Allianz Global Investors

UK governance, global reach

The Merchants Trust PLC

Annual Report, 31 January 2025

UK governance, global reach

A UK-listed investment company providing a gateway to the global economy.

- Merchants mainly invests in higher-yielding large UK companies
- A UK listing places these companies under one of the world's most rigorous governance frameworks
- Many companies in the portfolio have global exposure, with revenues and profits from markets outside the UK

TOTAL PORTFOLIO ~£950M | 40–60 INVESTMENTS

Top six holdings share of total revenue by region:

BAT[1]

Global tobacco leader, South America, US, Asia

42.9%
57.1%

Shell

Globally-integrated energy giant

9.9%
22.9%
67.2%

BP

Global oil and gas leader

13.0%
31.1%
55.9%

GSK

Multinational pharma and biotech

2.3%
52.2%
45.5%

Lloyds Banking Group[2]

Leading UK retail bank

100.0%

DCC[3]

Energy, healthcare and technology distribution company, Europe, USA

32.9%
9.9%
57.2%

United Kingdom United States Rest of the world

Based on most recent annual reports 2023/2024. [1] UK included in rest of the world as BAT reporting does not specify share. [2] Lloyds Banking Group reporting does not specify non-UK revenue share. [3] USA figure is for North America as DCC reporting does not disclose USA alone.

Contents

Income, diversification, longevity

High income returns from a high-quality portfolio

Merchants aims to provide an above average level of income and income growth together with long-term growth of capital. The trust invests mainly in higher-yielding large UK equities.

Stability with income growth

Merchants has paid increasingly higher dividends to its shareholders year-on-year for the last 43 years – from 2.1p per share in 1982 to 29.1p proposed in 2025.

Cost effective

Merchants provides a cost-effective way to access an active and expertly managed portfolio.

Reliability with longevity

Merchants has been providing active investment management since 1889. The trust can draw on reserves to help smooth dividend payments during difficult economic conditions.

Liquidity and gearing

With a market capitalisation of £825m and new issuances, Merchants provides good liquidity to investors. Merchants is also able to employ gearing which can enhance returns.

Spread the risk with diversification

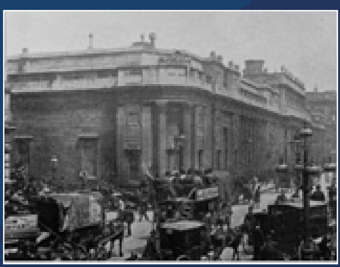
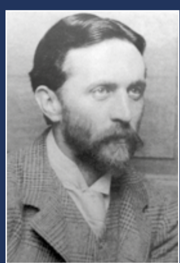
Merchants invests in companies across a number of sectors and markets, many with income derived internationally. This year 3.6% of the portfolio has been in international stocks.

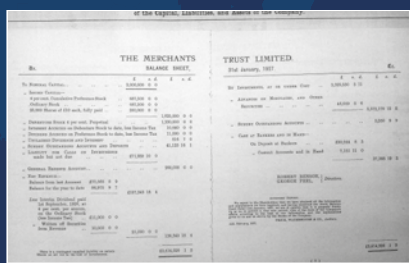
FOCUSED ON DIVIDENDS SINCE 1889

Merchants was founded in 1889 by some of the leading financiers and lawyers of the day. Its name derives partly from the firm which set it up, Bensons, who historically had been merchants themselves.

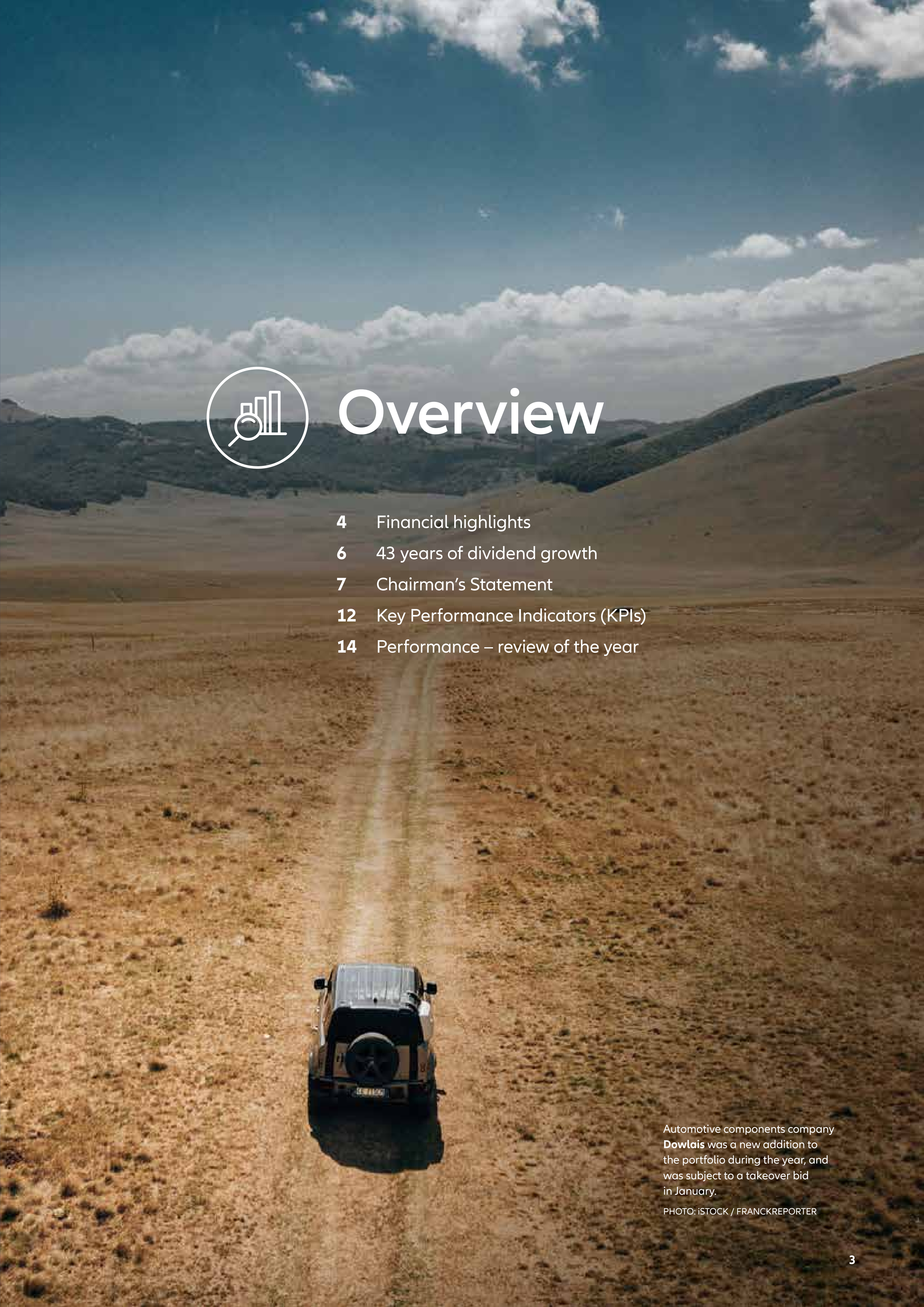
The trust invested internationally at the outset, putting up money for the building of railways in North America and Africa, as well as into other types of commercial ventures such as breweries. It also held government bonds. This diversification served it well during some difficult times including the two World Wars and the Wall Street crash.

From a very early stage, Merchants also started doing what it has become so good at – paying regular, increasing dividends to its shareholders. During its first 50 years up to 1939, it paid average annual dividends of 7.5%. Since the late 1980s the company's investment universe has been primarily high yield, blue chip UK companies in the FTSE 100 Index.



Left to right: The streets outside the Bank of England, shown here in 1890. The Merchants Trust's founding Memorandum and Articles of Association were signed in February 1889 by the trust's Board of Directors at the offices of Murray, Hutchins and Stirling, Solicitors, perhaps 250 yards to the right of this scene; Robert (Robin) Benson, founder, shown here in 1887; Merchants was an early investor in the Chicago Great Western Railway, which linked Chicago, Minneapolis, Omaha, and Kansas; The Merchants Trust Balance Sheet for 1926.



Overview

Automotive components company **Dowlais** was a new addition to the portfolio during the year, and was subject to a takeover bid in January.

PHOTO: iSTOCK / FRANCKREPORTER

Financial highlights

For the year ended 31 January 2025

Harbour Energy was the biggest purchase during the year. The largest London-listed independent oil and gas producer, the company employs around 3,400 staff across Norway, the UK, Germany, Argentina, Mexico, North Africa and Southeast Asia.

PHOTO © HARBOUR ENERGY

Dividend yield [1]

5.2%

2024 5.2%

Dividend growth

+2.5%

2025 29.1p
2024 28.4p

Revenue earnings per ordinary share

-3.6%

2025 29.4p
2024 30.5p

Net Asset Value Total Return [1,2]

+13.5%

2024 -3.1%

Share price Total Return [1]

+7.7%

2024 -3.4%

Benchmark Total Return [1,3]

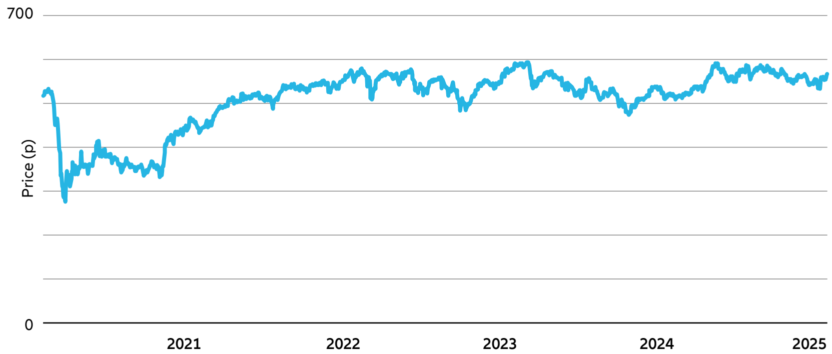
+17.1%

2024 +1.9%

Net Asset Value per ordinary share [1,2]

