

## 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.

## Risks & Features

Investment trusts are quoted companies listed on the London Stock Exchange. Their share prices are determined by factors including demand, or lack of, 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.

## History

The Trust was incorporated in February 1889, making it the oldest of the investment trusts in the RCM stable. Initially it principally 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 Western Australia. The Trust now concentrates primarily upon major UK companies with an above average rate of dividend yield.

## Fund Manager's Review



Simon Gergel

September saw a continuation of the recent market rally with the FTSE 100 index up nearly 5%, producing the strongest quarter in the FTSE's history with a total return of 21.9%. Evidence that major economies are emerging from recession prompted buying of cyclical stocks and financials with real estate and engineering leading the market although general retailers and mining both saw profit taking.

The Trust's NAV returned 5.2%. There were few major features with no individual stock position accounting for more than 0.25% of relative performance. Strong performance from BAE Systems and Aviva were the biggest positive contributors, along with not owning Lloyds Banking Group which fell back.

We added two new high yielding companies to the portfolio. Premier Farnell is a distributor of electronic and electrical components and stands to benefit from a recovery in the industrial cycle as a period of destocking ends. Ashmore is a one of the leading fund management companies in the specialist area of emerging market debt. We expect to see the resumption of the strong secular growth trend in this asset class. Elsewhere we reduced holdings in several medium sized companies which had performed well, including selling the remaining Dairy Crest investment.

The strength of the market rally has taken valuations up to less attractive, though still not expensive levels. We see attractions in many lowly priced defensive sectors like pharmaceuticals and utilities and we continue to find interesting opportunities across the broader market.

## Key Information

<b>Total Assets:</b>	£493.8m
<b>Gearing (net):</b>	29.1%
<b>No. of Shares (Ordinary 1p):</b>	103,213,464
<b>Share Price<sup>1</sup>:</b>	328.0p
<b>Net Asset Value<sup>2</sup>:</b>	364.7p (346.2p – debt at market value)
<b>Premium/-Discount to NAV<sup>2</sup>:</b>	-10.1% (-5.3% – debt at market value)
<b>Dividend Yield<sup>2</sup>:</b>	6.83%
<b>Net Dividend per Share:</b>	1st interim: 5.6p (payable 19.8.09)
<b>No. of Holdings:</b>	58

All data source RCM (UK) Limited as at 30.09.09 unless otherwise stated.

<b>Launch Date:</b>	16 February 1889
<b>AIC Sector:</b>	UK Income Growth
<b>Benchmark:</b>	FTSE 100 Index
<b>Year end:</b>	31 January
<b>Annual Financial Report:</b>	Final posted in April, Half-yearly posted in September
<b>AGM:</b>	May
<b>Dividends:</b>	February, May, August, November
<b>Price Information:</b>	Financial Times, The Daily Telegraph, www.rcm.com/investmenttrusts
<b>Board of Directors:</b>	Hugh Stevenson (Chairman), Simon Fraser Dick Barfield, Mike McKeon, Sir James Sassoon, Henry Staunton
<b>Investment Manager:</b>	Simon Gergel, Director, UK Equity RCM A company of Allianz Global Investors
<b>Investor Services:</b>	020 7065 1407

<sup>1</sup>Source: Lipper as at 30.09.09, market close mid price.

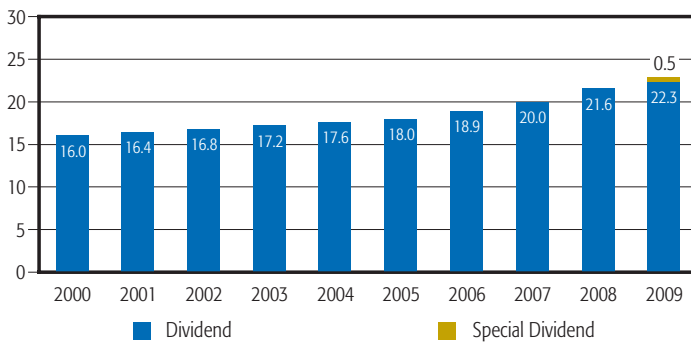
<sup>2</sup>Source: Datastream as at 30.09.09. Calculated using the latest full year dividend divided by the current share price.

