

# The Merchants Trust PLC

Presentation to the Annual General Meeting,  
12 May 2009

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**RCM**



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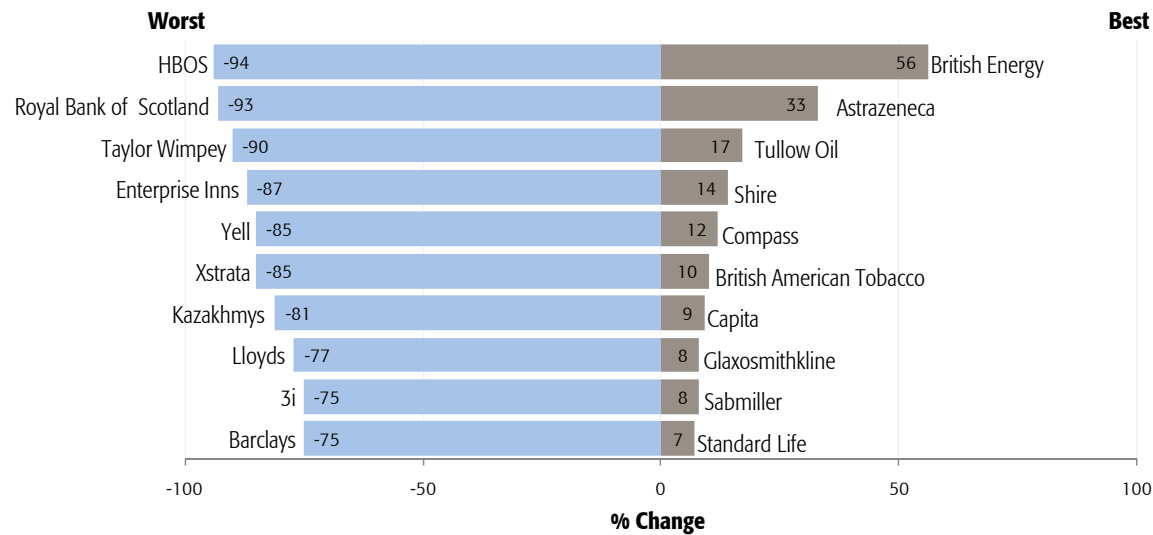
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# The Merchants Trust

## Key features of 2008/09

- Credit crunch caused by a downward spiral of asset values
- Synchronised global recession
- Savage bear market in equities, corporate debt and real estate
- FTSE 100 index total return -26%

## Performance of FTSE 100 Constituents



Total return of FTSE 100 constituents 31/1/08 – 31/1/09, using sterling constituents.  
Source: RCM.

# The Merchants Trust

## Valuation summary

	31 January 2008	31 January 2009	Change (%)	05 May 2009
Total Assets*	£620m	£428m	-30.9	£417m
Net Assets Value Per Share	492.3p	306.2p	-37.8	294p
Share Price	425p	282p	-33.6	289p
Premium/(Discount) (Debt at Market Value)	(9.6%)	1.3%	-	4.5%
Premium/(Discount) (Debt at Boot Value)	(13.7%)	(7.9%)	-	(1.7%)
Yield	5.1%	7.9%*	-	7.7%

\*Excluding special dividend.

Source: 2007/2008 Accounts/Consortium list at 30 April 2009.