582.4p

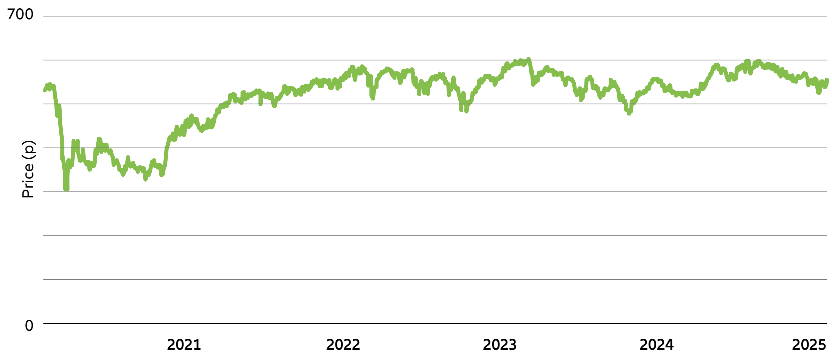
+8.1%



Share price

556.0p

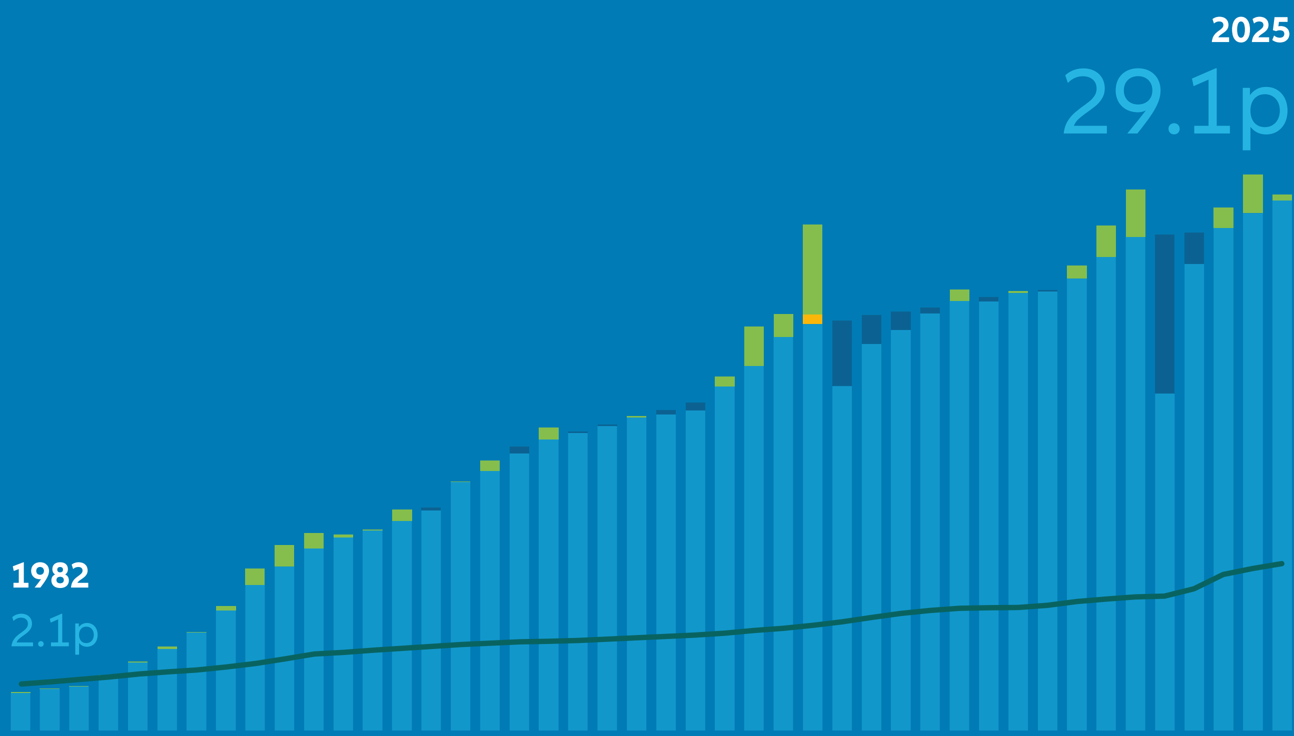
+2.4%



[1] Alternative Performance Measure (APM). APMs are the board's preferred measures for the most meaningful information for shareholders. Total return figures include dividends paid at 31 January.
[2] Debt at market value.
[3] Benchmark is the FTSE All-Share Index.
See Glossary on page 117.

43 years of dividend growth

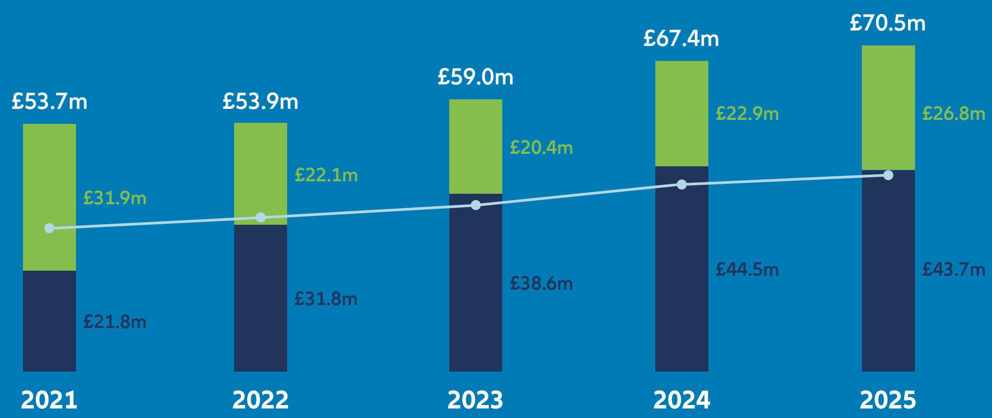
Merchants has grown its dividend for 43 years at an annualised growth rate above inflation.



Inflation growth of 3.8% over 43 years (rebased to 100). RPI 1982 – 1986, CPI 1987 – 2025.
Total dividend: from 2.1p to 29.1p over the period, representing growth of 6.3% over 43 years.
Reserve accumulation Reserve depletion Special dividend

Dividend capacity

Dividends can be funded from revenue profits in the year and from brought forward reserves.



Revenue reserves brought forward Revenue profit for the year — Dividends Source: AllianzGI, as at 31 January each year.

Chairman's Statement

Colin Clark

UK governance, global reach

Welcome to the Merchants Trust Annual Report for the financial year ending 31 January 2025.

In a period marked by uncertainty in capital markets, I would like to take this opportunity to highlight one of the key advantages of investing in a portfolio of UK-listed shares, such as the Merchants Trust, for the long term.

Many of the businesses in which we invest have substantial global exposure, generating significant revenue from markets around the world, and several are recognised global leaders in their respective sectors. While we also hold some companies with a more domestic focus, even a considerable number of mid-cap stocks have multinational operations or global distribution models. These companies derive a significant portion of their revenues – and profits – from outside the UK.

It is important to remember that being UK-listed does not mean a company's fortunes are tied solely to the UK economy. This is particularly relevant at a time, such as now, when international investors, and sometimes even UK investors, are gloomy about the domestic economic outlook.

The global exposure of our holdings is evident in the examples provided on the inside front cover of this report. While consolidated revenue data for the entire portfolio is not readily available due to the differing reporting standards of portfolio companies, the global reach of our investments is clearly shown in these examples.

Importantly, a UK listing places these companies under one of the world's most rigorous governance frameworks, which offers several advantages, including enhanced transparency, robust shareholder protection, a lower risk of corporate failure, and alignment with ESG (Environmental, Social, and Governance) principles. As illustrated on page 24, our investment manager Allianz Global Investors (AllianzGI) voted against only 6% of resolutions at UK general meetings last year, compared to over 30% in markets like the US, highlighting the strength of UK governance standards.

In summary, Merchants' shareholders get the benefit of investing in companies with a UK listing at the same time as investment exposure to some of the world's best companies with revenues from around the globe.

Optimism shifts to uncertainty

The past year for UK stock market investors can be characterised as a tale of two halves. The first half was marked by optimism, which buoyed market performance, only for the second half to see a retreat as investor sentiment soured due to mounting uncertainties about the business environment and global economic outlook.

The election of a new UK Government in July, which secured a strong mandate, sparked a renewed sense from domestic and international investors that the attractively priced UK market was 'investible' again. However, the new Labour government faced early setbacks, grappling with fiscal policy decisions and a series of unpopular monetary policies. This, in turn, created market jitters and reignited concerns. Furthermore, while the global economic background had been promising mid-year, the prospects for growth, inflation containment, and falling interest rates became uncertain. As is often the case, markets had priced in much of the positive news early in the year, leaving them vulnerable to negative developments.

Investment performance

The long-term performance of the Merchants Trust portfolio has remained strong, meeting shareholder objectives by delivering solid capital returns and rising income. This has been achieved through a value-based investment approach, where we seek well-managed companies with strong prospects, trading at attractive valuations. Your board is confident that, over the medium term, this approach will continue to yield solid returns.

Over the year, the FTSE All-Share Index delivered an impressive +17.1% total return. While this was a strong absolute return when compared to many regional peers, it lagged significantly behind the strong performance of the tech-heavy US market. In particular, the US technology sector produced nearly twice the returns of the UK market, albeit with greater volatility.

Merchants Trust also achieved a positive and solid return of +13.5% on a total return basis although it did not match the very strong UK market performance. In his detailed commentary starting on page 16, our lead portfolio manager,

> While Merchants Trust does maintain a significant exposure to the larger companies in the index, our investment philosophy prioritises value. This leads to a larger allocation in mid- and small-cap stocks, which tend to be more domestically focused and cyclical in nature.

Simon Gergel, delves deeper into the reasons behind this, but in summary, the UK market's leadership by large-cap stocks proved challenging for our portfolio. The Merchants Trust portfolio, which is more heavily weighted towards mid- and small-cap stocks, was affected by the market's favouring of larger companies.

In particular, during the second half of the year, when inflation and interest rates did not fall as expected, concerns over government fiscal policy led UK investors to shy away from smaller companies that were seen as more exposed to domestic economic fluctuations. Instead, investors were attracted to larger companies within the index. Additionally, there was a continued trend of UK investors shifting capital out of domestic equities and into overseas markets, particularly the US.