<sup>3</sup>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.

## Top Ten Holdings (%)

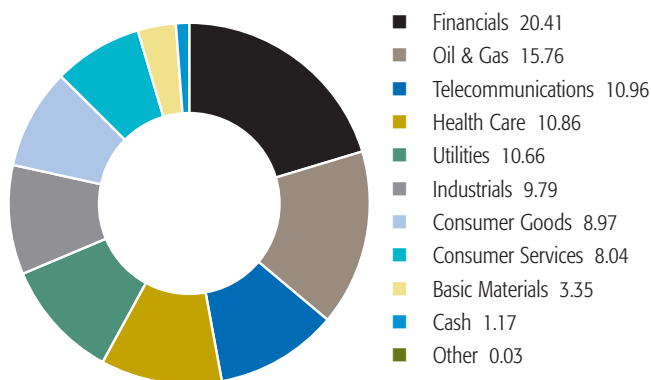
Name	%
Royal Dutch Shell "B" Shares	8.9
Vodafone Group	8.3
GlaxoSmithKline	7.7
HSBC	7.2
BP	6.5
BAE Systems	4.0
Scottish & Southern Energy	3.5
BHP Billiton	3.3
British American Tobacco	3.1
National Grid	3.1
<b>Total</b>	<b>42.9</b>

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



Net dividend paid per share in pence

## Sector Breakdown (%)



## 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.

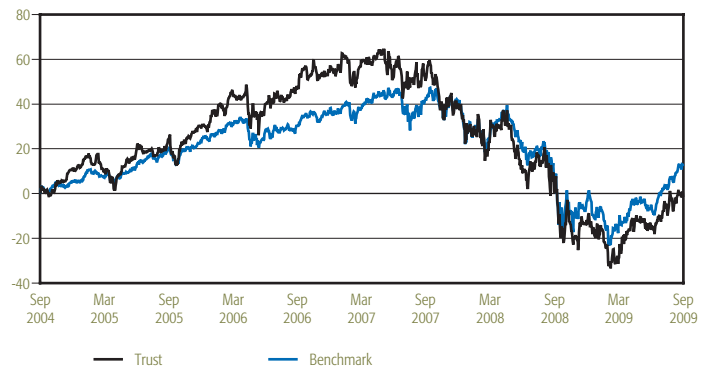
**RIC:** MRCH    **SEDOL:** 0580007    **ISIN:** GB0005800072

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 [www.rcm.com/investmenttrusts](http://www.rcm.com/investmenttrusts) or from the AIC at [www.theaic.co.uk](http://www.theaic.co.uk)

Please note: Our Investment Trust Savings Plan was closed and transferred to Alliance Trust Savings on 29 February 2008. Alliance Trust can be contacted on 01382 573 737 or [contact@alliancetrust.co.uk](mailto:contact@alliancetrust.co.uk)

## Performance

### Five Year Trust Performance (%)



### Cumulative Performance (%)

	3 Months	6 Months	1 Year	3 Years	5 Years
Share Price	15.90	39.43	-2.02	-33.16	-1.58
Benchmark	20.82	30.76	4.72	-13.87	12.32

### Standardised Past Performance (%)

From	30.09.04	30.09.05	29.09.06	28.09.07	30.09.08
To	30.09.05	29.09.06	28.09.07	30.09.08	30.09.09
Share Price	24.83	17.97	2.09	-33.18	-2.02

Source: Lipper, percentage growth, mid to mid, capital return, to 30.09.09

Benchmark: FTSE 100 Index

Standardised past performance figures comply with the Financial Services Authority's regulations to enable investors to compare different products from different providers.

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.

## RCM Advantage

RCM and its predecessors have been managing investment trusts since 1889, providing investors with access to investment markets around the world through professionally managed portfolios. Each trust benefits from the expertise of the RCM fund managers yet, as a company listed on the London Stock Exchange, it is independent and is overseen by its own Board of Directors.

RCM is the global equity specialist within Allianz Global Investors. With offices strategically located in the US, Europe and Asia, RCM uses its global research platform to search out investment opportunities.

All data source RCM (UK) Limited as of 30.09.09 unless otherwise stated.

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