31 January 2012 | Factsheet

informed RCM

Investment Rationale

Investing in large UK companies, The Merchants Trust PLC aims to provide an above average level of income which increases over time. The Trust is managed by Simon Gergel, a Director at RCM with 23 years' investment experience.

Fund Manager's Review

Simon Gergel

The Merchants Trust portfolio comprises predominantly high yielding, large capitalisation UK equities to match the objectives of delivering a high and rising level of income, together with capital growth. The structure of the portfolio has been defensively positioned for some time, with limited positions in cyclical natural resources and industrial businesses but with a higher exposure to less economically sensitive sectors such as food producers, pharmaceuticals and utilities. This reflects both a cautious view about the prospects for economic growth in much of the developed world as well as the fundamental merits and valuation attractions of the companies we have selected.

Economic news in January remained mixed with the USA showing some signs of recovery whilst Eurozone economies were weaker and the UK recorded a negative GDP growth figure for the fourth quarter of 2011. S&P removed its AAA credit rating from nine EMU sovereigns including France and Austria. There was some movement towards agreeing tighter fiscal controls amongst Eurozone countries but no agreement was reached on how to deal with the debt problems in Greece.

Stock markets started the year in a more optimistic mood than in 2011 with shares generally rallying. There was a notable rotation into higher risk shares, which generally outperformed less cyclical companies. The FTSE 100 Index delivered a 2% return whilst medium and smaller companies performed considerably better, rising by over 6% on average. The best performing sectors included mining, banks and chemicals. The worst performing sector was food retailing, after a profit warning from Tesco, but other defensive sectors like tobacco and food producers were also weak.

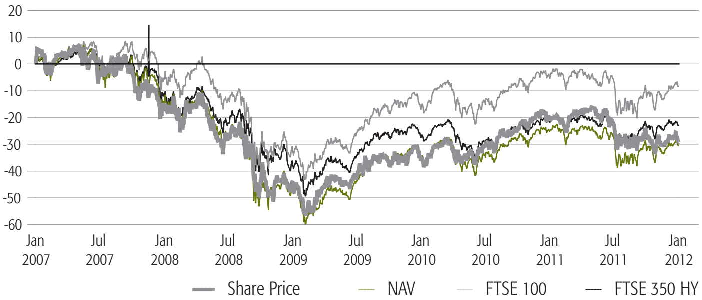
The portfolio's performance was behind the FTSE 100 Index in January, held back by the relatively poor performance of many high yielding, large companies like Unilever and GlaxoSmithKline. Also having limited exposure to the buoyant mining sector hurt performance with Rio Tinto, for example, up over 20%. On the positive side, however, media stocks UBM and Daily Mail performed well and several other laggards from 2011, such as BAE Systems and Resolution posted solid gains.

Portfolio activity was a little higher in January than in recent months. Within the banking sector we sold the small position in Lloyds where we see limited chances of a dividend in the near term. We also reduced Barclays into a strong rally and added to HSBC, which is well financed and modestly valued. We reduced holdings in several companies that had performed well, including the Lloyds Insurance companies Hiscox and Catlin. We cut back the Tesco position after the profit warning raised some concerns about their historic investment levels. Elsewhere we added to Reed Elsevier and SSE, core holdings in the Trust, at attractive prices.

The directors announced a 3rd quarterly dividend of 5.8p, up from 5.7p in the prior year, reflecting an improving outlook for the portfolio's income as market dividend growth has remained healthy.

Despite some more promising recent economic statistics in the USA, we remain concerned about medium term growth prospects in much of the developed world as high debt burdens are addressed by austerity measures. We continue to favour high yielding, multinational companies in relatively defensive industries, as well as companies offering higher structural growth provided they still offer reasonable value and a decent dividend yield. Market volatility is however creating a few interesting opportunities among more cyclical stocks where companies' fundamental strengths are significantly under-priced on a medium term view.

