

The Merchants Trust PLC

Annual General Meeting
16 May 2017



www.merchantstrust.co.uk

Allianz 
Global Investors

Simon Gergel, Portfolio Manager

Understand. Act.

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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.

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.

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.

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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Web site: www.merchantstrust.co.uk

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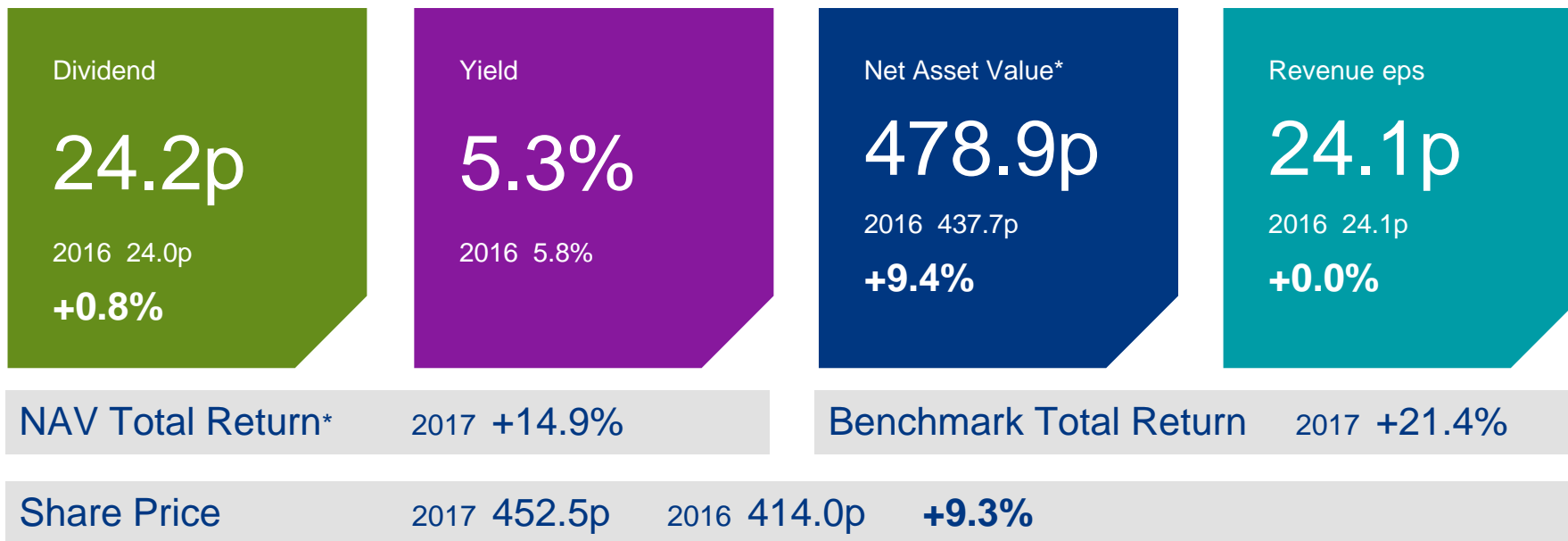


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CIO UK Equities, Portfolio Manager

