

## 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.

## 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, fixed rate 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.

## History

The Trust was incorporated in February 1889, making it the oldest of the investment trusts in the RCM stable. Initially it principally 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 Western Australia. The Trust now concentrates primarily upon major UK companies with an above average rate of dividend yield.

## Fund Manager's Review



Simon Gergel

In April, the European central bank raised interest rates for the first time in nearly 3 years in response to rising inflationary pressures. In the UK interest rates remained on hold whilst CPI inflation fell back unexpectedly to 4.0% in March from 4.4% in February. The FTSE 100 Index gained 2.73% during the month, led by a strong bounce in the retail sector on signs that high street spending had started to recover, helped by record April temperatures and an extra bank holiday. The weakest sectors were telecoms, with the fall in Vodafone share price, and mining. In general medium sized

companies and higher yielding stocks outperformed the broader index.

The Trust's capital NAV (+3.59%) outperformed its benchmark the FTSE 100, led by strength in the large positions GlaxoSmithKline and SSE, whilst a low mining exposure also helped. There were fewer negatives but Balfour Beatty and Cobham gave back some recent gains, and Prudential, which is not owned, performed well. Investment activity largely involved adding to companies on weakness, such as Man Group, Britvic and UBM, and taking some profits on strong performers like SSE, British American Tobacco and Melrose.

Our central expectation is that economic growth continues to be positive but below trend. The portfolio is balanced between a core of large, financially strong, global, defensive businesses on low valuations and higher growth but still reasonably priced and high yielding companies.

## Key Information

<b>Total Assets:</b>	£566.5m
<b>Gearing (net):</b>	23.7%
<b>No. of Shares (Ordinary 1p):</b>	103,213,464
<b>Share Price<sup>1</sup>:</b>	422.9p
<b>Net Asset Value<sup>2</sup>:</b>	430.9p (408.5p – debt at market value)
<b>Premium/-Discount to NAV<sup>3</sup>:</b>	-1.9% (3.5% – debt at market value)
<b>Dividend Yield<sup>2</sup>:</b>	5.39%
<b>Net Dividend per Share:</b>	1st quarterly: 5.7p 2nd quarterly dividend: 5.7p 3rd quarterly dividend: 5.7p final dividend: 5.7p, payable 13 May 2011
<b>No. of Holdings:</b>	60

All data source RCM (UK) Limited as at 28.04.11 unless otherwise stated.

<b>Launch Date:</b>	16 February 1889
<b>AIC Sector:</b>	UK Income Growth
<b>Benchmark:</b>	FTSE 100 Index
<b>Year end:</b>	31 January
<b>Annual Financial Report:</b>	Final posted in April, Half-yearly posted in September
<b>AGM:</b>	May
<b>Dividends:</b>	February, May, August, November
<b>Price Information:</b>	Financial Times, The Daily Telegraph, www.rcm.com/investmenttrusts
<b>Board of Directors:</b>	Simon Fraser (Chairman), Mike McKeon (Chairman of the Audit Committee), Henry Staunton (Senior Independent Director), Dick Barfield, Paul Yates
<b>Investment Manager:</b>	Simon Gergel, Director, UK Equity RCM A company of Allianz Global Investors
<b>Investor Services:</b>	0800 389 4696

<sup>1</sup>Source: Lipper as at 28.04.11, market close mid price.

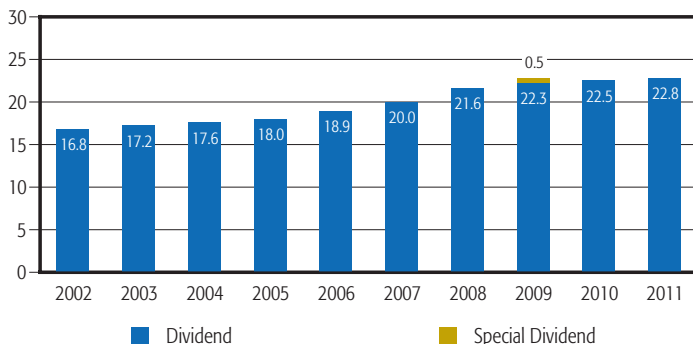
<sup>2</sup>Source: Datastream as at 28.04.11. Calculated using the latest full year dividend divided by the current share price.

