31 July 2014

The **Merchants Trust** PLC

Half-Yearly Financial Report

125TH ANNIVERSARY

1889 - 2014

Allianz Global Investors

www.merchantstrust.co.uk

Contents

The Merchants Trust aims to provide an above average level of income and income growth together with long term growth of capital through a policy of investing mainly in higher yielding UK FTSE 100 companies.

The Trust's investment performance is assessed by comparison with other investment trusts within the UK Equity Income sector. In addition, it is benchmarked against the FTSE 100 Index, as the primary benchmark reflecting the emphasis within the portfolio.

Marking 125 years of The Merchants Trust

2014 marks 125 years since The Merchants Trust was incorporated by Robert Benson & Co in London on 16th February 1889. The company was set up to invest in the growth industries of the late 19th century, primarily in North American railway expansion in its early years, as well as in other continents, countries and industries. This approach proved robust enough for the company to survive all manner of market conditions in its early years but still pay healthy and gradually increasing dividends to its founding investors.

Although the company's core investments have changed over its 125 years, its structure has not. We continue to look to hold a portfolio of high yielding stocks that is diversified across industries. The company has stood the test of time, perhaps because the principles which have sustained it remain at its core. The fundamental aim of providing investors with healthy income as well as capital growth remains as relevant today as it has been at any time since 1889.

Highlights

Net asset value per share	Earnings per ordinary share for the period	Dividends per ordinary share for the period
493.1p	**13.61p**	**11.80p**
31.1.14 486.8p	31.7.13 14.14p	31.7.13 11.80p
+1.3%	**-3.7%**	**0.0%**

Revenue	For the 6 months ended 31 July 2014	For the 6 months ended 31 July 2013	% change
Income	£16.71m	£16.99m	-1.6
Net revenue return attributable to ordinary shareholders	£14.23m	£14.59m	-2.5
Net revenue return per ordinary share	13.61p	14.14p	-3.7
Ordinary dividends per ordinary share	11.80p	11.80p	0.0

Assets	At 31 July 2014	At 31 January 2014	Capital return % change	Total return % change
Total assets less current liabilities	£654m	£640m	+2.2	-
Net assets (debt at par)	£544m	£529m	+2.8	-
Net assets (debt at market value)	£519m	£505m	+2.8	-
Net asset value per ordinary share (debt at par)	516.6p	510.8p	+1.1	+3.4*
Net asset value per ordinary share (debt at market value)	493.1p	486.8p	+1.3	+3.7*
Ordinary share price	492.0p	491.5p	+0.1	+2.5
FTSE 100 Index	6,730.1	6,510.4	+3.4	+5.4
Discount of ordinary share price to net asset value (debt at par)	-4.8%	-3.8%	n/a	n/a
Discount/premium to NAV (debt at market value)	-0.2%	+1.0%	n/a	n/a

** NAV total return reflects both the change in net asset value per ordinary share and the net ordinary dividends paid.*

Performance attribution analysis against FTSE 100 Index	Capital return %	Total return %
Return of Index	+3.4	+5.4
Relative return from portfolio	-2.1	-1.6
Return of portfolio	**+1.3**	**+3.8**
Impact of gearing on portfolio	+0.3	+0.3
Expenses charged to capital	-0.7	-0.7
Other	+0.2	0.0
Change in net asset value per ordinary share	**+1.1**	**+3.4**

Interim Management Report

Highlights

- Net dividends declared in the first six months of 2014/15 are 11.8p per share, maintaining the same level of payment compared to the same period last year.
- Ordinary shares yield 4.7% at 495.7p, compared with 3.4% on the FTSE 100 Index at the close of business on 22 September 2014.

	At 31 July 2014	At 31 January 2014	Capital return % change	Total return % change
Net Asset Value per ordinary share (debt at par)	516.6p	510.8p	+1.1	+3.4
Net Asset Value per ordinary share (debt at market value)	493.1p	486.8p	+1.3	+3.7
Ordinary share price	492.0p	491.5p	+0.1	+2.5
FTSE 100 Index	6,730.1	6,510.4	+3.4	+5.4
Discount to NAV (debt at par)	-4.8%	-3.8%	-	-
Discount / premium to NAV (debt at market value)	-0.2%	1.0%	-	-

Interim Dividends

The board has declared a second quarterly dividend of 5.9p per ordinary share, payable on 11 November 2014 to shareholders on the register at close of business on 10 October 2014. The total distribution declared for the first half of 2014/15 is 11.8p net, maintaining the same payment compared to the first half-year dividends paid last year. As at 31 July 2014, the Trust's revenue reserve, after deducting the first and second interim dividends, represented 13.2p per share (2013 – 13.5p).

Net Revenue

Earnings in the first six months of the current year, to 31 July 2014, were 13.61p per ordinary share (2013 – 14.14p).