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Highlights

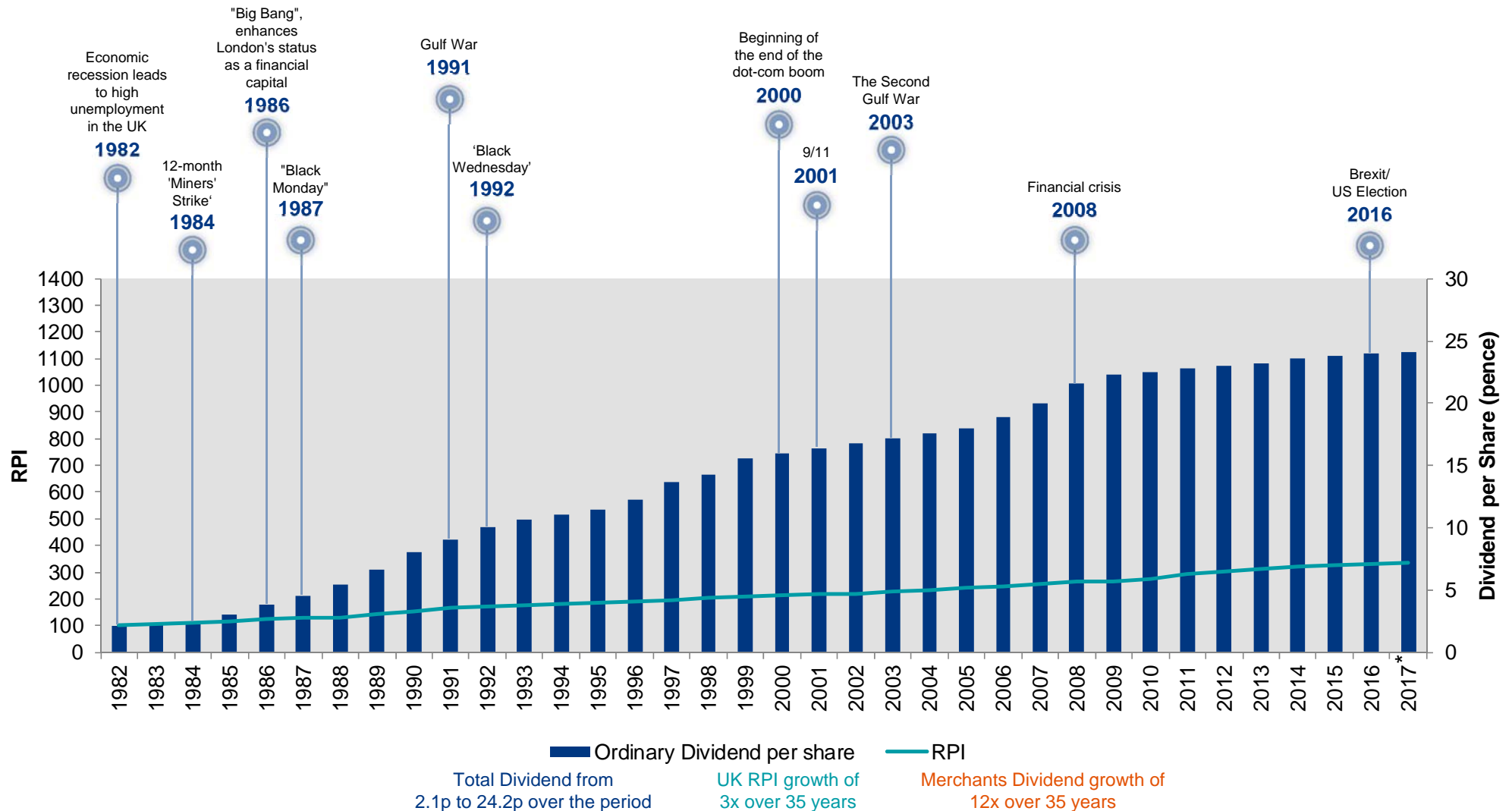


* Debt at market value

- 35 years of dividend growth
- High dividend yield
- Strong total return, although behind the benchmark