<sup>3</sup>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 to 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.

## Top Ten Holdings (%)

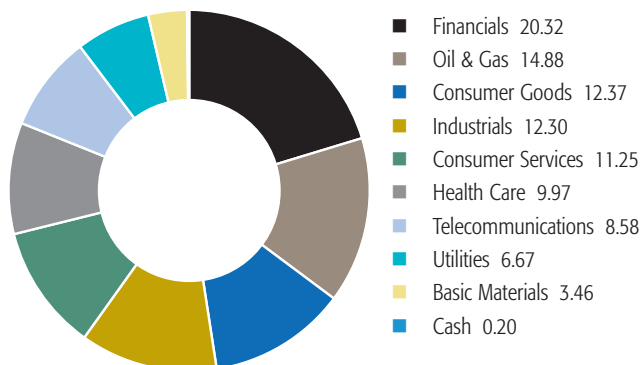
Name	%
Royal Dutch Shell "B" Shares	8.2
GlaxoSmithKline	7.1
HSBC	6.8
BP	6.4
Vodafone Group	4.8
Scottish & Southern Energy	3.8
Unilever	3.8
BAE Systems	3.6
BHP Billiton	3.4
British American Tobacco	3.1
<b>Total</b>	<b>51.0</b>

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



Net dividend paid per share in pence

## Sector Breakdown (%)



## 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.

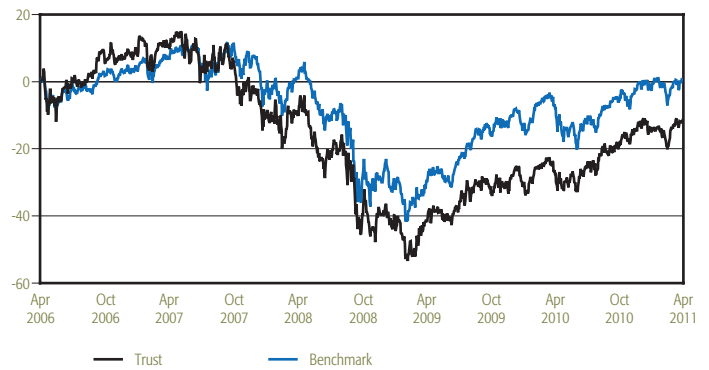
**RIC:** MRCH    **SEDOL:** 0580007    **ISIN:** GB0005800072

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 [www.rcm.com/investmenttrusts](http://www.rcm.com/investmenttrusts) or from the AIC at [www.theaic.co.uk](http://www.theaic.co.uk)

Please note: Our Investment Trust Savings Plan was closed and transferred to Alliance Trust Savings on 29 February 2008. Alliance Trust can be contacted on 01382 573 737 or [contact@alliancetrust.co.uk](mailto:contact@alliancetrust.co.uk)

## Performance

### Five Year Trust Performance (%)



### Cumulative Performance (%)

	3 Months	6 Months	1 Year	3 Years	5 Years
Share Price	3.93	8.99	22.23	-1.88	-11.34
Benchmark	3.53	6.96	9.30	-0.29	0.78

### Standardised Past Performance (%)

From	31.03.06	30.03.07	31.03.08	31.03.09	31.03.10
To	30.03.07	31.03.08	31.03.09	31.03.10	31.03.11
Share Price	10.66	-22.18	-43.18	52.39	14.37

Source: Lipper, percentage growth, mid to mid, capital return, to 28.04.11

Benchmark: FTSE 100 Index

Standardised past performance figures comply with the Financial Services Authority's regulations to enable investors to compare different products from different providers.

Past performance is not a reliable indicator of future performance. 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. Your capital could also decrease if income paid out of capital exceeds the growth rate of the trust.

## RCM Advantage

RCM and its predecessors have been managing investment trusts since 1889, providing investors with access to investment markets around the world through professionally managed portfolios. Each trust benefits from the expertise of the RCM fund managers yet, as a company listed on the London Stock Exchange, it is independent and is overseen by its own Board of Directors.

RCM is the global equity specialist within Allianz Global Investors. With offices strategically located in the US, Europe and Asia, RCM uses its global research platform to search out investment opportunities.

All data source RCM (UK) Limited as of 28.04.11 unless otherwise stated.

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