While Merchants Trust does maintain a significant exposure to the larger companies in the index, our investment philosophy prioritises value. This leads to a larger allocation in mid- and small-cap stocks, which tend to be more domestically focused and cyclical in nature. As equity markets during this period were driven by momentum, growth, and technology stocks, these smaller companies underperformed.

Income

Income from Merchants' investment portfolio saw a modest year-on-year decline from the record year in 2024, with revenue earnings per ordinary share at 29.4p (2024: 30.5p), representing a 3.6% reduction.

Despite this, earnings fully covered the total proposed and declared dividends for the year, allowing for a small addition to revenue reserves, which stood at 18.8p per ordinary share at year-end.

Shareholders will appreciate that one of the key advantages of the investment trust structure is its ability to smooth income distributions – drawing on reserves during challenging market conditions and replenishing them in stronger periods. It is encouraging to see that, following the Board's strategic use of reserves to sustain dividends through the COVID-19 period, we have now been able to rebuild reserves over recent years. (see chart of reserve accumulation on page 6.)

43 years of dividend growth

The Board proposes a final dividend of 7.3p per share for shareholder approval at Merchants' upcoming AGM on 20 May 2025. If approved, the dividend will be paid on 29 May 2025 to shareholders on the register at the close of business on 22 April 2025, with an ex-dividend date of 17 April 2025. A Dividend Reinvestment Plan (DRIP) is available, with an election deadline of 7 May 2025.

This brings the total proposed dividend for the year to 29.1p (2024: 28.4p), representing a 2.5% increase over the previous year. Notably, this marks Merchants' 43rd consecutive year of dividend growth, reinforcing our position as an Association of Investment Companies' (AIC) Dividend Hero.

We believe it is essential to highlight the critical role that income plays in overall total returns. While this year's total return fell short of the benchmark, we have delivered both a meaningful capital return and another year of consecutive dividend growth, providing shareholders with a competitive level of income. Looking ahead, we remain confident that our current positioning will generate strong total return above the benchmark. However, our commitment to delivering a high and rising income remains a core priority, as we recognise its importance to Merchants' shareholders.

Share price relative to Net Asset Value (NAV) and the generation of demand

As shareholders may be aware, Merchants' shares have been trading at a discount to NAV toward the end of the reporting period and into the new financial year. This follows an extended period where the company's shares consistently traded at or above NAV, allowing us to issue additional shares in response to strong investor demand.

In light of this, we are actively working with the manager to ensure that appropriate measures are in place to promote Merchants through targeted sales and marketing efforts. The Board is aware that share buybacks can help to manage the discount and will continue to assess these options carefully.

We believe that the emergence of a discount is primarily due to the portfolio's relative short-term underperformance against the benchmark as outlined earlier, and a general lack of appetite for UK Equities. However, the Board remains confident in the manager's established investment approach, which has delivered strong long-term results for shareholders. We firmly expect that relative performance will improve over time.

Additionally, we encourage shareholders and investors to stay informed through regular updates from our Investment Management team. These include the A Value View podcast, available on our website as well as on major platforms such as Spotify, Apple Podcasts, and Google Podcasts.

Shareholders will be pleased to note that the Company's ongoing expenses charge has decreased to 0.52% of the average net asset value over the year (2024: 0.55%).

Gearings strategy and refinancing

Merchants employs gearing within the portfolio, based on the belief that, as long as the manager is confident in generating returns above the cost of debt, it can enhance long-term performance in both income and capital growth.

The manager views gearing as a structural component of the portfolio management strategy rather than a tactical tool to respond to short-term market movements. While gearing can amplify gains in rising markets, it can also magnify losses during market downturns.

Currently, our gearing level stands at 11.9%, placing it in the lower half of our policy range (10%-25%, see page 50). Gearing is financed through borrowings, and with our Revolving Credit Facility (RCF) maturing towards the end of the financial year under review, we have successfully completed a refinancing process.

In December 2024, we announced the issuance of two £25 million fixed-rate, 15-year secured private placement notes at a coupon of 5.91%, raising a total of £50 million. This new borrowing extends the weighted average duration of our drawn debt from 10.6 years to 16.4 years, while the overall average cost of debt is 5.2%.

Board

As shareholders are aware, the board plays a vital role in overseeing the governance of the company. This includes overseeing our investment manager AllianzGI, ensuring effective communication with shareholders, maintaining robust financial processes and reporting, and fulfilling our responsibilities related to the stock exchange listing. The Merchants Trust has been fortunate over the years to attract a high calibre of directors who have contributed significantly to its success.

In keeping with good governance practices, our directors typically serve a maximum of nine years on the board. Later in 2025, Timon Drakesmith will reach this milestone, and he will therefore step down at the AGM on 20 May 2025. The board has already initiated the process of identifying a new director to replace him and has appointed an independent executive search firm to assist in this important task.

I would like to take this opportunity to express my sincere thanks to Timon for his valuable contribution over the years. His excellent leadership Chairman of the Audit Committee and his guidance and support to me personally have been greatly appreciated. Timon's insightful and constructive input to the board will be sorely missed. Mal Patel, who has served on the board since March 2024, has agreed to become Chairman of the Audit Committee when Timon steps down.

2025 Annual General Meeting

The 2025 Annual General Meeting (AGM) of the Company will be held at Grocers' Hall on Tuesday, 20 May. Full details can be found in the Notice of Meeting on page 113. This year marks a significant milestone for Merchants, as it will be the first AGM where shareholders can choose to attend either in person or online. Further details on the event and how to register for online participation are available in the Notice of Meeting on page 116.

As always, I would like to remind shareholders of their right to vote on key matters affecting Merchants, such as the renewal of share issuance authorities and the appointment of directors. Shareholder voting is a fundamental

"We encourage shareholders and investors to stay informed through regular updates from our Investment Management team. These include the A Value View podcast, available on our website as well as on major platforms such as Spotify, Apple Podcasts, and Google Podcasts.

> Our manager believes that many opportunities exist to invest in well-managed, financially strong companies on attractive valuations. This approach lies at the heart of our investment strategy which has delivered solid long-term returns and rising dividends for shareholders over the years.

aspect of an investment trust, and I strongly encourage all shareholders to exercise this right and have their voices heard. Please note that voting at the AGM will be conducted by poll, and there will be no live voting functionality for those attending online. Shareholders are therefore encouraged to submit their votes in advance using the proxy voting process.

There have been ongoing improvements in how investment platforms facilitate shareholder voting for nominee holders. Many platforms now provide better access to voting information and have made the process more straightforward. If you hold your Merchants shares through a platform that offers voting opportunities, we strongly encourage you to take advantage of this and participate in the decision-making process.

Additionally, for shareholders investing via a platform who may be unaware, it is possible to attend the AGM in person. To do so, you simply need to request a 'Letter of Representation' from your platform, which will enable you to register for in-person or online attendance.

We also commend and fully support the AIC My Share, My Vote campaign, which aims to improve voting rights for retail shareholders holding shares through investment platforms or nominee services. The campaign advocates for changes in company law to enhance shareholder enfranchisement. More details can be found at www.theaic.co.uk/my-share-my-vote.

Outlook

As ever, it remains challenging to predict when investor interest will return to the UK stock market, when UK valuations will re-rate to more 'normal' levels, or where markets will stand in 12 months' time. In theory, the recent sharp sell-off in equity markets, led by the high-growth and technology stocks in the US, could serve as a catalyst, prompting investors to broaden their horizons and seek out quality and value – themes we believe would benefit our portfolio's performance. However, we approach this possibility with humility, as we have made similar observations before. Investing is never straightforward, and it is rarely predictable.

The new US administration marks a significant shift, not only in global geopolitics, with Ukraine and the Middle East continuing to dominate headlines, but also in areas requiring the close attention of our manager. These include radical changes in trade and tariff policies, which will have implications for inflation and interest rate decisions, and global growth and profit outlooks. Domestically, following a Labour government's first budget, which many commentators viewed as challenging for UK businesses, the market will be keenly focused on the fiscal and monetary policy actions of the UK Chancellor throughout 2025.

So, is this the right time to be a patient contrarian investor? Our manager believes that many opportunities exist to invest in well-managed, financially strong companies on attractive valuations. This approach lies at the heart of our investment strategy which has delivered solid long-term returns and rising dividends for shareholders over the years. Your board continues to believe that Merchants is currently well placed and we are optimistic regarding our potential to continue meeting Merchants' long-term objectives for shareholders.

Thank you, as always, for your continued support. I look forward to seeing many of you at our AGM in May.

Colin Clark
Chairman
8 April 2025

We added to our investment in the mining giant **Rio Tinto** during the year. The company's 60,000 employees operate in 35 countries. Its portfolio includes iron ore, copper, aluminium and a number of other minerals and materials.

PHOTO © RIO TINTO

Key Performance Indicators (KPIs)

The board uses certain financial and non-financial Key Performance Indicators (KPIs) to monitor and assess the performance of the company in achieving its strategic aims:

Increasing and sustainable dividends

- Provide a high and progressively growing income stream

Dividend	Year-on-year dividend growth
29.1p	+2.5%

Earnings per share of 29.4p fully cover the dividends, with a surplus of 0.3p being transferred to revenue reserves (2024: 1.8p transferred to revenue reserves). Revenue reserves at 31 January 2025 were 18.8p.

Shareholder returns and performance

- Provide long-term capital growth
- Provide a long-term total return above the benchmark and peers

5 year portfolio return	5 year NAV return
+36.0%	+43.0%

One year portfolio return of +12.4% was behind the index return of +17.1%. The NAV return also underperformed the benchmark after the impact of gearing (borrowings). Gearing tends to amplify portfolio returns in both directions. Over the long term, the 5 year NAV return was ahead of the benchmark of +37.9%.

