

The Merchants Trust PLC

Factsheet

31 March 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.

Fund Manager's Review



Simon Gergel

Merchants has just completed its 125th year as an investment company. In the recently announced annual results the dividend has been raised for the 32nd consecutive year and it is once again covered by earnings after a period of dipping into reserves since the financial crisis.

March has been an eventful month both in the UK and overseas. The UK Budget had an impact on life insurance companies, in particular, with valuations reflecting the ending of the requirement for pensioners to buy annuities. Overseas, China saw its first corporate bond default in recent times which highlighted stress in the shadow banking system and pressures on growth, whilst political tension was elevated in the Crimea which voted in a referendum to leave the Ukraine and join Russia.

The FTSE 100 Index fell by 2.6%. The traditionally defensive sectors were at both ends of the performance spectrum. The biggest fallers included Mobile Telecoms, where Vodafone fell back after disposing of its Verizon Wireless stake in February, Food Retail, where Morrison issued a major profit warning, and Personal Goods. Conversely the strongest sectors were Electricity, Tobacco and Aerospace and Defence.

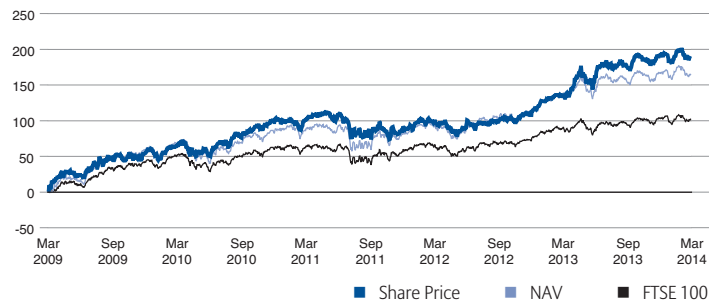
The Trust's NAV fell by 4.21% over the month, behind its benchmark. The biggest negatives for the portfolio were life assurer Resolution and Ladbrokes, both of which were impacted by announcements made by the Chancellor of the Exchequer in the Budget. The biggest positives were both in the Mobile Telecoms sector with gains at Inmarsat and the portfolio avoiding the impact of the weak share price performance of Vodafone which we did not own.

Considerable dispersion of returns within the stock market created a number of investment opportunities during the month. We bought a new holding in Tate & Lyle, a producer of corn syrup and speciality food ingredients. The shares have been depressed by a profits warning over prospects for their sugar substitute, Sucralose. This took the shares to an attractive price which undervalues the transformation to higher value added products that is taking place within the business. We also added to several companies where shares had pulled back such as Unilever, Marks & Spencer, Inmarsat, Resolution and BAE Systems.

On the other hand, we sold out of Tesco where trading pressures have intensified, although we continue to own Sainsbury which seems better positioned in our view. We also sold the small position we held in building products firm Tyman for a good profit and trimmed strong performing mid-caps such as First Group, Britvic and BBA Aviation.

The economic outlook is gradually improving although we continue to expect only modest growth due to the enormous debt overhang and, in the short term, headwinds from sterling's strength and weakness in some emerging market economies. The median company is now on a fairly full valuation but considerable volatility at the individual company level is providing many opportunities to invest in strong businesses at attractive prices.

Performance (%)



Cumulative Performance (%)

| | 3 Months | 6 Months | 1 Year | 3 Years | 5 Years |
|-------------|----------|----------|--------|---------|---------|
| Share Price | -1.6 | 4.5 | 22.4 | 43.7 | 186.9 |
| NAV | -1.0 | 4.2 | 12.1 | 42.8 | 164.6 |
| FTSE 100 | -1.3 | 3.8 | 6.7 | 24.7 | 101.5 |

Discrete Performance (%)

| From To | 31.03.09 31.03.10 | 31.03.10 31.03.11 | 31.03.11 30.03.12 | 30.03.12 29.03.13 | 29.03.13 31.03.14 |
|-------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Share Price | 64.3 | 21.5 | -1.4 | 19.1 | 22.4 |
| NAV | 67.5 | 10.7 | 3.5 | 23.0 | 12.1 |
| FTSE 100 | 50.4 | 7.4 | 1.2 | 15.5 | 6.7 |

Source: Lipper, percentage growth, mid to mid, total return to 31.03.14. 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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All data source Allianz Global Investors as at 31.03.14 unless otherwise stated.

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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: | £651.8m |
| Gearing (net): | 19.3% |
| Shares in Issue: | 104,163,464 (Ordinary 25p) |
| Share Price ¹ : | 497.4p |
| Net Asset Value ² : | 506.1p (483.0p – debt at market value) |
| Premium/-Discount to NAV ² : | -1.7% (3.0% – debt at market value) |
| NAV Frequency | Daily |
| Dividend Yield ³ : | 4.72% |

1. Source: Lipper as at 31.03.14, market close mid price.

2. Source: Datastream as at 31.03.14. 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 Equity Income |
| Benchmark: | FTSE 100 Index |
| Annual Management Charge: | 0.35% |
| Performance Fee: | No |
| Ongoing Charges ⁴ : | 0.66% |
| 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 (31.01.2014). Ongoing 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.

All data source Allianz Global Investors as at 31.03.14 unless otherwise stated.

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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. The views and opinions expressed herein, which are subject to change without notice, are those of the issuer and/or its affiliated companies at the time of publication. The data used is derived from various sources, and assumed to be correct and reliable, but it has not been independently verified; its accuracy or completeness is not guaranteed and no liability is assumed for any direct or consequential losses arising from its use, unless caused by gross negligence or wilful misconduct. The conditions of any underlying offer or contract that may have been, or will be, made or concluded, shall prevail.

Sector Breakdown (%)

| | |
|--------------------|------|
| Financials | 19.6 |
| Consumer Services | 17.8 |
| Oil & Gas | 15.2 |
| Industrials | 12.8 |
| Utilities | 11.0 |
| Consumer Goods | 7.8 |
| Health Care | 7.6 |
| Basic Materials | 3.3 |
| Telecommunications | 3.0 |
| Cash | 1.9 |

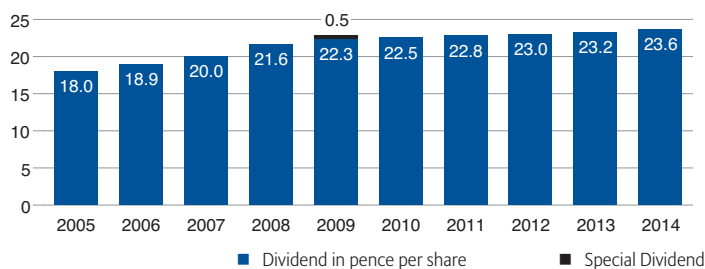
Top Ten Holdings (%)

| | | | |
|---------------------------------|------------|----------------------------|-----|
| Royal Dutch Shell "B" Shares | 8.9 | BAE Systems | 3.9 |
| GlaxoSmithKline | 7.6 | BHP Billiton | 3.3 |
| HSBC | 6.4 | UBM | 3.3 |
| BP | 6.3 | Scottish & Southern Energy | 3.2 |
| British American Tobacco | 4.3 | Resolution | 3.0 |
| Total Number of Holdings | 46* | | |

*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

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