

The Merchants Trust PLC

Factsheet

30 June 2013

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

After twelve consecutive months of gains, the FTSE 100 Index pulled back in June in response to fears that the US Federal Reserve will begin "tapering" their purchases of government bonds this year. This had a significant impact on many asset classes which had been buoyed by liquidity, with government bond prices falling and pushing up yields, equity markets retreating and commodities also declining, most notably gold. Emerging markets were particularly impacted and also suffered from signs of weakening economic growth and tightening credit conditions in China.

The FTSE 100 Index produced a total return of -5.3% in the month. Most sectors showed negative returns. The mining, banks and financial services sectors were very weak, but tobacco, food retail and utilities also fell more than average. Of the significant sectors, only fixed line telecommunications produced a positive return, with media and travel & leisure showing only modest falls.

The Trust's NAV fell by 4.7%, outperforming its benchmark which fell by 5.3%. There were boosts from strong performances at Inmarsat and Mothercare as well as having only limited exposure to the Mining and Banks sectors as they fell. Within the financial sector, good performance from ICAP was balanced by weakness at Man Group. Other small negatives included UBM and Ashmore which both underperformed.

We took advantage of the poor market reaction to First Group's rights issue to make an investment in the bus and rail company at a depressed valuation. We believe the business has the potential to significantly improve its operational performance over the medium term as it now has a stronger financial position. We also invested in SThree, an international specialist permanent and contract staffing business. SThree should be well placed to benefit from growth opportunities in new geographies and new disciplines, as well as having significant recovery potential in its main profit centres. The company has net cash on its balance sheet and pays a 4% dividend yield.

We sold BT after strong performance as we could no longer see significant upside in the valuation. The company is attempting the difficult transition from cost cutting to a growth strategy and the latest accounts shows a large number of adjustments in their "normalised" cash flow calculations. Elsewhere we reduced exposure to strong performers such as BBA Aviation, DMGT and Unilever.

Our economic views have not changed materially, with our central case encompassing only modest growth as high debt levels are addressed. Increased market volatility may produce new opportunities, such as First Group, to buy fundamentally sound businesses at attractive valuations. We currently see the best value in the middle ground between the expensive defensives, such as Food Producers and Beverages and the deep cyclicals, like Mining and Banks.

Performance (%)



Cumulative Performance (%)

| | 3 Months | 6 Months | 1 Year | 3 Years | 5 Years |
|-------------|----------|----------|--------|---------|---------|
| Share Price | 8.6 | 22.5 | 32.3 | 68.1 | 68.3 |
| NAV | 1.7 | 14.5 | 27.4 | 67.0 | 49.4 |
| FTSE 100 | -2.0 | 7.6 | 15.8 | 40.8 | 33.4 |

Discrete Performance (%)

| From To | 30.06.08 30.06.09 | 30.06.09 30.06.10 | 30.06.10 30.06.11 | 30.06.11 29.06.12 | 29.06.12 28.06.13 |
|-------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Share Price | -18.6 | 23.0 | 36.5 | -6.9 | 32.3 |
| NAV | -28.3 | 24.8 | 32.5 | -1.1 | 27.4 |
| FTSE 100 | -20.9 | 19.8 | 24.9 | -2.7 | 15.8 |

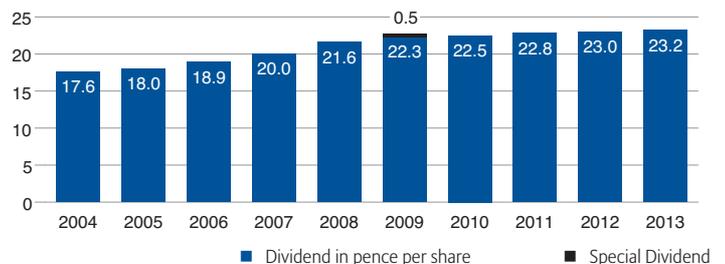
Source: Lipper, percentage growth, mid to mid, total return to 30.06.13. Benchmark: FTSE 100 Index.

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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Dividend History

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



Past performance is not a reliable indicator of future results.

All data source Allianz Global Investors as at 30.06.13 unless otherwise stated.

Allianz Global Investors, 155 Bishopsgate, London EC2M 3AD

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.

Allianz 
Global Investors

Capital Structure

| | |
|---|--|
| Total Assets: | £618.0m |
| Gearing (net): | 19.9% |
| Shares in Issue: | 103,213,464 (Ordinary 25p) |
| Share Price ¹ : | 457.8p |
| Net Asset Value ² : | 475.7p (453.9p – debt at market value) |
| Premium/-Discount to NAV ² : | -3.8% (0.9% – debt at market value) |
| NAV Frequency | Daily |
| Dividend Yield ³ : | 5.07% |

1. Source: Lipper as at 30.06.13, market close mid price.

2. Source: Datastream as at 30.06.13. 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 (30.01.2013). 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.

Sector Breakdown (%)

| | | |
|--------------------|------|--|
| Consumer Services | 18.4 | |
| Financials | 18.3 | |
| Oil & Gas | 15.0 | |
| Industrials | 12.0 | |
| Utilities | 10.1 | |
| Health Care | 7.8 | |
| Consumer Goods | 7.5 | |
| Telecommunications | 6.7 | |
| Basic Materials | 2.2 | |
| Cash | 2.0 | |

Top Ten Holdings (%)

| | | | |
|---------------------------------|------------|----------------------------|-----|
| Royal Dutch Shell "B" Shares | 8.7 | British American Tobacco | 3.5 |
| GlaxoSmithKline | 7.8 | Scottish & Southern Energy | 3.5 |
| HSBC | 6.5 | BAE Systems | 3.3 |
| BP | 6.3 | Resolution | 2.9 |
| Vodafone | 4.3 | UBM | 2.5 |
| Total Number of Holdings | 48* | | |

*excludes derivatives

Net Dividends (Financial Year to Date)

| | Pay Date | Record Date | Payment |
|------------------------|----------|-------------|----------------|
| 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 |
| 3rd quarterly dividend | 27.02.13 | 01.02.13 | 5.8p per share |
| 2nd quarterly dividend | 12.11.12 | 05.10.12 | 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:

0800 389 4696

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website: www.merchantstrust.co.uk

All data source Allianz Global Investors as at 30.06.13 unless otherwise stated.

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