

The Merchants Trust PLC

Annual Results Presentation

27 March 2013

Allianz 
Global Investors

Understand. Act.

Your presenters



Simon Fraser
Chairman



Simon Gergel
Portfolio Manager, CIO UK Equities



Melissa Gallagher
Head of Investment Trusts

The Merchants Trust – 2013 results

Highlights

- Dividend raised for 31st consecutive year
- Dividend cover improved, supportive reserves position
- Strong outperformance by investment portfolio
- NAV benefits from gearing and “pull to par”
- Strong peer group ranking despite FTSE100 bias
- Merchants remains second highest yielding Trust in sector

The Merchants Trust – 2013 results

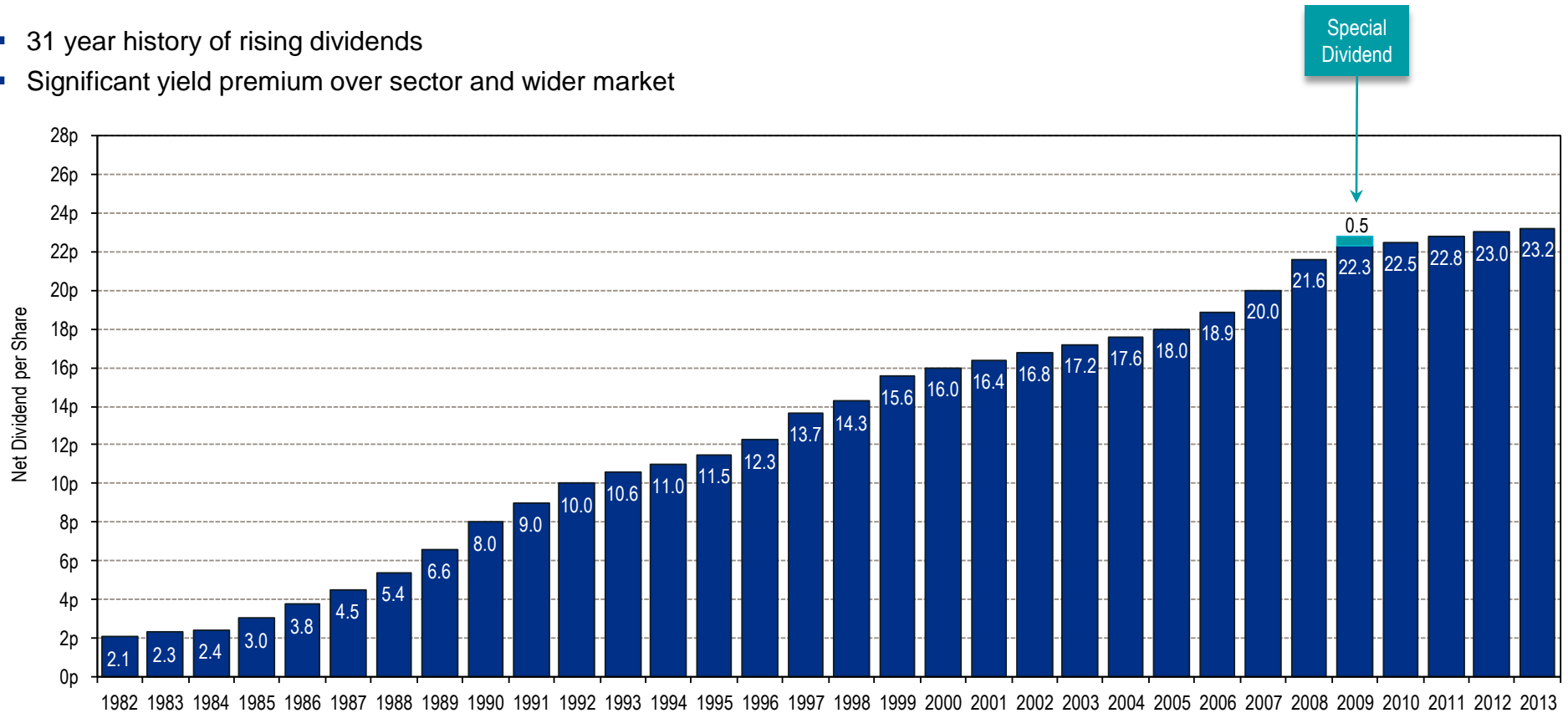
Key figures

- DPS **23.2p**, Yield **5.6%**
- DPS Cover **0.99 x** (0.96x), Reserves **11.2p***
- Portfolio Total Return **20.1%**, FTSE100 **14.8%**
- NAV (Debt at Par) **466.5p** (402.1p) + **21.8%**
- NAV (Debt at Market) **434.1p** (366.2p) + **24.9%**
- Share price **412.7p** (363.0p) + **20.1%**
- Discount (Debt at Market) **4.9%** (0.9%)

*After payment of 3rd interim and final dividends.

