

The Merchants Trust PLC

Annual General Meeting
16 May 2019



Simon Gergel

Value. Shared.



Disclaimer

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.

Investing involves risk. The value of an investment and the income from it may fall as well as rise and investors may not get back the full amount invested. The views and opinions expressed herein, which are subject to change without notice, are those of the issuer and/or its affiliated companies at the time of publication. The data used is derived from various sources, and assumed to be correct and reliable, but it has not been independently verified; its accuracy or completeness is not guaranteed and no liability is assumed for any direct or consequential losses arising from its use, unless caused by gross negligence or wilful misconduct. The conditions of any underlying offer or contract that may have been, or will be, made or concluded, shall prevail.

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.

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.

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.

Merchants seeks to enhance returns for its shareholders through gearing in the form of long-term 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. Covered call options are written to supplement the income generation of the portfolio. This may lead to an opportunity cost if options are exercised.

All data source Allianz Global Investors as at 31 March 2017 unless otherwise stated. This is a marketing communication issued by Allianz Global Investors GmbH, an investment company with limited liability, incorporated in Germany, with its registered office at Bockenheimer Landstrasse 42-44, D-60323 Frankfurt/M, registered with the local court Frankfurt/M under HRB 9340, authorised by Bundesanstalt für Finanzdienstleistungsaufsicht (www.bafin.de). Allianz Global Investors GmbH has established a branch in the United Kingdom, Allianz Global Investors GmbH, UK branch, 199 Bishopsgate, London EC2M 3TY, which is subject to limited regulation by the Financial Conduct Authority (www.fca.org.uk). Details about the extent of our regulation by the Financial Conduct Authority are available from us on request.



Web site: www.merchantstrust.co.uk

The Merchants Trust

Highlights

- 130 Year Anniversary
- 37 years of dividend growth
- Step-up in dividend growth
- Record revenue earnings per share
- Difficult year for stock markets
- Active portfolio management