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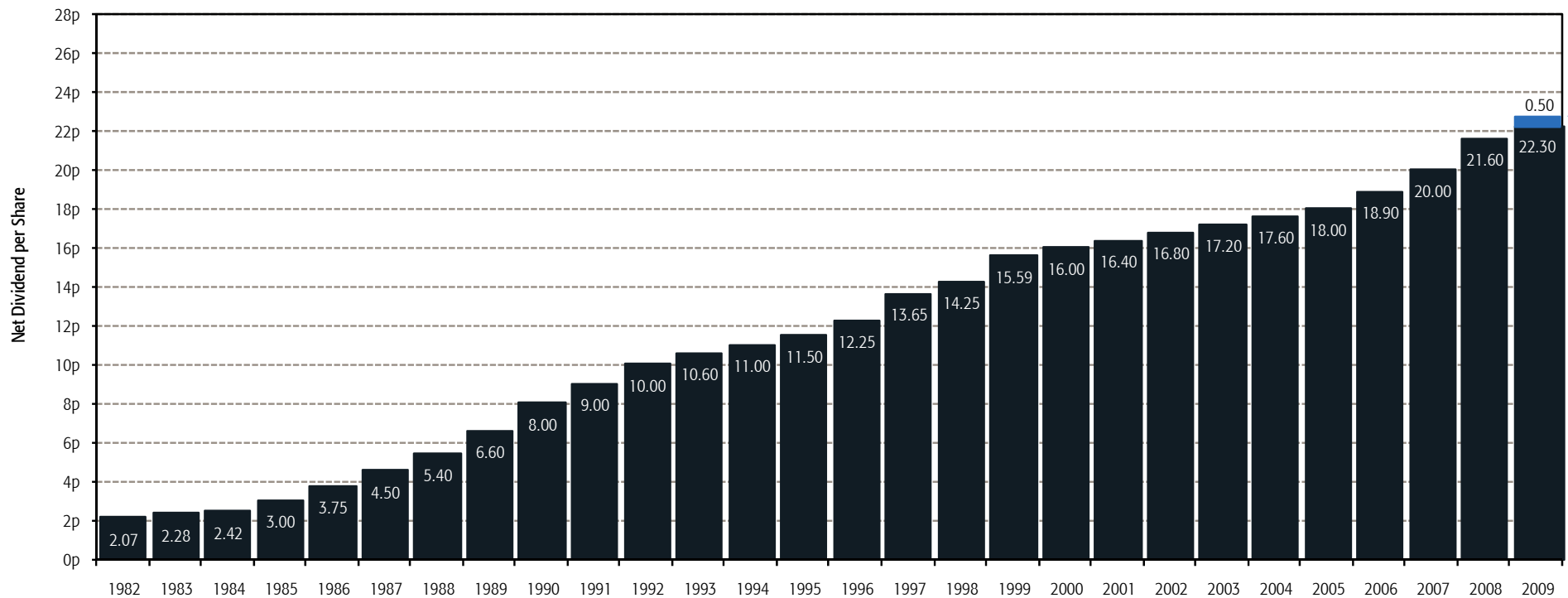
## 27 years of uninterrupted dividend growth

Years to January	2008	2009
	21.6p	22.3p (+3.2% excluding special dividend)

Revenue reserves available to smooth dividends

<b>Revenue reserves (31/01/09)*</b>	£18.1m
<b>Pence per share</b>	17.6p (79% of ordinary dividend)

Special Dividend



Source: RCM. \*Excludes dividends declared but not paid at year end.

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## Yield comparisons

<b>Merchants Trust</b>	7.7%
<b>FTSE All Share Index</b>	4.7%
<b>FTSE 100 Index</b>	4.9%
<b>Ten Year Gilts</b>	3.6%
<b>Cash (Base Rates)</b>	0.5%

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## Borrowings

	31 Jan 2008 (£m)	%	31 Jan 2009 (£m)	%
Total Assets	619	100	410	100
Borrowings	113	18	113	28
Shareholders Funds	506	82	297	72