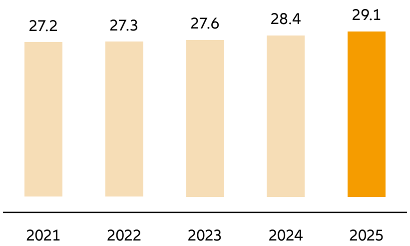
Investor appeal

- Position Merchants to outperform its peers, and to remain relevant and attractive to new and existing investor groups
- Ensure the costs of running the company remain reasonable and competitive

1 year peer group ranking	3 year peer group ranking	5 year peer group ranking
14th	12th	3rd

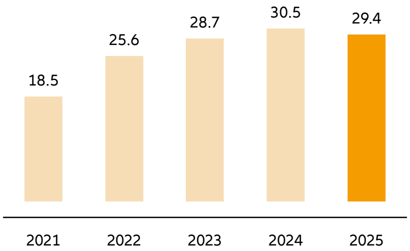
Performance was 3rd out of 19 in the peer group over five years, 12th out of 19 over 3 years and 14th out of 19 over one year. The ongoing charge has reduced to 0.52% compared to 0.55% last year. The board remains focused on reducing fixed costs. Merchants' costs are below average in the peer group and the dividend yield is above average.

Dividend record per share (p)



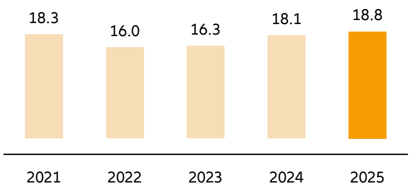
The board has a policy of paying a progressive dividend each year, taking into account inflation and subject to general earnings growth and dividends received in the portfolio. Ordinary dividends have risen in every year since 1982.

Earnings progression (p)



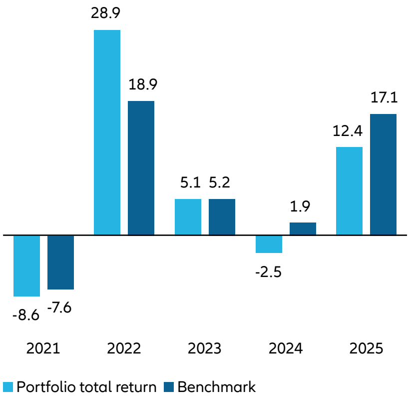
Earnings per share (EPS) shows the income that the company generates each year which can be used to fund dividend payments to shareholders, over time.

Revenue reserves per share (p)[1]

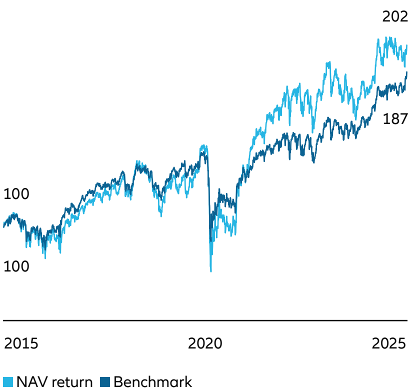


Revenue reserves can be used to ensure dividend payments can be maintained through difficult market conditions. Income is put aside in good years and can be used to maintain a steady increase in dividends when income is less readily available.

Portfolio return vs benchmark (%)



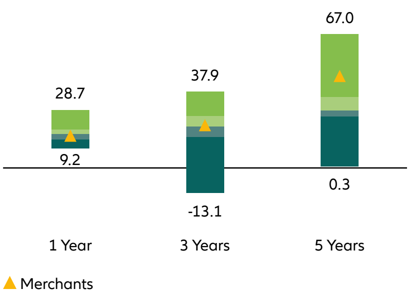
NAV return vs benchmark (%)



The board uses this KPI to monitor investment performance. As the company's policy is to invest mainly in higher yielding large UK companies, the FTSE All-Share Index has been chosen as the benchmark index against which we measure our performance.

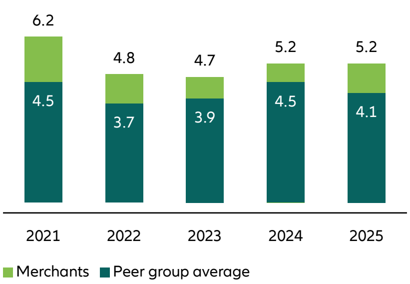
The board seeks a return that is better than the benchmark over various time periods. The benchmark was the FTSE 100 Index until 31 January 2017, but was revised to better reflect the changing structure of the portfolio over the preceding decade.

Peer rankings[2]



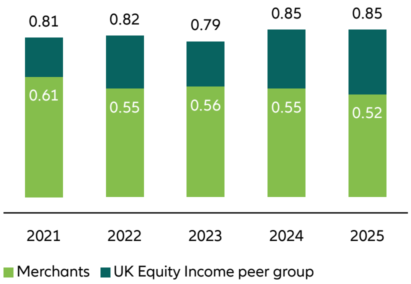
The board also monitors the performance relative to a broad range of competitor investment trusts. The chart shows Merchants' position in UK Equity Income peer group quartiles over a range of time periods.

Yield (%)[3]



Merchants' yield has consistently been higher than the UK Equity Income peer group average.

Ongoing charges (%)[3]



The board has a policy of ensuring that the company's running costs are reasonable and competitive. The ongoing charge is calculated using the AIC's recommended methodology (See Glossary on page 117).

[1] At the year end before payment of the third and final quarterly dividends. [2] Source: JP Morgan Cazenove. [3] Source: Morningstar/AllianzGI.
Alternative Performance Measure (APM). See Glossary on page 117.

Performance – review of the year

Revenue

	2025	2024	% change
Income (£'000s)	48,482	49,563	-2.2
Revenue earnings attributable to ordinary shareholders (£'000s)	43,671	44,509	-1.9
Revenue earnings per ordinary share	29.4p	30.5p	-3.6
Dividends per ordinary share in respect of the year[1]	29.1p	28.4p	+2.5

Assets

	2025	2024	Capital return % change	Total return[2] % change
Net asset value per ordinary share with debt at par	572.6p	530.9p	+7.9	+13.3
Net asset value per ordinary share with debt at market value (capital)	582.4p	538.6p	+8.1	+13.5
Ordinary share price	556.0p	543.0p	+2.4	+7.7
FTSE All-Share	4,710.6	4,173.1	+12.9	+17.1
(Discount) premium of ordinary share price to Net Asset Value (debt at par)	-2.9%	2.3%	n/a	n/a
(Discount) premium of ordinary share price to Net Asset Value (debt at market value)	-4.5%	0.8%	n/a	n/a
Ongoing charges[3]	0.52%	0.55%	n/a	n/a

[1] Inclusive of third and final dividends.
[2] NAV total return reflects both the change in Net Asset Value per ordinary share and the net ordinary dividends paid.
[3] The ongoing charges percentage is calculated in accordance with the explanation given on page 118.
A Glossary of Alternative Performance Measures (APMs) can be found on page 117.

Investment Manager's Review

Barclays was the portfolio's largest contributor to performance. Group profits rose 24% year on year.

PHOTO: iSTOCK / GORDONBELLPHOTOGRAPHY

Portfolio Managers' report

Simon Gergel

Richard Knight

Andrew Koch

Introduction

It is disappointing to report that after a positive first half of the year, a deterioration in the last few months has led to a second year of portfolio underperformance against the FTSE All-Share index. Whilst the portfolio total return at 12.4% was strong in absolute terms, and the income generation has supported a growing dividend and a rebuilding of reserves, the portfolio total return was behind the 17.1% return on the benchmark. Despite the last two years' results, long term performance remains well ahead of the benchmark.

Our value investing style, buying companies when we believe their share prices do not reflect the underlying fundamentals, is susceptible to periods of underperformance. This is especially true when markets are led by narrow themes, such as during the TMT (Technology Media and Telecoms) bubble in the late 1990s, or in periods of extreme fear, such as during the global financial crisis. In those periods, the fundamental value of a business can be overwhelmed by the market narrative of the time. However, those periods sow the seeds for future gains, by creating substantial valuation anomalies between stocks and sectors. In the last year or two, we have seen some of these strong narratives develop. They have been exacerbated in the UK stock market, by significant redemptions from actively managed investment funds.

In this report, we describe this market environment in detail, explain the reasons for the underperformance and discuss how we have responded within the portfolio. Indiscriminate selling of shares in the market has enabled us to invest in some excellent companies at unusually attractive prices, like **Whitbread**, owner of the market leading Premier Inn hotel chain, and **Burberry** the eponymous clothing brand. We also explain why, despite the recent market trends, or perhaps because of them, we are even more optimistic about the opportunities to deliver superior total returns in the future, whilst funding a consistently growing dividend for shareholders.

Economic and market background

It is a bit of a cliché to call it a year of two halves, but there were notable differences between the beginning of the year and the end. The start of the year saw a recovery in the UK economy from the near stagnation at the end of 2023, with inflation falling back to the Bank of England's 2% target, following the previous inflationary shock. This allowed most major central banks to begin cutting interest rates, to support economic growth.

The UK prime minister, Rishi Sunak, somewhat unexpectedly called a general election for 4 July. Labour's victory under Sir Keir Starmer's leadership was widely anticipated, but the size of his majority was surprising, as many people voted tactically to remove the Conservatives from power. For a while, it seemed like the UK could be in for a more settled period, given the government's control over parliament and Labour's fairly centrist manifesto. This was in sharp contrast to the trend in other countries. France saw President Macron call a surprise election to try to stem the rise of the far-right National Rally party. In the USA, democrat Joe Biden dropped out of the race for president, leaving Kamala Harris to fight and ultimately lose the election to Donald Trump, who returned to office for a second term in January. The US election was highly polarised and divisive. President Trump came into office with a slew of executive orders, shaking up the status quo in areas like

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immigration, environmental and foreign policy. The rise of populism was seen in other European countries too, including Italy and Germany.

In the UK, the Labour government's honeymoon period proved short lived. Chancellor Rachel Reeves spent several months talking about how bad the economic situation was, before her first budget on 5 November. There she unveiled large tax increases to fund significant spending increases. Overall, policies announced in the budget, along with increases in the minimum wage, added inflationary pressure to the economy and did little to stimulate growth in the short term. It became clear that economic growth was slowing in the last few months of the year, as a result of the period of uncertainty around the budget, and some of the tax raising measures.