Net asset value – Capital basis

As at 31 July 2014, the NAV per ordinary share (with debt at par) was 516.6p and the NAV per ordinary share (with debt at market value) was 493.1p. On a capital basis, the NAVs have increased by 1.1% and 1.3% respectively since the end of the last financial year, compared with the benchmark, the FTSE 100 Index which rose by 3.4%.

Net asset value - Total return basis

The total return reflects both the change in net asset value per ordinary share and the net ordinary dividends paid. For the six months to 31 July 2014, the NAV per ordinary share (with debt at par) increased by 3.4% and the NAV per ordinary share (with debt at market value) increased by 3.7%, whilst the FTSE 100 Index increased by 5.4%.

Interim Management Report *(continued)*

Material Events and Transactions

At the annual general meeting of the company, all the resolutions put to shareholders were passed.

The third quarterly dividend of 5.9p per share was paid on 26 February 2014 to shareholders on the register on 31 January 2014. A final dividend of 5.9p per share was paid on 23 May 2014 to shareholders on the register on 25 April 2014. The total paid and declared for the year ended 31 January 2014 was 23.6p.

The board is encouraged to see increased demand for the Trust's shares, with 1,600,000 ordinary shares issued during the six month period to 31 July 2014. This represents a 1.54% increase in the issued share capital for the six month period. The shares are issued at a slight premium so to cover costs and not to be dilutive for current investors. The ongoing issuance will assist with reducing costs for shareholders, reduce the level of gearing and help improve liquidity in the shares.

There were no buy backs of shares and no related party transactions in the period.

Since the period end, the first quarterly dividend for the year ending 31 January 2015 of 5.9p per share was paid on 14 August 2014 to shareholders on the register on 11 July 2014.

AIFMD

The Alternative Investment Fund Manager's Directive (AIFMD) came into effect on 22 July 2014. This has introduced additional regulatory oversight for investment trusts. The company has adjusted its operational arrangements to ensure that it will comply with AIFMD. We have appointed Allianz Global Investors Europe GmbH, as the designated Alternative Investment Fund Manager (AIFM) for the company and HSBC Bank PLC as its Depository in accordance with AIFMD. The management fee and notice period are unchanged by the amended Management Agreement between the company and Allianz Global Investors. The Depository Agreement replaced the existing custody agreement between the company and HSBC Bank PLC.

Gearing

The Trust continues to have long-term debt amounting to £111 million. Since 31 July 2013, the debt has been valued using a formulaic approach by adding a margin, derived from the spread of BBB UK corporate bond yields over gilt yields, to the yield of the relevant reference gilt. This is all deployed in the market for investment purposes. At the end of the period our gearing level was 20.6% compared to 21.1% at 31 January 2014. The impact of the gearing on the NAV was marginally positive.

Prospects

UK economic recovery provides a supportive backdrop for the corporate sector although the international environment is mixed and there remains concern about the debt overhang and the broader geopolitical environment. Whilst the valuation case for equities in aggregate is less compelling than a year ago, the portfolio managers are still able to identify attractive investment opportunities on sensible valuations. The Trust's priority remains the delivery of long term dividend and capital growth.

Simon Fraser

Simon Fraser
Chairman

199 Bishopsgate
London EC2M 3TY

24 September 2014

Interim Management Report *(continued)*

Principal Risks and Uncertainties

The principal risks and uncertainties facing the company are as follows:

Investment Activity and Strategy – An inappropriate investment strategy, e.g., asset allocation or the level of gearing, may lead to underperformance against the company's benchmark index and peer group companies, and may also result in the company's shares trading on a wider discount;
Corporate Governance and Shareholder Relations – Shareholder discontent could arise if there is weak adherence to best practice in corporate governance and which could result in potential reputational damage to the company;
Regulatory – Failure to comply with relevant regulations could damage the company and its ability to continue in business;
Financial – Failure to contain financial risks could result in losses to the company.

The board's approach to mitigating these risks and uncertainties is set out in the annual financial report. In the board's view these will remain the principal risks and uncertainties for the six months to 31 January 2015.

Responsibility Statement

The directors confirm to the best of their knowledge that:

- The condensed set of financial statements contained within the half-yearly financial report has been prepared in accordance with the Accounting Standards Board's Statement 'Half-Yearly Financial Reports'; and
- The interim management report includes a fair review of the information required by Disclosure and Transparency Rule 4.2.7 R of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- The interim management report includes a fair review of the information concerning related parties transactions as required by the Disclosure and Transparency Rule 4.2.8 R.