<b>Average Maturity</b>	14 years
<b>Average Interest Charge</b>	8.5%

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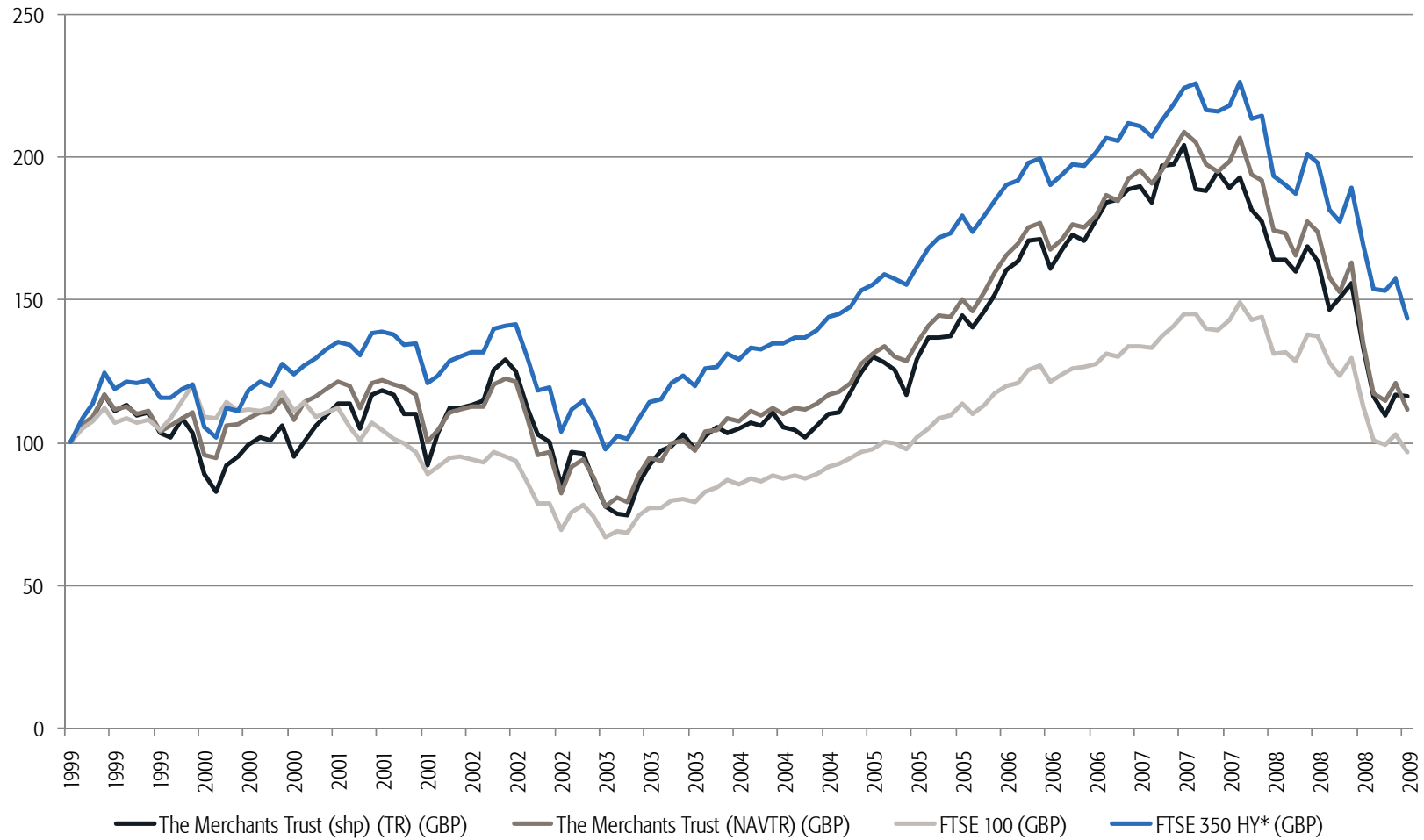
## 5 year capital performance

Year to January	2005 (%)	2006 (%)	2007 (%)	2008 (%)	2009 (%)	Total (%)
Change in Total Assets Per Share	+14.0	+18.4	+10.6	-10.6	-30.9	<b>-7.8</b>
Change in N.A.V. Per Share	+16.2	+21.2	+12.6	-13.3	-37.8	<b>-14.5</b>
Change in FTSE 100 Index	+10.5	+18.7	+7.7	-5.2	-29.4	<b>-5.5</b>
Change in FTSE 350 High Yield Index	+15.3	+17.9	+6.8	-12.1	-30.0	<b>-10.7</b>

