

The Merchants Trust PLC

Factsheet

31 December 2012

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.

Fund Manager's Review



Simon Gergel

In December, markets were driven by discussions in the US to try to avert the "Fiscal Cliff" of impending spending cuts and tax rises in 2013. Markets generally rose in anticipation of an agreement between Republicans and Democrats. A settlement was finally reached at the beginning of January although many of the key issues have simply been deferred for a couple of months.

The FTSE 100 Index delivered a total return of +0.6% with the index closing just below 5900 and close to the top of its recent trading range. Investor enthusiasm pushed up higher risk assets more than safer ones with medium sized companies up +3%. Cyclical sectors like mining, construction, banks and financial services posted strong gains, whilst defensive sectors like tobacco, mobile telecoms, beverages and oil & gas producers had negative returns. Over the calendar year the FTSE 100 Index delivered a 10% total return. Medium and small sized companies outperformed significantly, with returns of 26% and 28% respectively.

The Trust's NAV (+0.85%) outperformed the FTSE 100 (0.58%) in December, despite the rally in cyclical stocks. Positive performance contributors included Premier Farnell, Britvic and Smiths Group, as well as not owning BG and Diageo which fell back. The main negative contributors were not owning the miners Rio Tinto and Anglo American or the banks Standard Chartered and Barclays which all appreciated. Carnival also pulled back after a weak trading statement.

We made an initial investment in one of the UK's leading cinema companies, Cineworld. The company is lowly valued and generates strong cash flow. After a period of high investment in rolling out digital projectors, the company can now benefit from a number of new initiatives, particularly expansion into new sites and the recently announced Picturehouse acquisition. We sold the remaining holding in Interserve after a strong recovery in the share price. Elsewhere we added to GlaxoSmithKline and Royal Dutch Shell at attractive levels, taking some profits on HSBC, Reed Elsevier and BT which had performed well.

Our economic and market views have not changed materially. We continue to expect a prolonged period of modest economic growth as high debt burdens are addressed through austerity measures. We do not believe the recent limited fiscal agreement in the US changes the outlook materially although it reduces the short term risk of a sharper slowdown.

As we have said previously, aggregate stock market valuations remain reasonable and we continue to find opportunities to invest into high quality business franchises at attractive long term levels. The recent pull back in defensive companies could continue for a while and we are finding the best value outside of the most defensive sectors but also away from the most cyclical sectors or the most leveraged financials which carry higher risks. Favoured areas include consumer sectors such as media and travel & leisure and industrial sectors like aerospace & defence. Ultimately investment decisions are driven by individual stock specific considerations rather than sector drivers.

Performance (%)



Cumulative Performance (%)

	3 Months	6 Months	1 Year	3 Years	5 Years
Share Price	5.6	8.0	11.8	34.2	13.5
NAV	4.2	11.3	15.8	32.0	7.5
FTSE 100	3.4	7.6	10.0	21.2	10.6

Discrete Performance (%)

From To	31.12.07 31.12.08	31.12.08 31.12.09	31.12.09 31.12.10	31.12.10 30.12.11	30.12.11 31.12.12
Share Price	-34.2	28.7	27.7	-6.0	11.8
NAV	-37.1	29.5	15.0	-0.9	15.8
FTSE 100	-28.3	27.3	12.6	-2.2	10.0

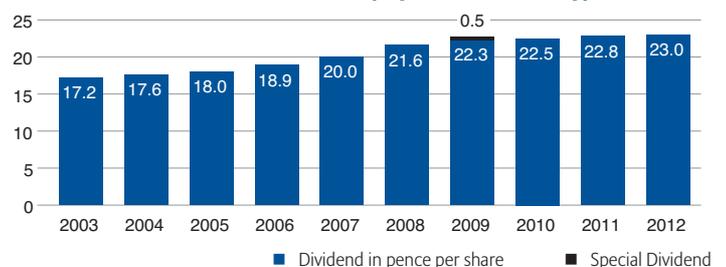
Source: Lipper, percentage growth, mid to mid, total return to 31.12.12. Benchmark: FTSE 100 Index; .

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.

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Dividend History

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



All data source Allianz Global Investors as at 31.12.12 unless otherwise stated.

Allianz Global Investors, 155 Bishopsgate, London EC2M 3AD

Investing involves risk. The value of an investment and the income from it may fall as well as rise and investors may not get back the full amount invested.

Allianz 
Global Investors

Capital Structure

Total Assets:	£563.8m
Gearing (net):	21.7%
Shares in Issue:	103,213,464 (Ordinary 25p)
Share Price ¹ :	384.0p
Net Asset Value ² :	426.0p (390.9p – debt at market value)
Premium/-Discount to NAV ² :	-9.9% (-1.8% – debt at market value)
NAV Frequency	Daily
Dividend Yield ² :	6.04%

1. Source: Lipper as at 31.12.12, market close mid price.

2. Source: Datastream as at 31.12.12. 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 Equity Income	
Codes:	RIC:	MRCH
	SEDOL:	0580007

4. Source: AIC, as at the Trust's Financial Year End. On-going Charges (previously Total Expense Ratios) are published annually to show operational expenses including Annual Management Fee and the market value of the debt (gearing).

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.

Sector Breakdown (%)

Financials	16.9	
Consumer Services	15.8	
Oil & Gas	15.4	
Industrials	12.2	
Consumer Goods	10.7	
Utilities	8.3	
Telecommunications	8.0	
Health Care	7.3	
Cash	2.8	
Basic Materials	2.6	

Top Ten Holdings (%)

Royal Dutch Shell "B" Shares	9.0	BAE Systems	3.6
GlaxoSmithKline	7.3	British American Tobacco	3.5
BP	6.4	Scottish & Southern Energy	3.0
HSBC	5.9	National Grid	2.9
Vodafone	4.8	Resolution	2.8
Total Number of Holdings	47*		

*excludes derivatives

Net Dividends (Financial Year to Date)

	Pay Date	XD Date	Payment
1st quarterly dividend	15.8.12	13.7.12	5.8p per share
2nd quarterly dividend	12.11.12	5.10.12	5.8p per share
3rd quarterly dividend	27.2.13	30.1.13	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 or from the AIC at www.theaic.co.uk

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 31.12.12 unless otherwise stated.

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