

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

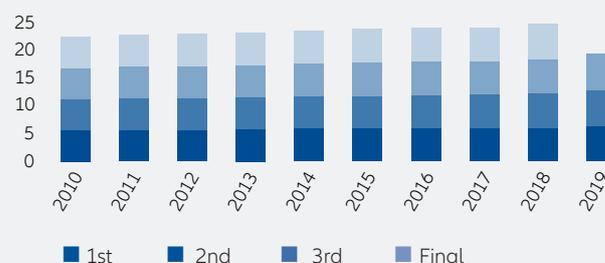
The Merchants Trust PLC was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, but now concentrates primarily on major UK 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 £653.6m

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

Market Cap £520.3m

Share Price

478.5p

Source: Lipper

NAV per Share

471.6p

Premium/-Discount

1.5%

Dividend Yield

5.4%

Gearing

18.5%

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 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

February saw a continuation of January's stock market recovery, after a tough end to 2018. Sentiment was helped by increasing hopes of a resolution of the trade tensions between the USA and China. In the UK, the prime minister Theresa May hinted for the first time, that there could be an extension to "Article 50", delaying the UK's exit from the European Union, and making a "no-deal" exit less likely.

The stock market produced a total return of just over 2%, with many companies reporting their 2018 results. In general, cyclical and financial sectors were the strongest performers, including construction & materials, insurance and general retail, although pharmaceuticals also outperformed. The weakest large sectors were defensive industries, like telecommunications and food producers.

The Trust's NAV rose by 3.3% over the month, with performance modestly ahead of the FTSE All-Share benchmark, which rose by 2.3%. The biggest positive stock contributors to relative performance were STthree, Greene King and Legal & General. The biggest negative contributions came from BAE Systems, IG Group and from not owning AstraZeneca, which rallied and helped the overall index performance.

We have a strict discipline to review a holding in the portfolio if the investment case changes. In February, we reviewed the case for Marks & Spencer, on new information. Our investment case on M&S had been based upon the company enacting a major restructuring of the business, making profound changes to their store estate and their clothing & home proposition, and growing their online presence. We expected this to be supported by strong underlying cash generation, particularly from their

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food and international businesses, which would allow the company to restructure, whilst still paying a high dividend to shareholders. We believed that M&S's strength in food is driven by a differentiated offering, especially targeted at a growing convenience channel.

It became clear in recent weeks, with widely published rumours of M&S's interest in working with Ocado, that the company was considering a significant push into online food delivery. This suggested that the management's view of the strength of M&S's food offering was more related to the large "weekly" shop, rather than the convenience or "buy for tonight" shop. Not only do we see this area as more competitive, but we were concerned about a number of significant risks to a potential tie up. In particular, the average M&S food basket size tend to be small, so not well suited to online shopping, and there could be cannibalisation of in-store sales, if M&S shoppers shift their purchasing to Ocado. Also, we were concerned that any deal could consume a significant amount of cash, reduce future cash flow and threaten the dividend payments. We therefore decided to sell the shareholding.

Later in the month, M&S announced its intention to spend up to £750m on a joint venture with Ocado, to raise £600m in a rights issue and to cut the



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.

dividend by 40%. It is a complex deal, in which M&S is not acquiring many assets, and it will be many years before we will be able to judge if this is the right strategy for the group.

Apart from this transaction, the main activity was to add to existing investments at attractive valuations, taking advantage of recent volatility in the market. This included increasing the holdings in WPP and BAE Systems.

This is a favourable environment for active investors, after a period of some volatility in markets. We can identify many strong businesses, trading on unusually attractive valuations, which should, in the medium term, deliver a high and growing income and good total returns, in line with Merchants' objectives. Uncertainty over the outlook for economies and markets, makes it important to diversify the portfolio, and to pay close attention to balance sheet risks, economic sensitivity and structural concerns at the individual company level.

The portfolio is positioned very differently to the overall stock market. There are large positions in industrial sectors like aerospace & defence and construction & building materials and consumer sectors like travel & leisure and media. Less economically sensitive exposures, include positions in modestly priced tobacco stocks, utilities and pharmaceuticals. Among the financial sectors, we have a preference for life insurance, real estate and general financial stocks, with more modest exposure to banks, which are more sensitive to any weakness in the domestic economy. Elsewhere, Merchants owns several mining and oil companies, which offer solid value and attractive cash flows and dividends.

Simon Gergel
11 March 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	4.7	-0.9	6.7	38.7	19.3
NAV (debt at fair value)	4.3	-5.5	1.7	29.3	20.6
Benchmark	2.6	-3.7	1.7	31.8	27.1

Discrete 12 Month Returns to 28 February (%)

	2019	2018	2017	2016	2015
Share Price	6.7	5.5	23.1	-11.4	-2.9
NAV (debt at fair value)	1.7	6.6	19.3	-9.2	2.8
Benchmark	1.7	4.4	24.2	-8.7	5.6

Source: Thomson Reuters DataStream, percentage growth, mid to mid, total return to 28.02.19. 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.

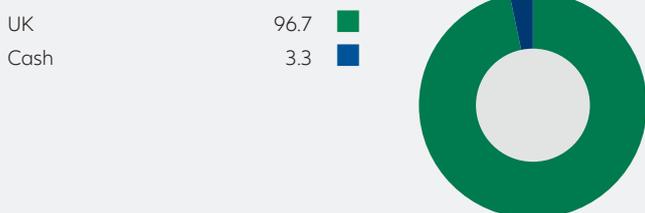
Past performance is not a reliable indicator of future returns. You should not make any assumptions on the future on the basis of performance information. The value of an investment and the income from it can fall as well as rise as a result of market fluctuations and you may not get back the amount 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	29.4	
Industrials	18.3	
Consumer Services	10.7	
Consumer Goods	10.5	
Oil & Gas	8.6	
Utilities	7.1	
Health Care	5.4	
Basic Materials	5.3	
Telecommunications	1.4	
Cash	3.3	

Geographic Breakdown (%)



Top Ten Holdings (%)

GlaxoSmithKline	5.3
Royal Dutch Shell 'B' Shares	5.0
Imperial Brands	4.4
HSBC Holdings	4.0
Legal & General	3.6
BP	3.5
BAE Systems	3.3
BHP Group	3.1
Scottish & Southern Energy	2.8
Standard Life Aberdeen	2.7

Total number of holdings* 44

*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.



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All data source Allianz Global Investors as at 28.02.19 unless otherwise stated.

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