

The Merchants Trust PLC

Factsheet

28 February 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

February was a strong month for the stock market as economic statistics and surveys pointed to a strengthening UK recovery. Large companies in the FTSE 100 Index posted a 5% total return, whilst medium sized companies performed even better, up 6.8%.

Within the stock market, the best performing sectors included Oil Equipment and Services, Construction Materials, Tobacco and Life Insurance. The weakest sectors were Aerospace & Defence, General Industrials and Banks.

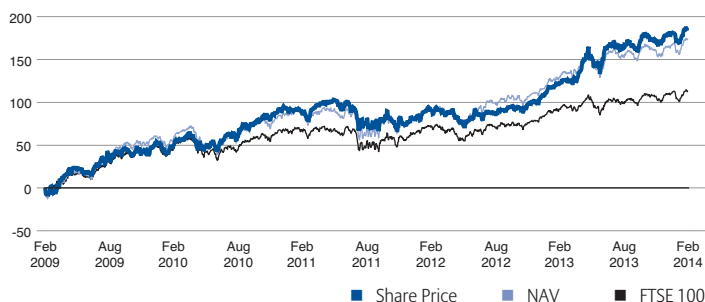
The Trust's NAV rose by 6% over the month. The biggest positive contribution came from not owning Barclays, Rolls Royce and Lloyds Bank which all underperformed, with Rolls Royce warning about defence sales in particular. The main negative contributors were BAE Systems, also affected by the defence spending outlook, and Inmarsat and Cineworld which underperformed.

Within the portfolio we bought Standard Life, the life insurance and asset management company. Standard Life looks well positioned for the changing investment landscape, in particular the changes to the way investors can invest in funds as a result of the Retail Distribution Review. The company has a strong asset management platform, a growing corporate pensions business and a successful investment management business. We think the shares are reasonably valued with a dividend yield of around 4.5%.

We sold the final position in Vodafone ahead of the sale of its stake in Verizon Wireless and the associated return of cash and Verizon shares to shareholders. We can no longer justify the valuation of Vodafone which has been driven by speculation of a bid from AT&T, particularly as the competitive environment in Europe is challenging.

Merchants Trust enters its 126th year with a strategy of investing in a diversified portfolio of higher yielding shares and an aim of providing a high and rising income stream and capital growth. This objective is similar to the Trust's initial aims in 1889, although the portfolio today is very different. Whilst the stock market has nearly doubled since the market trough around five years ago and valuations are much higher than that depressed level, we believe there are still opportunities to buy good companies at reasonable prices. Currently we find the best value in several of the largest "mega-caps" as well as specific recovery situations.

Performance (%)



Cumulative Performance (%)

	3 Months	6 Months	1 Year	3 Years	5 Years
Share Price	5.7	9.4	29.2	51.7	187.1
NAV	5.2	8.6	19.6	45.3	174.0
FTSE 100	3.0	7.5	11.0	26.8	113.1

Discrete Performance (%)

From To	27.02.09 26.02.10	26.02.10 28.02.11	28.02.11 29.02.12	29.02.12 28.02.13	28.02.13 28.02.14
Share Price	48.7	27.3	0.2	17.2	29.2
NAV	56.0	20.9	0.8	20.5	19.6
FTSE 100	45.5	15.5	1.6	12.4	11.0

Source: Lipper, percentage growth, mid to mid, total return to 28.02.14. 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 28.02.14 unless otherwise stated.

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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:	£669.9m
Gearing (net):	17.8%
Shares in Issue:	103,863,464 (Ordinary 25p)
Share Price ¹ :	520.0p
Net Asset Value ² :	528.3p (504.4p – debt at market value)
Premium/-Discount to NAV ² :	-1.6% (3.1% – debt at market value)
NAV Frequency	Daily
Dividend Yield ³ :	4.78%

1. Source: Lipper as at 28.02.14, market close mid price.

2. Source: Datastream as at 28.02.14. 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 Growth and Income
Benchmark:	FTSE 100 Index
Annual Management Charge:	0.35%
Performance Fee:	No
On-going Charges ⁴ :	0.64%
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 (31.01.2013). On-going 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 in the form of long-term debentures. Gearing 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 are used to manage the trust efficiently. Covered call options are written to supplement the income generation of the portfolio. This may lead to an opportunity cost if options are exercised.

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Sector Breakdown (%)

Financials	19.5
Consumer Services	19.4
Oil & Gas	15.5
Industrials	12.8
Utilities	10.5
Health Care	7.8
Consumer Goods	6.8
Basic Materials	3.4
Telecommunications	2.3
Cash	2.0

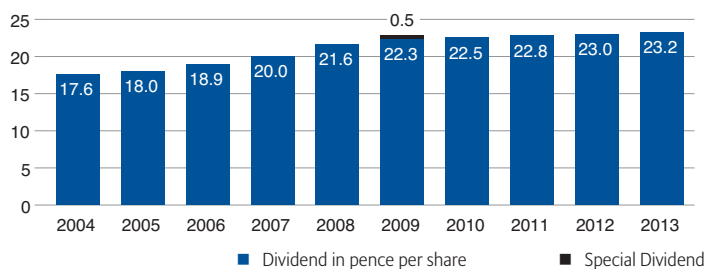
Top Ten Holdings (%)

Royal Dutch Shell "B" Shares	9.1	BHP Billiton	3.4
GlaxoSmithKline	7.7	UBM	3.3
HSBC	6.5	BAE Systems	3.3
BP	6.4	Resolution	3.0
British American Tobacco	4.1	Scottish & Southern Energy	3.0
Total Number of Holdings	47*		

*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
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
4th quarterly dividend	15.05.13	12.04.13	5.8p 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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