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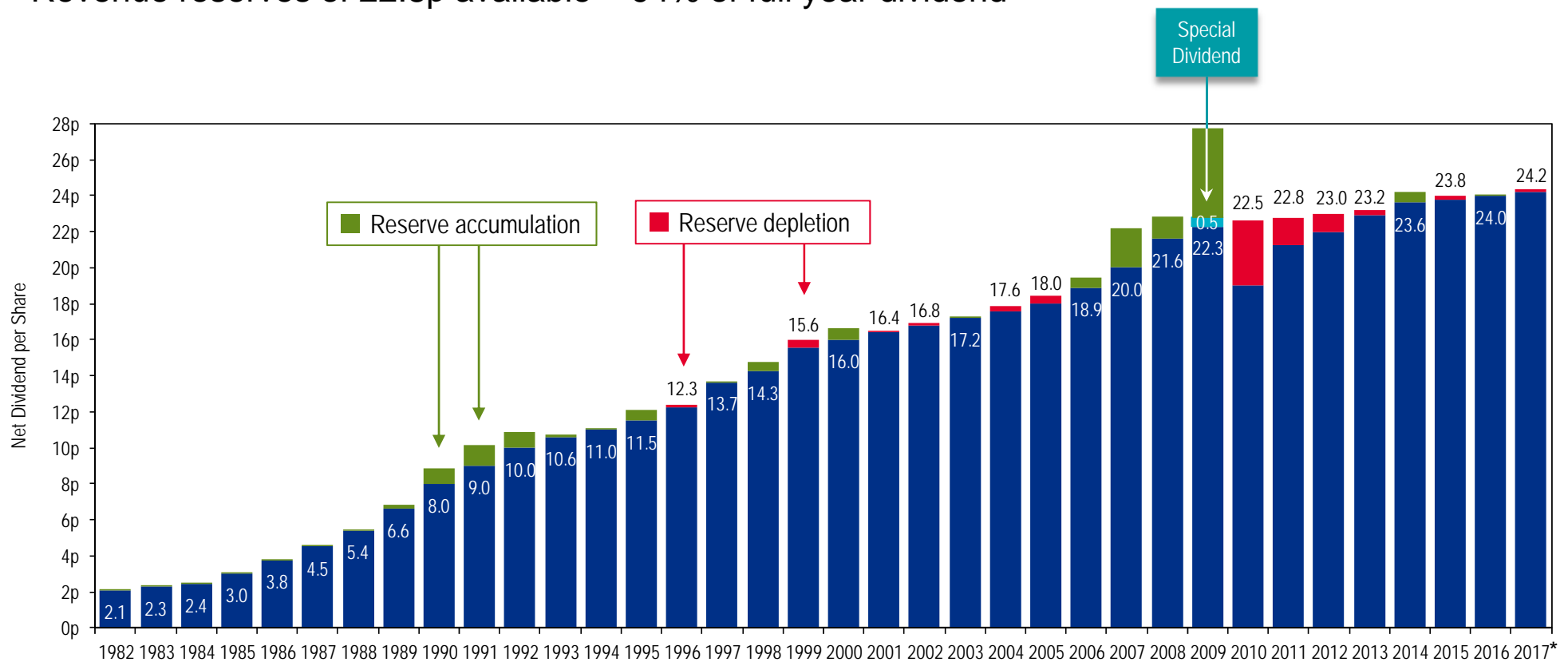
35 years of rising dividends



Source: AllianzGI. *Final dividend for approval at the 2017 AGM.

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- Reserves built up in good years to offset pressures in difficult years
- Revenue reserves of 22.8p available = 94% of full year dividend



Past performance is not a reliable indicator of future results. *Includes dividend proposed at today's AGM.

Source: AllianzGI, as at 31 January 2017.

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Valuation summary

- A strong year for UK equities, boosted by sterling weakness
- Investment portfolio underperformed the benchmark

| | 31 January 2016 | 31 January 2017 | Change (%) |
|---|-----------------|-----------------|------------|
| Total Assets | £608m | £655m* | +7.7 |
| Net Assets Value Per Share (Debt at Market Value) | 437.7p | 478.9p | +9.4 |
| Share Price | 414.0p | 452.5p | +9.3 |
| Premium/(Discount) (Debt at Market Value) | (5.4%) | (5.5%) | - |
| FTSE 100 Index | 6084 | 7099 | +16.7 |

