

The Merchants Trust PLC

AGM Presentation
May 2022

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WE'LL FOCUS
ON THE DIVIDENDS
SO YOU CAN
FOCUS ON LIFE



Value. Shared.

This is a marketing communication. Please refer to the Key Information Document (KID) before making any final investment decisions. A ranking, a rating or an award provides no indicator of future performance and is not constant over time.

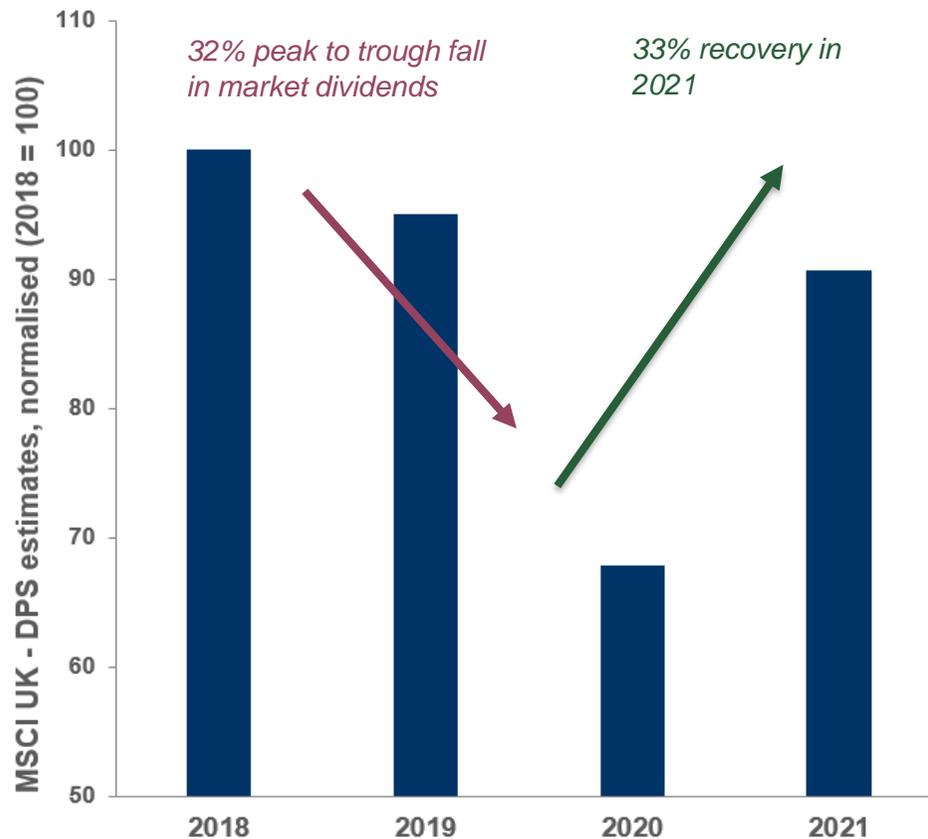
Allianz 
Global Investors

Highlights – Financial Year to 31 January 2022

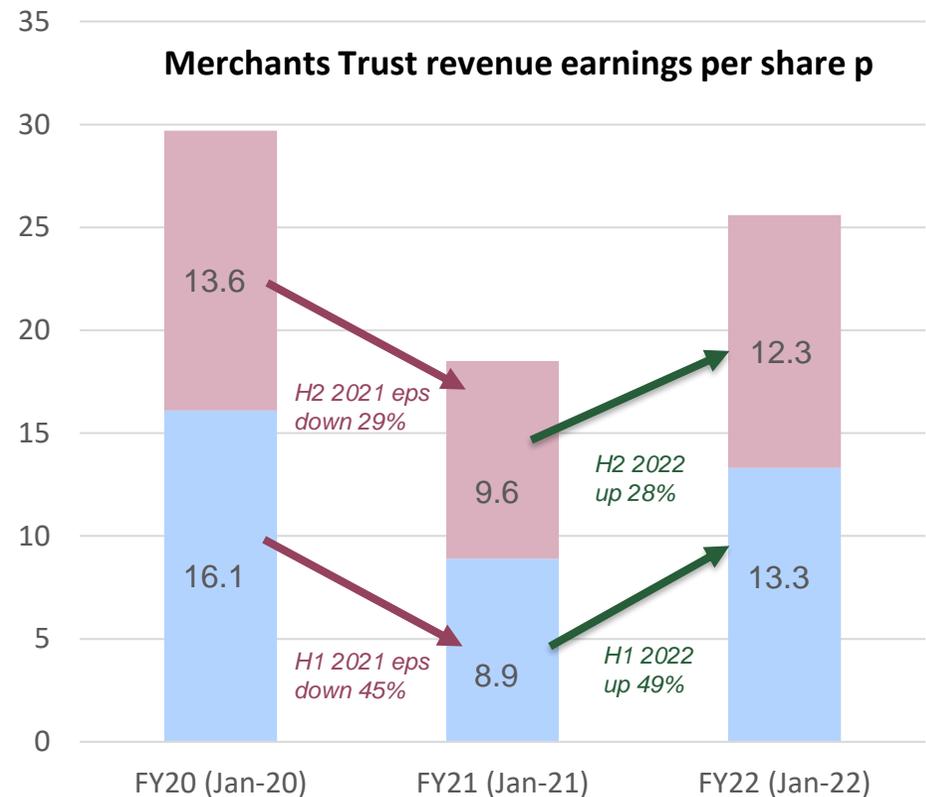


- Strong rebound continued in stock market, from pandemic lows
- Substantial outperformance vs. benchmark
- 40th year of dividend growth – AIC Dividend Hero
- Consistent investment process applied throughout volatile period
- Shares magazine “Best Investment Trust for Income”, AIC “Best Report & Accounts”
- UK stock market modestly valued, with many attractive opportunities

Income Recovery: Coming Through Rapidly After Covid-19 Shock



- Market Dividends fell sharply in the wake of Covid-19
- But recovery extremely fast compared to previous downturns