Dividend history

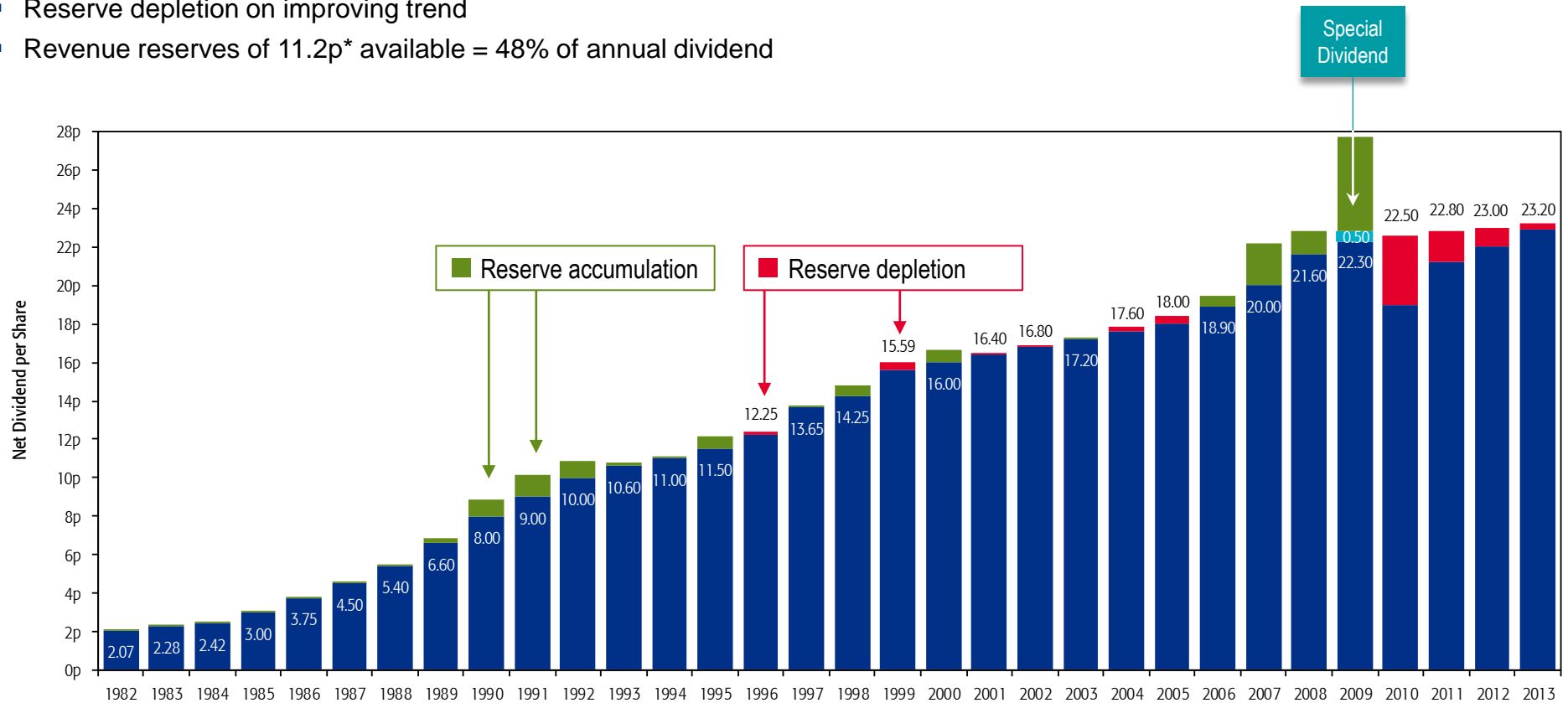
- 31 year history of rising dividends
- Significant yield premium over sector and wider market



Source: AllianzGI. *Excludes dividends declared but not paid at year end.