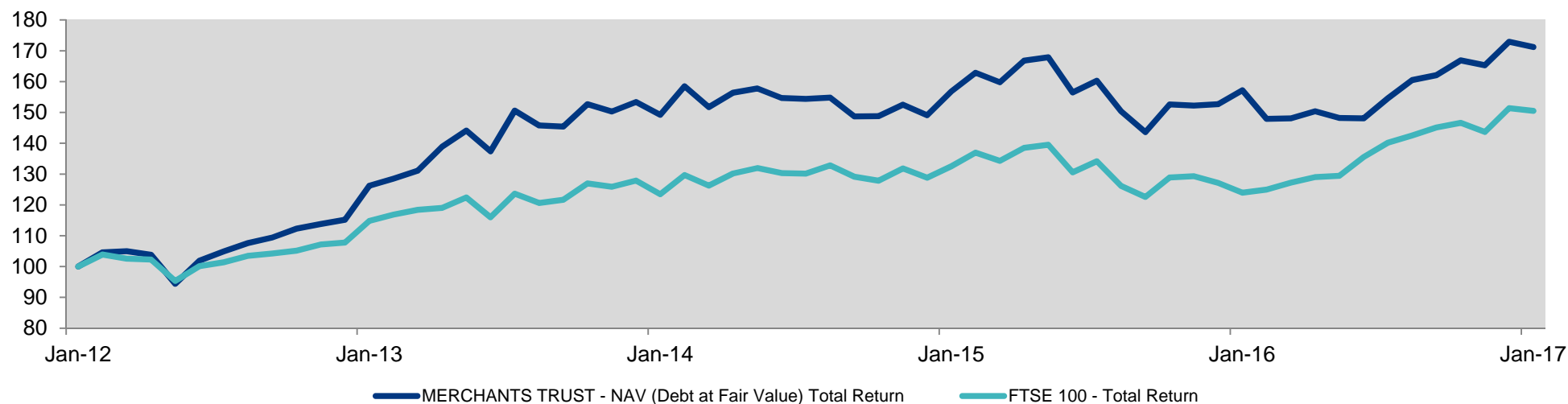
* Adjusted for £34m loan now payable in 1 year.
Source: Merchants Trust 2016/2017 Report & Accounts.

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Net Asset Value Performance

- Net Asset Value (NAV) ahead of benchmark over 5 years
- Gearing amplifies performance, though falling bond yields, rising values, have held back NAV

Merchants Trust NAV vs FTSE 100: 5 years to 31 January 2017



Past performance is not a reliable indicator of future results. Definition: the ratio of a company's loan capital (debt) to the value of its ordinary shares (equity).

Source: Thomson Reuters Datastream/AllianzGI, as at 31 January 2017.

The Merchants Trust Portfolio Performance

- Portfolio return behind benchmark in year, but with better H2
- 5 year return ahead of benchmark

Merchants Portfolio Total Return vs Benchmark

| Total Return Periods to 31 January 2017 % | 6 Months | 1 Year | 3 Years p.a. | 5 Years p.a. |
|--|----------|--------|--------------|--------------|
| Merchants' Portfolio (excludes gearing) | 7.7 | 14.5 | 5.6 | 10.0 |
| FTSE 100 Index | 7.4 | 21.4 | 6.8 | 8.5 |
| Difference | +0.4 | -6.9 | -1.3 | +1.5 |