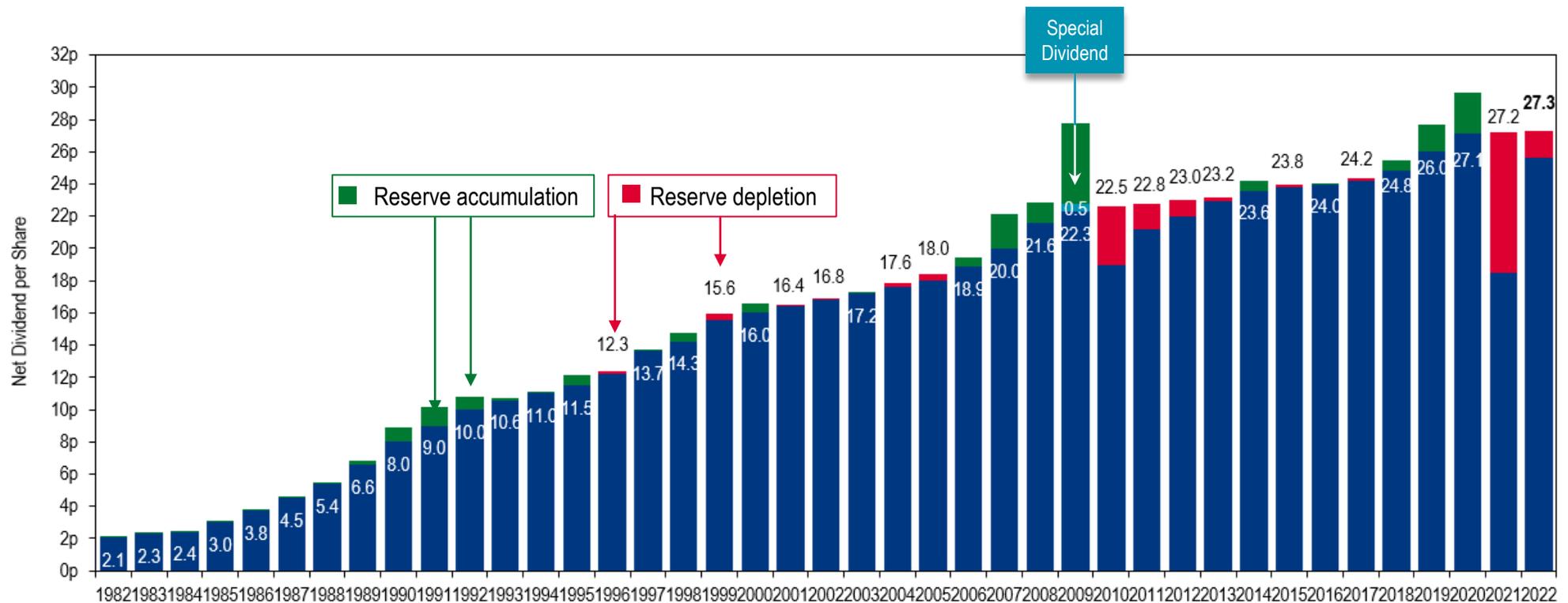


- Merchants revenue eps fell 38% in 2021
- Strong recovery in 2022, eps up 38%

The Merchants Trust

40 years of dividend growth

- Reserves built up in good years used to offset pressures in difficult years.
- Small draw on reserves in 2022 after recovery in income. Dividend 94% covered
- Revenue reserves of 16.0p at Jan 2022.



Past performance does not predict future returns.

