

## 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 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.

## 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

February saw confirmation of strong US economic growth for the last quarter of 2009 but anaemic growth in Europe. Investors focused attention on exit strategies from abnormally loose monetary policies in the major economies with the US Fed raising its discount rate and the UK pausing the Quantitative Easing policy. The FTSE 100 index rose by around 3.2% in the month with a similar return in the US but Europe lagged on concerns over Greece. The Pound and the Euro weakened against the US dollar.

The UK market was led by cyclical sectors like mining and banks but aerospace & defence was also strong, whilst fixed line telecoms was the worst performer on concerns about BT's pension deficit. Our performance lagged the strong market with the weak BT and SSE share prices having an impact along with not owning Rio Tinto which rallied. On the positive side, Halfords was a good performer as they announced an acquisition and the portfolio benefitted from not owning Tesco and BG which underperformed.

We made a switch in the media sector from Informa into Daily Mail & General Trust. DMGT is being refocused and restructured under new management and offers good exposure to any recovery in advertising activity. Informa offers less upside in the near term and both are on similar valuations. Elsewhere we added to existing positions as price weakness provided attractive entry points, including; BT, Home Retail and Resolution.

With the outlook for a muted economic recovery as consumers and governments pay down debt, the portfolio has a high exposure to large, well capitalised companies with strong cashflows, low valuations and high dividend yields. We have also added attractively valued higher growth businesses to the portfolio in recent months believing that companies that can deliver growth in this environment will be re-rated.

## Key Information

<b>Total Assets:</b>	£497.1m
<b>Gearing (net):</b>	27.0%
<b>No. of Shares (Ordinary 1p):</b>	103,213,464
<b>Share Price<sup>1</sup>:</b>	339.0p
<b>Net Asset Value<sup>2</sup>:</b>	373.6p (357.3p – debt at market value)
<b>Premium/-Discount to NAV<sup>3</sup>:</b>	-9.3% (-5.1% – debt at market value)
<b>Dividend Yield<sup>2</sup>:</b>	6.61%
<b>Net Dividend per Share:</b>	1st interim: 5.6p (payable 19.8.09) 2nd interim: 5.6p (payable 12.11.09) 3rd interim 5.6p (payable 19.2.10)
<b>No. of Holdings:</b>	48

All data source RCM (UK) Limited as at 26.02.10 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 26.02.10, market close mid price.

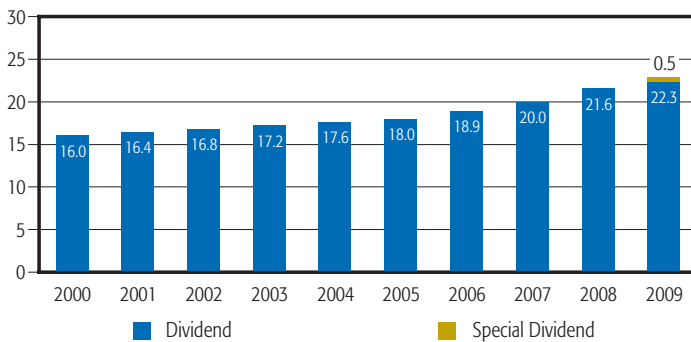
<sup>2</sup>Source: Datastream as at 26.02.10. Calculated using the latest full year dividend divided by the current share price.

<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 (%)

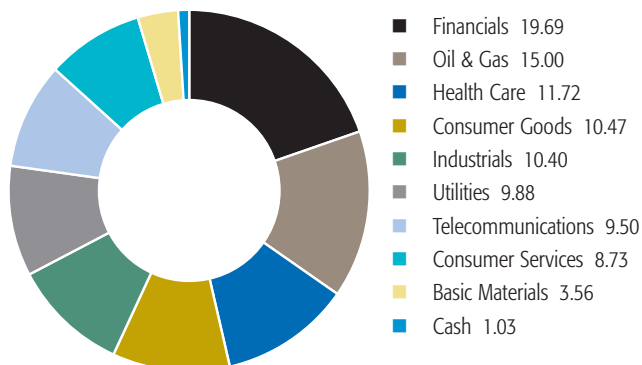
Name	%
Royal Dutch Shell "B" Shares	8.3
GlaxoSmithKline	7.5
Vodafone Group	7.3
BP	6.6
HSBC	6.2
British American Tobacco	4.2
AstraZeneca	4.1
BAE Systems	4.1
Scottish & Southern Energy	3.8
Unilever	3.7
<b>Total</b>	<b>55.8</b>

## 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.

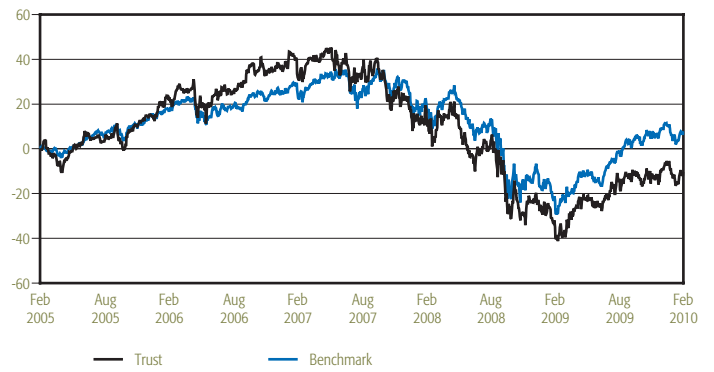
**RIC:** MRCH    **SEDOL:** 0580007    **ISIN:** GB0005800072

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	3.67	4.18	37.95	-32.00	-10.32
Benchmark	3.16	9.08	39.80	-13.24	7.77

### Standardised Past Performance (%)

From	31.12.04	30.12.05	29.12.06	31.12.07	31.12.08
To	30.12.05	29.12.06	31.12.07	31.12.08	31.12.09
Share Price	16.46	19.35	-9.51	-37.98	18.86

Source: Lipper, percentage growth, mid to mid, capital return, to 26.02.10

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 26.02.10 unless otherwise stated.

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