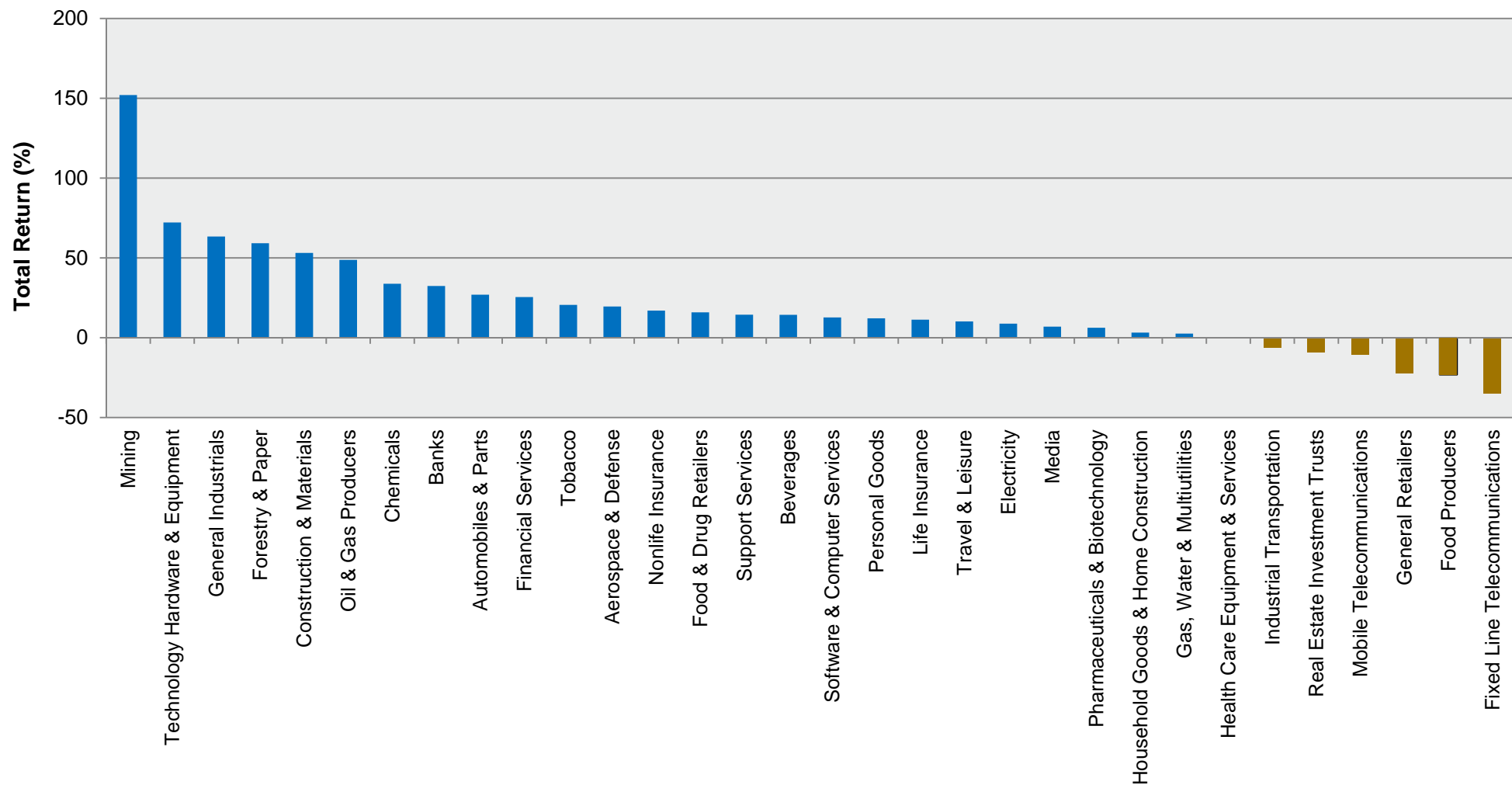
Past performance is not a reliable indicator of future results.

Source: Thomson Reuters Datastream/AllianzGI, as at 31 January 2017.

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Polarised UK Stock Market

- Resources, financials strong, domestic cyclicals, telecoms weak



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Stock Performance Contributions

Top and bottom contributors

| Top Contributors | Active Contribution (%) |
|----------------------------------|-------------------------|
| Vodafone* | 1.1 |
| BT* | 1.0 |
| Antofagasta | 0.9 |
| AstraZeneca* | 0.8 |
| UBM | 0.8 |
| Imperial Brands* | 0.5 |
| Next* | 0.4 |
| Capita* | 0.4 |
| Associated British Foods* | 0.3 |
| CRH | 0.3 |

| Bottom Contributors | Active Contribution (%) |
|------------------------|-------------------------|
| Inmarsat | -2.4 |
| Glencore* | -1.6 |
| Rio Tinto* | -1.2 |
| Greene King | -1.0 |
| Anglo American* | -0.9 |
| IG Group | -0.8 |
| Marks & Spencer | -0.7 |
| Pennon | -0.7 |
| Brammer | -0.6 |
| Mothercare | -0.6 |

* = underweight.

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Debt and Gearing Structure

| | 31 Jan 2016 | | 31 Jan 2017 | |
|------------------------------------|-------------|-----|-------------|-----|
| | £m | % | £m | % |
| Total Assets | 608 | 100 | 655* | 100 |
| Borrowings (Debt at book value) | 110 | 18 | 110* | 17 |
| Shareholder Funds | 498 | 82 | 545 | 83 |

