

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

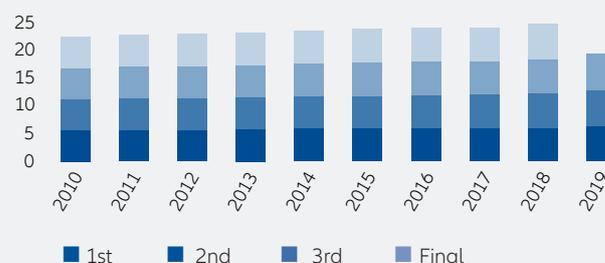
The Merchants Trust PLC was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, but now concentrates primarily on major UK 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 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 36 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
01.02.2019	06.03.2019	6.50p	3rd Quarterly
05.10.2018	15.11.2018	6.50p	2nd Quarterly
13.07.2018	22.08.2018	6.40p	1st Quarterly
20.04.2018	30.05.2018	6.30p	Final

Past performance is not a reliable indicator of future results.



A ranking, a rating or an award provides no indicator of future performance and is not constant over time.

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 £638.1m

Shares in Issue 108,728,464 (Ordinary 25p)

Market Cap £512.1m

Share Price

471.0p

Source: Lipper

NAV per Share

456.7p

Premium/-Discount

3.1%

Dividend Yield

5.5%

Gearing

20.3%

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.

Fund Manager's Review

January saw a sharp recovery in global stock market sentiment after a poor December. This coincided with signs that the USA and China were closer to resolving their trade dispute, and a temporary resolution to the prolonged US government shutdown. In the UK, the Conservative government lost a key vote on the Brexit Withdrawal Bill by a record margin. However, the subsequent passing of a motion supporting this Bill in principle, subject to the contentious Northern Ireland "Backstop" arrangement being removed, signalled a potential way forward to break the impasse. Meanwhile, despite the Brexit uncertainty, figures published in the month showed that the UK unemployment rate fell to 4% in November, with a record 76% of the working age population in work.

The UK stock market, represented by the FTSE All-Share Index, produced a total return of 4.2% in January, with the more domestically oriented medium sized companies up over 7%. The market was led by cyclical sectors such as retailers, rebounding from depressed levels, industrials, mining and real estate, as well as the electricity sector. The weakest sectors were defensive industries, such as telecommunications, pharmaceuticals and health care equipment.

Merchants' equity portfolio significantly outperformed the rising market and the Trust's NAV rose by 8.3%. Several companies contributed to the outperformance, with double digit returns from domestic businesses like Greene King, Bovis Homes and Pennon, as well as financials like Legal & General and IG Group. The main detractors from relative performance were Standard Life Aberdeen, SThree and an impact from not owning Rio Tinto, which performed well, helping to lift the broader stock market.

“ Within the market, whilst certain classically defensive sectors are highly priced today, there are plenty of strong businesses, with sound prospects trading on unusually depressed ratings.

Share price movements over recent months created opportunities to make a few changes to the portfolio. The de-rating of the tobacco sector has been extraordinary. We reintroduced a holding in British American Tobacco (BAT), with the share price having more than halved since we sold out of the last position about 18 months ago. We had sold and avoided BAT due to its high valuation and some concerns over the business model. However, the shares fell to a level where we believe these concerns are fully reflected in the share price. BAT has strong positions in new nicotine products, like e-cigarettes, relatively low economic sensitivity and an attractive presence in emerging markets. The business has strong cash flow and pays a growing dividend, yielding over 8%. This investment, along with the earlier purchase of Imperial Brands marks a significant change in the portfolio structure. A year ago there were no tobacco shares in the portfolio. Now this sector makes up over 6.5% of the total value, due to the compelling value we see.

Much of the money to invest in BAT came from reducing the Trust's oil investments, particularly Royal Dutch Shell. The oil stocks have performed well over the last two years and are now closer to our assessment of fair value. Back in 2016, Shell offered a dividend yield roughly twice that of BAT. Given the subsequent share price moves, the dividend yield on Shell is now well below that of BAT, and Shell's dividend is not growing.

Elsewhere, we sold out of the remaining position in transport company FirstGroup. Despite improving the profitability of its largest division, US yellow school buses, problems in other divisions and pension liabilities



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.

have meant that cash flows are weaker than we expected, and this has prevented the company from resuming dividend payments. We also took money out of shares, such as IG Group, BHP and Greene King, that had performed well since we added to the positions at cheaper prices.