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## Total return history

10 year cumulative return compared to key UK equity indices



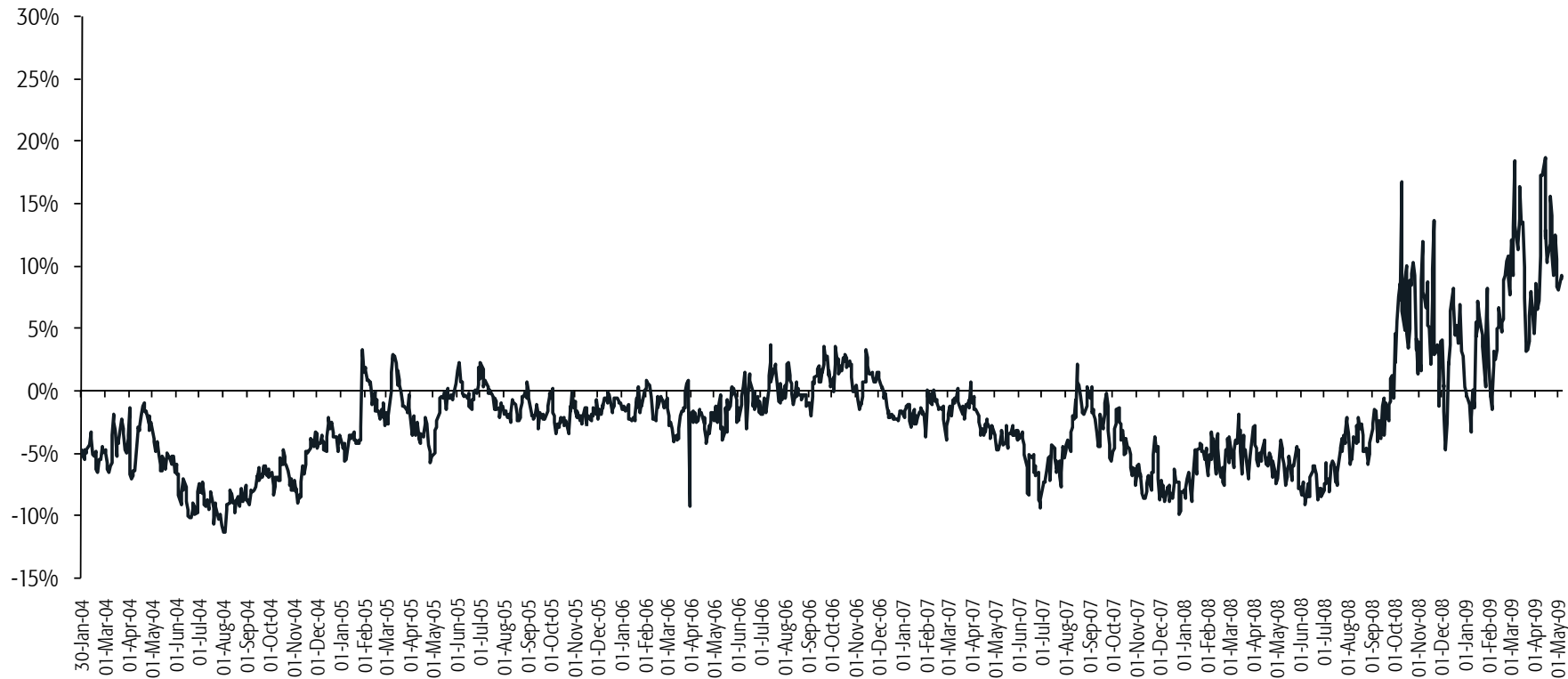
Source: Mellon. (Rebased to 100).



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## Share discount to N.A.V.

% Discount/Premium to NAV (Fair Value)  
31/01/04 to 06/05/09



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## Total return 2008/9 compared to FTSE 100 Index

Stocks that added value	Weightings	Stocks that detracted value	Weightings
Xstrata	-	HBOS	+
Rio Tinto	-	Bradford & Bingley	+
Lloyds TSB	-	BT	+
GlaxoSmithKline	+	Inchcape	+
Royal Bank of Scotland	-	Aviva	+

+ = Overweight vs. Index - = Underweight vs. Index

Source: RCM.