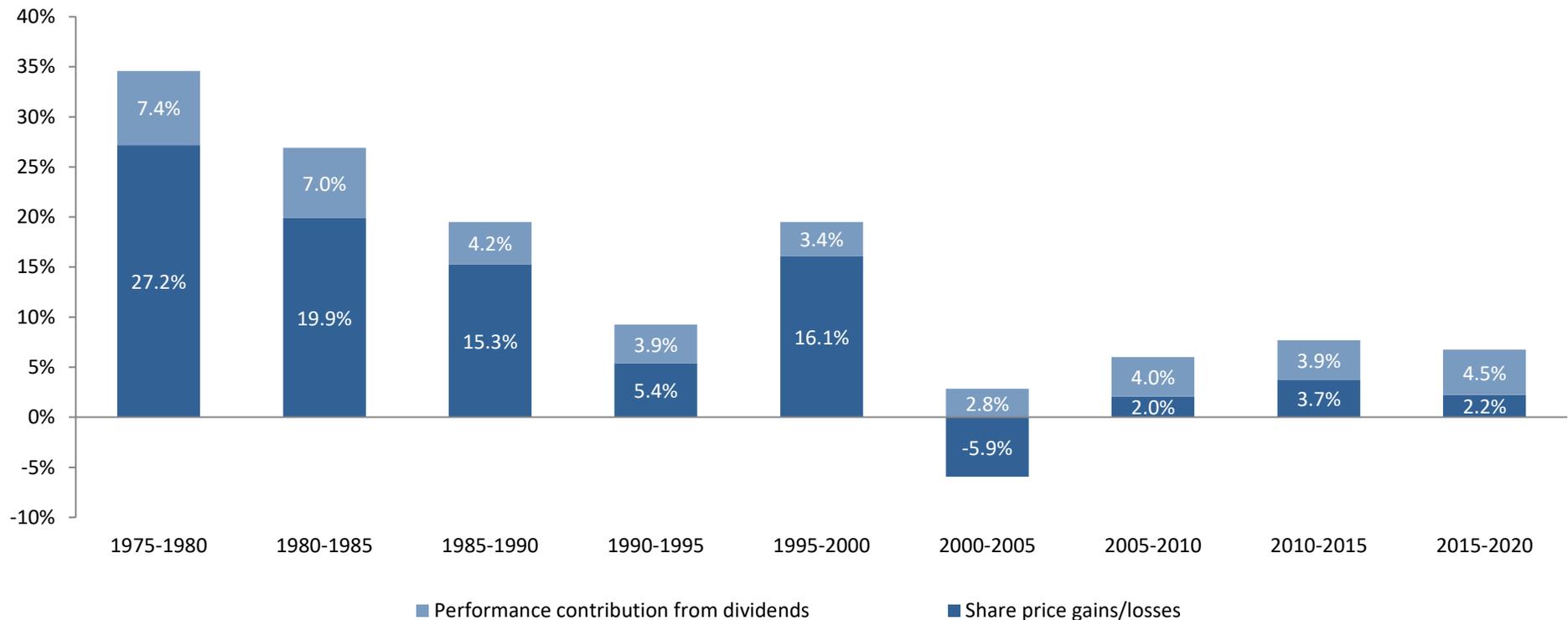
Source: Annual Report and previous reports. April 2022.

Income Investing

Dividends are a stabilising factor for investors

- Dividends always provide a positive return
- This century, dividends have provided the majority of returns in each 5 year period

Performance contribution from dividends and MSCI UK share prices since 1975 in five-year periods (% p. a.)