Dividend sustainability – revenue reserves provide flexibility

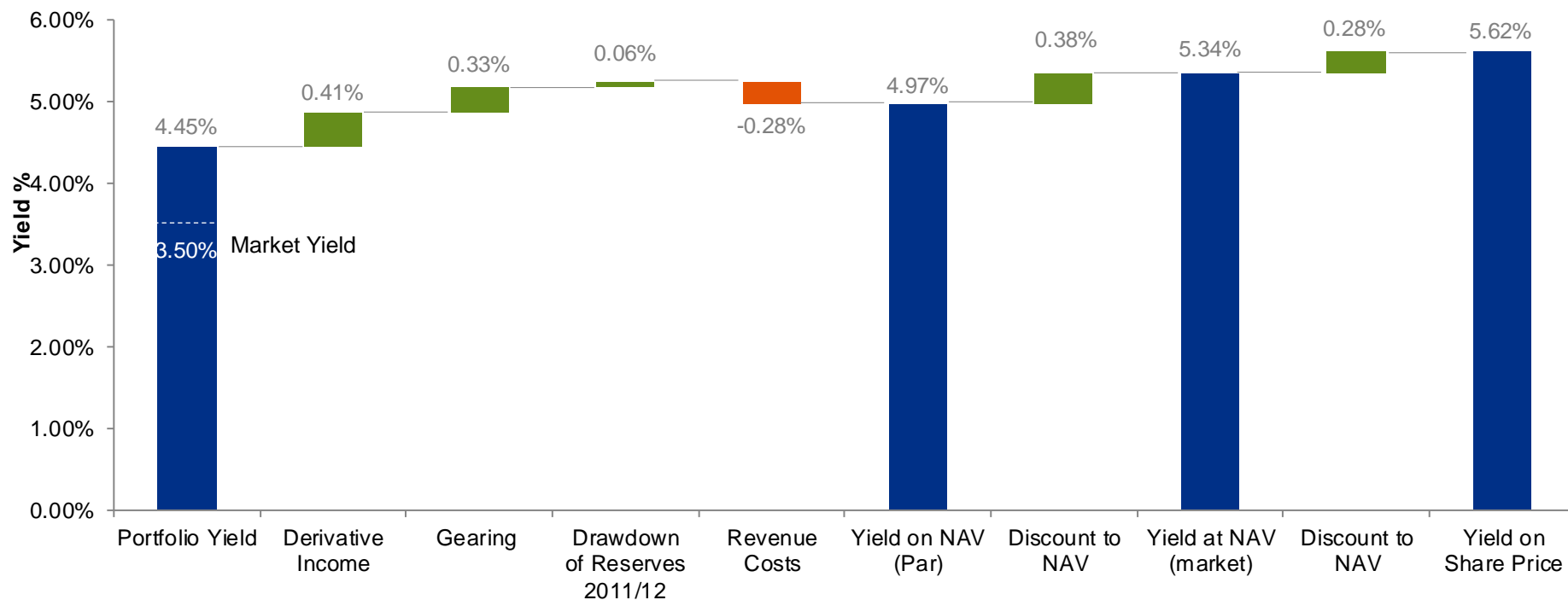
- Reserves built up in good years to offset pressures in difficult years
- Reserve depletion on improving trend
- Revenue reserves of 11.2p* available = 48% of annual dividend



Source: AllianzGI. *Excludes dividends declared but not paid at year end.

Dividend yield analysis

Merchants Trust Yield Calculation – as at 31 January 2013			
Share price p	412.7	Yield at Share price %	5.62
NAV (par) p	466.5	Yield at NAV (par) %	4.97
NAV (market) p	434.1	Yield at NAV (market) %	5.34
Historic DPS p	23.2 ¹		



Source: AllianzGI/Merchants Trust, as at 31 January 2013.

¹Year to 31 January 2013.