Simon Fraser
Chairman
24 September 2014

Fund Manager's Report

Fund Manager's Report

Economic and Market Background

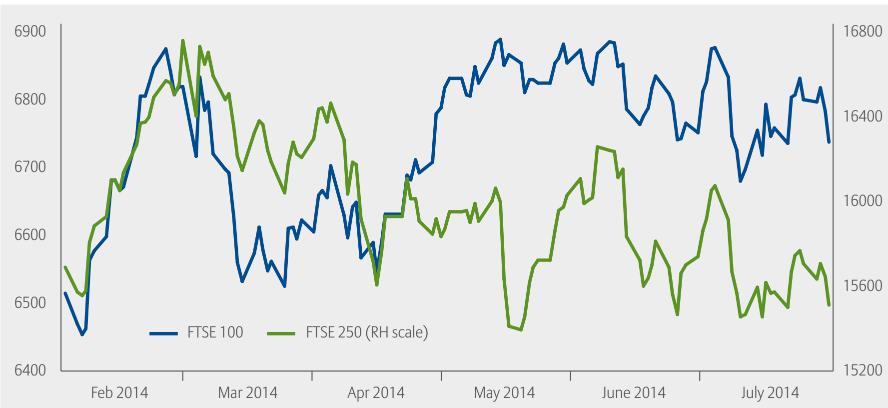
The UK economy showed the most consistent strength since the global financial crisis, with overall growth around 3% in the first half of the year. Employment levels rose to new peaks and unemployment continued to fall. Capital investment intentions picked up and retail spending grew. However consumer confidence remained weak, with limited wage growth continuing to squeeze real incomes even though inflation dropped modestly below the Bank of England's 2% inflation target. Interest rates remained at 0.5%, unchanged now for five years, but the strengthening economy increased the likelihood that we are approaching the first rate rise.

The US economy also saw reasonable underlying growth, similar to that in the UK, although complicated by severe weather effects depressing the first quarter. Europe on the other hand saw little growth and the picture in emerging markets was mixed but generally disappointing. Elsewhere, Russian involvement in the Crimea and the Ukraine as well as events in Iraq raised wider concerns about geo-political risk and potential disruption to energy markets.

The UK stock market traded in a narrow band with low volatility, despite the external environment. Over the six months period the total return on the FTSE 100 Index was +5.4%. The most notable feature of the market was a sharp sell-off in medium sized companies, reversing some of the strong gains in recent years, with the FTSE 250 Index returning only +0.3% despite a rally in February. Medium sized companies tend to be more exposed to the domestic UK economy and they pulled back, ironically as economic growth figures improved, on concerns about potential interest rate increases. High yielding companies generally outperformed with the FTSE 350 Higher Yield Index returning +6.7%.

There was a wide spread of returns within the FTSE 100. At the sector level, the best performance was seen in defensive sectors like tobacco, healthcare equipment and electricity which all returned over 15%. Whilst industrial transportation (Royal Mail), food retail and automobiles & parts produced double digit negative returns. At the stock level divergence was even greater with takeover activity boosting Shire, up 61%, at one extreme and Hargreaves Lansdown falling by 30% at the other.

FTSE 100 and FTSE 250 indices 31 January 2014 to 31 July 2014



Source: Thomson Reuters DataStream

Fund Manager's Report *(continued)*

There was a resurgence in corporate mergers and acquisitions activity, especially within the pharmaceuticals sector, with American companies looking to buy UK companies, partly to exploit tax anomalies. Shire and AstraZeneca both received bid approaches, although AstraZeneca rejected Pfizer's advances. GlaxoSmithKline and Novartis also announced an interesting three way asset swap, with Glaxo selling oncology assets at a high price and buying Novartis' vaccine business whilst they merged their consumer businesses under Glaxo's control. There were two takeover approaches for companies in the portfolio, Mothercare and Balfour Beatty. Both looked opportunistic, taking advantage of depressed share prices and both were rebuffed, but they did highlight the potential value in these companies.

Performance

The investment portfolio of the Trust produced a total return of 3.8% during the period, excluding the effects of gearing, below the FTSE 100 Index return of 5.4%. There were two significant features driving the under-performance. Stock selection within pharmaceuticals was negative as **GlaxoSmithKline** shares underperformed on poor trading news despite announcing the Novartis deals. Also the Trust did not own **Shire** or **AstraZeneca** whose shares rallied after their respective takeover approaches. The second feature was the underperformance of medium sized companies. Almost a third of the portfolio is invested outside the FTSE 100 Index and in general these shares lagged behind the larger companies. The table shows the top 10 positive and negative stock contributors to performance. In aggregate the top ten positive stocks broadly offset the top ten negative stocks.

Table of Estimated Contribution to Investment Performance Relative to FTSE 100 Index 31 January 2014 to 31 July 2014

Positive Contribution	%	Over/under Weight	Negative Contribution	%	Over/under Weight
Vodafone	0.6	-	Shire	-0.6	-
Barclays	0.6	-	Balfour Beatty	-0.4	+
Lloyds	0.4	-	UBM	-0.4	+
Pennon	0.3	+	Carnival	-0.3	+
Tesco	0.2	-	GlaxoSmithKline	-0.3	+
Rolls Royce	0.2	-	AstraZeneca	-0.3	-
SSE	0.2	+	BG	-0.2	-
Man Group	0.2	+	Sainsbury (J)	-0.2	+
Hammerson	0.2	+	Premier Farnell	-0.2	+
Diageo	0.2	-	SABMiller	-0.2	-

Over/under weight: Whether proportion of portfolio in stock is higher (+) or lower (-) than its weighting in the FSTE 100 Index.

