

The Merchants Trust PLC



Factsheet

30 June 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

UK Economic news flow was generally positive in June, although the Bank of England Governor, Mark Carney raised concerns about the outlook for interest rates with a comment that rates may rise sooner than the market currently expects. In the USA first quarter gdp growth was revised down to an astonishing -2.9% annualised, although this has been largely dismissed as due to extreme weather and other distortions. Stock markets were relatively calm with little volatility. The FTSE 100 Index produced a -1.2% total return in the month. The best performing sectors were pharmaceuticals, with a bid approach for Shire, oil & gas producers and aerospace & defence. The main laggards were construction & materials, banks and food retail. Sterling continued to rally against the US dollar, ending June at \$1.71 to £1.

The Trust's NAV underperformed the FTSE 100 Index (-2.07%) due to relatively poor performances from Sainsbury and Carnival, whilst the portfolio also suffered in relative terms from not owning Shire. Merchants benefitted from not owning Barclays or Standard Chartered which both had disappointments, and from strong performance at Mothercare (which has subsequently received a takeover approach) and the recruitment company SThree.

We added one new company to the portfolio, Amec which provides consulting, engineering and project management services to the energy, power and process industries. The business makes high returns and takes a risk-averse approach, generally avoiding fixed price contracts. Their proposed acquisition of Foster Wheeler should bring significant benefits in terms of cost synergies and cross selling opportunities. Amec's valuation is attractive with strong cash generation and a reasonable dividend yield. The purchase was funded by trimming the Trust's large holdings in BP and Royal Dutch Shell which have moved up to higher valuations as investors have warmed to greater capital discipline within the industry and an improving cash flow outlook.

The UK economic recovery seems to be broadening regionally, with unemployment falling and confidence rising. We are wary of extrapolating the trend too far as the large debt burden makes UK consumers sensitive to any interest rate increases. Furthermore the international picture is mixed. Asset prices in general have risen on the back of cheap money and equities are no exception. However we continue to find opportunities to acquire strong businesses at reasonable valuations, with above average dividend yields. Much of the best value is still in the "mega caps" like GlaxoSmithKline or Royal Dutch Shell, even after recent performance. Also we are finding interesting recovery situations in a number of sectors.

Performance (%)



Cumulative Performance (%)

	3 Months	6 Months	1 Year	3 Years	5 Years
Share Price	2.7	1.1	15.7	42.5	139.3
NAV	2.1	1.0	12.5	41.8	134.3
FTSE 100	3.2	1.9	12.4	26.7	89.6

Discrete Performance (%)

From To	30.06.09 30.06.10	30.06.10 30.06.11	30.06.11 29.06.12	29.06.12 28.06.13	28.06.13 30.06.14
Share Price	23.0	36.5	-6.9	32.3	15.7
NAV	24.8	32.5	-1.1	27.4	12.5
FTSE 100	19.8	24.9	-2.7	15.8	12.4

Source: Lipper, percentage growth, mid to mid, total return to 30.06.14. 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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All data source Allianz Global Investors as at 30.06.14 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:	£662.1m
Gearing (net):	17.8%
Shares in Issue:	104,963,464 (Ordinary 25p)
Share Price ¹ :	505.0p
Net Asset Value ² :	510.6p (486.6p – debt at market value)
Premium/-Discount to NAV ² :	-1.1% (3.8% – debt at market value)
NAV Frequency	Daily
Dividend Yield ³ :	4.67%

1. Source: Lipper as at 30.06.14, market close mid price.

2. Source: Datastream as at 30.06.14. 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
	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	18.7
Consumer Services	17.9
Oil & Gas	15.7
Industrials	11.9
Utilities	11.1
Consumer Goods	8.9
Health Care	7.3
Basic Materials	3.3
Telecommunications	3.1
Cash	2.1

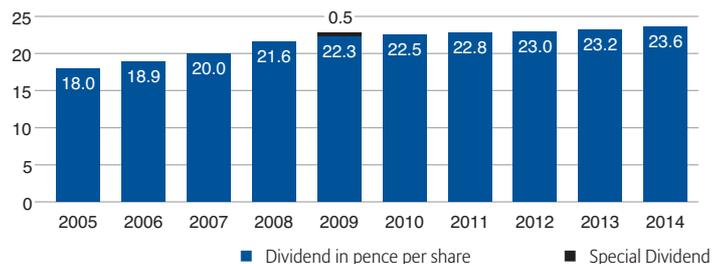
Top Ten Holdings (%)

Royal Dutch Shell "B" Shares	9.0	BAE Systems	4.0
GlaxoSmithKline	7.3	BHP Billiton	3.3
HSBC	6.2	Scottish & Southern Energy	3.3
BP	5.6	UBM	3.1
British American Tobacco	4.3	Inmarsat	3.1
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
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
1st quarterly dividend	14.08.13	12.07.13	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 30.06.14 unless otherwise stated.

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