



## 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 - celebrating 125 years

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**

September witnessed a historic referendum for Scotland to leave the UK with a 55% "NO" vote after earlier polls had suggested the outcome could be very close. Sterling weakened against the US dollar, continuing a trend in place since early July, partly over concerns about this referendum, but also as the US Federal Reserve suggested interest rates may rise faster than expected in the next few years. Economic statistics in the USA generally suggested reasonable growth, in contrast to much weaker signs across continental Europe.

The FTSE 100 index had a difficult month with a total return of -2.78%, partly reflecting a deteriorating European picture, but also a number of company specific problems. The worst sector was food retail where tough trading conditions were compounded by a large profits restatement at Tesco (not owned). Many industrial sectors and mining were also weak. The best performing sectors were household goods, non-life insurance and electricity.

The Trust's NAV returned -3.99% which includes the impact of gearing. Strong performance from BAE Systems, Standard life and Carnival broadly offset the impacts of profits warnings at Balfour Beatty and Tate & Lyle as well as the disappointing Sainsbury performance.

There were few changes to the portfolio in the month. We added to Greene King, ICAP and Ashmore which had been weak and took profits on part of the Pennon investment.

The UK economy is performing reasonably well with signs of improving corporate and consumer confidence. There are a number of risks to the outlook, including the high sensitivity of consumers to any interest rate increases and deteriorating conditions in Europe. Companies in general are performing well though there are challenging conditions in certain industries. One of the key themes in the portfolio is a high exposure to large, multinational companies like Royal Dutch Shell and HSBC which are trading on modest valuations. Also we have also been buying a number of recovery situations which offer attractive long term value, although with shorter term uncertainty.

## Performance (%)



## Cumulative Performance (%)

	3 Months	6 Months	1 Year	3 Years	5 Years
Share Price	-3.2	-0.6	3.9	55.3	96.0
NAV	-3.6	-1.6	2.5	57.8	74.8
FTSE 100	-0.9	2.3	6.1	44.2	54.1

## Discrete Performance (%)

From To	30.09.09 30.09.10	30.09.10 30.09.11	30.09.11 28.09.12	28.09.12 30.09.13	30.09.13 30.09.14
Share Price	21.0	4.3	7.2	39.4	3.9
NAV	13.3	-2.2	22.0	26.2	2.5
FTSE 100	11.8	-4.4	16.4	16.7	6.1

Source: Lipper, percentage growth, mid to mid, total return to 30.09.14. 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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## Capital Structure

Total Assets:	£641.5m
Gearing (net):	18.7%
Shares in Issue:	105,838,464 (Ordinary 25p)
Share Price <sup>1</sup> :	483.0p
Net Asset Value <sup>2</sup> :	486.5p (462.0p – debt at market value)
Premium/-Discount to NAV <sup>2</sup> :	-0.7% (4.5% – debt at market value)
NAV Frequency	Daily
Dividend Yield <sup>3</sup> :	4.89%

1. Source: Lipper as at 30.09.14, market close mid price.

2. Source: Datastream as at 30.09.14. 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 <sup>4</sup> :	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	19.6	
Consumer Services	17.1	
Oil & Gas	16.1	
Industrials	13.0	
Utilities	10.2	
Consumer Goods	8.8	
Health Care	6.9	
Basic Materials	3.1	
Telecommunications	2.9	
Cash	2.3	

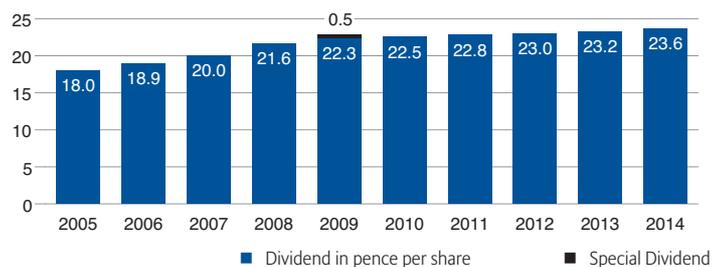
## Top Ten Holdings (%)

Royal Dutch Shell "B" Shares	8.5	British American Tobacco	4.4
GlaxoSmithKline	6.8	Scottish & Southern Energy	3.4
HSBC	6.7	BHP Billiton	3.1
BP	5.1	Inmarsat	3.0
BAE Systems	4.5	UBM	2.8
<b>Total Number of Holdings</b>	<b>45*</b>		

\*excludes derivatives

## Dividend History

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



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## Net Dividends

	Pay Date	Record Date	Payment
1st quarterly dividend	14.08.14	12.07.14	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, JISA, SIPP 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 30.09.14 unless otherwise stated.

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