The Merchants Trust – 2013 results

Strong portfolio performance

Total Return Periods to 31 January 2013 %	1 Year	2 Years p.a.	3 Years p.a.	5 Years p.a.	10 Years p.a.
Merchants' Portfolio	20.1	10.6	13.2	5.9	10.6
FTSE100 Index	14.8	7.3	10.4	5.3	9.7
Outperformance	+5.3	+3.3	+2.8	+0.6	+0.9

Reconciliation of portfolio return to NAV return

	Total Return %
FTSE 100 Index	+14.8
Portfolio Outperformance	+5.3
Portfolio Return	+20.1
Gearing impact	+4.3
Expenses charged to capital	-1.8
Other	-0.8
NAV (Par) Return	+21.8

Source: AllianzGI/Merchants Trust, as at 31 January 2013.

The Merchants Trust – 2013 results

Portfolio Performance

- Outperformance of over 5% compared to benchmark
- Key positives: Selective mid cap positions, media and other consumer stocks, limited resources exposure (ex BP, Shell)
- Fewer negatives: Underweight banks and certain life assurers, no Diageo/SAB Miller

Contribution to Investment Performance relative to FTSE 100 Index

Positive Contribution	%	Over/Under weight	Negative Contribution	%	Over/Under weight
BG	1.2	-	Barclays	-0.6	-
Anglo American	1.0	-	Diageo	-0.6	-
Daily Mail & General Trust	0.7	+	Lloyds	-0.5	-
Rio Tinto	0.7	-	Prudential	-0.3	-
UBM	0.6	+	SABmiller	-0.3	-
Reed Elsevier	0.6	+	HBSC	-0.2	-
Inmarsat	0.6	+	Standard Life	-0.2	-
Britvic	0.4	+	Arm Holdings	-0.2	-
Tullow Oil	0.3	-	IG Group	-0.2	+
Greene King	0.3	+	WPP	-0.2	-

Over/underweight:

whether proportion of portfolio in stock is higher (+) or lower (-) than its weighting in the FTSE 100 Index

Source: Datastream/RCM

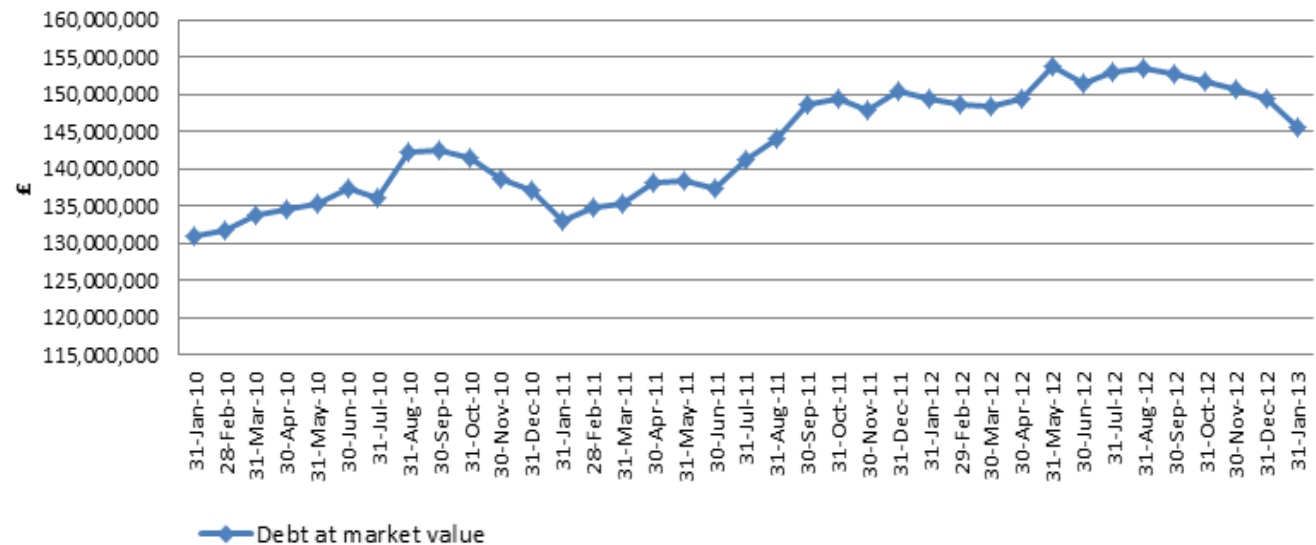
The Merchants Trust – 2013 results

Debt and gearing structure

Total Assets	£592m
Debt Long Term Debentures (Historic)	£111m
Net Assets	£481m
Gearing	23%
Debt – Average Duration	10 yrs
First Debenture Repayment	2018

- Market value of debt has risen since 2010 but declined in the last year

Debt at market value



Source: AllianzGI/JP Morgan Cazenove/Datastream, as at 31 January 2013.