Fund Manager's Report *(continued)*

On the positive side, the portfolio benefitted from selling out of **Vodafone** and from not owning **Lloyds** or **Barclays** banks which underperformed. Strong share prices at the utilities **Pennon** and **SSE** as well as property stock **Hammerson** helped returns as did a 50% bounce in **Man Group** shares. The other main positive contributions came from owning little or no **Tesco**, **Rolls Royce** and **Diageo** which all underperformed the market.

The top ten negative contributors included the three pharmaceutical companies referred to above. Trading difficulties continued to hit construction company **Balfour Beatty** which underperformed, despite receiving a merger proposal from Carillion near the end of the period. **UBM**, **Carnival**, **Sainsbury** and **Premier Farnell** also underperformed on generally soft trading news whilst the portfolio did not own **BG** or **SABMiller** which delivered mid-teens positive returns.

It is notable that the biggest shareholding, **Royal Dutch Shell**, returned +17% as the company started to demonstrate improving financial returns and stronger capital discipline. This rally helped to drive the absolute return of the Trust's portfolio although it did not enhance the "relative" return as Shell is also a large constituent of the FTSE 100 Index.

Portfolio Changes

There were fewer changes to the portfolio than in recent periods. Overall we added three new companies and sold three others completely. Activity was driven primarily by individual stock considerations.

We bought **Standard Life**, the life insurance and asset management company. Standard Life is well positioned for the new life insurance industry landscape with a strong financial advisor platform, growing corporate pensions activities and a successful investment management business. The shares are reasonably valued for their growth profile, with a dividend yield around 4.5% when purchased. This investment was partially funded by taking profits in **Friends Life** (formerly Resolution Plc) which has recovered strongly from its depressed level in 2012.

Another addition was **Tate & Lyle**, a producer of corn syrup and speciality food ingredients. The shares were hit by a profits warning over prospects for their sugar substitute, Sucralose and more challenging conditions in their bulk ingredients business. This brought Tate & Lyle down to an attractive price which undervalues the transformation process taking place within the business as they move progressively into higher value added ingredients and reduce their trading volatility. The company has a strong balance sheet giving them flexibility to invest in growth opportunities.

The third new holding was **Amec** which provides consulting, engineering and project management services to the energy, power and process industries. The business makes high returns and takes a risk averse approach, generally avoiding fixed price contracts. Their proposed acquisition of Foster Wheeler should bring significant benefits in terms of cost synergies and cross selling opportunities. Amec's valuation is modest with strong cash generation and a reasonable dividend yield. This purchase was funded by trimming the Trust's large holdings in **BP** and Royal Dutch Shell which moved up to higher valuations as investors warmed to greater capital discipline within the industry and an improving cash flow outlook.

We sold the final position in Vodafone ahead of completion of the sale of their stake in Verizon Wireless. Vodafone had been one of the largest investments in the Trust until the middle of last year. The strong growth of their US operations provided a critical offset to their poor trading record in Europe in recent years. The shares were re-rated at the end of 2013 and into this calendar year both due to the high price they achieved for selling Verizon Wireless and also due to speculation of a bid for the rest of Vodafone from AT&T. This provided an opportunity to sell out at a relatively full price, especially as the remaining Vodafone businesses face a challenging future due to intense competition in Europe and high capital investment requirements.

Fund Manager's Report *(continued)*

Another complete sale was Tesco. The food retail industry has seen difficult trading conditions, with strong growth from discounters at the bottom end and a robust performance from premium retailers, leading to a polarisation of the market and intensifying price competition in the middle ground. Although Tesco are addressing many of their legacy structural issues, including exiting the US market, their mid-market position is a major headwind. We did not have sufficient confidence that they could turn the business around within a reasonable time period, and the valuation was not especially depressed so we sold the shares in March. We reinvested part of the proceeds in Sainsbury which has been trading consistently better with more of a premium positioning.

The third sale was **Tyman**, a manufacturer primarily of window and door components, as the shares reached our price target. Although the Trust only held a modest investment for less than a year, the shares had risen by approximately 50% as investors appreciated Tyman's exposure to a recovering US housing market and their scope to drive efficiencies from a major acquisition.

Apart from new investments we also added to several existing positions. Weakness amongst consumer defensive stocks gave us the opportunity to add to **Unilever** and **British American Tobacco** at attractive levels. We also added to **BAE Systems**, **Centrica**, **William Hill**, **Inmarsat** and other positions, generally following periods of share price weakness.

Elsewhere, sales mainly reflected profit taking in companies like **CRH**, **First Group**, **Britvic** and **BBA Aviation**, with several of these in the mid-cap area which had been strong in earlier periods.

