

As focused on dividends as you are

The Merchants Trust PLC

Factsheet

28 February 2018

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 large UK companies.

History

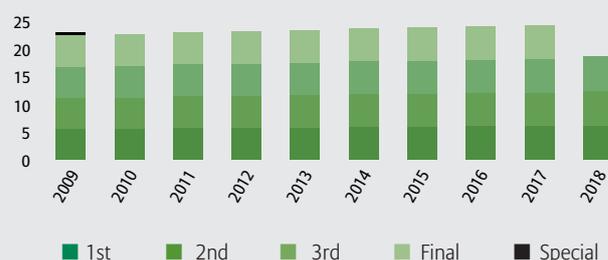
The Merchants Trust PLC was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, but now concentrates primarily on major UK companies with an above average rate of dividend yield.

Trust Benefits

Merchants has for many years focused on a simple proposition to deliver a high and rising income together with capital growth for its shareholders. Simon Gergel has been managing the trust for ten years, investing in a diversified portfolio of large, well-established and well-known UK companies. Although past performance is no guide to the future, Merchants has paid increasingly higher dividends to its shareholders year on year for the last 35 years.

Ten Year Dividend History

Dividend Record in Pence per Share to year end 31 January



Last Four Dividend Payments per Share

Record Date	Pay Date	Dividend	Type
26.01.2018	02.03.2018	6.20p	3rd Quarterly
06.10.2017	16.11.2017	6.20p	2nd Quarterly
14.07.2017	11.08.2017	6.10p	1st Quarterly
21.04.2017	18.05.2017	6.10p	Final

Past performance is not a reliable indicator of future results.

Total Assets £675.3m **Shares in Issue** 108,728,464 (Ordinary 25p) **Market Cap** £513.2m

Share Price

472.0p

Source: Lipper

NAV per Share

488.1p

Premium/-Discount

-3.3%

Dividend Yield

5.2%

Gearing

20.3%

Share Price is the price of a single ordinary share, as determined by the stock market. The share price above is the mid-market price at market close.

Net Asset Value (NAV) per Share 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.

The NAV figure above is based on the fair/market value cum income of the company's long-term

debt and preference shares (known as debt at market value). This allows for the valuation of long-term debt and preference shares at fair value or current market price, rather than at final repayment value (known as debt at par).

Premium/Discount. Since investment company shares are traded on a stock market, the share price that you get may be higher or lower than the NAV. The difference is known as a premium or discount.

Dividend Yield is calculated using the latest full year dividend divided by the current share price.

Gearing is a measure of a company's financial leverage and shows the extent to which its operations are funded by lenders versus shareholders.

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Fund Manager's Review

In the UK, politics and the Brexit discussion process took centre stage again, as we waited for a critical speech from Prime Minister Theresa May setting out the government's position, due in early March. The opposition Labour party raised the political stakes by coming out in favour of the UK staying in a form of customs union with the EU, that would prevent the UK from agreeing third party trade deals independently. This policy may appeal to some "pro-remain" Conservatives and could make it harder for the government to win a key parliamentary Brexit vote in the coming weeks.

The volatility in markets continued from January into February. Concerns about rising interest rates in the USA, following the tax cuts in late 2017, put further pressure on US bond prices, with the ten year bond yield rising to 2.87% from 2.72%. The equity market had a poor month. The FTSE All Share gave a total return of -3.3%. The worst performing sectors included many of the "bond proxies" or sectors sensitive to rising interest rates, such as tobacco, household goods, utilities, telecommunications and real estate. On the other hand, many cyclical and financial sectors outperformed, including media, retail, travel & leisure and banks.

The Trust's NAV fell by 4.4% over the month. On the negative side, Standard Life Aberdeen was weak on concern about losing Scottish Widows as a client, and Pennon, Tate & Lyle and Man Group also underperformed. The biggest positive stock selection impact came from not owning certain defensive companies like British American Tobacco and Reckitt Benckiser, which both underperformed. Also, UBM and Senior were strong performers.

“ We look to buy sound companies, trading on sensible valuations which have a supportive environment for their business.

Investment activity was limited in February, but we took advantage of the stock market pull-back to add to a few share holdings at attractive levels, including Legal & General, National Grid and FirstGroup.

With higher volatility in markets, it is worth considering what the implications are for equities, from a period of rising interest rates and bond yields. In theory, the lower the interest rate that is used to discount future cash flows, the greater the present value of a company. Higher growth companies, with more of their value far into the future, should theoretically benefit more from lower interest rates than more mature businesses, generating high cash flows today. Indeed, if we look at the value of high growth technology stocks, they are extremely highly rated, as is the tech-heavy US stock market overall. The UK has fewer technology businesses, and the stock market is far more reasonably valued. However, even in the UK, companies exhibiting steady growth, like those in the consumer staples sectors, are generally highly rated compared to their past.

There is a chance that the valuations of these growth companies come under pressure, with rising interest rates, and indeed, this seems to have been a feature of recent market trends. But we believe, there are also many very reasonably priced companies in the UK market. Partly, this reflects fears about the implications of Brexit and political risk. But it also reflects the composition of the British stock market, with a high weighting in the natural resources and financial sectors, among others, which have not benefitted from cheap money as much as many higher growth sectors.

