

The Merchants Trust PLC



Factsheet

31 July 2014

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 Allianz Global Investors 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

July saw confirmation of a strong recovery in US economic activity in the second quarter with GDP growth at 4% annualised, bouncing back from a weather affected first quarter which had seen a -2.9% contraction. Although we feel this bounce back probably over-states the underlying recovery, there is increasing evidence that both the US and the UK are on more sustainable paths, whilst the picture in Europe remains lacklustre in general.

The stock market was little changed overall in the month, with the FTSE 100 index producing a total return of -0.1%. Medium sized companies underperformed with the FTSE 250 Mid Cap index down -1.3%. Within the market only the mining and banks sectors were strong with all other sectors down or up by less than 2%. The worst performing sectors were industrial transportation (Royal Mail Group), oil services and food retail.

We saw interesting corporate activity in the market with implications for the portfolio. In the construction sector Carillion and Balfour Beatty entered merger discussions. Although these discussions were subsequently called off they highlight the potential value within Balfour Beatty. In real estate there were two takeovers announced, one in UK industrial property and one in European prime shopping centres, which may have a positive knock-on effect for several of the Trust's investments.

Elsewhere, the US dollar strengthened in response to better economic news, moving from \$1.71 to the pound to \$1.69 over the month, a reversal to the recent trend of a strong pound, which will be welcomed by the UK corporate sector.

The Trust's NAV fell by 0.32% in July, slightly underperforming its benchmark. Low exposure to the banks and mining sectors made the biggest impact, along with poor results at GlaxoSmithKline and weakness at multinational media company UBM. The biggest positive offset came from a recovery in William Hill's share price and from not owning BG, Tesco or Diageo, which were all weak.

We made few changes to the portfolio during the month, with most activity adding selectively to existing positions that had underperformed and offered good value, such as Carnival, SThree, De La Rue and the recent purchase, AMEC.

With both the US and UK economies now showing a more consistent recovery, the outlook for company profits growth should improve, especially in more cyclical industries. However, there remain significant hurdles to achieving strong economic

Performance (%)



Cumulative Performance (%)

	3 Months	6 Months	1 Year	3 Years	5 Years
Share Price	-2.0	2.5	3.0	45.9	121.3
NAV	-1.4	3.3	2.3	44.0	108.8
FTSE 100	0.0	5.4	5.3	29.3	74.4

Discrete Performance (%)

From To	31.07.09 30.07.10	30.07.10 29.07.11	29.07.11 31.07.12	31.07.12 31.07.13	31.07.13 31.07.14
Share Price	27.9	18.6	-2.6	45.4	3.0
NAV	22.8	18.1	4.1	35.2	2.3
FTSE 100	18.2	14.2	0.7	22.0	5.3

Source: Lipper, percentage growth, mid to mid, total return to 31.07.14. Benchmark: FTSE 100 Index.

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.

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growth, including the enormous debt overhang, heightened sensitivity to interest rates which must start to rise at some point, an anaemic recovery in continental Europe and a mixed outlook in emerging markets and geopolitical tensions, particularly in the Ukraine. We continue to see good value amongst the very largest companies as well as in specific recovery situations. Individual share price volatility is also throwing up interesting investment opportunities which we are actively considering.

All data source Allianz Global Investors as at 31.07.14 unless otherwise stated.

Allianz Global Investors Europe GmbH, UK Branch, 199 Bishopsgate, London EC2M 3TY

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.

Allianz 
Global Investors

Capital Structure

Total Assets:	£649.4m
Gearing (net):	20.2%
Shares in Issue:	104,963,464 (Ordinary 25p)
Share Price ¹ :	492.0p
Net Asset Value ² :	503.07p (479.61p – debt at market value)
Premium/-Discount to NAV ² :	-3.6% (1.1% – debt at market value)
NAV Frequency	Daily
Dividend Yield ³ :	4.80%

1. Source: Lipper as at 31.07.14, market close mid price.

2. Source: Datastream as at 31.07.14. 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 that 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 Equity Income
Benchmark:	FTSE 100 Index
Annual Management Charge:	0.35%
Performance Fee:	No
Ongoing Charges ⁴ :	0.66%
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.merchantstrust.co.uk

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, CIO, UK Equities	
Codes:	RIC:	MRCH.L
	SEDOL:	0580007

4. Source: AIC, as at the Trust's Financial Year End (31.01.2014). Ongoing Charges (previously Total Expense Ratios) are published annually to show operational expenses incurred in the running of the company but excluding financing costs.

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 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.

Sector Breakdown (%)

Financials	19.8	
Consumer Services	18.2	
Oil & Gas	16.1	
Industrials	12.1	
Utilities	11.2	
Consumer Goods	8.8	
Health Care	6.9	
Basic Materials	3.7	
Telecommunications	3.0	
Cash	0.2	

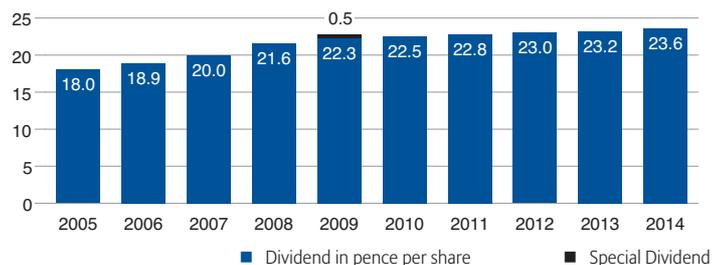
Top Ten Holdings (%)

Royal Dutch Shell "B" Shares	9.2	BAE Systems	4.0
GlaxoSmithKline	6.8	BHP Billiton	3.6
HSBC	6.7	Scottish & Southern Energy	3.1
BP	5.3	Pennon Group	3.0
British American Tobacco	4.3	Inmarsat	3.0
Total Number of Holdings	46*		

*excludes derivatives

Dividend History

Ten Year Net Dividend Record in Pence (to year end 31 January)



Past performance is not a reliable indicator of future results.

Net Dividends

	Pay Date	Record Date	Payment
1st quarterly dividend	14.08.14	11.07.14	5.9p per share
4th quarterly dividend	23.05.14	25.04.14	5.9p per share
3rd quarterly dividend	26.02.14	31.01.14	5.9p per share
2nd quarterly dividend	12.11.13	11.10.13	5.9p per share

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.

Contact Us

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

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All data source Allianz Global Investors as at 31.07.14 unless otherwise stated.

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