyn. The result led to rising political uncertainty and meant that the Conservatives had to reach an agreement with the Democratic Unionist Party, in Northern Ireland, to form a government.

Financial markets largely took the election in their stride, with no clear agreement as to whether this would lead to a "harder" or "softer" Brexit outcome. Later in the month, however, comments from the Bank of England Chief Economist and the ECB (European Central Bank) President suggested that their respective central banks might be less accommodating of rising inflationary pressures. As a result, bond yields rose, bond prices fell and equity prices also fell back.

Overall the FTSE All Share produced a total return of -2.5% in June. There was particular weakness in sectors exposed to rising bond yields, such as utilities and tobacco, as well as in domestic cyclical sectors like general retail and UK orientated banks. On the other hand, the best performing large sector was life insurance, with the international banks – HSBC and Standard Chartered – also performing well.

The Trust's NAV returned -3.3% in June, compared to the FTSE All-Share Index benchmark return of -2.5%. The portfolio return was in line with the benchmark. Standard Life and Equiniti made the

“ The UK stock market is very international, with bulk the sales and profits coming from overseas.

biggest positive contributions, with the portfolio also benefitting from not owning British American Tobacco, which was weak. Conversely, Greene King, Pennon and Sainsbury were the biggest negative performance contributors.

We made a new investment in Bovis Homes, a UK housebuilding business which sold 4,000 homes last year. We have not become positive on the housebuilding sector more generally, this is a specific view on Bovis as an attractively priced recovery situation. The company had attempted to grow too fast, which put huge strains on its supply chain, leading to cost overruns, poor customer service and a significant drop in profitability. Bovis have now materially scaled back their ambitions, brought in new management and are making fundamental changes to their production process, quality assurance, customer service and capital efficiency. The business is fundamentally sound with a large land bank and a strong balance sheet. The shares trade at a significantly lower valuation than their peers, reflecting their current depressed profitability, but offering sizeable upside on a recovery. Two large competitors recently bid for the company, which provides extra reassurance about the quality of their land bank.

Elsewhere, the remaining holding in Aviva was sold. This investment derived from Aviva's takeover of Friends Life. We believe that most of the benefits from that deal have now accrued to Aviva shareholders and are fully reflected in the share price. The proceeds of this sale were largely reinvested within the sector into our preferred stocks; Standard Life and Legal & General.

We also took the difficult decision to sell Mothercare, which has been in the portfolio for some time. The original investment case was that a high growth and high quality international franchise operation was being overshadowed by a poorly performing UK operation. Whilst the management team have done a good job in



Simon Gergel, Portfolio Manager

The Merchants Trust PLC is managed by Simon Gergel who is Chief Investment Officer at AllianzGI and has 27 years investment experience. He is pictured here with Matthew Tillet, UK equity portfolio manager. 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.

turning around the UK business, such that it made a profit in the second half of the last financial year, the international business has been more challenging than we expected. There is still considerable potential in the company. However, it will still take some time before the restructuring is complete, with no dividend payment likely in the short term, and there remain execution risks.

The UK economy is facing a number of headwinds, with an extremely low savings ratio and consumers seeing pressure on disposable incomes, whilst corporate spending is at risk from uncertainty caused by the Brexit negotiations. However European and other economies around the world generally look stronger. The UK stock market is very international, with bulk the sales and profits coming from overseas. This is also reflected at the portfolio level, where we have significant investments in internationally exposed natural resources, engineering, pharmaceuticals, media and financial services companies, amongst others. Where we have domestic exposure in the portfolio, valuations are generally low, pricing in considerable risk. We continue to have limited exposure to consumer staple sectors like food producers, tobacco and beverages, as valuations are unattractive.

Simon Gergel
5 July 2017

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 (with debt at par)
 ■ 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	7.9	24.8	10.5	69.3
NAV	0.4	3.9	20.4	15.4	65.4
Benchmark	1.4	5.2	17.5	22.3	59.1

Discrete 12 Month Returns (%) to 30 June

	2013	2014	2015	2016	2017
Share Price	32.3	15.7	-3.4	-8.3	24.8
NAV	27.4	12.5	0.8	-4.9	20.4
Benchmark	15.8	12.3	0.2	3.8	17.5

Source: Lipper, percentage growth, mid to mid, total return to 30.06.17. Copyright 2017 © Lipper, a Thomson Reuters company. All rights reserved. Lipper shall not be liable for any errors or delays in the content, or for any actions taken in reliance thereon.

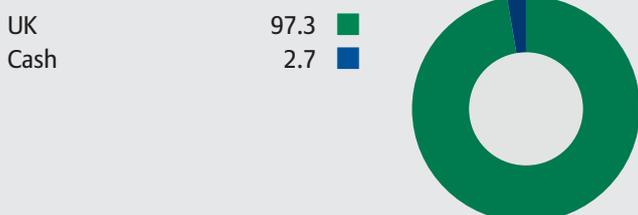
Past performance is not a reliable indicator of future returns. You should not make any assumptions on the future on the basis of performance information. The value of an investment and the income from it can fall as well as rise as a result of market fluctuations and you may not get back the amount 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 (%)



Geographic Breakdown (%)



Top Ten Holdings (%)

GlaxoSmithKline	7.4
Royal Dutch Shell 'B' Shares	7.2
HSBC	5.9
BP	5.2
Standard Life	3.5
Lloyds Banking Group	3.2
UBM	3.2
BHP Billiton	2.9
Prudential	2.9
Legal & General	2.8

Total number of holdings* 47

*Excludes derivatives

Market Cap Breakdown (%)



Key Information

Launch Date	16 February 1889
AIC Sector	UK Equity Income
Benchmark	FTSE All-Share
Annual Management Charge	0.35%
Performance Fee	No
Ongoing Charges ¹	0.63%
Year End	31 January
Annual Financial Report	Final posted in April, Half-yearly posted in September
AGM	May
NAV Frequency	Daily
Dividends	February, 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 (31.01.2017). Ongoing Charges (previously Total Expense Ratios) are published annually to show operational expenses incurred in the running of the company but excluding financing costs.

Board of Directors

Directors from left to right: Mary Ann Sieghart, Timon Drakesmith (Chairman of the Audit Committee), Simon Fraser (Chairman), Sybella Stanley (Senior Independent Director) and Paul Yates



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

E-mail: 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.



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All data source Allianz Global Investors as at 30.06.17 unless otherwise stated.

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