Our value investment style, means that we have avoided investing in most of the highly rated companies for some time, and the portfolio has a high exposure to modestly rated companies in



Simon Gergel, Portfolio Manager

The Merchants Trust PLC is managed by Simon Gergel who is Chief Investment Officer at AllianzGI and has 27 years investment experience. He is pictured here with Matthew Tillet, UK equity portfolio manager. Simon joined AllianzGI in April 2006 from HSBC Halbis Partners where he managed over £900m in high income funds as well as core institutional and life UK equity portfolios. Prior to joining HSBC, Simon worked for 14 years at Phillips & Drew Fund Management / UBS Asset Management.

sectors such as oil producers, construction, aerospace & defence, financial services and travel & leisure. We look to buy sound companies, trading on sensible valuations which have a supportive environment for their business. Even under a scenario of higher interest rates, we can find many such businesses that should be able to deliver both a high yield and attractive total returns to investors.

*Simon Gergel
6 March 2018*

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.

Performance Track Record

Five Year Performance (%)



■ Share Price ■ NAV (with debt at par)
 ■ Benchmark: With effect from 1 February 2017 the benchmark changed from the FTSE 100 to the FTSE All-Share Index

Risk & 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.

Merchants seeks to enhance returns for its shareholders through gearing which 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 may be used to manage the Trust efficiently.

Cumulative Returns (%)

	3M	6M	1Y	3Y	5Y
Share Price	0.6	-0.9	5.5	15.1	44.4
NAV	0.5	-0.8	5.5	13.0	39.8
Benchmark	-0.6	-0.9	4.4	18.3	38.7

Discrete 12 Month Returns (%) to 28 February

	2014	2015	2016	2017	2018
Share Price	29.2	-2.9	-11.4	23.1	5.5
NAV	19.6	3.4	-10.4	19.6	5.5
Benchmark	11.0	5.6	-8.7	24.2	4.4

Source: Lipper, percentage growth, mid to mid, total return to 28.02.18. Copyright 2018 © Lipper, a Thomson Reuters company. All rights reserved. Lipper shall not be liable for any errors or delays in the content, or for any actions taken in reliance thereon.

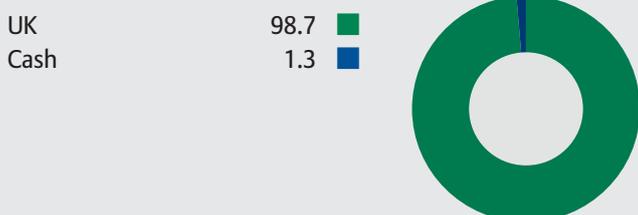
Past performance is not a reliable indicator of future returns. You should not make any assumptions on the future on the basis of performance information. The value of an investment and the income from it can fall as well as rise as a result of market fluctuations and you may not get back the amount 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.

Portfolio Breakdown

Sector Breakdown (%)



Geographic Breakdown (%)



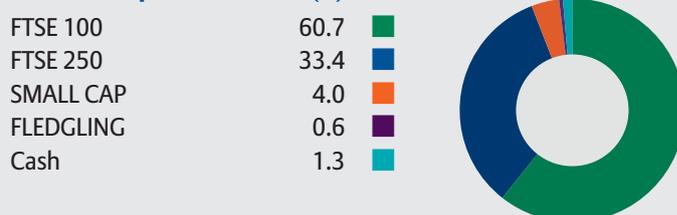
Top Ten Holdings (%)

Royal Dutch Shell 'B' Shares	7.2
GlaxoSmithKline	6.4
BP	5.1
HSBC Holdings	4.8
UBM	4.3
Lloyds Banking Group	4.2
BHP Billiton	3.8
Legal & General	3.3
BAE Systems	3.1
Standard Life Aberdeen	3.0

Total number of holdings* 47

*Excludes derivatives

Market Cap Breakdown (%)



Key Information

Launch Date	16 February 1889
AIC Sector	UK Equity Income
Benchmark	FTSE All-Share
Annual Management Charge	0.35%
Performance Fee	No
Ongoing Charges ¹	0.63%
Year End	31 January
Annual Financial Report	Final published in April, Half-yearly published in September
AGM	May
NAV Frequency	Daily
Dividends	February/March, May, August, November
Price Information	Financial Times, The Daily Telegraph, www.merchantstrust.co.uk
Company Secretary	Kirsten Salt
Investment Manager	Simon Gergel, CIO, UK Equities
Codes	RIC: MRCH.L SEDOL: 0580007

1. Source: AIC, as at the Trust's Financial Year End (31.01.2017). Ongoing Charges (previously Total Expense Ratios) are published annually to show operational expenses incurred in the running of the company but excluding financing costs.

Board of Directors

Directors from left to right: Mary Ann Sieghart, Timon Drakesmith (Chairman of the Audit Committee), Simon Fraser (Chairman), Sybella Stanley (Senior Independent Director) and Paul Yates



How to invest

You can buy shares in the Trust through:

- A third party provider - see 'How to Invest' on our website, where you will find links to a range of these platforms, many of which allow you to hold the shares within an ISA, Junior ISA, SIPP and/or savings scheme.
- A stockbroker.
- A financial adviser.

Contact us

If you have any queries regarding our investment trusts our Investor Services team can be contacted on:

0800 389 4696

www.merchantstrust.co.uk

E-mail: investment-trusts@allianzgi.com

You will find much more information about The Merchants Trust on our website.

Please note that we can only offer information and are unable to provide investment advice. You should contact your financial adviser before making any investment decision.



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All data source Allianz Global Investors as at 28.02.18 unless otherwise stated.

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