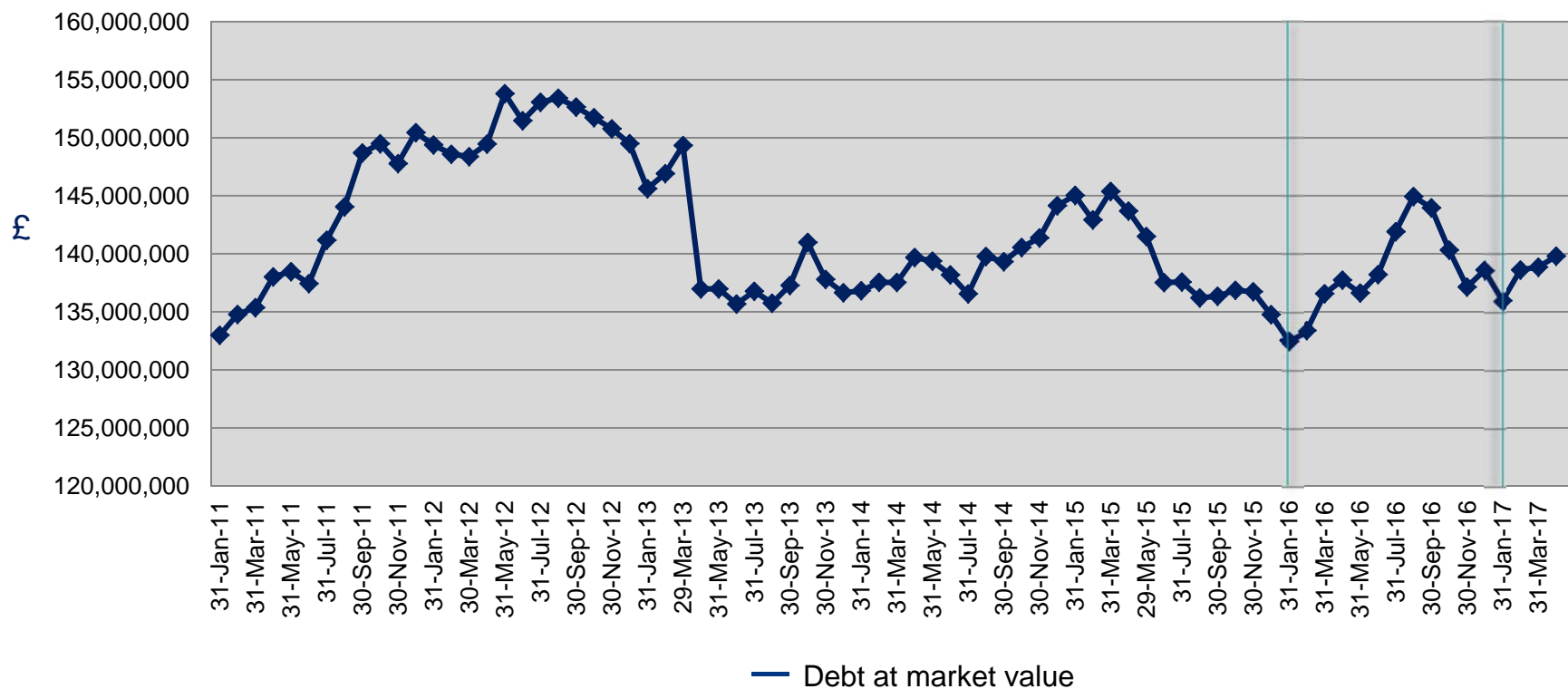
| | |
|-------------------------|-------|
| Average Maturity | 6 yrs |
| Average Interest Charge | 8.5% |

- Value of debt rose during the year
- First maturity Jan 2018
- Pull to par will benefit future NAV performance

*Includes the £34m loan payable in Jan 2018
Source: AllianzGI/The Merchants Trust PLC

The Merchants Trust Debt Value

Debt at market value



*Includes the £34m loan payable in Jan 2018

Source: AllianzGI/JP Morgan Cazenove/Datastream, as at 30 April 2017.