Results Highlights

Dividend

26.0p

2018 24.8p

+4.8%

Yield

5.5%

2018 5.2%

Net Asset Value*

471.4p

2018 523.9p

-10.0%

Revenue eps

27.7p

2018 25.5p

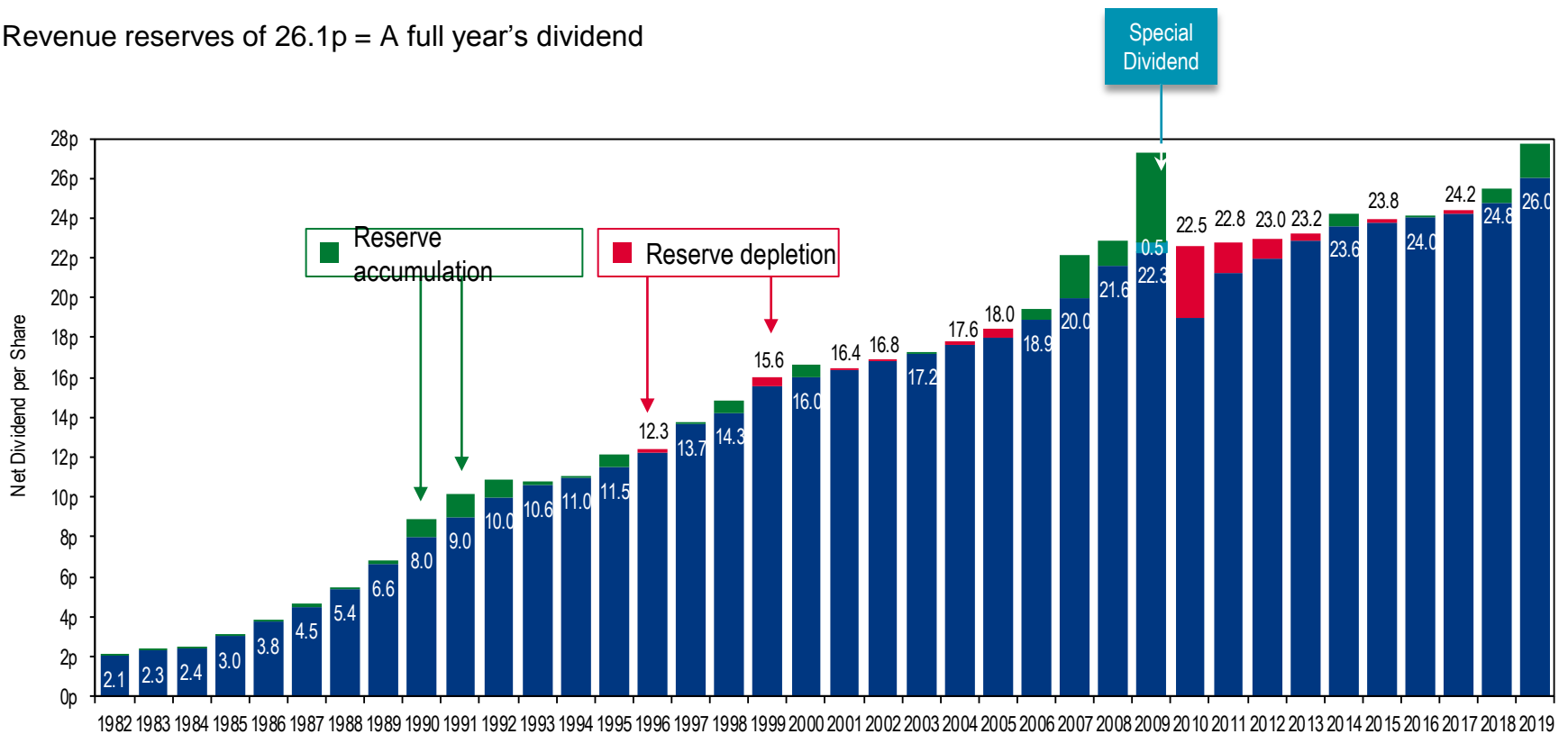
+8.6%

* Debt at market value.

Source: Merchants Trust 2019 Annual Report & Accounts.

37 years of rising dividends

- 4.8% dividend increase in 2019, ahead of inflation
- 5.5% yield
- Reserves built up in good years to offset pressures in difficult years
- Revenue reserves of 26.1p = A full year's dividend



Past performance is not a reliable indicator of future results.

Source: Merchants Trust 2019 annual Report & Accounts

Valuation summary

- A difficult year for equities, especially Q4 2018
- Gearing amplified net asset value movements
- Share price benefited from narrowing discount
- Portfolio total return slightly ahead of the FTSE All-Share benchmark
- Strong market recovery in first 3 months of 2019/20

	31 January 2018	31 January 2019	Change	30 April 2019
Total Assets	£704m	£644m	(8.5%)	£682m
Net Assets Value Per Share (Debt at Market Value)	523.9p	471.4p	(10.0%)	500.7p
Share price	488.0p	471.0p	(3.5%)	494.0p
Premium/(Discount) (Debt at Market Value)	(6.9%)	(0.1%)	-	(1.3%)
FTSE All Share	4138	3826	(7.5%)	4067

