

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

February saw a general improvement in indicators in some of the major economies with strong US consumer sentiment and an all time high in German business confidence. However the UK was less promising, with 4% CPI inflation posted, fourth quarter 2010 GDP downgraded to -0.6% and weak consumer confidence. Attention switched to the Middle East mid month due to the political uprising in Egypt and elsewhere in the region.

The equity market rose strongly at the beginning of the month but sold off later on to produce a +2.3% capital return for the FTSE 100 index. The oil price spiked over \$115 per barrel on Middle East tensions. The strongest performing sectors were technology, personal goods, life assurance and tobacco, with industrial metals.

The Trust's portfolio (+2.3% in NAV terms, capital only) modestly lagged the benchmark return with the biggest positive contributions coming from Resolution and GlaxoSmithKline, as well as a benefit from not owning Rio Tinto. However on the negative side, BAE and Britvic pulled back performance as well as not owning Anglo American.

There were no new companies added to the portfolio but we switched from some outperforming shares into cheaper laggards, such as those in the consumer staples sectors where companies like Tesco, Reckitt Benckiser and Britvic have been sold-off heavily on fears and warnings over increased commodity prices. We sold out of Home Retail Group on concerns about a deteriorating consumer outlook and pressure from the supermarkets and we sold the last Centrica shareholding at what we believed to be fair value.

We continue to expect a prolonged period of positive but muted economic growth for most Western economies as high debt levels are addressed, with higher growth in emerging markets. The portfolio is biased towards large, globally spread, well financed and relatively defensive businesses but we also favour companies offering stronger growth yet are reasonably priced and pay a decent dividend yield.

Key Information

Total Assets:	£560.3m
Gearing (net):	23.3%
No. of Shares (Ordinary 1p):	103,213,464
Share Price¹:	406.1p
Net Asset Value²:	426.6p (405.8p – debt at market value)
Premium/-Discount to NAV³:	-4.8% (0.1% – debt at market value)
Dividend Yield²:	5.61%
Net Dividend per Share:	1st quarterly: 5.7p 2nd quarterly dividend: 5.7p 3rd quarterly dividend, 5.7p, paid 18 Feb
No. of Holdings:	60

All data source RCM (UK) Limited as at 28.02.11 unless otherwise stated.

Launch Date:	16 February 1889
AIC Sector:	UK Income Growth
Benchmark:	FTSE 100 Index
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.rcm.com/investmenttrusts
Board of Directors:	Simon Fraser (Chairman), Mike McKeon (Chairman of the Audit Committee), Henry Staunton (Senior Independent Director), Dick Barfield, Paul Yates
Investment Manager:	Simon Gergel, Director, UK Equity RCM A company of Allianz Global Investors
Investor Services:	020 7065 1407

¹Source: Lipper as at 28.02.11, market close mid price.

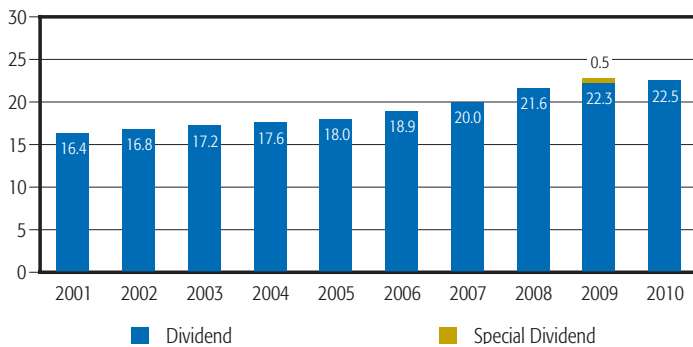
²Source: Datastream as at 28.02.11. Calculated using the latest full year dividend divided by the current share price.

³A 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 (%)

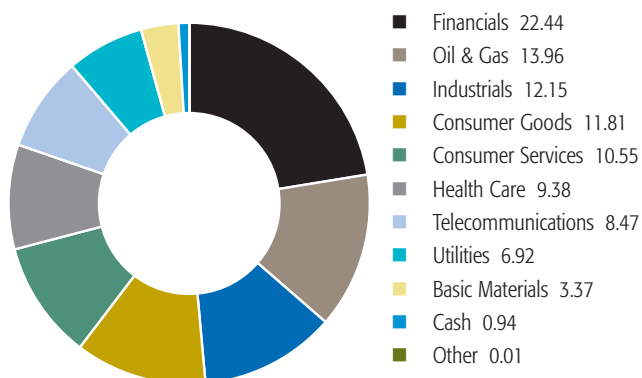
Name	%
Royal Dutch Shell "B" Shares	7.9
HSBC	7.2
GlaxoSmithKline	6.6
BP	5.9
Vodafone Group	4.9
Scottish & Southern Energy	3.8
Unilever	3.6
British American Tobacco	3.4
BAE Systems	3.4
BHP Billiton	3.3
Total	50.0

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 or from the AIC at 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

Performance

Five Year Trust Performance (%)



Cumulative Performance (%)

	3 Months	6 Months	1 Year	3 Years	5 Years
Share Price	4.66	15.04	19.79	-4.39	-11.72
Benchmark	8.42	14.71	11.94	1.86	3.50

Standardised Past Performance (%)

From	30.12.05	29.12.06	31.12.07	31.12.08	31.12.09
To	29.12.06	31.12.07	31.12.08	31.12.09	31.12.10
Share Price	19.35	-9.51	-37.98	18.86	19.94

Source: Lipper, percentage growth, mid to mid, capital return, to 28.02.11
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 at 28.02.11 unless otherwise stated.

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