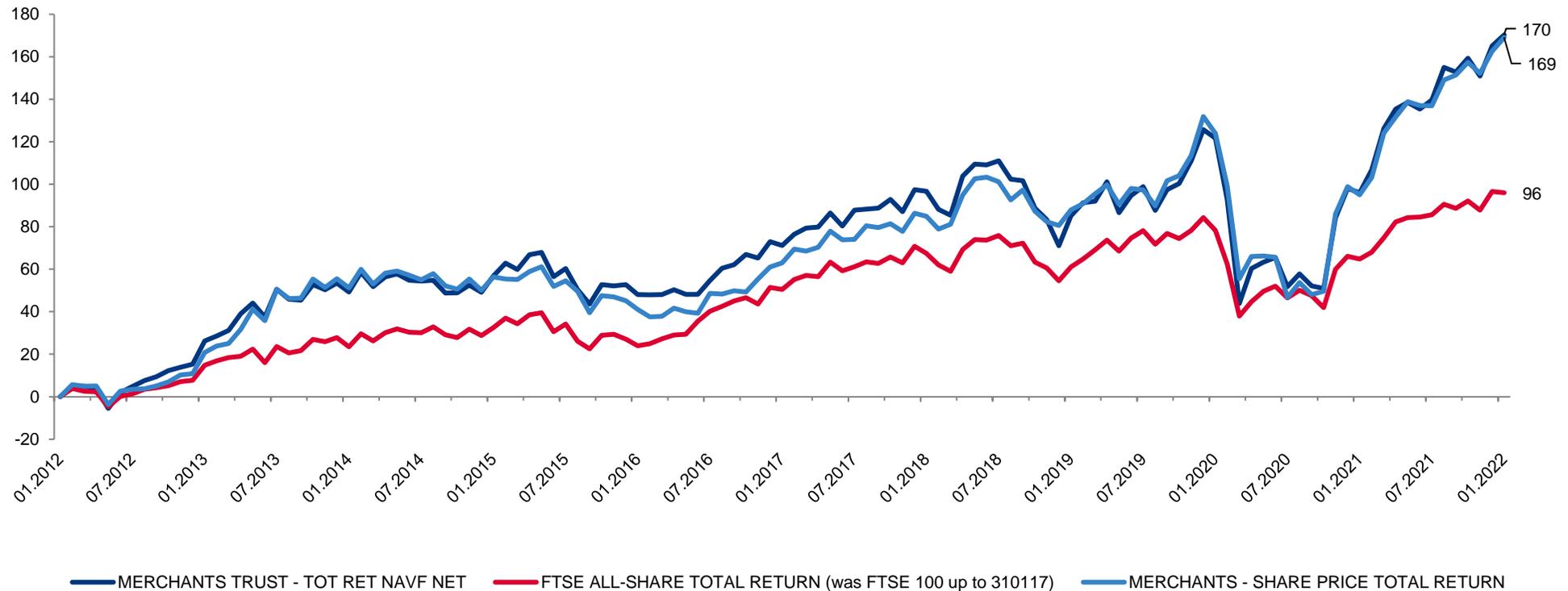
Past performance does not predict future returns.

Sources: Datastream, AllianzGI Global Capital Markets & Thematic Research, Data as of December 2020

Investment Performance: Strong Long-term Shareholder Returns

- Long term performance well ahead of benchmark
- Gearing amplifies performance of Net Asset Value