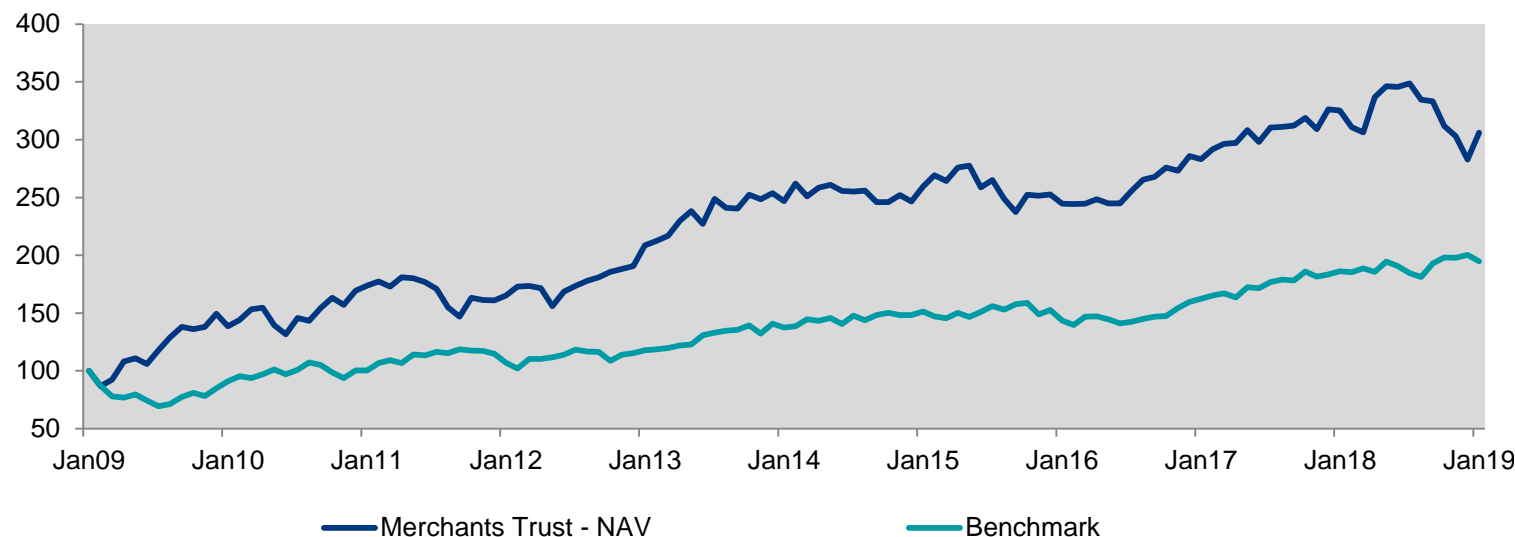
Debt Structure

- Long dated debt permits long term investment horizon
- Gearing amplifies portfolio returns and enhances revenue generation

Debt	Average Coupon Rate	Maturity Date	Book Value 31 Jan 2019 £m
Fintrust Debenture	8.5%	2023	43.6
Secured Bonds	5.875%	2029	29.4
Fixed Rate Notes	2.96%	2052	34.7
Perpetual Debenture Stock	4.0%	N/A	1.4
Cumulative Preference Shares	3.65%	N/A	1.2
Total	6.1%		110.2

Long Term Performance

Total Return: 10 years to 31 January 2019



Total Return: Periods to 31 January 2019	1 Year	3 Years (p.a.)	5 Years (p.a.)	10 Years (p.a.)
Merchants' portfolio (ex. gearing)	(3.5%)	7.9%	5.2%	10.3%
Benchmark Total Returns FTSE All-Share (was FTSE 100 up to 31 January 2017)	(3.8%)	9.1%	5.5%	9.4%
Difference	0.3%	(1.3%)	(0.3%)	0.8%

Past performance is not a reliable indicator of future results.

Source: Thomson Reuters DataStream/AllianzGI – as at 31 January 2019.

Stock Performance Contributions 2019

Contribution to Investment Performance relative to the FTSE All-Share Index

- Portfolio total return 0.3% ahead of the benchmark
- Polarised market
- Diverse positive and negative contributors
- Takeovers and M&A feature
- Strong pharmaceuticals and mining sectors
- Weak tobacco sector
- Several large individual stock moves

Overweight
(holding larger than index weight)

Underweight
(zero holding or weight lower than index weight)

