

The Merchants Trust PLC

Factsheet

31 January 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

January marked the last month of Merchants' 125th financial year. Some of the principles on which the Trust were founded, to invest in a diversified portfolio of high yielding securities exposed to industries around the world seem as relevant today as they were in the 1890s. Today we invest purely in UK companies rather than directly overseas but the UK quoted sector derives the majority of its revenues overseas.

During the month, equity markets were weak, particularly in emerging markets, on a combination of softening US economic indicators and concerns over the US Federal Reserve "tapering" their bond purchases which had arguably supported markets. The FTSE 100 Index produced a total return of -3.5%, although the Trust's NAV fell less, with a total return of -2.5%. Despite the market pull-back, the strongest sectors were mostly Financials or Cyclical such as Non-life Insurance, Real Estate and General Retail. Conversely the weakest sectors included Defensives like Beverages and Tobacco as well as Oil Producers.

Looking at the Trust's portfolio, there were strong gains at Pennon, UBM and Marks & Spencer and the Trust also benefitted from not owning BG which had a profit warning. On the other hand, not owning AstraZeneca and Lloyds Bank held back performance a little, as did owning Ashmore, the emerging market fund manager.

We added one new company to the portfolio, the bookmakers William Hill. Its online division has been growing fast as the internet and mobile gambling market has developed. In recent months however the shares have been weak performers on the back of more difficult trading conditions and concerns raised about fixed odds betting terminals (FOBTs) in bookmakers. We felt the valuation is now discounting too pessimistic a view about the likely outcome of any changes to FOBT regulation so we bought the shares at an attractive level. Amongst other transactions, we took some profits in Reed Elsevier, DMGT and Vodafone, reinvesting in Hammerson, HSBC and Mothercare, the latter after a sharp fall on disappointing trading news.

The broad strategy of The Merchants Trust, investing in a diversified portfolio of higher yielding investments to deliver a combination of income and capital growth over the medium to long term, has now endured for 125 years. In addition, the dividend has been raised for 31 consecutive years. As we look to the future, we see many opportunities to buy strong, cash generative companies, trading at attractive valuations across a variety of sectors. In particular, we believe that some of the very largest companies could offer good value and certain specific recovery situations.

Performance (%)



Cumulative Performance (%)

	3 Months	6 Months	1 Year	3 Years	5 Years
Share Price	-2.7	0.5	25.2	43.1	136.5
NAV	-2.6	-1.0	14.8	38.8	125.9
FTSE 100	-2.8	-0.2	7.6	23.9	88.7

Discrete Performance (%)

From To	30.01.09 29.01.10	29.01.10 31.01.11	31.01.11 31.01.12	31.01.12 31.01.13	31.01.13 31.01.14
Share Price	25.8	31.4	-5.4	20.8	25.2
NAV	31.9	23.4	-1.6	22.9	14.8
FTSE 100	30.4	16.8	0.4	14.8	7.6

Source: Lipper, percentage growth, mid to mid, total return to 31.01.14. 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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The Merchants Trust PLC - Celebrating 125 Years



Allianz 
Global Investors

All data source Allianz Global Investors as at 31.01.14 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.

Capital Structure

Total Assets:	£635.3m
Gearing (net):	20.6%
Shares in Issue:	103,663,464 (Ordinary 25p)
Share Price ¹ :	491.5p
Net Asset Value ² :	498.4p (474.4p – debt at market value)
Premium/-Discount to NAV ² :	-1.4% (3.6% – debt at market value)
NAV Frequency	Daily
Dividend Yield ³ :	4.78%

1. Source: Lipper as at 31.01.14, market close mid price.

2. Source: Datastream as at 31.01.14. 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 (%)

Consumer Services	20.7
Financials	18.9
Oil & Gas	15.6
Industrials	13.2
Utilities	10.0
Health Care	7.6
Consumer Goods	5.7
Telecommunications	4.3
Basic Materials	3.3
Cash	0.7

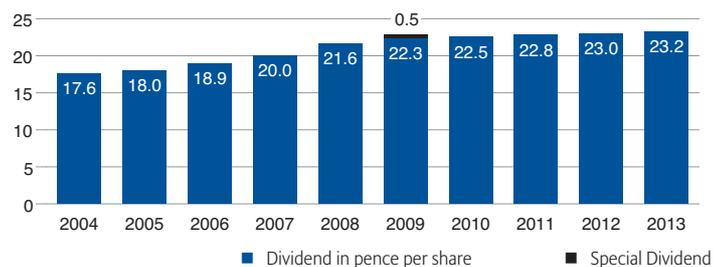
Top Ten Holdings (%)

Royal Dutch Shell "B" Shares	9.1	Resolution	3.4
GlaxoSmithKline	7.6	UBM	3.3
HSBC	6.7	BHP Billiton	3.3
BP	6.4	British American Tobacco	2.9
BAE Systems	3.5	Scottish & Southern Energy	2.9
Total Number of Holdings	48*		

*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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