

As focused on dividends as you are

The Merchants Trust PLC

Factsheet

31 July 2016

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

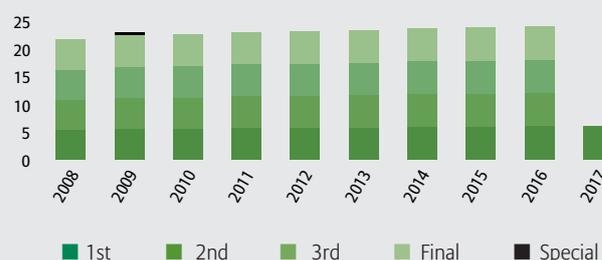
The Merchants Trust PLC was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, but now concentrates primarily on major UK 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, after the Annual General Meeting in May, Merchants will have paid increasingly higher dividends to its shareholders year on year for the last 34 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
15.07.2016	12.08.2016	6.00p	1st Quarterly
22.04.2016	26.05.2016	6.00p	Final
29.01.2016	24.02.2016	6.00p	3rd Quarterly
09.10.2015	12.11.2015	6.00p	2nd Quarterly

Past performance is not a reliable indicator of future results.

Total Assets £621.4m **Shares in Issue** 108,728,464 (Ordinary 25p)

Share Price

424.0p

Source: Lipper

NAV per Share

432.6p

Premium/-Discount

-2.0%

Dividend Yield

5.7%

Gearing

19.3%

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 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

After last month's volatility around the referendum decision to leave the EU, the stock market rose steadily through July. The appointment of a new prime minister, Theresa May, after her challengers dropped out, removed an element of political uncertainty which had been expected to last until September. Despite being in the "remain" camp, Mrs May was very clear that "Brexit means Brexit" but she said the UK is unlikely to invoke Article 50 of the Lisbon Treaty (which governs countries leaving the EU) this year. She has some strong views on corporate governance, calling for employee and shareholder representation on company boards, binding votes on remuneration and disclosure of the ratio of chief executive pay to average workers' pay. She also indicated a possible change of emphasis in industrial policy, with greater consideration of whether overseas takeovers of British companies are in the national interest.

The FTSE 100 index produced a total return of 3.4%, and is now up just over 10% this calendar year. The FTSE 250 index of medium sized companies returned 6.4% as sentiment towards domestic businesses recovered somewhat post the referendum. Although survey data has unsurprisingly weakened, it is too early to have a clear view of the short term economic impact of the Brexit vote, let alone the longer term implications. Within the market there was less divergence of returns than recently, with cyclical and financial sectors generally outperforming and the more defensive sectors lagging. Technology hardware was the strongest sector as ARM was bid for, with chemicals, financial services and mining also firm. The weakest sectors were food retail, oil & gas producers (as the oil price fell back) healthcare equipment and food producers.

“ Whilst it is hard to predict how the UK economy will react to the referendum result over the coming months, the stock market has recovered from any initial weakness, with overseas earners performing particularly well.

Whilst the portfolio return was in line with the benchmark, the NAV performance was ahead of the benchmark returning 4.4%. The biggest positive contributors included Ladbrokes, where the merger with Coral now looks likely to go ahead following a competition authority ruling, and Brammer, where the shares bounced over 80% from a very depressed level. Also, confidence in Tate & Lyle's restructuring plan has continued to build after a reassuring trading update. The biggest negative contributions to relative performance came from strong performing stocks, which were not owned in the portfolio but performed well, boosting the index return. ARM was the biggest contributor, as its shares rose 48% following the bid. AstraZeneca and Glencore also made an impact.

We made a few changes to the portfolio following a period of extreme divergence within the stock market. We took some money out of BP and British American Tobacco, which had rallied strongly post the Brexit referendum, due to their overseas exposure. We added to IG Group, Man Group, Prudential, Inmarsat and Senior. All these businesses have a very significant exposure to US dollar or non-sterling income, so stand to benefit from the recent devaluation of the pound, but they had been left behind in the rally in overseas earners and represented good value.

We sold the remaining small position in Segro, the industrial property company. Segro has been a profitable investment, as the property cycle has recovered, but prime industrial property valuations are now high, limiting further upside. It is also possible that the UK's decision to leave the EU may affect tenant demand in due course, or the way surveyors value properties. In contrast, we continue to see good value in our other industrial real estate



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.

investment company – Hansteen - which is more exposed to secondary space, where it can reduce vacancies to drive up rental income. It also has around 60% of its assets outside the UK, so should be less affected by any Brexit induced economic weakness.

Whilst it is hard to predict how the UK economy will react to the referendum result over the coming months, the stock market has recovered from any initial weakness, with overseas earners performing particularly well. The FTSE 100 index has moved back towards the top of its trading range for the last three years, but there has been extreme divergence within the market. Certain sectors, particularly the more defensive earners like food and beverage producers and tobacco, are highly rated and offer little value. However, there are plenty of good investment opportunities, elsewhere in the market. We would highlight three areas. First, there are specific recovery situations, where the longer term quality of a business is not being reflected in the share price due to short term uncertainties. Second, there are companies offering structural growth which is undervalued for specific reasons. Third, a number of the mega cap stocks, like Royal Dutch Shell and GlaxoSmithKline still offer good value, despite strong performance in recent months.

Simon Gergel
2 August 2016

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.

Key Information

Launch Date	16 February 1889
AIC Sector	UK Equity Income
Benchmark	FTSE 100
Annual Management Charge	0.35%
Performance Fee	No
Ongoing Charges ¹	0.58%
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 (31.01.2016). 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

Left to right: Sybella Stanley, Simon Fraser (Chairman), Paul Yates, Mary Ann Sieghart, Mike McKeon (Chairman of the Audit Committee and Senior Independent Director)



How to invest

The Trust is a UK public limited company traded openly on the stock market and you can purchase shares through a stock broker. Shares in the Trust can be held within an ISA, JISA, SIPP and/or savings scheme. A number of providers offer this facility, a list of which 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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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 31.07.16 unless otherwise stated.

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