Positive stocks	Performance impact %	Negative Stocks	Performance impact %
GlaxoSmithKline	0.8	Standard Life Aberdeen	-1.2
UBM	0.6	Keller	-0.7
Greene King	0.6	Tyman	-0.6
BHP	0.6	TP ICAP	-0.4
Tate & Lyle	0.4	Lloyds	-0.3
Sainsbury (J)	0.4		
Nex	0.4		
Meggitt	0.3		
British American Tobacco	1.8	Shire	-0.6
Vodafone	0.8	AstraZeneca	-0.5
		Diageo	-0.4
		Sky	-0.3
		Rio Tinto	-0.3

Active management – Major portfolio changes

- Active management – taking advantage of opportunities
- Sold out of companies on full valuations or where view changed
- Bought undervalued companies and recovery situations
- Broadened the income generation across the portfolio

Materials	Consumer Services	Consumer Goods	Energy	Financials	Health Care	Industrials	Oil & Gas	Telecoms	Utilities
CRH	ITV	Imperial Brands		St James's Place	GlaxoSmithKl.	Keller	BP		
Antofagasta	Sainsbury's	Brit. Am. Tobacco		Hammerson		Tyman	Shell		
	First Group	Diageo		Standard Life Ab.		Kier			
				Legal & General		Equiniti			
				TP ICAP					
				Man Group					
				Landsec					
				NEX Group					
				Lloyds					

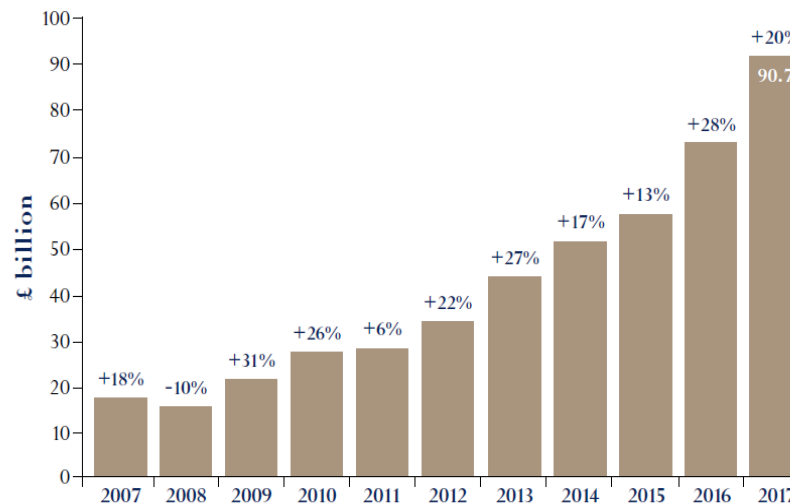
New	Add
Sold	Reduce

Stock Example – St James’s Place

Unique franchise, high structural growth on modest valuation

FUNDS UNDER MANAGEMENT

21% p.a. compound growth over the last 5 years and 17% p.a. over last 10 years (at Dec 2017)



Fundamentals

- £90bn Wealth manager
- 3,700 Advisors in partnership model
- Exceptional growth record in advisors, flows, cash generation and dividends
- Strong balance sheet

Themes

- Growing mass affluent population
- Rising onus on individual savings, Increasing complexity
- Shortage of financial advisors
- Exposure to asset market levels

Valuation

- Shares close to Embedded Value of £10.68, placing no value on new business
- 4.4% prospective dividend yield, with high growth potential¹
- Maturing assets, next 6 years could increase underlying cash earnings by 80%²

Economic & Market Outlook – Themes

1

Brexit uncertainty continuing: Trade policy, investment, consumer spending uncertain, with fiscal spending to increase. Interest rate increases muted due to high debt burden.

2

Large companies geographically diversified: Corporates generally in good shape, balance sheets repaired since financial crisis.

3

Valuations attractive after investor selling: Best value in domestic stocks, cyclicals and financials.