Derivative Strategy

The Trust operates a covered call strategy on a limited proportion of the portfolio to generate additional income. In "writing" or selling an option the Trust gives the purchaser the right to buy a specific number of shares in a company at an agreed "strike" price within a fixed period. In exchange the Trust receives an option premium which is taken to the revenue account. The Trust gets the full benefit of any move in the share price up to the strike price but not beyond. If the share price rises above the strike price there is a potential "opportunity" cost (but not a cash cost) to the Trust as the option holder can exercise their option to buy the shares at the strike price.

The option strategy once again delivered its primary objective of income generation, with approximately £320,000 of option premium accrued. The strategy was also profitable overall with only modest opportunity costs incurred from option exercises. In aggregate the strategy added approximately 0.04% to the portfolio return. With low market volatility throughout the period there were relatively few opportunities to write options for attractive premiums, consequently option activity was at a lower level than last year.

Outlook

The UK economic improvement described above provides a supportive backdrop for the domestic operations of British companies even though consumer confidence remains low and wage growth supressed. The US outlook is also positive whilst in Europe we expect little if any growth in the short term. Emerging markets show a varied picture with challenges in most regions.

Whilst improving Anglo Saxon economies are beneficial, we remain concerned about the long term effects of stimulative central bank monetary policies and the debt overhang. There is a risk that inflation could rise significantly at some stage even though there is no sign of this at present. We are also concerned about the sensitivity of consumers to rising interest rates which may threaten the sustainability of this recovery. In the shorter term there could be volatility ahead of the general election next year, whilst the wider geopolitical environment is vulnerable to the course of events in the Ukraine and the Middle East.

Despite these risks, most large businesses are fundamentally sound, well financed and growing. Furthermore stock markets and other asset classes have been supported by extremely low interest rates forcing money out of bank deposits in order to find a return. These low interest rates are directly helping companies reduce

Fund Manager's Report *(continued)*

their interest costs. This has been highlighted recently by two portfolio companies, Hammerson and CRH issuing 7-8 year Euro denominated debt on yields of 2% or lower.

A case can be made that equities relatively are good value with the FTSE 100 index dividend yield of 3.4%, above the 10 year UK government bond yield of around 2.5%. However in absolute terms the valuation case for equities is less clear. We are still able to find opportunities to buy good businesses at sensible valuations, particularly after the pull-back in medium sized companies, although many shares are fully priced. The best value currently is in some of the largest "mega-cap" companies and also among "recovery" situations.

We see two types of recovery situations, industries that are undergoing a cyclical recovery and companies recovering from specific issues that have depressed their shares. In all cases however the fundamental strengths and weaknesses of the company are critical. The economic environment and industry cycle may support an investment case but it is always the company specifics that drive our decisions.

Cyclical recovery situations include companies exposed to a US and UK construction recovery, such as CRH and Balfour Beatty or recovering demand for industrial property, for example **Hansteen** and Segro. Improving employment trends support our investment in a number of consumer companies like Carnival (cruises), as well as the staffing company **SThree,** which also benefits from structural growth.

Company specific recovery situations include **Ladbrokes** which is turning around its online betting operations, **De La Rue** in banknote printing, transport company **First Group** and Mothercare, the UK retailer and international franchise business. Whilst not all of these recovery situations will necessarily proceed smoothly and undoubtedly there will be setbacks along the way, they all offer significant potential for revaluation as and when the recovery comes through.

Dividends

UK companies are generally well financed and reasonably profitable. The prospects for medium term dividend growth are good but this year the strength of Sterling is having a significant impact. With a large proportion of UK plc sales and profits made overseas and many large companies paying dividends in a foreign currency, particularly the US dollar, the recent short term weakness of the pound is holding back the sterling value of cash flows and dividend payments. Overall there is likely to be little net dividend growth in the stock market this year. The latest moves in the pound have been more helpful for UK investors but currencies continue to be difficult to forecast.

Simon Gergel
Allianz Global Investors

Investment Portfolio

as at 31 July 2014

Twenty Largest Equity Holdings

Security Name	Market Value £000's	Total Assets* %	Principal Activity
Royal Dutch Shell 'B'	60,127	9.19	Oil & Gas Producers
GlaxoSmithKline	44,645	6.82	Pharmaceuticals & Biotechnology
HSBC	43,788	6.69	Banks
BP	35,074	5.36	Oil & Gas Producers
British American Tobacco	28,397	4.34	Tobacco
BAE Systems	26,096	3.99	Aerospace & Defence
BHP Billiton	23,773	3.63	Mining
SSE	20,530	3.14	Electricity
Pennon	19,968	3.05	Gas, Water & Multi-utilities
Inmarsat	19,700	3.01	Mobile Telecommunications
UBM	19,378	2.96	Media
Centrica	18,018	2.75	Gas, Water & Multi-utilities
Friends Life	16,285	2.49	Life Insurance
Sainsburys (J)	15,541	2.38	Food & Drug Retailers
National Grid	14,193	2.17	Gas, Water & Multi-utilities
Marks & Spencer	13,333	2.04	General Retailers
Carnival	12,797	1.96	Travel & Leisure
Standard Life	12,740	1.95	Life Insurance
Reed Elsevier	12,345	1.89	Media
Hammerson	11,710	1.79	Real Estate Investment Trusts
	468,438	**71.60**	