Merchants Trust NAV and Share Price Total Return vs Benchmark: 10 year history

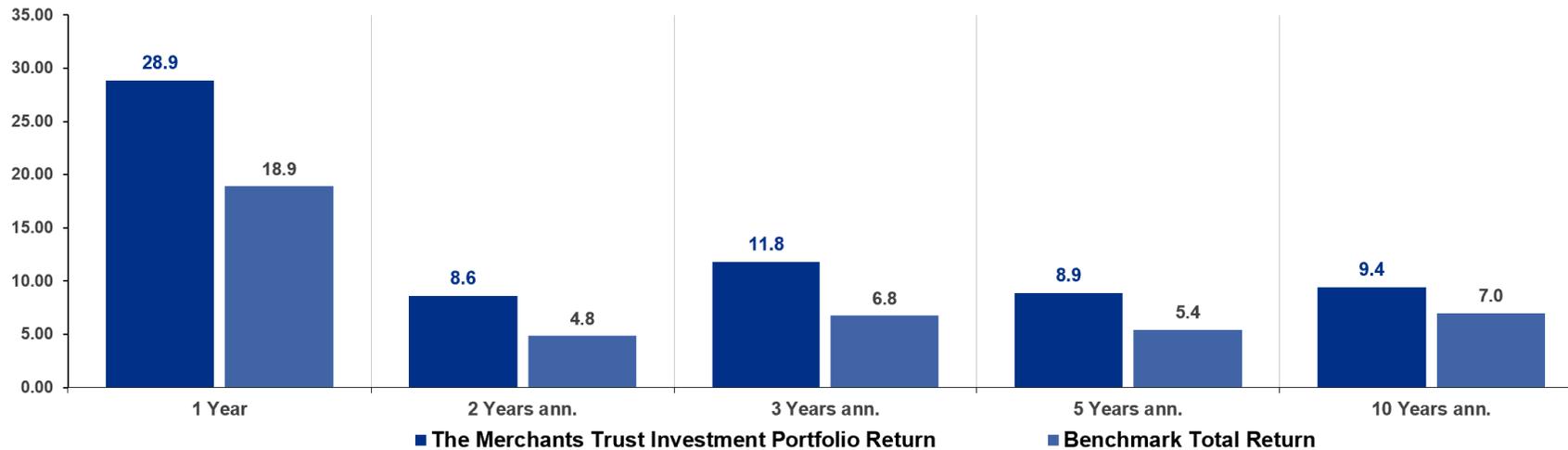


Past performance does not predict future returns.
Source: Thomson Reuters DataStream/AllianzGI.

Investment Performance: Investment Portfolio

- **Strong portfolio outperformance over all periods**
- **Exceptional 2022 performance, benefitted from:**
 - Exposure to economic recovery post pandemic – **WPP, Barclays, SThree**
 - Takeovers of cheap UK Companies – **Meggitt, Stock Spirits**
 - Company Specific factors – **Drax, Man Group**
- **Outperformance achieved despite unfavourable decade for “Value” investing style**

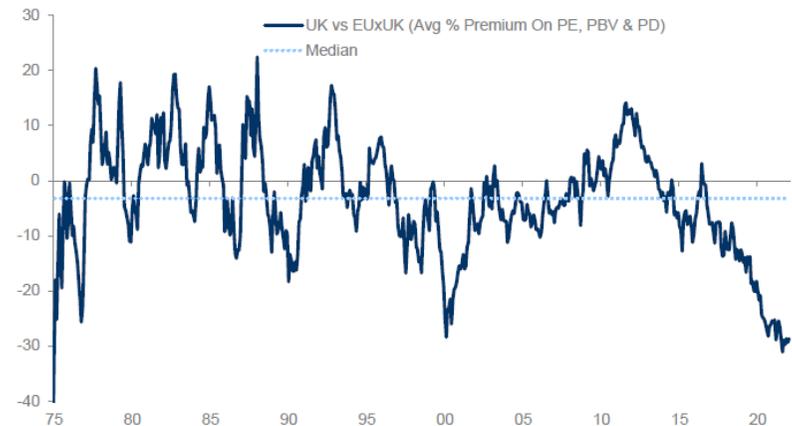
Merchants Trust Investment Portfolio Total Return vs Benchmark



Current Views: Short-term Risks, Long-term Opportunities

- **Economy:** recovering from pandemic, but geopolitical risk
- **Inflation:** Rising commodity costs, wages and supply bottlenecks, exacerbated by Ukraine situation
- **Policy:** Interest rates low but rising, government spending supportive
- **Europe** likely to be more affected than USA by energy price
- **Companies:** Most companies have recovered profits, cash and dividends quicker than expected, since pandemic shock
- **Valuation:** UK remains one of the cheapest equity markets, with valuations still highly polarised
- **Opportunities:** Excellent investment opportunities in both cyclical / recovery stocks and defensive companies
- **Mergers and Acquisitions:** The combination of polarised market and cheap money is leading to many takeover bids