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## Key transactions

<b>Largest Net Purchases</b>	<b>£m</b>	<b>Largest Net Sales</b>	<b>£m</b>
HBOS	15	HSBC	22
BHP Billiton	15	Rio Tinto	11
Man Group	12	Glaxosmithkline	11
Astrazeneca	12	BP	10
Unilever	9	Lonmin	10

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## **Economic/Market outlook**

- Fiscal/monetary stimulus and “quantitative easing” should avoid depression
- However economic recovery will be muted as debt burden is paid down
- Little inflation risk, medium term with growth below trend
- Consumer outlook to gradually improve as low mortgage and utility bills offset rising unemployment/taxes
- Outlook for corporate spending poor as companies preserve cash
- De-stocking to end but genuine recovery some way off
- Corporate bonds oversold, equities offer long term value
- Dividend cuts and rights issues to continue to feature



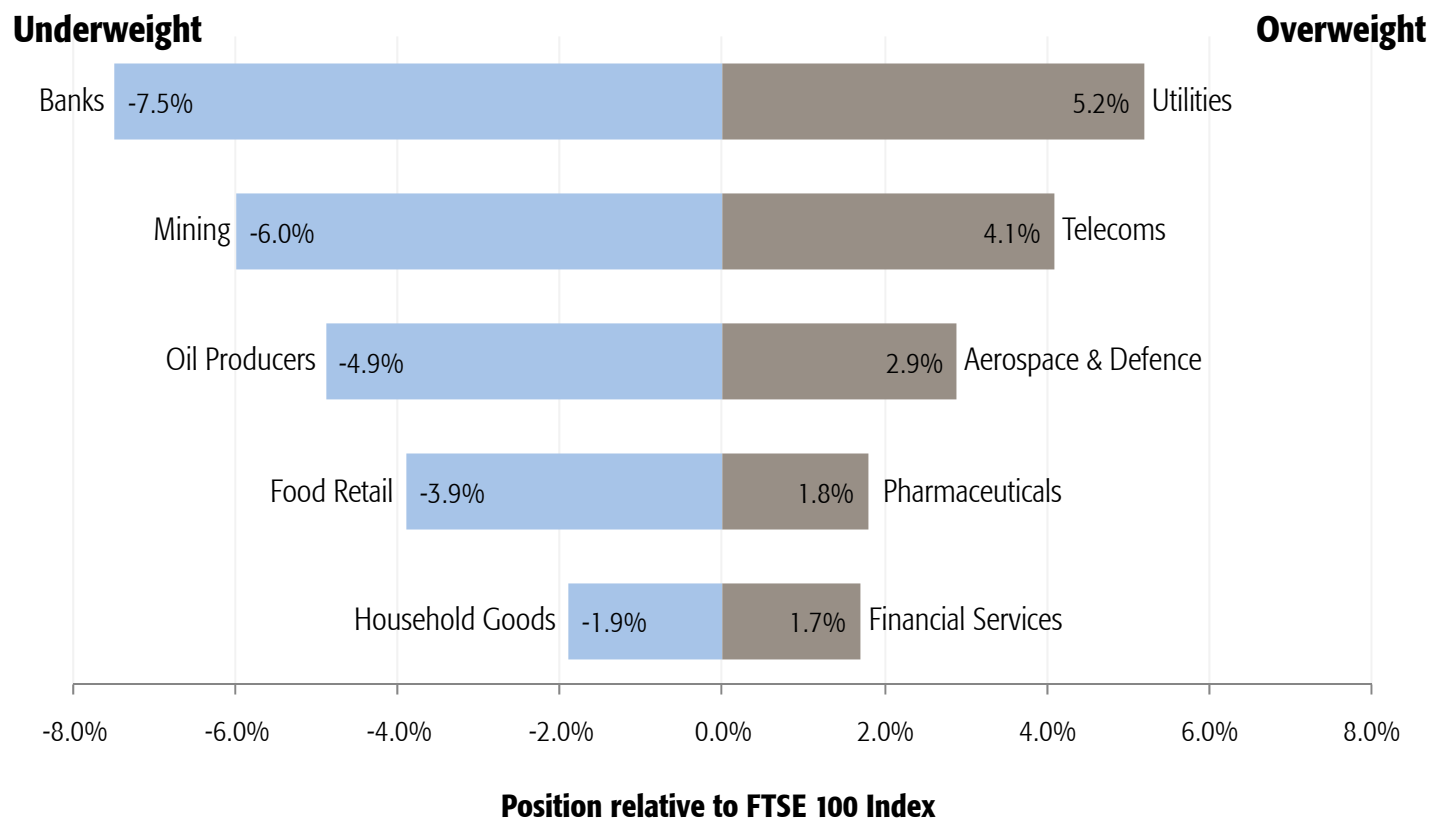
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## Portfolio themes