Debt structure

Pull to par benefitting NAV (market) growth

Debt	Average Coupon Rate	Maturity Date	Book Value £m	Market Value		Effective yield %	Average “pull to par” p.a.		
				31/1/12 £m	31/1/13 £m		£m	% NAV (market)	Years
First Debenture Finance	11.125%	2018	34.3	48.9	46.8	8.2	2.5	0.6	5
Fin Trust	9.25%	2023	45.8	63.5	62.6	6.8	1.7	0.4	10
Secured Bonds	5.875%	2029	29.4	35.1	34.5	5.0	0.3	0.1	16
4% Perpetual Debenture Stock	4.0%	N/A	1.4	1.0	1.0	5.8	-	-	-
3.65% Cumulative Preference Shares	3.65%	N/A	1.2	0.8	0.7	5.9	-	-	-
Total			112.2	149.4	145.6		4.5	1.1	N/A

- Long dated debt permits long term investment horizon
- Gearing amplifies portfolio returns, partially offset by low beta
- As debt approaches maturity the debt value will approach par
- 2013 NAV (market) boosted by **£3.8m**, **1%** by “pull to par”

Source: AllianzGI, as at 31 January 2013.

The Merchants Trust – 2013 results

Discount to NAV – Merchants has traded in a tight range

Merchants Investment Trust
% Discount/Premium to Published NAV (Fair Value CUM Income)
31/01/12 to 31/01/13



Source : Datastream/AllianzGI.

The Merchants Trust – 2013 results

Summary

- A strong year for performance
- Long-term dividend growth record extended
- Reserves support dividend policy
- Merchants is well positioned for the future

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Appendices

Biographies



Simon Fraser
Chairman

Joined the board in August 2009. He is Chairman of Foreign & Colonial Investment Trust PLC and a non-executive director of Barclays Bank PLC, Ashmore Group plc, Fidelity European Values PLC and Fidelity Japanese Values PLC. He spent his career at Fidelity International Limited, where he held a number of positions, including Chief Investment Officer from 1999-2005, President of Fidelity International's European and UK Institutional business and latterly President of the Investment Solutions Group. He stepped down from executive responsibilities at the end of 2008.



Simon Gergel
Portfolio Manager

Simon is Chief Investment Officer, UK Equities and is head of the Value & Income Investment Style Team. He manages The Merchants Trust plc and the Allianz UK Equity Income Fund. He joined AllianzGI in April 2006 from HSBC Halbis Partners, where he was Head of Institutional UK Equities. At HSBC Simon was the portfolio manager of the HSBC Income Funds, with assets under management of £950 million. He also managed a number of segregated institutional accounts. Prior to HSBC, Simon was an Executive Director at Phillips & Drew Fund Management Ltd (a subsidiary of UBS), where he spent 14 years as a portfolio manager with responsibility for £1 billion of segregated pension fund assets and also with direct responsibility for £500 million of UK equity assets. Simon graduated from Cambridge University in 1987 with an MA (Hons) Cantab in Mathematics. He is an Associate Member of UKSIP.



Melissa Gallagher
Head of Investment Trusts

Melissa joined as Head of Investment Trusts in 2011. Melissa is responsible for board relations, investor relations and business development for the Investment Trust business. Prior to joining AllianzGI, Melissa was Head of Investment Trusts at Gartmore Investment Management plc and has over 10 years experience in the investment trust industry. Melissa has a BA Hons Business Studies degree.