** Total assets include current liabilities*

Portfolio Analysis

Sector	Market Value £000's	Total Assets** %
Financials	128,479	19.64
Consumer Services	118,399	18.09
Oil & Gas	104,305	15.94
Industrials	78,628	12.02
Utilities	72,708	11.11
Consumer Goods	57,353	8.77
Health Care	44,645	6.82
Basic Materials	23,773	3.63
Telecommunications	19,700	3.01
Net Current Assets	6,332	0.97
	654,322	**100.00**

*** Total assets include current liabilities*

As at 31 July 2014 call options were written over 1.6% of the portfolio. During the period, income generated from call options amounted to £318,882.

The Merchants Trust PLC

Financial Statements

Income Statement and Balance Sheet

Income Statement

for the six months ended 31 July 2014

	Revenue £'000s	Capital £'000s	Total Return £'000s
			(Note 1)
Net gains on investments at fair value	-	8,099	8,099
Income from investments	16,250	-	16,250
Other income	456	-	456
Investment management fee	(406)	(753)	(1,159)
Administrative expenses	(411)	(1)	(412)
Net return before finance costs and taxation	**15,889**	**7,345**	**23,234**
Finance costs: interest payable and similar charges	(1,663)	(3,049)	(4,712)
Net return on ordinary activities before taxation	**14,226**	**4,296**	**18,522**
Taxation	-	-	-
Net return attributable to ordinary shareholders	**14,226**	**4,296**	**18,522**
Net return per Ordinary Share (Note 4) (basic and diluted)	**13.61p**	**4.11p**	**17.72p**

Balance Sheet

as at 31 July 2014

	£'000s
Investments held at fair value through profit or loss	647,990
Net current assets	6,332
Total assets less current liabilities	**654,322**
Creditors: amount falling due after more than one year	(110,569)
Total net assets	**543,753**
Called up share capital	26,316
Share premium account	18,294
Capital redemption reserve	293
Capital reserves	472,534
Revenue reserve	26,316
Equity shareholders' funds	**543,753**
Net asset value per ordinary share	**516.6p**

The net asset value is based on 105,263,464 ordinary shares in issue at 31 July 2014.

	for the six months ended 31 July 2013			for the year ended 31 January 2014		
	Revenue £'000s	Capital £'000s	Total Return £'000s	Revenue £'000s	Capital £'000s	Total Return £'000s
			(Note 1)			(Note 1)
	-	66,056	66,056	-	52,437	52,437
	16,120	-	16,120	28,451	-	28,451
	870	-	870	1,376	-	1,376
	(382)	(709)	(1,091)	(779)	(1,446)	(2,225)
	(355)	(3)	(358)	(720)	(4)	(724)
	16,253	**65,344**	**81,597**	**28,328**	**50,987**	**79,315**
	(1,662)	(3,047)	(4,709)	(3,315)	(6,077)	(9,392)
	14,591	**62,297**	**76,888**	**25,013**	**44,910**	**69,923**
	-	-	-	-	-	-
	14,591	**62,297**	**76,888**	**25,013**	**44,910**	**69,923**
	14.14p	**60.36p**	**74.50p**	**24.22p**	**43.48p**	**67.70p**

	as at 31 July 2013	as at 31 January 2014
	£'000s	£'000s
	643,931	631,256
	13,209	8,888
	657,140	**640,144**
	(110,760)	(110,666)
	546,380	**529,478**
	25,803	25,916
	8,523	10,653
	293	293
	485,625	468,238
	26,136	**24,378**
	546,380	**529,478**
	529.4p	**510.8p**

The net asset value is based on 103,213,464 ordinary shares in issue at 31 July 2013.

The net asset value is based on 103,663,464 ordinary shares in issue at 31 January 2014.

