

As focused on dividends as you are

The Merchants Trust PLC

Factsheet

30 November 2016

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

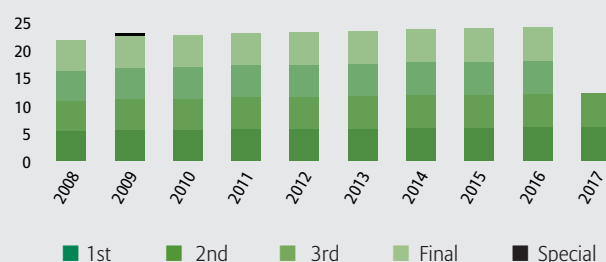
The Merchants Trust PLC was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, but now concentrates primarily on major UK companies with an above average rate of dividend yield.

Trust Benefits

Merchants has for many years focused on a simple proposition to deliver a high and rising income together with capital growth for its shareholders. Simon Gergel has been managing the trust for ten years, investing in a diversified portfolio of large, well-established and well-known UK companies. Although past performance is no guide to the future, Merchants has paid increasingly higher dividends to its shareholders year on year for the last 34 years.

Ten Year Dividend History

Net Dividend Record in Pence per Share to year end 31 January



Last Four Net Dividend Payments per Share

Record Date	Pay Date	Dividend	Type
07.10.2016	10.11.2016	6.00p	2nd Quarterly
15.07.2016	12.08.2016	6.00p	1st Quarterly
22.04.2016	26.05.2016	6.00p	Final
29.01.2016	24.02.2016	6.00p	3rd Quarterly

Past performance is not a reliable indicator of future results.

Total Assets £646.3m **Shares in Issue** 108,728,464 (Ordinary 25p)

Share Price

437.0p

Source: Lipper

NAV per Share

456.4p

Premium/-Discount

-4.3%

Dividend Yield

5.5%

Gearing

19.4%

Share Price is the price of a single ordinary share, as determined by the stock market. The share price above is the mid-market price at market close.

Net Asset Value (NAV) per Share 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.

The NAV figure above is based on the fair/market value of the company's long-term debt

and preference shares (known as debt at market value). This allows for the valuation of long-term debt and preference shares at fair value or current market price, rather than at final repayment value (known as debt at par).

Premium/Discount. Since investment company shares are traded on a stock market, the share price that you get may be higher or lower than the NAV. The difference is known as a premium or discount.

Dividend Yield is calculated using the latest full year dividend divided by the current share price.

Gearing is a measure of a company's financial leverage and shows the extent to which its operations are funded by lenders versus shareholders.

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Fund Manager's Review

The world awoke on 9th November to find that Donald Trump had been elected President of the United States. It was the second time this year that most experts and polls had badly misjudged public opinion. Like the Brexit referendum result, there was an element of populism and anti-political establishment feeling that drove the result. Whilst the Brexit result raises major questions for the UK and the EU, the US election result raises major questions for the world.

Already, there are expectations that US economic policy will change significantly, with a greater emphasis towards fiscal stimulus – infrastructure and defence spending and tax cuts – and away from monetary stimulus. The US Federal Reserve is expected to raise interest rates sooner and by more than was previously expected. Bond markets reacted violently to this change in inflation and interest rate expectations. 10 year US government bond yields, which had already risen from a low point in July, rose by over 0.5% in the month, from 1.8% to 2.4%, with a sharp move after the election.

In the commodity area, OPEC reached a historic agreement to cut oil production on the last day of the month. The copper price was also strong in November, on hopes for greater demand growth due to higher infrastructure spending.

The Trust's NAV returned -1.0% compared to the FTSE 100 index total return of -2.0%, whilst the FTSE 250 index of medium sized companies was broadly flat. The best performing sectors were those seen as the biggest beneficiaries of a Trump presidency and rising interest rates. They included financials, such as life insurance and banks, mining, aerospace & defence and construction. The worst performing sectors were mostly those seen as "bond

“ **The best performing sectors were those seen as the biggest beneficiaries of a Trump presidency and rising interest rates.**

proxies” – which had previously benefitted from low bond yields – specifically; telecommunications, utilities, tobacco, healthcare and beverages.