Portfolio positioning – Key portfolio themes

Emerging Markets

Exposure to emerging market consumer spending



Recovery situations:

Industries recovering, companies on modest valuations



Multinational Companies on UK Valuations

Global earnings on a domestic discount



Digitalisation

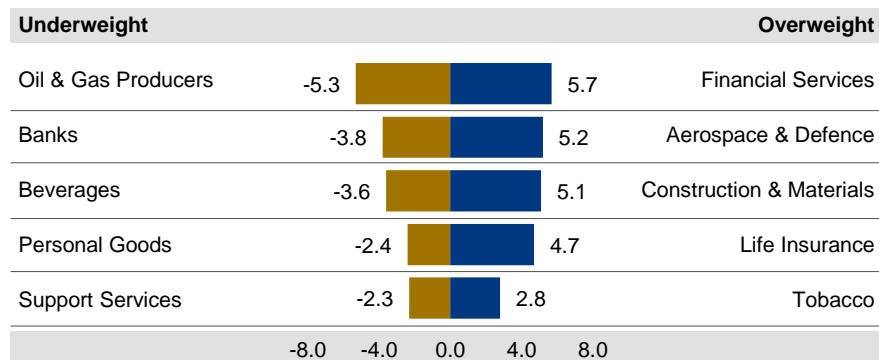
Beneficiaries of new technology



Portfolio – High Conviction Positions

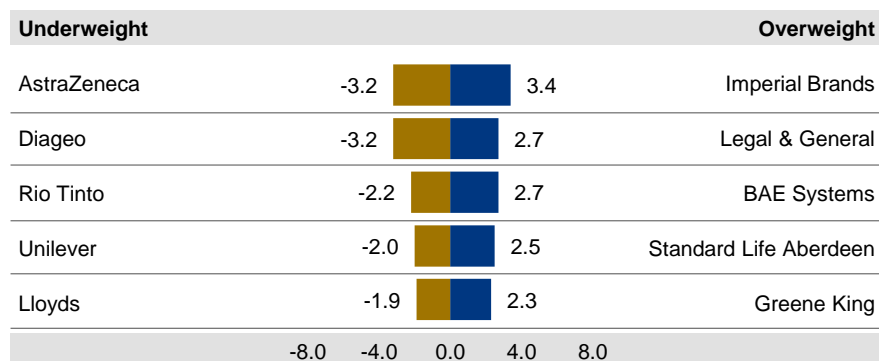
Sector Views

Merchants Trust



Stock Views

Merchants Trust



% position relative to FTSE All-Share

- Strong valuation discipline
- Favour recovery situations
- Specific stock selection opportunities in:
 - Financial Services
 - Aerospace & Defence
 - Construction & Materials
- Limited exposure to expensive defensives

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Source: AllianzGI, as at 31 January 2019.