- Large core holdings in well financed, strong businesses with good yields
  - **GlaxoSmithKline, Royal Dutch Shell, Vodafone, Scottish & Southern Energy, BAe Systems**
- Consumer recovery to help surviving retailers and car companies
  - **Home Retail Group, Inchcape, GKN, Halfords**
- Buying cyclical survivors with cash on balance sheet
  - **Balfour Beatty, Man Group, IG Group**
- Value opportunities where the market perceives too much debt
  - **Dairy Crest, Meggitt, Informa**
- Management turnaround and recovery situations attractive
  - **Unilever, Compass, Melrose**
- High yielding asset classes becoming more interesting: corporate bonds, real estate, equities
  - **Aviva, Legal & General, Hammerson, BT**
- Limited exposure to mining (muted recovery) and banks (dividends, government interference)
- Underweight food retail and household goods on valuation concerns

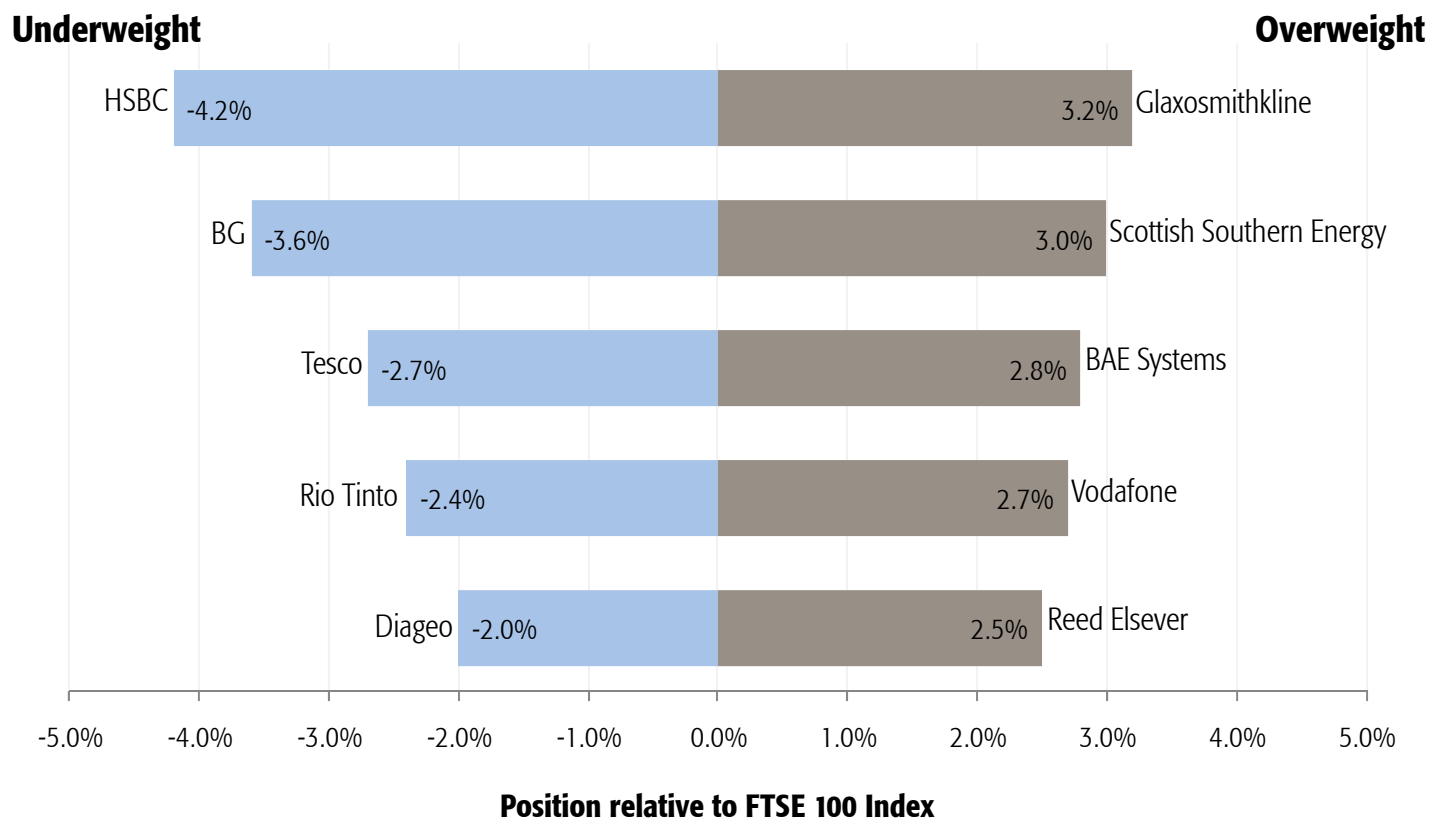
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## Sector views