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New Holdings/Complete Disposals

- Active management – taking advantages of opportunities
- 4 new holdings, 4 complete sales, 44 holdings.
- Bought undervalued companies and recovery situations
- Sold out of companies on full valuations or where view changed

| New Holding | Rationale |
|--------------------|------------------------------------|
| Senior | Recovery Situations |
| St Ives | |
| Tyman | Undervalued after poor performance |
| Sirius Real Estate | Undervalued growth and income |
| Total Disposals | Rationale |
| Segro | Full valuation |
| William Hill | Change of investment view |
| Brammer | |
| Barclays | Switched to Lloyds |

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Economic and Market Outlook – Long Term Themes

- General election likely to result in increased conservative majority
- Brexit uncertainty to continue: Trade policy, investment, consumer spending
- Fiscal spending to increase but interest rates to stay low, high debt burden
- Corporates generally in good shape, balance sheets repaired
- Large companies geographically diversified
- Yield to remain an important factor
- Best value in Mega Caps and recovery situations
- Safe defensive stocks and bond proxies expensive

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Key Portfolio Themes

- Large core holdings in well financed **global**, “**mega**” caps with strong franchises and good yields



- Earnings growth** is hard to achieve: Favour **growth** stocks on reasonable valuations



- Exposure to emerging market consumer spending growth



- Inflation** “tail risk”: Real assets, inflation-linked revenues attractive



- Cyclical Recovery situations:** Industries recovering, companies on modest valuations



- Turnaround situations**



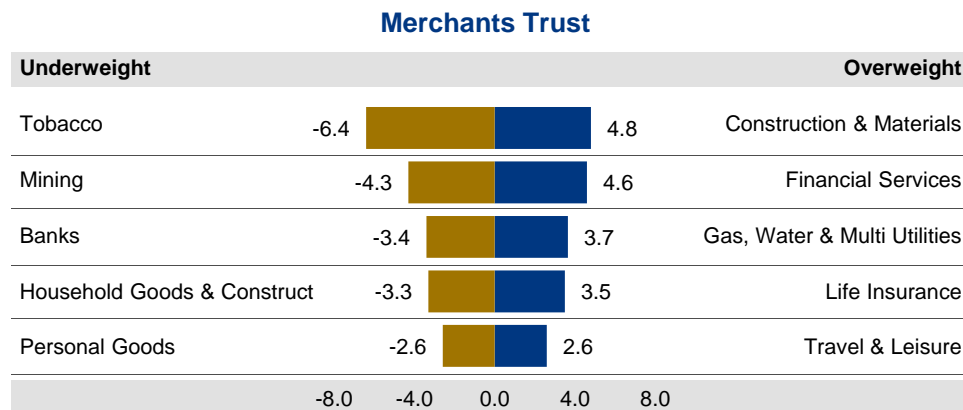
- Financials:** exposure to rising interest rates/volatility



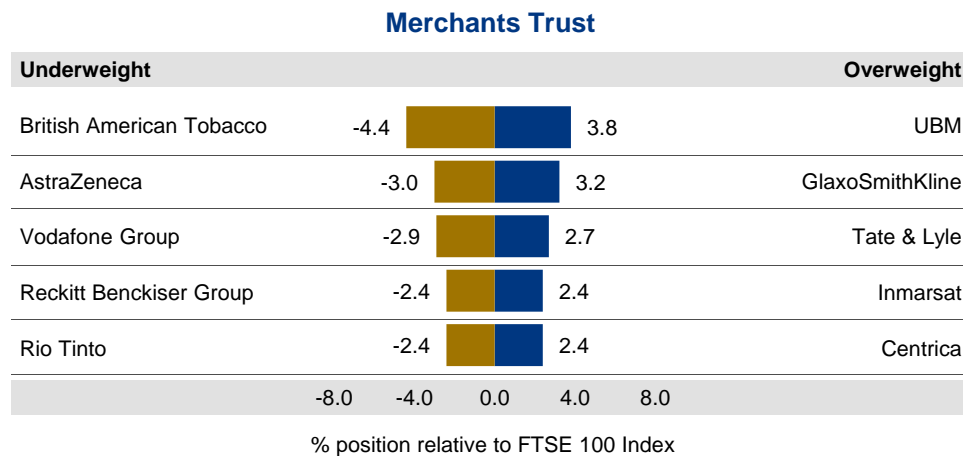
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High Conviction Positioning

Sector Views



Stock Views



- Strong valuation discipline
- Opportunities in recovery situations:
 - Construction and materials
 - Financial services
 - Travel and leisure
- Limited exposure to expensive defensives