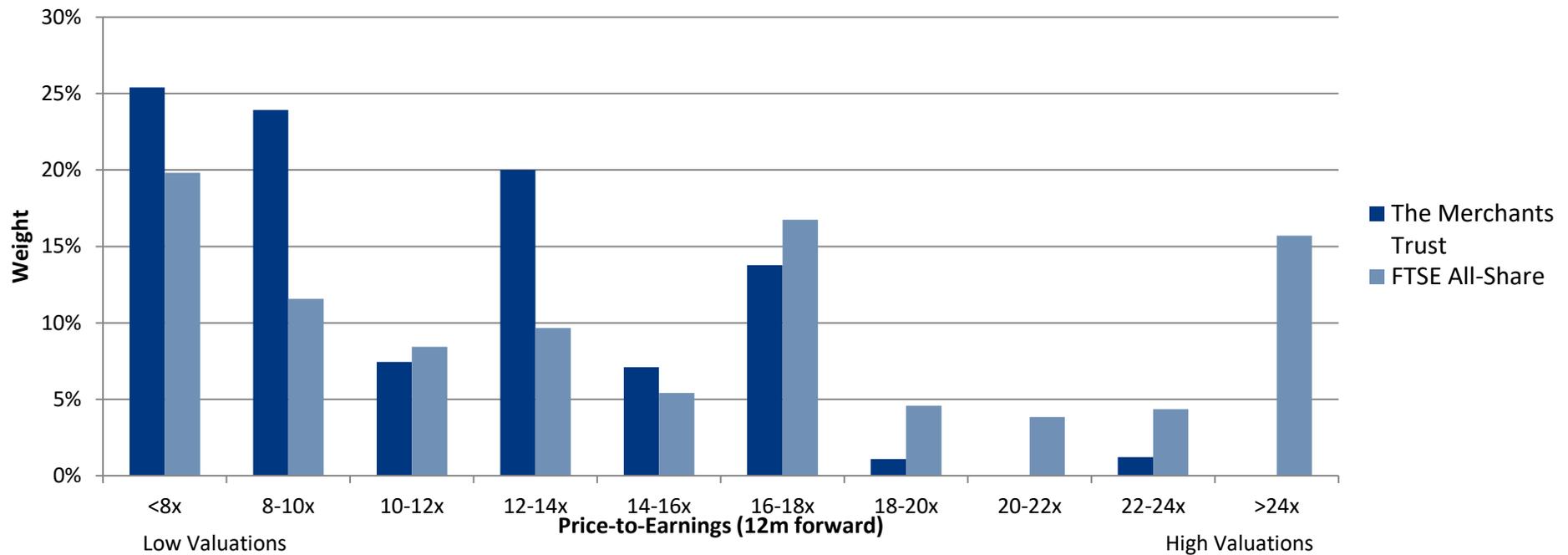
UK vs Europe average valuation premium



*Source: Morgan Stanley as of 30 April 2022 (includes sources from MSCI, IBES). Past performance does not predict future returns.

Portfolio Positioning: Low Valuations in a Polarised Market

- Stock market highly polarised, with many high priced and low priced companies
- Portfolio heavily skewed to lower valuations



Source, Allianz GI, Bloomberg for market price-earnings and forward-estimate price to earnings. Data as of January 31, 2022. Benchmark excludes all holdings with negative or nil P/E data (c.8% of the index).

Portfolio Positioning: Key Portfolio Themes

Home economics: strong fundamentals in housing & repair, maintenance and improvement



Digital winners: on the right side of structural change



Improving business mix: underappreciated transformation



Undervalued growth: misunderstood growth potential



Environmental change enablers: undervalued environmental, social and governance plays



Uncorrelated value: defensive & differentiated



This is no recommendation or solicitation to buy or sell any particular security. A stock mentioned as example above will not necessarily be comprised in the portfolio by the time this document is disclosed or at any other subsequent date.

Source: Allianz Global Investors, January 31, 2022

The Merchants Trust – A Differentiated Proposition

- **4.8% Yield*** - One of the highest of all UK equity income trusts. AIC Dividend Hero: 40 years of dividend growth, significant reserves.
- **Strong performance track record:** Active, high conviction and value driven portfolio.
- **Low management fee,** with experienced independent board.

For further information:

www.merchantstrust.co.uk



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.

Past performance does not predict 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. 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.

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The Merchants Trust PLC is incorporated in England and Wales. (Company registration no. 28276). Registered Office: 199 Bishopsgate, London, EC2M 3TY.

Web site: www.merchantstrust.co.uk

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