

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.

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.

On 30th June 2006 a further 1,655,941 Ordinary shares were issued following the reconstruction and planned winding up of Allianz Dresdner Income Growth Investment Trust plc. The increase in assets was achieved at no cost to existing shareholders.

Fund Manager's Review



Simon Gergel

March saw a sharp turnaround in the market sentiment after a period of extreme caution. The Bank of England cut interest rates to a record low 0.5% and the Treasury announced a major "Quantitative Easing" programme to buy £75bn - £150bn of bonds. This coupled with some signs of stabilisation in the poor economic news in the UK and US, led to a market recovery. The FTSE 100 index gained 3% with the mid cap index up 6%. There was however massive sector rotation into cyclical industries with, for example, mining up 25% and general retail up over 10%. Defensives languished with utilities down over 10% and tobacco down 9%. The defensive and high yield positioning of the portfolio caused it to underperform the more optimistic market. However there was extreme volatility at the stock level with the portfolio benefitting from holdings in Inchcape (up 69%), BHP Billiton (up 25%) and Man Group (up 27%) amongst other positions. On the negative tack, Aviva and Centrica both fell (between 15% - 20%) and we suffered from not owning Rio Tinto and Standard Chartered (both up between 30% - 35%). Major transactions included taking some profits in BHP Billiton, after a strong run and increasing the position in Unilever, financed by selling the remaining Diageo shares. The economic outlook remains challenging with growth unlikely to return to trend levels for some time and credit conditions still tight. The portfolio remains biased towards large, solid, high yielding companies on low valuations however we have continued to look to build positions in certain more cyclical businesses on depressed valuations.

Key Information

Total Assets:	£363.7m
Gearing (net):	40.3%
No. of Shares (Ordinary 1p):	102,813,464
Share Price¹:	235.3p
Net Asset Value²:	255.3p (242.2p – debt at market value)
Premium/-Discount to NAV³:	-7.9% (-2.9% – debt at market value)
Dividend Yield²:	9.39%
Net Dividend per Share:	Final: 5.6p (payable 15.05.09) 3rd interim: 5.6p (payable 20.02.09) 2nd interim 5.6p (paid 13.11.08) 1st interim: 5.5p (paid 19.08.08)
No. of Holdings:	44

All data source RCM (UK) Limited as at 31.03.09 unless otherwise stated.

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

¹Source: Lipper as at 31.03.09, market close mid price.

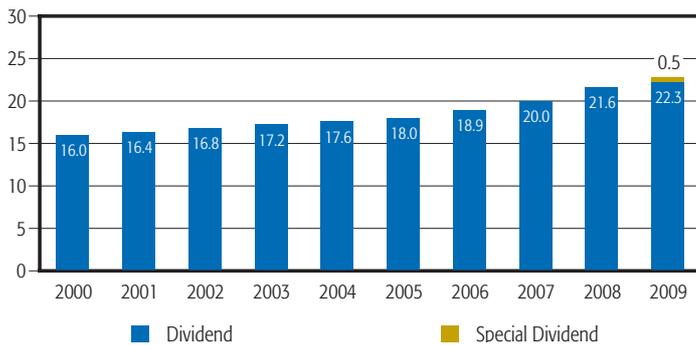
²Source: Datastream as at 31.03.09. Calculated using the latest full year dividend divided by the current share price.

³A 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 (%)

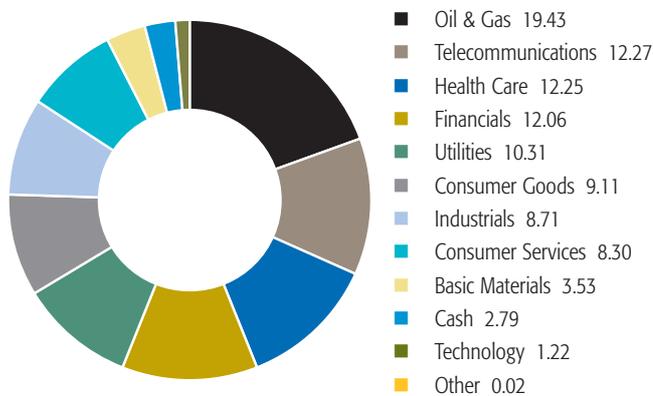
Name	%
Royal Dutch Shell "B" Shares	10.0
Vodafone Group	9.2
GlaxoSmithKline	9.0
BP	8.6
Scottish & Southern Energy	4.0
BAE Systems	4.0
BHP Billiton	3.4
British American Tobacco	3.3
HSBC	3.1
Reed Elsevier	3.0
Total	45.1

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 or from the AIC at www.theaic.co.uk

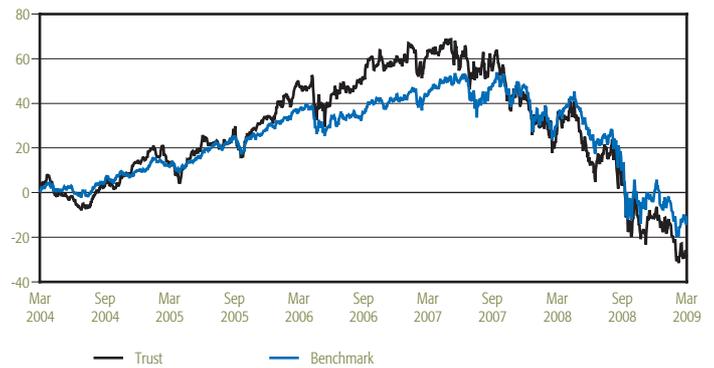
Please note: Our Investment Trust Savings Plan was closed and transferred to Alliance Trust Savings on 29 February 2008. Alliance Trust can be contacted on 01382 573 737 or contact@alliancetrust.co.uk

All data source RCM (UK) Limited as at 31.03.09 unless otherwise stated.

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Performance

Five Year Trust Performance (%)



Cumulative Performance (%)

	3 Months	6 Months	1 Year	3 Years	5 Years
Share Price	-18.60	-29.72	-43.18	-51.07	-27.50
Benchmark	-11.46	-19.91	-31.15	-34.18	-10.48

Standardised Past Performance (%)

From	31.03.04	31.03.05	31.03.06	30.03.07	31.03.08
To	31.03.05	31.03.06	30.03.07	31.03.08	31.03.09
Share Price	13.87	30.11	10.66	-22.18	-43.18

Source: Lipper, percentage growth, mid to mid, capital return, to 31.03.09

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.