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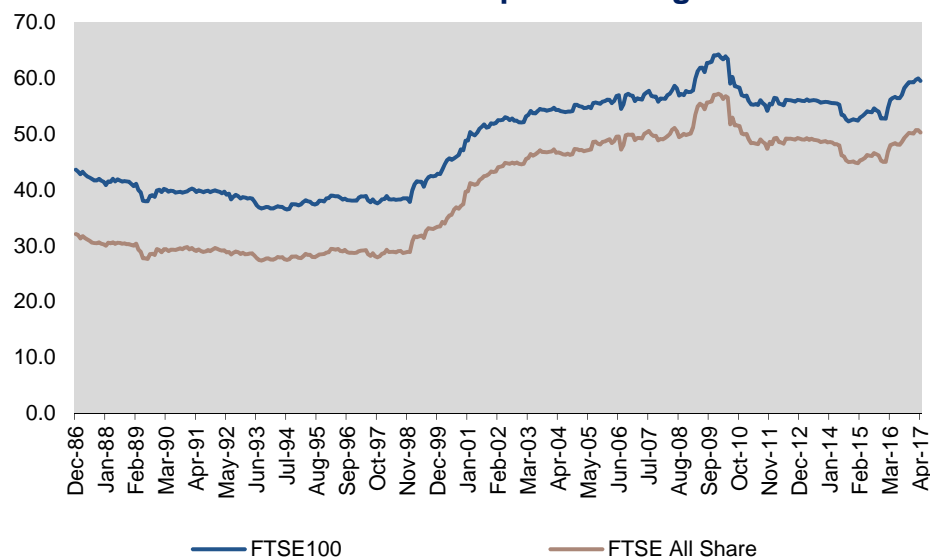
Source: Bloomberg, as at 31 January 2017.

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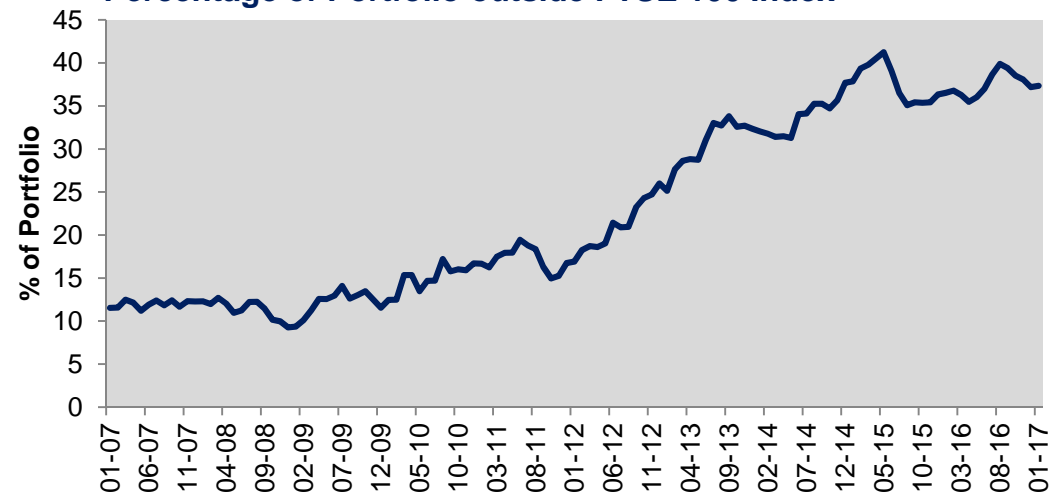
Change of Performance Benchmark

- A key objective of Merchants is a high and rising yield
- The FTSE 100 Index is highly concentrated – Top 10 stocks = 60% of income
- Merchants portfolio has significantly diversified out of the FTSE 100 in the last decade
- The FTSE All-Share Index more closely reflects portfolio positioning and a broader opportunity set

Dividend Concentration - top 10 holdings¹



Percentage of Portfolio outside FTSE 100 Index²



Past performance is no indication of future results

Source: ¹ Societe Generale, as at 2 May 2017

² Wilshire Atlas and it covers the period 10 years to 31/01/17

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Conclusion

- 35 years of dividend growth
- High yield supported by significant reserves
- Good long term performance track record
- Active, value driven, stock selection
- Low management fee
- Strong, independent board
- We believe that Merchants is well positioned for the future

For further information:

- www.merchantstrust.co.uk
- Blog: www.unconstrainedthinking.com



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