Current economic and market outlook

- Medium term economic growth will be muted as debt burden is paid down
- “Tail Risks” of inflation accelerating or slowing growth need to be considered
- US economy showing improvement but greater austerity to come
- Peripheral Europe struggling with economic/political pressures
- Corporates generally in better shape, balance sheets repaired
- Equities offer reasonable value especially vs. gilts
- Markets likely to remain volatile as risks persist
- Finding opportunities between defensive and cyclical extremes

Key portfolio themes

Broad 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



Sector Themes

- Media sector** exposed to corporate operational expenditure, attractive growth businesses, opportunities to exploit internet technology



- Defence** companies oversold, aviation outlook improving



- Consumer stocks** – conditions stable, valuations too low, operational improvements



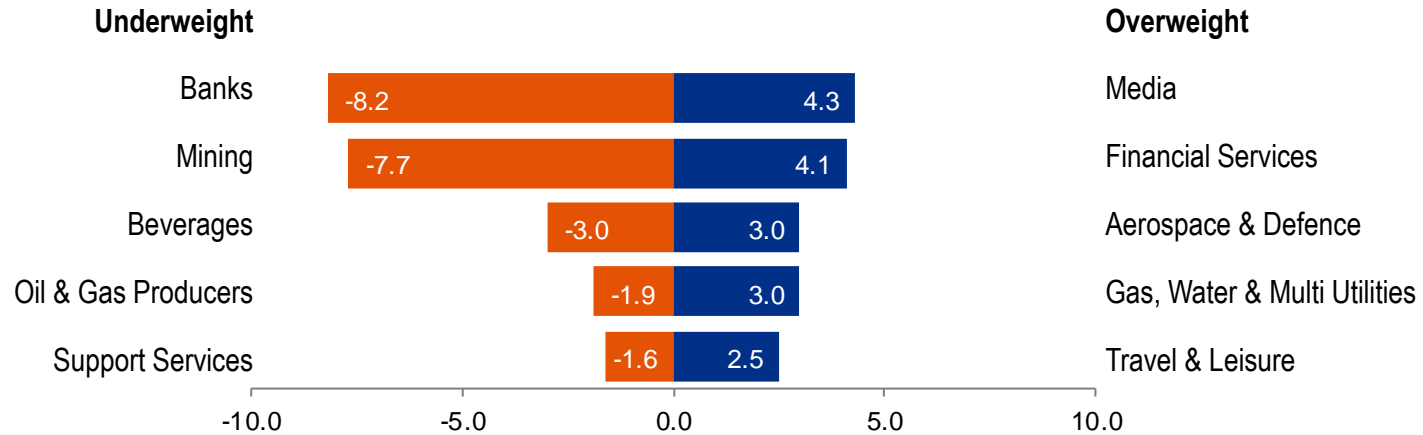
- Financials:** opportunities in non-bank, strongly financed businesses



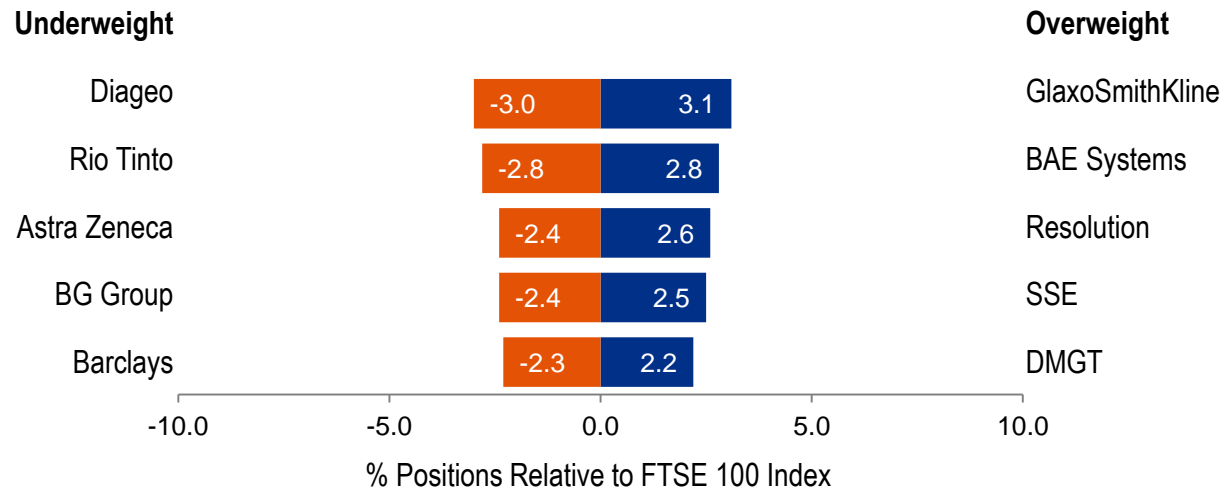
- Limited exposure to **mining** (muted recovery)

Key portfolio views

Sector View



Stock Views



Source: AllianzGI, as at 31 January 2013.