Financial markets reflected the changing environment through the year. In the first half, the UK stock market made strong progress. Rising economic expectations and falling inflationary pressures lifted the FTSE All-Share Index by 12.3%. The equity market was supported by falling Gilt (UK government bond) yields which gradually declined from October 2023 to September 2024, as inflation fell back. The Bank of England made its first interest rate cut of this cycle, at the start of August.

However, the equity market was more subdued in the second half of the year. As often happens, the equity market followed bond markets. Bond prices fell, as government bond yields rose later in the year. This was partly due to concerns about the impact of the UK budget but also reflected trends in the USA. The election of Donald Trump raised hopes of higher US economic growth, but also fears of higher inflation, due to the potential introduction of tariffs, and other policies. US 10-year bond yields rose from a low of around 3.6% in September, to a peak of 4.8% in January. UK gilts followed a very similar path. In the end, the pace of UK interest rate cuts proved to be much slower than expected at the beginning of the year, with only two 0.25% cuts from 5.25% to 4.75%. After a period of sideways movement, the UK stock market rose again towards the year end, as bond yields rolled off their high point.

Over the full year, the UK stock market produced a strong total return of 17.1%. This was better than the return on most European markets but lagged well behind the returns of the US stock market. Like last year, the US was led by the high growth technology sector and a group of giant companies. This 'Magnificent Seven', including such companies as Microsoft, Apple and Nvidia, had exceptional performance on the back of hopes for Artificial Intelligence (AI). Over the year, the Nasdaq Composite index of technology stocks was up nearly 30% in local currency terms.

Although the overall stock market returns were healthy in the UK, there was an underlying nervousness. There were large flows out of mutual funds which led to forced selling of stocks by fund managers. This particularly impacted medium and smaller sized companies. This was partly for fundamental reasons, as medium and smaller companies tend to be more domestically focused and more cyclical than the larger FTSE 100 companies, which are more internationally diversified. But it also reflected the fact that most actively managed funds have large positions outside of the FTSE 100, so fund outflows exacerbated selling pressure on these stocks. The stock market became increasingly polarised, with earnings disappointments leading to selling pressure, and few buyers able to stop shares becoming over-sold. In contrast, there were a few sectors and individual stocks that were favoured by domestic and international investors. These were typically high growth, less cyclical companies, which generally re-rated upwards.

The depressed valuations of many stocks encouraged a large number of takeover bids, with Panmure Liberum reporting 37 bids for companies worth over £100m each in the year. But the bids seemed to do little to raise the rating on the remaining companies.

For the year as a whole, medium and smaller sized companies lagged the larger stocks. Selling pressure was strongest in the latter months, when gilt yields rose after the budget. At the sector level, banks led the market, as higher than expected interest rates boosted profitability and supported large dividends and buybacks. The

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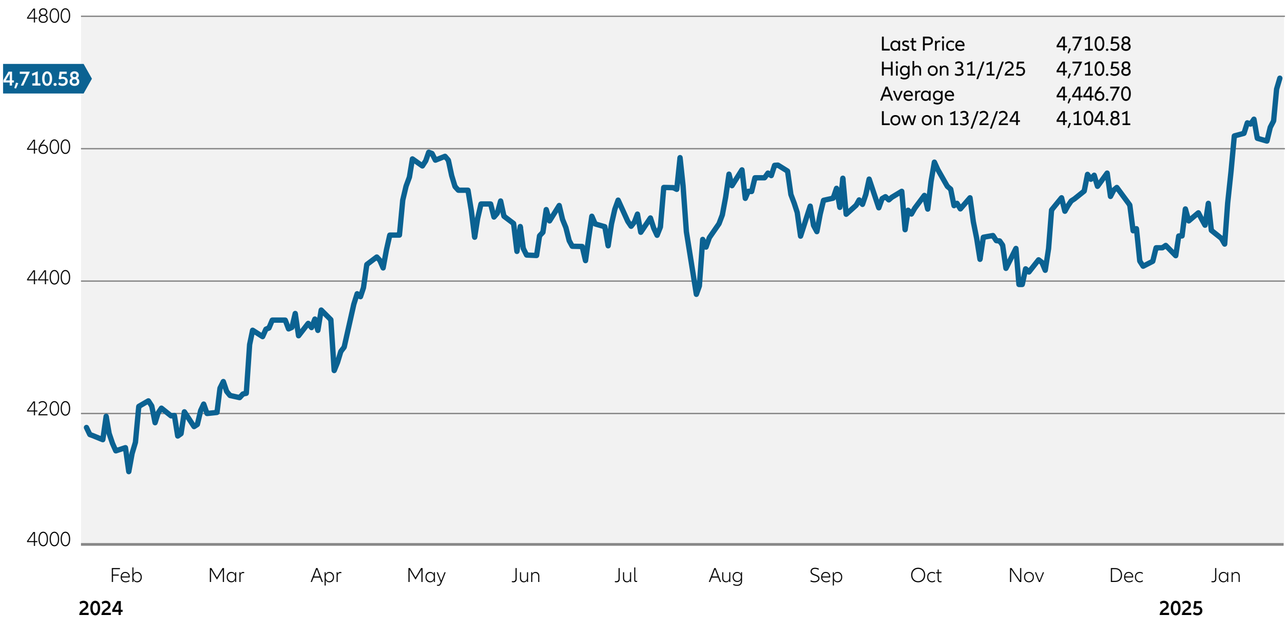
FTSE All-Share Index for the year to 31 January 2025



FTSE All-Share 31.1.24 – 31.1.25. Source: AllianzGI/Datastream.

sector returned over 60%, with NatWest and Barclays producing a total return of over 100%. The tobacco sector produced a 50% return and there were returns of over 30% from aerospace & defence and finance & credit services, amongst others. On the other hand, the household goods & home construction sector fell by over 10%, on concerns that higher mortgage rates would hold back the housing market recovery. The beverages sector was down by 8% as the spirits giant Diageo disappointed. Other interest rates sensitive sectors also underperformed, including real estate, retailers and utilities.

Investment performance

After a solid first half of the year, relative performance was disappointing in the second half. Overall, the portfolio return of 12.4% was significantly behind the index return of 17.1%. As normal, there were some notable strong points, including several takeover approaches for portfolio holdings, as well as some specific idiosyncratic issues, but there were two main reasons for the underperformance.

Firstly, market movements in the second half did not favour the way we had positioned the portfolio. For some time, we have been increasing exposure to medium sized companies, where we see many compelling value opportunities. Many of these companies are in cyclical industries like retail and housing related industries, or interest rate sensitive areas like real estate. As described above, these parts of the stock market were sold down heavily, as expectations for interest rate cuts were pushed back, despite the economic outlook weakening, which is an unusual combination of events.

The second major reason for underperformance, was stock selection within the banking sector. Although the portfolio has a reasonably large exposure to banks, and large banks generally posted strong gains, several of the portfolio investments were impacted by legacy issues concerning commissions for motor finance policies. We explain this issue in some detail in a case study on **Close Brothers**, which was the most affected. However, both **Lloyds** and **Bank of Ireland** also have some exposure to motor finance, and their shares lagged the sector materially. We believe that share prices over-reacted to the issue, but to put it into perspective, NatWest and Barclays shares had a total return of over 100%, but Lloyds was 'only' up about 55%. A 50% performance gap between NatWest and Lloyds is highly unusual. Close Brothers was particularly affected and lost just over 40% of its value.

The table on page 19 shows the biggest individual stock contributors to relative performance. There are several banks in the table. On the negative side, not owning HSBC and NatWest held back performance, with HSBC being the biggest detractor as it is such a large part of the benchmark, even though it did not gain as much as the large domestic banks. Close Brothers was also a significant detractor. On the positive side, **Barclays** was the largest single contributor and Lloyds also featured.

Not owning Rolls Royce was also a detractor to relative performance. Rolls' recovery gained pace and the shares doubled, boosting the index. Shares in **PZ Cussons** fell sharply, as the manufacturer of Carex soap and other consumer brands warned about the impact of a further devaluation of the Nigerian currency. The company announced a strategic review of its Nigerian business and is looking to sell its St Tropez tanning brand, which should realise significant shareholder value. Recruitment company **SThree**

Contribution to investment performance relative to the benchmark

	Overweight / underweight (%)	Total return (%)	Contribution (%)
Best			
Barclays	1.8	109	1.3
Keller	1.4	53	0.9
IG Group	2.7	53	0.9
Diageo	-2.4	-13	0.8
Glencore	-2.1	-15	0.8
British American Tobacco	2.1	50	0.7
Burberry Group	0.5	35	0.6
Astrazeneca	-7.1	10	0.5
Lloyds Banking Group	1.6	55	0.5
Redrow	1.4	30	0.5
Worst			
HSBC	-5.4	51	-1.6
Rolls Royce	-1.7	101	-1.0
PZ Cussons	1.1	-39	-0.9
SThree	1.3	-35	-0.8
Pets at Home	2.0	-16	-0.7
Close Brothers	0.8	-41	-0.7
GSK	2.2	-7	-0.6
Barratt Redrow	0.8	-15	-0.5
NatWest Group	-0.9	105	-0.5
Harbour Energy	0.7	-15	-0.5

fell towards the end of the year, as a weaker employment market impacted profits forecasts. **Pets at Home** also underperformed, due to some operational and trading issues in the retail pet care business and due to ongoing uncertainty from a competition review into the veterinary market. Despite this review, the vet business performed extremely strongly and this division underpins the value of the group.

The Pharmaceutical sector featured among both the best and worst contributors. **GSK** shares were weak, primarily due to some disappointment in the vaccine business. Ironically, the company's new RSV vaccine is so effective, that people need less frequent boosters than some analysts had expected. There were also concerns about the implications from political change in Washington. However, the company has generally been performing well and twice upgraded long term revenue expectations. On the positive side, not owning AstraZeneca helped relative performance as it underperformed the index, with some pipeline disappointments and conduct issues in the Chinese business.

Housebuilders also featured among both the best and worst performers and also serve to highlight the difference between the first half and second half of the year. **Redrow** was taken over by **Barrat Developments**, in a deal with strong strategic logic. This led to a gain in Redrow shares in the first half. However, the new **Barratt Redrow** shares subsequently underperformed in the second half, largely on macro-economic concerns. This broadly cancelled out Redrow's earlier performance contribution. The last major negative contributor was **Harbour Energy**, a new investment in the portfolio, which underperformed at the year-end, on slightly disappointing cash flow guidance.