Conclusion

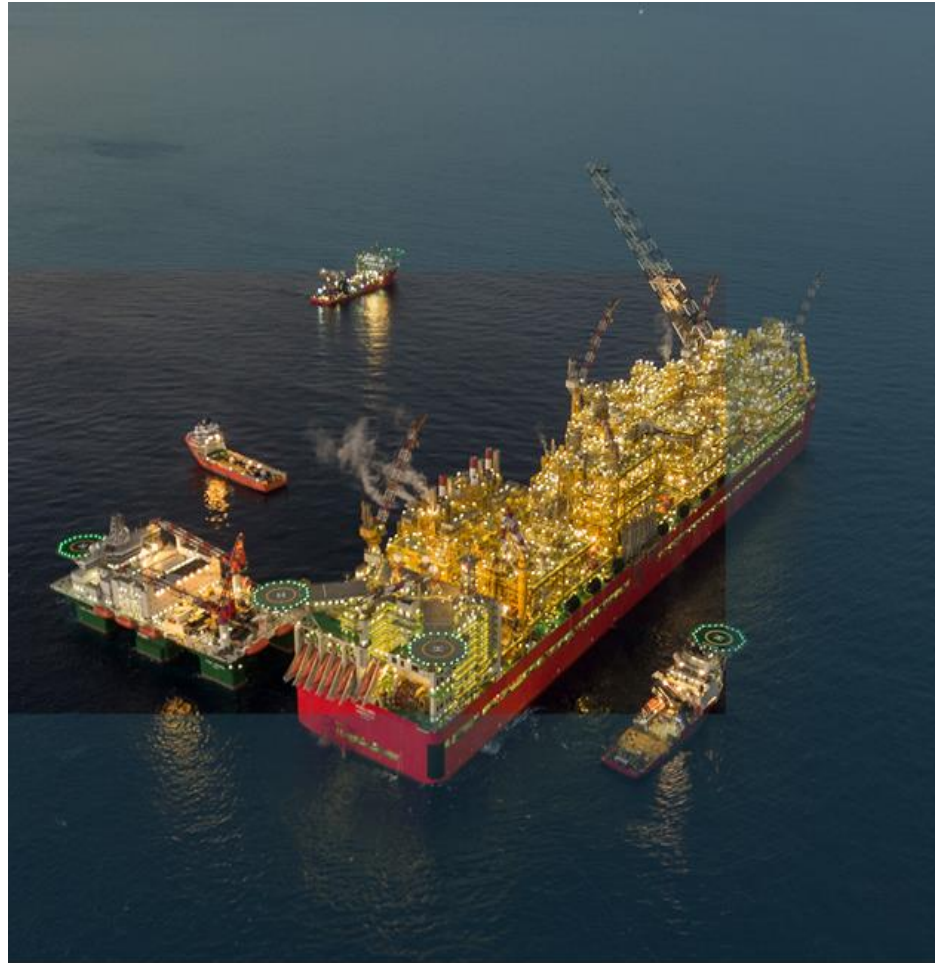
- 2019 was a difficult year for stock markets
- Good growth in income and dividends
- 37 years of dividend growth
- High yield supported by significant reserves
- Portfolio of attractively valued, high yielding, strong businesses



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The Merchants Trust

Q & A



Active is:

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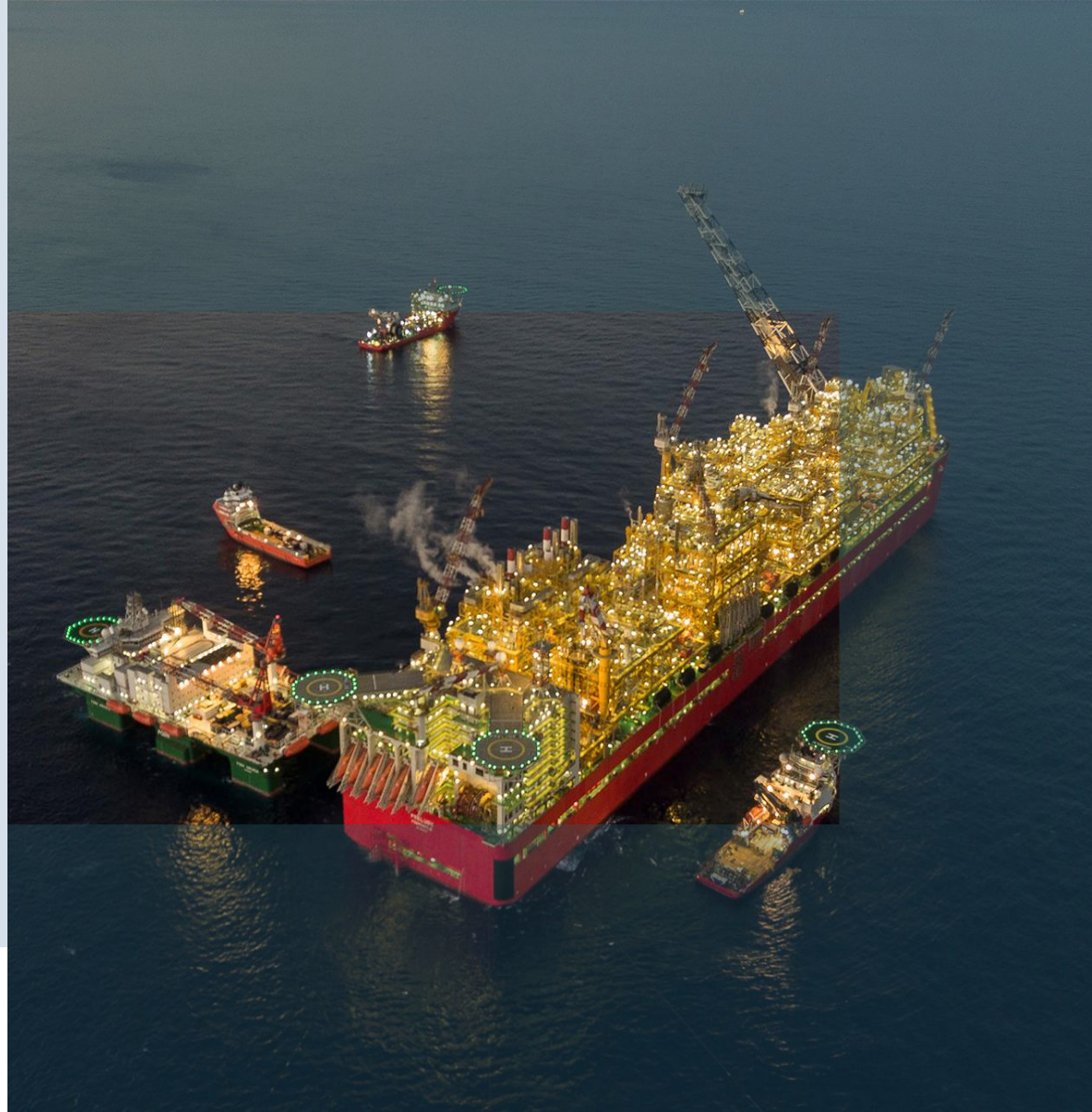
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Resolution 1:

To receive and adopt the annual report

For	Discretion	Against	Withheld
14,847,620	388,157	1,977	22,761

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Annual General Meeting, 16 May 2019

Resolution 2:

To declare a final dividend

For	Discretion	Against	Withheld
14,862,121	385,880	2,077	12,409

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Resolution 3:

To re-elect Simon Fraser as a director

For	Discretion	Against	Withheld
14,625,913	384,140	118,683	123,559

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Resolution 4:

To re-elect Timon Drakesmith as a director

For	Discretion	Against	Withheld
14,620,470	384,140	91,993	150,335

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Resolution 5:

To re-elect Mary Ann Sieghart as a director

For	Discretion	Against	Withheld
14,562,055	387,240	174,843	121,497

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Resolution 6:

To re-elect Sybella Stanley as a director

For	Discretion	Against	Withheld
14,518,936	384,140	192,179	146,832

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Resolution 7:

To re-elect Paul Yates as a director

For	Discretion	Against	Withheld
14,584,811	384,140	108,424	152,506

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Resolution 8:

To approve the Directors' Remuneration Implementation Report

For	Discretion	Against	Withheld
14,310,108	383,544	377,829	163,582

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Resolution 9:

To re-appoint BDO LLP as Auditors

For	Discretion	Against	Withheld
14,544,188	398,994	208,320	101,605

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Resolution 10:

To authorise the directors to determine the remuneration of the Auditors

For	Discretion	Against	Withheld
14,589,800	385,459	75,154	197,079

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Resolution 11:

To authorise the directors to allot ordinary shares

For	Discretion	Against	Withheld
14,704,792	292,495	124,754	124,647

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Resolution 12:

To disapply pre-emption rights

For	Discretion	Against	Withheld
14,242,516	315,080	397,511	180,790

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Annual General Meeting, 16 May 2019

Resolution 13:

To authorise the company to make market purchases of ordinary shares

For	Discretion	Against	Withheld
14,677,664	296,749	213,955	40,309

Active is:

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