

The Merchants Trust PLC

Factsheet

31 October 2012

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

In October, attention was focused on the USA. The close Presidential election campaign was watched for clues about how the USA would address the potential "fiscal cliff" of mandated spending cuts and tax rises in 2013. In addition tropical storm Sandy was monitored to assess damage to the North East region as well as its impact on the presidential campaign.

Economic statistics were generally a little more encouraging, with the UK returning to positive growth with 1% GDP reported for Q3, well above estimates, although benefitting from some one-off factors. Equity market returns were mixed with the UK and Europe making modest gains whilst the USA showed modest losses. Bond yields rose in response to slightly better economic news.

The UK stock market was led by cyclical stocks, including many consumer companies and banks, whilst most defensive sectors, including telecoms, pharmaceuticals and food retail produced negative returns.

The Trust's NAV outperformed (+2.04%) the index (+0.88%), despite a relatively defensive sector positioning. Strong gains from consumer stocks Carnival and Mothercare aided performance, as did not owning BG which fell by 8% after production disappointments. On the flipside, GlaxoSmithKline underperformed and the underweight stance in mining and banks were negative factors.

During the month we introduced two new stocks to the portfolio. We bought back into Tesco at an attractive valuation after recent weakness, amid signs that the industry is slowing down its rapid space expansion. The position was partly financed by profit taking in Sainsbury which has been a strong performer. The building materials company, CRH, was also purchased, providing exposure to the recovering US housing market, a theme that looks increasingly sustainable. Finally, after a strong rally, we sold Barclays to reduce the financials exposure as considerable uncertainty remains over banking regulation and capital requirements.

Despite the recent encouraging UK and US economic figures, we remain cautious on the outlook for growth as high government and consumer debt levels are gradually addressed. Aggregate stock market valuations remain reasonable and many companies are trading well. Whilst many defensive shares now look fully valued, we continue to find attractive opportunities elsewhere to invest in strong businesses with robust balance sheets and sound long term prospects.

Performance (%)



Cumulative Performance (%)

| | 3 Months | 6 Months | 1 Year | 3 Years | 5 Years |
|-------------|----------|----------|--------|---------|---------|
| Share Price | 3.4 | 1.9 | 4.8 | 40.3 | 0.9 |
| NAV | 5.5 | 8.1 | 13.1 | 39.3 | -2.6 |
| FTSE 100 | 3.7 | 2.8 | 8.5 | 27.6 | 4.0 |

Discrete Performance (%)

| From To | 28.09.07 30.09.08 | 30.09.08 30.09.09 | 30.09.09 30.09.10 | 30.09.10 30.09.11 | 30.09.11 28.09.12 |
|-------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Share Price | -29.6 | 6.2 | 21.0 | 4.3 | 7.2 |
| NAV | -32.2 | 8.6 | 13.3 | -2.2 | 22.0 |
| FTSE 100 | -21.2 | 9.5 | 11.8 | -4.4 | 16.4 |

Source: Lipper, percentage growth, mid to mid, total return to 31.10.12. Benchmark: FTSE 100 Index; .

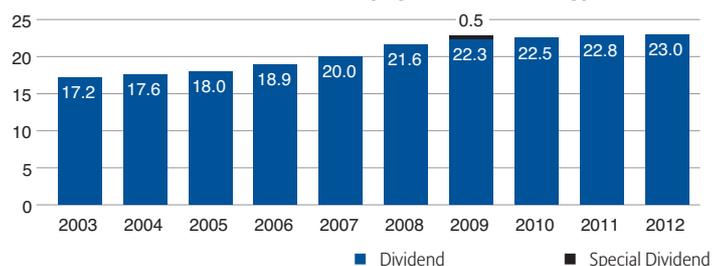
Past performance is not a reliable indicator of future performance. You should not make any assumptions on the future on the basis of performance information. The value of an investment and the income from it can fall as well as rise as a result of market fluctuations and you may not get back the amount 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. Your capital could also decrease if income paid out of capital exceeds the growth rate of the trust.

Source: Lipper, share price calculation percentage growth, mid to mid, capital return to

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Dividend History

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



Capital Structure

| | |
|-----------------------------------------|----------------------------------------|
| Total Assets: | £552.1m |
| Gearing (net): | 24.2% |
| Shares in Issue: | 103,213,464 (Ordinary 25p) |
| Share Price ¹ : | 370.6p |
| Net Asset Value ² : | 417.1p (381.1p – debt at market value) |
| Premium/-Discount to NAV ² : | -11.2% (-2.8% – debt at market value) |
| NAV Frequency | Daily |
| Dividend Yield ³ : | 6.26% |

1. Source: Lipper as at 31.10.12, market close mid price.

2. Source: Datastream as at 31.10.12. 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 to 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 Equity Income | |
| Codes: | RIC: | MRCH |
| | SEDOL: | 0580007 |

4. Source: AIC, as at the Trust's Financial Year End. On-going Charges (previously Total Expense Ratios) are published annually to show operational expenses including Annual Management Fee and the market value of the debt (gearing).

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, fixed rate 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.

Sector Breakdown (%)

| | | |
|--------------------|------|--|
| Financials | 17.4 | |
| Consumer Services | 15.8 | |
| Oil & Gas | 15.6 | |
| Industrials | 12.2 | |
| Consumer Goods | 11.5 | |
| Utilities | 8.5 | |
| Telecommunications | 8.1 | |
| Health Care | 7.3 | |
| Basic Materials | 2.4 | |
| Cash | 1.2 | |

Top Ten Holdings (%)

| | | | |
|---------------------------------|-----------|----------------------------|-----|
| Royal Dutch Shell "B" Shares | 8.6 | British American Tobacco | 3.5 |
| GlaxoSmithKline | 7.2 | BAE Systems | 3.4 |
| HSBC | 6.9 | Reed Elsevier | 3.4 |
| BP | 6.8 | Scottish & Southern Energy | 3.1 |
| Vodafone | 4.8 | National Grid | 3.0 |
| Total Number of Holdings | 58 | | |

Net Dividends (Financial Year to Date)

| | Pay Date | XD Date | Payment |
|------------------------|----------|---------|----------------|
| 1st quarterly dividend | 15.8.12 | 13.7.12 | 5.8p per share |
| 2nd quarterly dividend | 12.11.12 | 5.10.12 | 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 or from the AIC at www.theaic.co.uk

Contact Us

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

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All data source Allianz Global Investors as at 31.10.12 unless otherwise stated.

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