As well as the takeover of Redrow, there were three other takeover bids launched for portfolio companies last year, all from US industry peers. Building products company **Tyman** was bid for by peer Quanex Building products, in a cash and shares offer which we accepted. Tyman's performance was just outside the top 10 contributors. In a similar vein, at the end of the year, **Dowlais** was bid for by American Axle, although the premium was modest. Finally, **XP Power** was also bid for by Advanced Energy, with a takeover offer of £19.50 in cash,

Ground engineering specialist **Keller** was a top contributor to performance. The company benefits from US infrastructure spending, such as the East Side Coastal Resiliency project shown here by the Williamsburg Bridge in New York City.

PHOTO © KELLER

at a near 70% premium to the prevailing price of around £11.65. This bid was rejected by the board of XP Power, as they believed it undervalued the business. We agreed with this decision. The shares finished the year at £12.42, well below the offer price.

Looking at the top positive contributors, there were some notable bright spots, in addition to those already mentioned. The ground engineering business **Keller** rose by over 60% as the company significantly raised guidance for the profits outlook in its large US business, benefitting from infrastructure spending and operational improvements. **IG Group** was the fifth largest holding at the start of the year and the share price rose by more than 50%. The shares were boosted by the recruitment of a new Chief Executive, Breon Cocoran, who is well regarded from his time at Paddy Power Betfair. He has set about transforming the culture and effectiveness of the business, with multiple new hires and operational changes. The shares responded well to this change, as well as a better trading environment, rising from a very low valuation at the start of the year.

British American Tobacco shares also rallied by 50%. Here there was less real news, but investors have warmed to the sector. In particular, investors seem to be appreciating BAT's attractive portfolio of less harmful, next generation tobacco

products, like vaping and oral products. Burberry, the eponymous and long-established clothing brand, was a new holding. The shares delivered a strong return, as new management initiated a turnaround strategy. We include a separate case study on the investment case for Burberry.

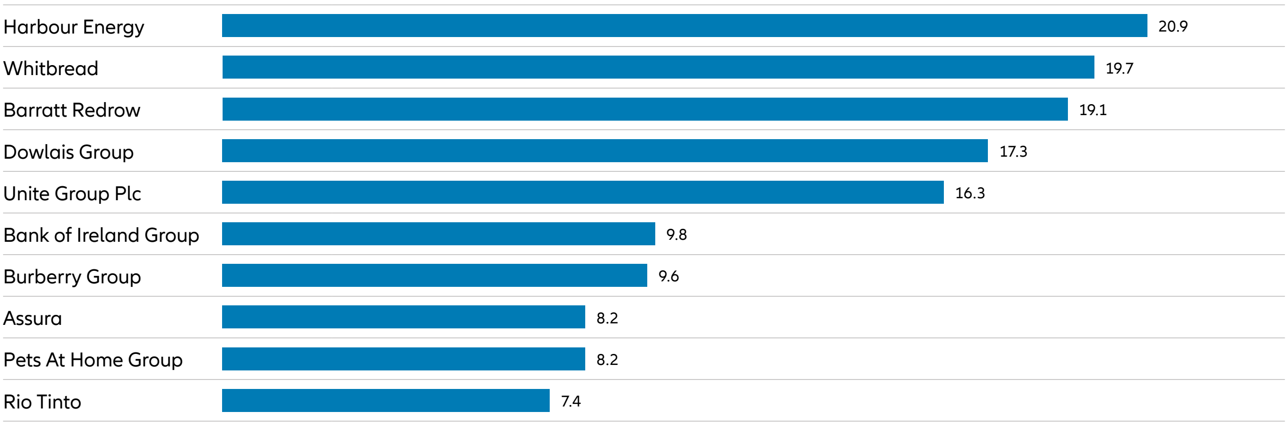
The remaining top ten positive contributors, Diageo and Glencore, were stocks that were not owned in the portfolio. As they underperformed, they held back the benchmark return.

Portfolio changes

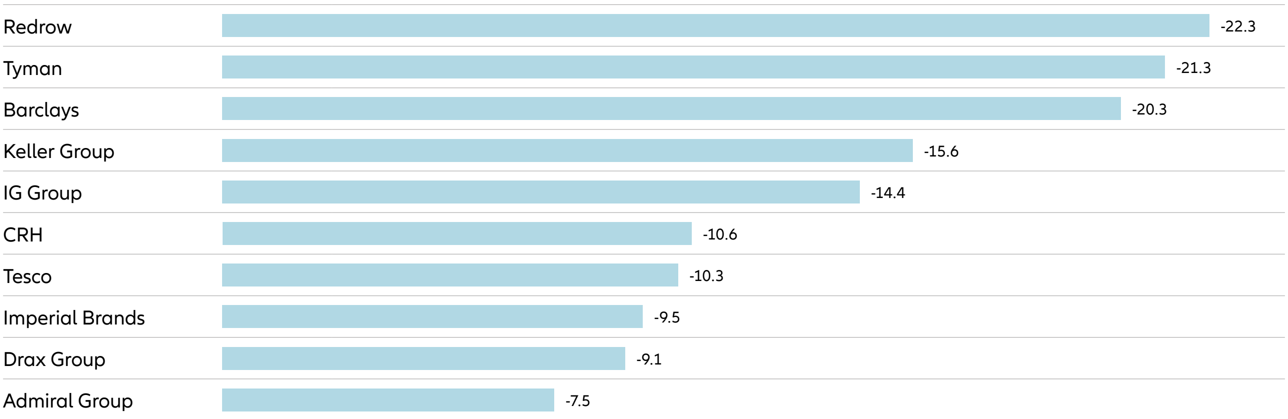
The polarised market trends and high dispersion of stock movements created opportunities. We were able to buy into strong businesses, often with leading market positions, but offering exceptional value, and to reduce or sell companies where share prices had performed well, bringing them closer to fair value. We added six new companies to the portfolio and sold four completely, setting aside the Barratt takeover of Redrow. The purchases were heavily biased to two areas of the market. Firstly, sectors that are sensitive to interest rate movements, like real estate, which underperformed as bond yields rose. Secondly cyclical consumer and industrial sectors, like hotels, retail and automotive components. Sales were more broadly spread but included some economically defensive businesses in food retail and tobacco, companies

Largest net purchases and sales within the portfolio

Largest net purchases (£m)



Largest net sales (£m)



exposed to a strong US construction market and some idiosyncratic situations.

In the first half of the year, we added four new companies as explained in the interim report. The new purchases were the luxury fashion brand Burberry, student accommodation provider **Unite Group**, automotive components company **Dowlais** and **Bank of Ireland**. The complete sales were building materials company **CRH**, and insurer **Admiral**.

In the second half, we added new investments in Whitbread and **Harbour Energy**. Whitbread owns the UK's largest hotel chain, Premier Inn, which has 85,000 rooms in the UK and over 10,000 in Germany. The business has an excellent long term growth record. It has key competitive advantages, such as a low-cost operating model, ownership of the freeholds on half its hotels and its direct selling model to consumers in the UK, cutting out the online travel agents. After a strong recovery in Whitbread's shares after the pandemic, the share price fell back. This partly reflected British holiday makers favouring foreign holidays during 2024, which we saw as a one-off normalisation of activity. But it also reflected Whitbread's decision to restructure its restaurant estate which has a short-term cost for a longer-term benefit. We believed the stock market was not recognising the benefits of this restructuring, or the value of the company's rapidly growing position in the large and fragmented German market, which is just turning profitable.

Another new purchase was Harbour Energy, an oil & gas company that has been transformed by a major acquisition from BASF. This deal created a large business with hydrocarbon production around 20% of the size of Shell or BP. Although historically Harbour was primarily a UK North Sea producer, where taxation policy is increasingly harsh, it now has producing assets in attractive countries like Norway and Germany, as well as considerable resources in Latin America and elsewhere. These can earn the company substantial cash flows, and pay healthy dividends, for well over a decade into the future. The terms of the deal with BASF were particularly attractive.

As well as these purchases, we added to many other portfolio companies. **Assura**, the owner of primary care properties, such as GP surgeries, was one of several real estate companies where we increased exposure. Like Unite, it has

We added student accommodation provider **Unite Group** to the portfolio in the first half of the year. The company owns 153 high-quality properties across 23 cities in the UK, housing 68,000 students.

a growing income stream, funding an attractive dividend yield, derived from well let assets, with the shares trading at a discount to the asset value of the business. We added to **Pets at Home**, where we believe the veterinary business is significantly undervalued, as described above. We also increased the holding in the mining giant **Rio Tinto**, which has attractive assets in copper and aluminium, two elements critical to the energy transition.

Complete sales in the second half of the year were **Tyman** and **Diversified Energy**. Tyman was taken over by Quanex Building products, partly in the form of equity. We held onto the shares in Quanex for a short period before selling to fund other investments. Whilst Diversified Energy has an attractive asset base of gas wells in the USA, we had some concerns about the company's capital allocation strategy. After several meetings with executives and engagements with the company chairman, we decided to exit the shares and reinvest elsewhere, where we had higher conviction.

Apart from complete sales, the largest reductions to positions, Barclays, Keller, IG Group, **Tesco**, **Imperial Brands** and **Drax** were all strong performers.

Outperformance of shares has two consequences. Firstly, as shares rally, they normally move closer to fair value. We regularly review our assessment of fair value as well as the risk profile of a company, both of which can change. But, all things equal, if there is less upside it is logical to hold a smaller position. Secondly, as shares appreciate, the position size naturally builds in the portfolio. Again, if our assessment of fair value and risk has not changed it is sensible to scale back the position. These sales also provide cash to fund more compelling investments elsewhere. In the case of Barclays, the proceeds were partly switched into Bank of Ireland, within the banks sector.