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## Stock positions



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## Summary

- Dividend increased 3.2% in 2008/09
- Supportive dividend reserve position
- Equity markets lowly valued
- Economic outlook remains challenging



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**Annual General Meeting, 12 May 2009**

**Resolution 1** - to receive and adopt the Annual Financial Report

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
<b>34,843,619</b>	<b>516,257</b>	<b>191,537</b>	<b>199,322</b>

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**Resolution 2** - to declare a final dividend

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
<b>35,168,529</b>	<b>501,797</b>	<b>7,392</b>	<b>73,017</b>

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**Annual General Meeting, 12 May 2009**

**Resolution 3** - to re-elect Mr H A Stevenson as a Director

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
<b>34,060,581</b>	<b>516,520</b>	<b>720,049</b>	<b>453,585</b>

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**Annual General Meeting, 12 May 2009**

**Resolution 4** - to re-elect Mr R A Barfield as a Director

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
<b>33,929,058</b>	<b>516,520</b>	<b>727,607</b>	<b>577,550</b>

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**Annual General Meeting, 12 May 2009**

**Resolution 5** - to approve the Directors' Remuneration Report

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
<b>33,153,304</b>	<b>508,686</b>	<b>1,267,317</b>	<b>821,428</b>

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**Annual General Meeting, 12 May 2009**

**Resolution 6** - to re-appoint PricewaterhouseCoopers LLP as Auditors

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
<b>34,564,648</b>	<b>515,343</b>	<b>291,256</b>	<b>379,488</b>



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**Annual General Meeting, 12 May 2009**

**Resolution 7** - to authorise the Directors to determine the remuneration of the Auditors

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
<b>34,716,065</b>	<b>520,145</b>	<b>128,531</b>	<b>385,994</b>

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**Annual General Meeting, 12 May 2009**

**Resolution 8** - to authorise the Directors to allot Shares

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
<b>33,770,460</b>	<b>580,053</b>	<b>814,402</b>	<b>585,820</b>

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**Annual General Meeting, 12 May 2009**

**Resolution 9** - to disapply pre-emption rights

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
<b>33,511,564</b>	<b>589,583</b>	<b>860,495</b>	<b>789,093</b>

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**Resolution 10** - to authorise the Company to make market purchases of Ordinary Shares

<b>For</b>	<b>Discretion</b>	<b>Against</b>	<b>Withheld</b>
<b>34,552,945</b>	<b>580,053</b>	<b>347,254</b>	<b>270,483</b>

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