Although the stock market has rebounded from December's lows, the aggregate valuation is very modest on longer term measures. Concerns over Brexit and outflows of investor money, have left UK shares particularly cheap on a global basis, even though the majority of UK plc profits come from abroad. Within the market, whilst certain classically defensive sectors are highly priced today, there are plenty of strong businesses, with sound prospects trading on unusually depressed ratings. We have taken advantage of this with recent purchases, and the valuation of many stocks in the portfolio is quite compelling on a long term view. From this point, we believe that the portfolio is well positioned to deliver a combination of income, income growth and capital returns, that is commensurate with Merchants' long term objectives.

Side comment

The Merchants Trust reached its 130th anniversary at the end of January. These 13 decades have seen very differing economic, political and market environments. The most recent decade has seen one of the longest continuous periods of economic growth on record, since the financial crisis of 2007/8, although the pace of recovery has been particularly muted. Stock markets have risen substantially, with the FTSE 100 rising from 4,150 to 6,969 in that time, giving a total return, including dividends, of 145%. The FTSE All-Share Index has returned 164% and Merchants Trust shares have returned 194%. It could be suggested, that further potential gains after this strong decade, should be limited. However, we believe it is instructive to take a longer term perspective. The FTSE 100 Index ended the year almost exactly at the level it ended the last century. This decade's strong returns owe much more to the depressed level of shares in early 2009, than to a revaluation of shares to unjustified or unsustainable valuation levels.

Simon Gergel
8 February 2019

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 (%)



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	0.3	-6.6	1.6	33.2	24.2
NAV (debt at fair value)	-1.9	-12.2	-5.9	25.1	24.1
Benchmark	-1.4	-8.4	-3.8	29.9	30.5

Discrete 12 Month Returns to 31 January (%)

	2019	2018	2017	2016	2015
Share Price	1.6	13.5	15.6	-9.8	3.4
NAV (debt at fair value)	-5.9	14.9	15.6	-5.6	5.1
Benchmark	-3.8	11.3	21.4	-6.5	7.4

Source: Thomson Reuters DataStream, percentage growth, mid to mid, total return to 31.01.19. Copyright 2019 © 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.

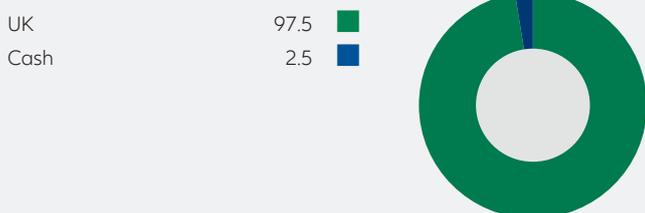
Past performance is not a reliable indicator of future returns. You should not make any assumptions on the future on the basis of performance information. The value of an investment and the income from it can fall as well as rise as a result of market fluctuations and you may not get back the amount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

Financials	29.6	<div style="width: 29.6%;"></div>
Industrials	18.0	<div style="width: 18.0%;"></div>
Consumer Services	11.0	<div style="width: 11.0%;"></div>
Consumer Goods	10.6	<div style="width: 10.6%;"></div>
Oil & Gas	8.7	<div style="width: 8.7%;"></div>
Utilities	7.2	<div style="width: 7.2%;"></div>
Basic Materials	5.7	<div style="width: 5.7%;"></div>
Health Care	5.4	<div style="width: 5.4%;"></div>
Telecommunications	1.3	<div style="width: 1.3%;"></div>
Cash	2.5	<div style="width: 2.5%;"></div>

Geographic Breakdown (%)



Top Ten Holdings (%)

GlaxoSmithKline	5.4
Royal Dutch Shell 'B' Shares	5.1
Imperial Brands	4.5
HSBC Holdings	4.2
BHP Group	3.7
BP	3.5
BAE Systems	3.5
Legal & General	3.4
Scottish & Southern Energy	2.8
Standard Life Aberdeen	2.8

Total number of holdings* 45

*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.

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	0.59%
Year End	31 January
Annual Financial Report	Final published in April, Half-yearly published in September
AGM	May
NAV Frequency	Daily
Dividends	February/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 (31.01.2018). 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.



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.

All data source Allianz Global Investors as at 31.01.19 unless otherwise stated.

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