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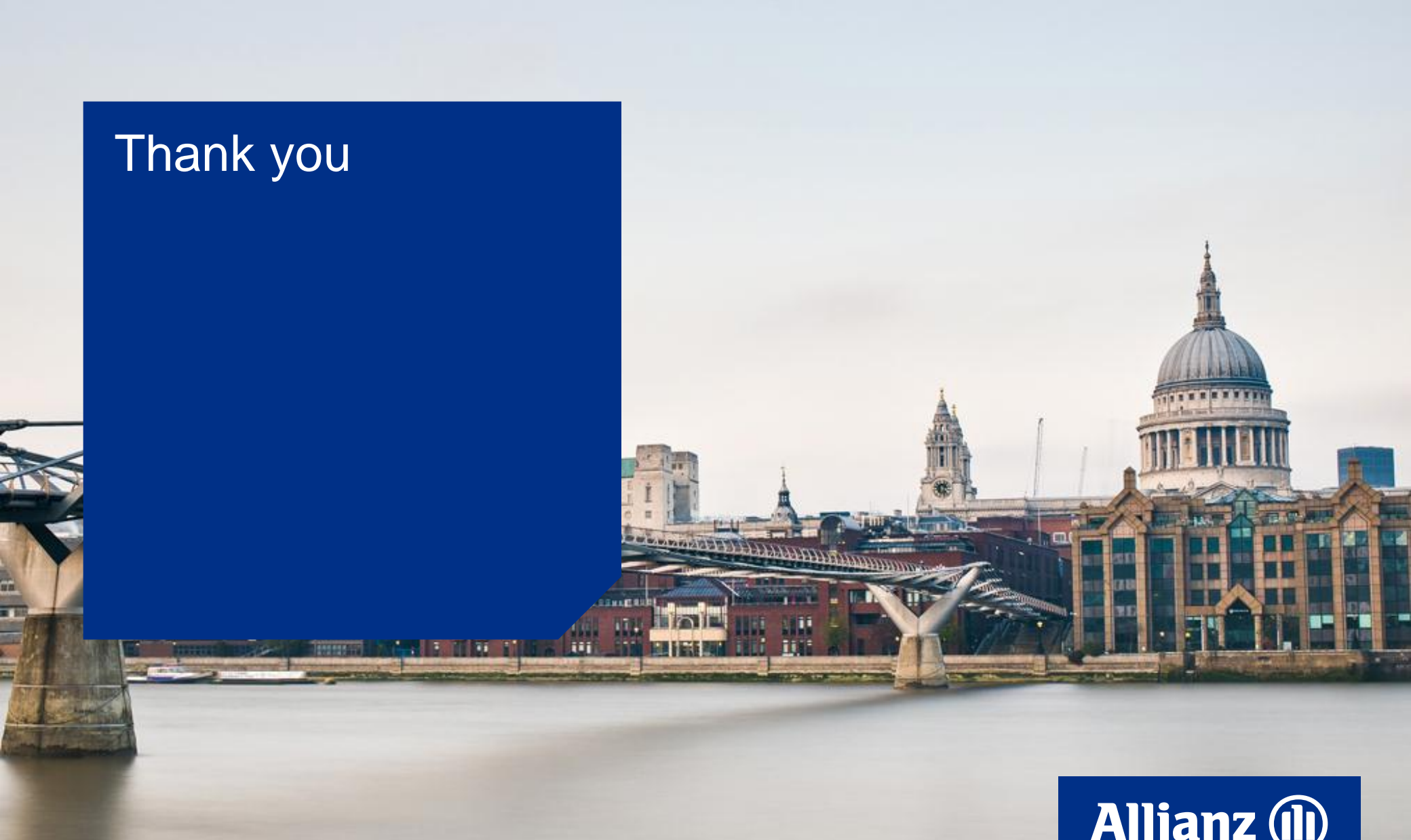
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