Reconciliation of Movements in Shareholders' Funds

	Called up Share Capital £'000s	Share Premium Account £'000s	Capital Redemption Reserve £'000s	Capital Reserve £'000s	Revenue Reserve £'000s	Total £'000s
Six months ended 31 July 2014						
Net assets at 1 February 2014	25,916	10,653	293	468,238	24,378	529,478
Revenue return	-	-	-	-	14,226	14,226
Dividends on ordinary shares	-	-	-	-	(12,288)	(12,288)
Capital return	-	-	-	4,296	-	4,296
Shares issued during the period	400	7,641	-	-	-	8,041
Net assets at 31 July 2014	**26,316**	**18,294**	**293**	**472,534**	**26,136**	**543,753**
Six months ended 31 July 2013						
Net assets at 1 February 2013	25,803	8,523	293	423,328	23,517	481,464
Revenue return	-	-	-	-	14,591	14,591
Dividends on ordinary shares	-	-	-	-	(11,972)	(11,972)
Capital return	-	-	-	62,297	-	62,297
Net assets at 31 July 2013	**25,803**	**8,523**	**293**	**485,625**	**26,136**	**546,380**
Year ended 31 January 2014						
Net assets at 1 February 2013	25,803	8,523	293	423,328	23,517	481,464
Revenue return	-	-	-	-	25,013	25,013
Dividends on ordinary shares	-	-	-	-	(24,152)	(24,152)
Capital return	-	-	-	44,910	-	44,910
Shares issued during the period	113	2,130	-	-	-	2,243
Net assets at 31 January 2014	**25,916**	**10,653**	**293**	**468,238**	**24,378**	**529,478**

Cash Flow Statement

	Six Months ended 31 July 2014 £'000s	Six Months ended 31 July 2013 £'000s	Year ended 31 January 2014 £'000s
Net cash inflow from operating activities	**14,278**	**15,464**	**27,322**
Return on investments and servicing of finance			
Interest paid	(4,793)	(4,788)	(9,538)
Dividends paid on cumulative preference stock	(43)	(21)	(43)
Net cash outflow from servicing of finance	**(4,836)**	**(4,809)**	**(9,581)**
Capital expenditure and financial investment			
Purchase of fixed asset investments	(72,954)	(86,484)	(176,562)
Sale of fixed asset investments	65,889	92,189	180,153
Net cash (outflow) inflow from capital expenditure and financial investment	**(7,065)**	**5,705**	**3,591**
Dividends paid on ordinary shares	(12,288)	(11,972)	(24,152)
Net cash (outflow) inflow before financing	**(9,911)**	**4,388**	**(2,820)**
Proceeds from issue of ordinary shares	8,058	-	2,247
Share issue costs	(17)	-	(4)
Net cash inflow from financing	**8,041**	**-**	**2,243**
(Decrease) increase in cash	**(1,870)**	**4,388**	**(577)**
Reconciliation of return on ordinary activities before taxation to net cash flow from operating activities			
Total return before finance costs and taxation	23,234	81,597	79,315
Net gains on investments at fair value	(8,099)	(66,056)	(52,437)
	15,135	**15,541**	**26,878**
Increase in debtors	(200)	(537)	(183)
(Decrease) increase in creditors	(657)	460	627
Net cash inflow from operating activities	**14,278**	**15,464**	**27,322**
Reconciliation of net cash flow to movement in net debt			
Net cash (outflow) inflow	(1,870)	4,388	(577)
Decrease in long term loans	97	95	189
Movement in net (debt) funds	**(1,773)**	**4,483**	**(388)**
Net debt brought forward	(102,583)	(102,195)	(102,195)
Net debt carried forward	**(104,356)**	**(97,712)**	**(102,583)**

Notes

Note 1 – Financial Statements

The half-yearly financial report has been neither audited nor reviewed by the company's auditors. The financial information for the year ended 31 January 2014 has been extracted from the statutory financial statements for that year which have been delivered to the Registrar of Companies. The auditors' report on those financial statements was unqualified and did not contain a statement under section 498 of the Companies Act 2006.

The total return column of this statement is the profit and loss account of the company.

All revenue and capital items derive from continuing operations. No operations were acquired or discontinued in the period.

A Statement of Total Recognised Gains and Losses is not required as all gains and losses of the company have been reflected in the Income Statement.

Allianz Global Investors Europe GmbH, UK Branch (AGI UK), acts as Alternative Investment Fund Manager (AIFM) to the company. Details of the services and fee arrangements are given in the latest annual financial report of the company, which is available on the company's website at www.merchantstrust.co.uk.

The company also makes limited additional and updated disclosures, mainly relating to the first and third quarters of the financial year. These Interim Management Statements are released through the Regulatory News Service and posted on the company's website www.merchantstrust.co.uk on or shortly before 19 June and 19 December each year.

Note 2 – Accounting Policies

The condensed set of financial statements has been prepared on the basis of the accounting policies as set out in the company's annual report and financial statements for the year ended 31 January 2014.

The Directors believe it is appropriate to continue to adopt the going concern basis in preparing the financial statements, as the assets of the company consist mainly of securities which are readily realisable and accordingly, that the company has adequate financial resources to continue in operational existence for the foreseeable future.

Investments are designated as held at fair value through profit or loss in accordance with FRS 26 'Financial Instruments: Recognition and Measurement'. Listed investments are valued at bid market prices.

Note 3 – Dividends on Ordinary Shares

In accordance with FRS 21 'Events after the Balance Sheet Date', the final dividend payable on ordinary shares is recognised as a liability when approved by shareholders. Interim dividends are recognised only when paid.