The Trust's portfolio performance was well ahead of the benchmark, benefitting from exposure to certain financials and cyclicals, as well as from having only relatively modest positions in many of the bond proxies, especially the consumer staples. Key positive contributors included the copper miner Antofagasta, the recruitment company SThree and the defence company BAE Systems, which all posted double digit returns. There were fewer negative stock contributors, but Tate & Lyle, Ashmore and, to a lesser extent, GlaxoSmithKline were weak.

Within the portfolio, we took advantage of the sharp spike in share prices to reduce the holdings of BAE Systems and Antofagasta. Whilst a Trump presidency may be beneficial for these businesses, the initial reaction looks extreme and has reduced the upside potential. We reinvested the proceeds into National Grid and BT, which have both pulled back significantly, along with other bond proxies and now offer good value again. National Grid also benefits from a stronger dollar in its US businesses, and the ability to raise prices with inflation in its UK networks.

Elsewhere, there was a notable trading statement from Sirius Real Estate, one of the smaller companies within the portfolio. Sirius increased its interim dividend by 50%. This business invests in industrial property in Germany. It has been able to buy assets with yields of 8% or more, partially funded by cheap debt, giving an extremely attractive income profile. By buying properties and spreading the extra income over a relatively fixed central cost base, and by intensive management of their tenants, the company has delivered rapid profits growth.



Simon Gergel, Portfolio Manager

The Merchants Trust PLC is managed by Simon Gergel who is Chief Investment Officer at AllianzGI and has 27 years investment experience. He is pictured here with Matthew Tillet, UK equity portfolio manager. Simon joined AllianzGI in April 2006 from HSBC Halbis Partners where he managed over £900m in high income funds as well as core institutional and life UK equity portfolios. Prior to joining HSBC, Simon worked for 14 years at Phillips & Drew Fund Management / UBS Asset Management.

The outlook is uncertain for politics, economies and financial markets. In these circumstances, it is particularly important to pay attention to the fundamental qualities and valuations of the companies we invest in. We are looking to own strong businesses that are priced at attractive valuations, from which investors can expect to earn a decent return over the medium to long term. This return will come from a combination of dividend yield and capital growth.

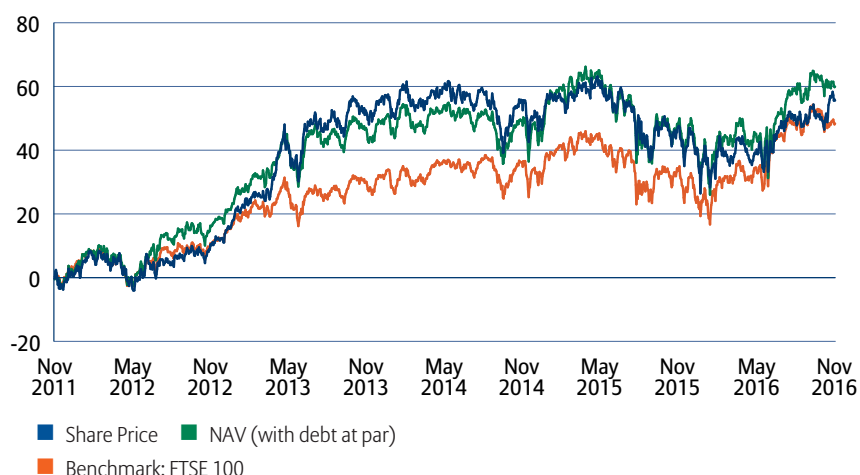
In general, stocks with a high and sustainable dividend yield should perform well. Interest rates are will remain low by historic standards, even if they rise in 2017. This means that investors will continue to seek assets that produce a higher income. Dividend growth next year should be relatively healthy, with market forecasts in the mid to high single digits. Dividends will be boosted by the recent weakness of the pound, especially against the US dollar, as UK listed companies earn most of their money abroad, and many pay dividends in US dollars or other foreign currencies.

Simon Gergel
2 December 2016

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.

Performance Track Record

Five Year Performance (%)



Risk & 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.

Merchants seeks to enhance returns for its shareholders through gearing which 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 may be used to manage the Trust efficiently.