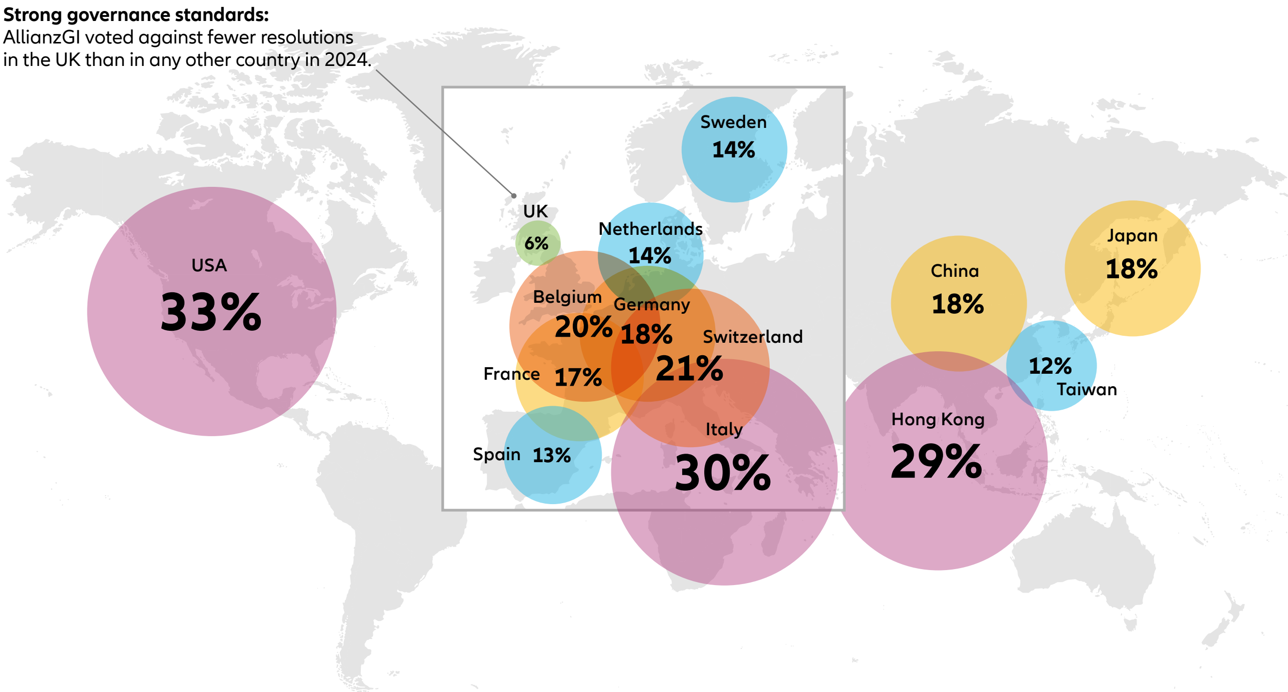
Our approach to ESG and sustainability

We integrate the analysis of Environmental, Social and Governance (ESG) issues into our investment process. This follows AllianzGI's proprietary methodology and is designed to enhance risk management by adding another dimension to existing investment processes; an assessment of the financially material ESG risks and opportunities within a broader investment case. Our approach also fosters and supports active engagement with company management.

Many ESG issues have the potential to become structural challenges if not addressed. Conversely, if harnessed to the company's advantage, they can become long-term opportunities that act as meaningful tailwinds for the business. Understanding how a company manages ESG issues therefore, as well as how external stakeholders like regulators and customers perceive them, is an essential part of the valuation discipline.

Our investment professionals have access to MSCI ESG scores and qualitative research on our Global Collaboration Platform (Investment Chatter, SusIE). The level of ESG risk at a company is expressed through a numerical score for each of the E, S and G pillars on a scale of 0–10, whereby a score of 0–3 indicates potentially meaningful tail risk. Portfolio managers are free in their decision to initiate, continue to hold, or divest any relatively low scoring issuer in the portfolio. However, they are required to document the rationale for any investment with a potential tail risk. Our investment professionals often closely follow companies over long periods of time.

Total percentage votes against resolutions proposals by location



They are therefore in a unique position to actively engage with the companies that need it most, as we seek to reduce the level of ESG risk.

AllianzGI reviews its proxy voting guidelines annually to reflect evolving expectations for companies. For 2025, the firm has implemented several new rules, further emphasising the importance of minority shareholder rights and enhancing its approach to sustainability in proxy voting.

The UK continues to show strong standards in terms of governance; it is the country where AllianzGI has voted against fewer resolutions than any other country in 2024.

At group level, AllianzGI is implementing a rule requiring ESG-related KPIs for executive remuneration for small- and mid-cap companies in developed markets in 2025, following a similar rule for large companies in 2024. AllianzGI will also increasingly hold directors accountable if a company lacks a credible net-zero strategy. Starting in 2025, voting decisions will be based on its proprietary Net-Zero Alignment Share Methodology, which provides a standardised way to assess companies' progress on net-zero goals across sectors and markets.

AllianzGI has also extended its gender diversity guidelines to small- and mid-cap companies in developed markets, expecting no more than 70% of any board to be of one gender.

Active engagement

As investors, we have an important duty to engage with the boards and executive management teams of our investee companies.

We see the value of engagement to be in sharing our knowledge, views and perspectives with boards and management of investee companies with the aim of helping to improve performance and to better assure their long-term business prospects, ultimately in the interest of our clients.

We also find that exposure to a broader range of leadership at investee companies, particularly non-executive board members, enhances our understanding of the business, its strategy and value drivers, as well as our knowledge of the governance, culture and sustainability approach of the companies we invest in, which enriches our investment analysis. Critically, it helps to assess the degree and quality of oversight, and to build confidence and trust in the board and management.

Over the course of the trust's financial year, AllianzGI has conducted 35 meetings with portfolio companies dedicated to furthering our understanding of ESG issues and encouraging management to take action. These engagements are separate and in addition to both our implementation of proxy votes and our more regular strategy and financials focused meetings.

Our engagements rest clearly on two approaches. Our risk-based approach focuses on the material ESG risks that we identify. The focus of engagements is determined by considerations such as significant votes against company management at past general meetings and sustainability issues that we identify as below market practice.

Engagements can also be triggered by controversies connected to sustainability or governance. Engagement activities typically relate to an investee company's strategy, operational or financial performance, capital management, corporate governance and ESG risks and impacts. We also lead themed engagement projects.

Income

After a strong year for income last year, the income generation of the trust was approximately 2% lower in 2025. With an increase in the number of shares in issue, the earnings per share were 3.6% lower at 29.4p (30.5p). Interestingly, the Financial Times has reported that across the entire UK stock market, aggregate UK dividends paid in 2024 were down 0.4%, although this may also reflect some companies leaving the stock market. There have only been a few dividend cuts in the portfolio, for example among the housebuilders and at Close Brothers and Burberry. We do not see significant cyclical pressure on dividends generally, although a few companies have been favouring share buybacks over higher dividends.

Whilst we aim to buy companies with a reasonable dividend yield, the prime investment case is always based

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Even with heightened risks, the polarisation of the UK stock market is so extreme, that we are able to find many compelling investment opportunities. We believe these should produce superior returns over the medium term, in most realistic scenarios.

upon generating a good total return (capital and income combined) so we are prepared to retain some low or no yielders in the portfolio, if we believe this will enhance long-term returns.

The earnings fully covered the total dividends declared and proposed of 29.1p (28.4p), marking the 43rd consecutive year of dividend growth. At the year end, revenue reserves per share were up 3.9% at 18.8p (18.1p). It is encouraging to note that total revenue reserves, at £27.9m, have built considerably from £20.4m in 2022, the low point in the pandemic. Reserves now stand just 12% below the pre-pandemic high of £31.8m in 2020.

Derivatives

Over the full year, Merchants generated an additional income of £0.9m (2024: £0.9m) approximately 0.6p (0.6p) per share, from writing covered call options, on shares that we were willing to sell at specific strike prices. There were a number of option exercises. Taking these into account and any movements in options value, there was an overall net loss (opportunity cost) from the strategy of £0.4m (last year net profit of £0.1m).

Economic and market outlook

The economic outlook is particularly uncertain, especially in the USA, where the impact of Donald Trump's second presidency is hard to call. His recent, radical changes in tariff policy risk upsetting the global order and causing economic shocks in the USA and elsewhere. However, even with heightened risks, the polarisation of the UK stock market is so extreme, that we are able to find many compelling investment opportunities. We believe these should produce superior returns over the medium term, in most realistic scenarios. We started this report by explaining how our value-oriented style of investing can have periods of underperformance, especially if markets are led by strong themes. But these periods often create the very opportunities which can be exploited by disciplined investors. We believe we are in one of these periods now, and we set out below some of the key investment views we are taking within the portfolio, and our rationale for these.

Just like a year ago, the start of 2025 has seen a broad stagnation in the UK economy, with hopes that falling interest rates will help to revive growth. However, there are some important differences. We now have greater political stability, the Labour government's first budget is out of the way, and we have had several interest rate cuts from the Bank of England. Overseas, the picture is very complex. Donald Trump wants to stimulate the US economy and bring down inflation, but his tariffs and other policies could have the opposite effect. Ultimately, bond markets may determine how radical his economic policies can be, but there is a wide range of potential outcomes over the next year or two. European countries are generally struggling with low growth, high debt levels and a polarising political environment, with the rise of populist parties. There is also a need to step up spending significantly on defence across much of the Western world, at a time when budgets are already stretched.

Equity markets reflect differing outlooks. The US stock market was until recently trading on high valuations compared to history and is extremely concentrated on a small band of technology stocks, known as the Magnificent Seven. These have benefitted from hopes around the growth of artificial intelligence, and they are spending huge sums on data centres and related hardware. It is not clear if the big winners will be the providers of the technology or the users, but the tech giants do not want to risk missing out. How this ends is hard to call, but optimism last year sucked in substantial investor flows. There have been signs of even greater excess in certain speculative assets like crypto currencies, such as Bitcoin. These do not generate any income and are thus hard to ascribe any fundamental value to them, yet they have drawn in huge sums of investor money.

These assets stand in sharp contrast to the UK stock market. Although the market did rally last year, it remains modestly valued on a long-term basis. Furthermore, the spread between valuations is unusually wide. To take one simple measure, we can look at the price to earnings ratio (p/e), how much an investor pays for a pound of earnings. At the year end, around 30% of the stock market was on a p/e of 16x or over, and 44% was on a p/e below 10x, with little in the middle. This is a very unusual distribution for the market which

Tesco was a strong performer. We adjusted our position as its share price appreciated and the relative size of the investment grew.