Notes *(continued)*

Dividends payable on ordinary shares in respect of earnings for each period are as follows:

	Six months ended 31 July 2014 £000's	Six months ended 31 July 2013 £000's	Year ended 31 January 2014 £000's
First Interim dividend 5.90p paid 14 August 2013	-	-	5,986
Second Interim dividend 5.90p paid 12 November 2013	-	-	5,986
Third Interim dividend 5.90p paid 26 February 2014 (2013 – 5.80p)	6,110	5,986	6,090
Final dividend 5.90p paid 23 May 2014 (2013 – 5.80p)	6,178	5,986	6,090
	12,288	11,972	24,152

Dividends payable at the period end are not recognised as a liability under FRS 21 'Events after the Balance Sheet Date'. Details of these dividends are set out below.

	Six months ended 31 July 2014 £000's	Six months ended 31 July 2013 £000's	Year ended 31 January 2014 £000's
Third interim dividend 5.90p paid 26 February 2014	-	-	6,110
Final dividend 5.90p paid 23 May 2014	-	-	6,116
First interim dividend 5.90p paid 14 August 2014 (2013 - 5.90p)	6,198	6,089	-
Second interim dividend 5.90p payable 11 November 2014 (2013 - 5.90p)	6,210	6,089	-
	12,408	12,178	12,226

The second interim dividend noted above is based on the number of shares at the period end. However, the dividend subsequently paid will be based on the number of shares in issue on the record date and will reflect any purchase or cancellation of shares by the company settled subsequent to the period end.

Note 4 – Return per Ordinary Share

The returns per ordinary share have been calculated using a weighted average number of shares in issue during the period of 104,564,291 shares (31 July 2013 – 103,213,464 shares; 31 January 2014 – 103,286,752 shares).

Note 5 – Status of the Company

The company applied for and was accepted as an approved investment trust for accounting periods commencing on or after 1 February 2014, subject to it continuing to meet eligibility conditions at section 1158 Corporation Taxes Act 2010 and the on-going requirements for approved companies in Chapter 3 Part 2 Investment Trust (Approved Company) (Tax) Regulations 2011 (Statutory Instrument 2011/2999).

Note 6 – Transactions with the Investment Manager and related parties

As disclosed in the annual financial report, the only related parties are the Investment Manager and the directors. Other than fees payable in the ordinary course of business as described in the disclosures in that report, there have been no material transactions with related parties affecting the financial position or performance of the company in the six months under review.

Investor Information

Directors

Simon Fraser (Chairman)
Mike McKeon (Chairman – Audit Committee)
Henry Staunton
Paul Yates

Managers

Allianz Global Investors Europe GmbH, UK Branch
199 Bishopsgate, London, EC2M 3TY
Telephone: +44 (0)20 7859 9000.
Represented by Simon Gergel.

Secretary and Registered Office

Kirsten Salt BA (Hons) ACIS
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Telephone: +44 (0)20 7065 1513.
Registered Number: 28276.

Registrars

Capita Asset Services
The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU
Telephone: +44 (0)20 8639 3399
Email: ssd@capita.com
Website: www.capita.com

Results

Half year announced in September.
Full year announced in March.
Annual financial report posted to shareholders in April.
Annual general meeting held in May.

Ordinary Dividends 2014/2015

	Dividend	Payment Date
First interim	5.90p	14 August 2014
Second interim	5.90p	11 November 2014
Third interim		February 2015
Final		May 2015

How to invest

Alliance Trust Savings Limited ("ATS") is one of a number of providers offering a range of products and services, including Share Plans, ISAs and pension products. ATS also maintains services including online and telephone-based dealing facilities and online valuations. More information is available from Allianz Global Investors either via Investor Services on 0800 389 4696 or on the Trust's website: www.brunner.co.uk, or from Alliance Trust Savings Customer Services Department on +44 (0)1382 573737 or by email: contact@alliancetrust.co.uk. A list of other providers can be found on the Trust's website: www.merchantstrust.co.uk.

Website

Further information about the Company is available on the website: www.merchantstrust.co.uk.

Net Asset Value

The Net Asset Value of the Ordinary Shares is calculated daily and the top ten holdings are announced monthly. They are published through the London Stock Exchange Regulatory News Service. The Company's share price is published in the Daily Telegraph and Financial Times. The net asset values and share prices are also available from Allianz Global Investors, via Investor Services on 0800 389 4696 or on the Managers' website: www.allianzgi.co.uk.

Shareholders' Enquiries

Capita Asset Services maintain the share register. In the event of queries regarding shareholdings, lost certificates, registered details, etc., shareholders should contact the registrars.

Any general enquiries about the Company should be directed to the Company Secretary, at the Registered Office.

AIC Membership

The Company is a member of the Association of Investment Companies. Category: UK Equity Income.

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