Cumulative Returns (%)

	3M	6M	1Y	3Y	5Y
Share Price	4.7	11.0	5.7	2.6	55.7
NAV	1.2	11.1	8.3	9.1	59.9
Benchmark	0.8	11.0	11.1	14.1	48.4

Discrete 12 Month Returns (%) to 30 November

	2012	2013	2014	2015	2016
Share Price	10.5	37.3	2.6	-5.5	5.7
NAV	16.1	26.2	1.9	-1.1	8.3
Benchmark	10.7	17.5	4.7	-1.9	11.1

Source: Lipper, percentage growth, mid to mid, total return to 30.11.16. Copyright 2016 © Lipper, a Thomson Reuters company. All rights reserved. Lipper shall not be liable for any errors or delays in the content, or for any actions taken in reliance thereon.

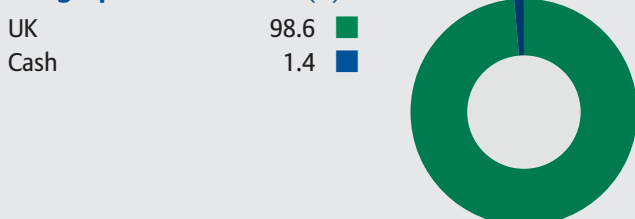
Past performance is not a reliable indicator of future returns. You should not make any assumptions on the future on the basis of performance information. The value of an investment and the income from it can fall as well as rise as a result of market fluctuations and you may not get back the amount 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.

Portfolio Breakdown

Sector Breakdown (%)



Geographic Breakdown (%)



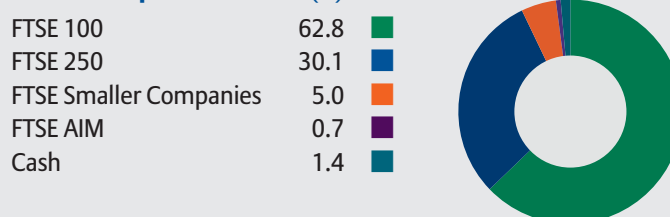
Top Ten Holdings (%)

Royal Dutch Shell 'B' Shares	7.8
GlaxoSmithKline	6.8
HSBC	6.1
BP	5.7
UBM	4.3
Lloyds Banking Group	3.6
Centrica	3.4
BAE Systems	3.1
Inmarsat	2.9
Tate & Lyle	2.8

Total number of holdings* 45

*Excludes derivatives

Market Cap Breakdown (%)



Key Information

Launch Date	16 February 1889
AIC Sector	UK Equity Income
Benchmark	FTSE 100
Annual Management Charge	0.35%
Performance Fee	No
Ongoing Charges ¹	0.58%
Year End	31 January
Annual Financial Report	Final posted in April, Half-yearly posted in September
AGM	May
NAV Frequency	Daily
Dividends	February, May, August, November
Price Information	Financial Times, The Daily Telegraph, www.merchantstrust.co.uk
Company Secretary	Kirsten Salt
Investment Manager	Simon Gergel, CIO, UK Equities
Codes	RIC: MRCH.L SEDOL: 0580007

1. Source: AIC, as at the Trust's Financial Year End (31.01.2016). Ongoing Charges (previously Total Expense Ratios) are published annually to show operational expenses incurred in the running of the company but excluding financing costs.

Board of Directors

Directors from left to right: Sybella Stanley, Simon Fraser (Chairman), Paul Yates, Mary Ann Sieghart and Mike McKeon (Senior Independent Director). Timon Drakesmith joined the board on 1 November 2016 as Chairman of the Audit Committee.



How to invest

You can buy shares in the Trust through:

- A third party provider - see 'How to Invest' on our website, where you will find links to a range of these platforms, many of which allow you to hold the shares within an ISA, Junior ISA, SIPP and/or savings scheme.
- A stockbroker.
- A financial adviser.

Contact us

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

0800 389 4696

www.merchantstrust.co.uk

E-mail: investment-trusts@allianzgi.com

You will find much more information about The Merchants Trust on our website.

Please note that we can only offer information and are unable to provide investment advice. You should contact your financial adviser before making any investment decision.



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All data source Allianz Global Investors as at 30.11.16 unless otherwise stated.

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