

The Merchants Trust PLC

Factsheet

31 May 2014

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 May, the European elections, led to a swing to anti-establishment parties in several countries, with the UK Independence Party polling particularly well here on an anti-EU ticket. Amongst the economic news, US first quarter GDP growth was revised down to -1% although this figure was largely seen as weather distorted and not-representative of the overall economic picture.

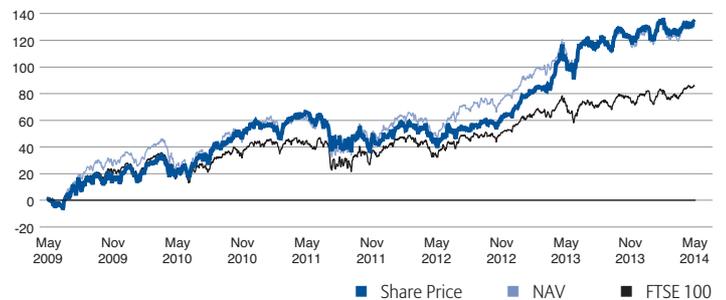
Major UK corporate developments included Pfizer walking away from their AstraZeneca deal after board rejection of the offer, and a disappointing maiden set of results at Vodafone without since disposing of their stake in Verizon Wireless in the USA. We also saw Royal Dutch Shell announce a welcome end to their scrip dividends, showing confidence in their cash generation ability, although this led to underperformance of the "B" shares (for technical reasons) which the Trust owns, compared to the "A" shares.

The FTSE 100 index produced a total return of 1.4%. Medium sized companies continued their recent underperformance in the first few weeks but recovered all of this underperformance by the month end. Most large share price moves were due to stock specific factors rather than broad themes. The top performing sectors included healthcare equipment (bid speculation in Smith & Nephew), fixed line telecoms and household goods, whereas the worst were oil services (Petrofac profit warning), mobile telecoms and construction & materials.

The Trust's NAV (+1.02%) was slightly behind the index. The three biggest negative contributors were Balfour Beatty, which had another profit warning in a continued tough UK construction environment, SThree which was de-rated and Royal Dutch Shell "B" which pulled back a little (see above). The three top performance contributors came from avoiding problems. The portfolio did not own AstraZeneca which fell after the bid rejection, Vodafone which had poor results or Rio Tinto which suffered as the iron ore price continued to fall. There was limited activity within the portfolio during May although we took some profits on Hammerson after strong recent performance and trimmed the BP position, reinvesting into William Hill and SThree which had both lagged the market and were attractively valued.

Although the economic outlook is improving which is beneficial for corporate profitability we remain wary of the impact of high government and consumer debt levels, especially when interest rates start to rise. In addition political risk is likely to remain elevated with a Scottish referendum and a general election within the next year and the rise of UKIP adding further unpredictability. Although many shares now look fully valued, we can still find interesting opportunities to buy strong businesses with attractive dividend yields on sensible or cheap valuations. Some of the best value is in the mega caps like HSBC or GlaxoSmithKline and specific recovery situations.

Performance (%)



Cumulative Performance (%)

	3 Months	6 Months	1 Year	3 Years	5 Years
Share Price	-0.6	5.1	12.6	39.9	133.5
NAV	-0.2	5.0	9.5	41.9	131.9
FTSE 100	1.8	4.8	7.8	27.7	85.4

Discrete Performance (%)

From To	29.05.09 31.05.10	31.05.10 31.05.11	31.05.11 31.05.12	31.05.12 31.05.13	31.05.13 30.05.14
Share Price	22.1	36.7	-15.3	46.7	12.6
NAV	27.0	28.7	-9.0	42.4	9.5
FTSE 100	21.9	19.1	-7.7	28.4	7.8

Source: Lipper, percentage growth, mid to mid, total return to 31.05.14. Benchmark: FTSE 100 Index.

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.

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All data source Allianz Global Investors as at 31.05.14 unless otherwise stated.

Allianz Global Investors Europe GmbH, UK Branch, 199 Bishopsgate, London EC2M 3TY

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.

Allianz 
Global Investors

Capital Structure

Total Assets:	£672.9m
Gearing (net):	17.9%
Shares in Issue:	104,163,464 (Ordinary 25p)
Share Price ¹ :	511.0p
Net Asset Value ² :	521.3p (496.3p – debt at market value)
Premium/-Discount to NAV ² :	-2.0% (3.0% – debt at market value)
NAV Frequency	Daily
Dividend Yield ³ :	4.62%

1. Source: Lipper as at 31.05.14, market close mid price.

2. Source: Datastream as at 31.05.14. 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 that 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 Equity Income
Benchmark:	FTSE 100 Index
Annual Management Charge:	0.35%
Performance Fee:	No
Ongoing Charges ⁴ :	0.66%
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 Equities
Codes:	RIC: MRCH
	SEDOL: 0580007

4. Source: AIC, as at the Trust's Financial Year End (31.01.2014). Ongoing Charges (previously Total Expense Ratios) are published annually to show operational expenses incurred in the running of the company but excluding financing costs.

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 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.

Sector Breakdown (%)

Financials	19.1
Consumer Services	18.4
Oil & Gas	14.9
Industrials	11.7
Utilities	11.2
Consumer Goods	9.2
Health Care	7.4
Basic Materials	3.2
Telecommunications	2.9
Cash	2.0

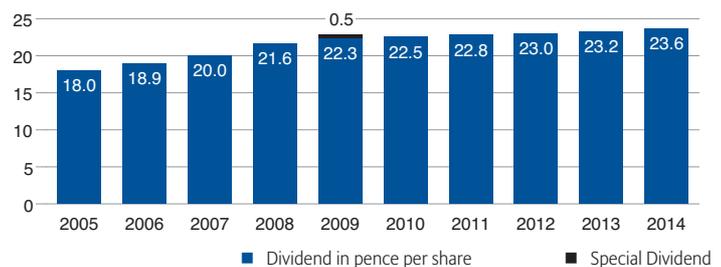
Top Ten Holdings (%)

Royal Dutch Shell "B" Shares	9.0	BAE Systems	3.8
GlaxoSmithKline	7.4	Scottish & Southern Energy	3.3
HSBC	6.4	BHP Billiton	3.3
BP	5.9	UBM	3.1
British American Tobacco	4.5	Inmarsat	2.9
Total Number of Holdings	45*		

*excludes derivatives

Dividend History

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



Past performance is not a reliable indicator of future results.

Net Dividends

	Pay Date	Record Date	Payment
4th quarterly dividend	23.05.14	25.04.14	5.9p per share
3rd quarterly dividend	26.02.14	31.01.14	5.9p per share
2nd quarterly dividend	12.11.13	11.10.13	5.9p per share
1st quarterly dividend	14.08.13	12.07.13	5.9p 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.

Contact Us

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

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website: www.merchantstrust.co.uk

All data source Allianz Global Investors as at 31.05.14 unless otherwise stated.

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