Performance (%)



Cumulative Performance (%)

	3 Months	6 Months	1 Year	3 Years	5 Years
Share Price	-3.6	-8.8	-10.8	28.7	-29.2
NAV	0.2	-4.2	-7.1	32.9	-30.4
FTSE 100	2.5	-2.3	-3.1	36.9	-8.4
FTSE 350 HY	0.3	-1.7	-1.2	25.3	-22.8

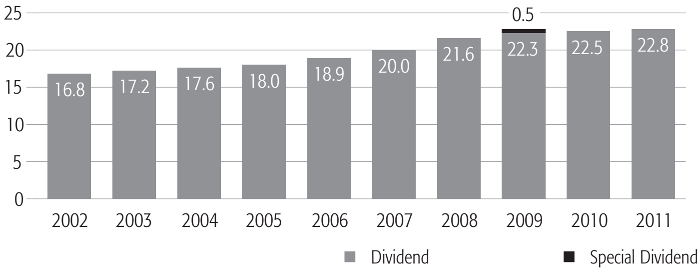
Discrete Performance (%)

From To	29.12.06 31.12.07	31.12.07 31.12.08	31.12.08 31.12.09	31.12.09 31.12.10	31.12.10 30.12.11
Share Price	-9.5	-38.0	18.9	19.9	-11.2
NAV	-3.9	-40.4	20.0	8.5	-6.3
FTSE 100	3.8	-31.3	22.1	9.0	-5.6
FTSE 350 HY	-3.0	-30.7	12.7	1.6	0.7

Source: Lipper, share price calculation percentage growth, mid to mid, capital return to 31.01.12.
Benchmark: FTSE 100 Index; FTSE 350 High Yield Index.
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.

Dividend History

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



Net Dividends Paid (financial year to date)

	Pay Date	XD Date	Payment
1st quarterly dividend	17.08.11	15.07.11	5.7p per share
2nd quarterly dividend	11.11.11	7.10.11	5.7p per share
3rd quarterly dividend	23.02.12	27.01.12	5.8p per share

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All data source RCM (UK) Limited as at 31.01.12 unless otherwise stated.

Capital Structure

Total Assets:	£521.4m
Gearing (net):	25.1%
Shares in Issue:	103,213,464 (Ordinary 25p)
Share Price[1]:	376.5p
Net Asset Value[3]:	391.5p (355.6p – debt at market value)
Premium/-Discount to NAV[3]:	-3.8% (5.9% – debt at market value)
NAV Frequency	Daily
Dividend Yield[2]:	6.31%

1. Source: Lipper as at 31.01.12, market close mid price.
2. Source: Datastream as at 31.01.12. 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 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.

Key Information

Launch Date:	16 February 1889
AIC Sector:	UK Growth and Income
Benchmark:	FTSE 100 Index FTSE 350 High Yield Index
Annual Management Charge:	0.35%
Performance Fee:	No
Total Expense Ratio:[4]	0.46%
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.rcm.com/investmenttrusts

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, Director, UK Equity
Codes:	RIC: MRCH SEDOL: 0580007 ISIN: GB0005800072

4. Source: Annual Financial Report

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, 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.

Portfolio Analysis

Top Ten Holdings	(%)		(%)
Royal Dutch Shell "B" Shares	8.3	BAE Systems	3.6
GlaxoSmithKline	7.0	Scottish & Southern Energy	3.3
BP	7.0	Unilever	3.1
HSBC	6.3	British American Tobacco	3.1
Vodafone	5.6	National Grid	3.1
Total Number of Holdings			62

Sector Breakdown	(%)
Financials	17.5
Oil & Gas	15.5
Consumer Services	13.9
Consumer Goods	12.5
Industrials	9.9
Telecommunications	9.5
Health Care	8.9
Utilities	8.5
Basic Materials	1.9
Cash	1.8
Other	0.1

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

CONTACT US

To download the Annual Financial Report, Trust brochure or watch an interview with the fund manager, please visit us online at www.rcm.com/investmenttrusts

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

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All data source RCM (UK) Limited as at 31.01.12 unless otherwise stated.