PHOTO: iSTOCK / GEORGECLERK

> At the year-end 39% of the portfolio was invested in medium or small sized companies, outside the FTSE 100 Index, compared to a benchmark weighting of 15%.

normally would have most valuations spread around the centre. It reflects on the one hand, a market driven at the top end by investment themes and narratives such as technology growth and AI. On the other hand, at the bottom end, it reflects economic uncertainty and nervousness about the prospects for the domestic UK economy. These concerns, combined with persistent outflows from actively managed UK equity funds, have exacerbated the undervaluation of many medium and smaller sized companies. Such businesses tend to be less well followed by global investors and generally more dependent upon the UK economy.

We have gradually invested more into this area as opportunities have opened up. At the year-end 39% of the portfolio was invested in medium or small sized companies, outside the FTSE 100 Index, compared to a benchmark weighting of 15%. The average p/e of the portfolio at the year-end was 9x*, at a large discount to the UK market valuation of 11.9x*.

We are cognisant of the risks to both the UK and global economies, so we have diversified the portfolio across many different industries and end geographic markets. But there are many compelling situations, which we describe below.

The two largest sector exposures are energy and banks, which are also both large sectors of the UK stock market. There are some similarities in these industries and our positioning. In both industries there is a reasonable case to make that after many years of cyclical challenges, the big companies are now very profitable and returns look more sustainable than they have often looked historically. Companies are generating strong cash flows and paying growing dividends, supplemented with large buybacks. Although valuations have risen, especially for banks last year, they do not look stretched on most metrics. In the case of energy, profitability looks sustainable, as global supply of hydrocarbons has been restrained by disciplined capital investment levels, despite reasonably favourable oil & gas prices. As for banks, a normalisation of interest rates, much stronger balance sheets and tighter leverage controls since the financial crisis, along with modest bad debts, is supporting profitability. So, in both industries, we have retained reasonable positions in the large companies. But we are also finding much better value in the smaller companies, such as Harbour Energy and **Energean** within energy, and **OSB** and Close Brothers amongst banks.

Another large part of the portfolio is related to housebuilding and construction, including two housebuilders, distributors of building materials like **Grafton**, manufacturers of building products, such as **Marshalls**, and suppliers of bathroom fixtures and fittings like **Norcros**. A key plank of government policy is to increase housebuilding. Whilst this will take time to come through, there are already signs of a change of attitude to planning at local authorities. Meanwhile lower interest rates will bring down mortgage costs, improving affordability. These companies have potential to significantly increase profitability as the industry recovers from depressed levels of activity.

However, because industry conditions have been tough for longer than expected, earnings expectations have been downgraded, and shares have often fallen to depressed valuations. In a stock market with little new money to buy cheap shares, earnings 'momentum' has been a major driver of share price moves, almost independent of any valuation support. Valuations in these sectors are generally very attractive on any reasonable recovery in profits. For example, at the year end the housebuilders Barratt Redrow and **Bellway** both traded on valuations well below the value of their assets. Not only is this highly unusual, it also does not reflect the ability of these companies to earn strong returns on those assets over the cycle, nor their balance sheet strength. In the case of Barratt Redrow, it also largely ignores the strategic benefits and costs synergies that the recent merger should bring.

The portfolio also has a large exposure to the more cyclical consumer sectors. We own retailers like **Next**, **Tesco**, Pets at Home, Burberry and **DFS**, hotel company Whitbread, car distributor **Inchcape** and gambling company **Entain**. Whilst Tesco and Next (and Burberry recently) have been strong performers, and we have taken some profits, the other shares have quite different drivers. All trade well below our assessment of fair value, due to tricky trading conditions or

> We categorise every stock as either domestic, international or hybrid, and using this categorisation we estimate the underlying domestic exposure of portfolio companies is only around 36%.

operational issues that we believe are largely temporary.

One final area to focus on is real estate, which made up over 5% of the portfolio at year end. With real estate, it is important to understand the health of the underlying property markets as well as how the stock market is valuing those assets. Both aspects look very supportive for the investment case. Unite and Assura are exposed to student accommodation and healthcare properties, respectively, both of which benefit from strong demand and limited supply and are seeing steady rental growth underpinning a rising income stream. **LandSec** is exposed to major retail destinations and prime offices. We are seeing a polarisation in both areas with the best locations and strong assets attracting tenants and seeing rising rents. Landsec reported 98% occupancy of its London portfolio at end September and 96% in its major retail destinations, with both areas seeing rising rents. **CLS** is a smaller office property company, spread between London, Paris and several German cities. Whilst the company has higher vacancies than the other companies, it has an excellent record of asset management, and over half its income stream is index linked.

Overall, therefore, we believe the assets of these property companies are attractive. What makes the investment case so interesting is the way these assets are valued. Rising bond yields have pushed up property yields and depressed property valuations. This means there is potential for the asset valuations to rise significantly, as and when bond yields decline. In addition, the share prices of all the companies were trading well below the asset value at the year end, despite this recovery potential (although Assura has subsequently received an unsolicited bid approach from a private equity fund). So, in summary, all of these companies have the potential to benefit from rising rents, falling yields (rising values) and a narrowing of the discount that the shares trade at. This is in addition to healthy dividend yields on all four companies.

It is also worth saying a little about the domestic and international exposure of the portfolio. One of the features of the UK stock market is its broad geographic spread of earnings. Whilst the portfolio is more heavily exposed to domestic stocks than the broader market, the companies still earn the majority of their revenues internationally. It is surprisingly hard to calculate the exact end geographic exposure of the portfolio, not least because disclosure is not standardised and also, for example, a service company may earn revenue in the UK but from clients located in another country. We categorise every stock as either domestic, international or hybrid, and using this categorisation we estimate the underlying domestic exposure of portfolio companies is only around 36%. For the stock market as a whole, considering the largest 350 companies, Goldman Sachs estimate a domestic exposure of 25%. Therefore, when we say that the portfolio is heavily exposed to the domestic economy this is more of a relative statement than an absolute one.

We have gone into some detail on the attractions of many of the portfolio stocks, to explain our level of confidence in the potential for the portfolio to deliver superior returns to shareholders. We are often asked what will change the UK market focus? What will be the catalyst? In our experience, catalysts are only easy to spot in hindsight. A catalyst for investors to get more excited about the UK stock market, and particularly medium sized companies, could be falling bond yields, or a reversal of the enthusiasm for US tech stocks. But it could simply be an end to selling pressure. There are already two very large groups of 'buyers' in the UK stock market. The first group is acquisition vehicles. As reported above, we are seeing a large number of takeover offers for UK companies, as competitors and private equity funds exploit the low valuations on offer. The second group of 'buyers' are the companies themselves, as they also take advantage of low valuations to carry out substantial buybacks and invest surplus cash in their own businesses. According to Goldman Sachs research, buybacks have been running at an annual rate of £40bn-£45bn in recent months. This is equivalent to a buyer of around 1.5%-2% of the entire UK stock market each year. With these two significant buyers of stock, any general recovery of investor interest in the UK market could led to a significant re-rating. Such a re-rating is likely to be most acute where selling pressure has been highest, and where valuations are the most depressed.

Stock market history shows that stocks on low valuations tend to outperform those on high valuations over the long term. With the current extreme polarisation in the market, there is the potential for a major rotation at some point in the future. Many fundamentally sound businesses are trading well below our assessment of their underlying value. Merchants owns a diversified portfolio of such companies. We believe this will benefit shareholders, and lead to the portfolio delivering both an attractive income stream and superior capital returns, in line with the company's objective.

*Source, Allianz Global Investors, Bloomberg for 12 month forward price to earnings (as of January 31, 2025. P/E is calculated from bottom-up member earnings and may not match top-down market estimates. Benchmark excludes all holdings with negative or nil P/E data (c.9% of the index)

CASE STUDY: ENGAGEMENT

Atalaya Mining

Sector: Precious metals and mining
Value of holding: £10,062,000
Percentage of portfolio: 1.1%
Benchmark weighting: 0.0%
Contribution: -0.2%

Atalaya Mining is an example of our Integrated Environment, Social, and Governance (IESG) process in action: to identify and mitigate these important risks to our investment cases.

Atalaya is a European copper mining company listed on the London Stock Exchange. The main asset is in southern Spain near Seville – the original Rio Tinto copper mine that gave its name to the FTSE 100 conglomerate. The historic copper-rich deposit – which has been mined intermittently since the Bronze Age – was sold by Rio Tinto Plc in 1954. After laying idle since 2000, the site was acquired by Atalaya and restarted production in 2016. Today, Proyecto Riotinto is Atalaya's sole producing asset, and around 50,000 tonnes of copper is mined on site per year.

We like the investment case because we see Atalaya as a producer of a structurally well positioned metal that is crucial for both the energy transition away from fossil fuels and well-aligned to the increasing electrification of the economy. Perhaps unsurprisingly for a mine that has been in operation for centuries, the concentration of copper is relatively low, and because of this Atalaya has reasonably high costs per kilo produced. This drawback for us is more than offset by a safe and stable jurisdiction, a prudent net cash balance sheet, good management, and a considerable opportunity for growth via accessing higher grade ore.

The mining industry is a highly sensitive area for ESG analysis, with heightened risks around governance, community relations, safety, and significant environmental impacts. As part of our IESG process, we use a third-party research organisation to help us identify tail risks to investigate. Our research provider gives a score for each pillar of ESG, and we investigate any higher risks flagged. The aim first and foremost is to be aware of the ESG risks we are taking in the portfolio, to mitigate them where we can through engagement, and where they cannot be fully explained or mitigated that they are justified in the context of the investment case.

Our third-party research shows Atalaya scores poorly on 'Environmental Risk', due largely to water use intensity, but also on toxic waste and biodiversity metrics. The 'Social Risk' score is also relatively poor on community relations measures.

Our own investigations have helped to clarify these issues and given us greater comfort in the investment case.

Copper mining is a water intensive form of mining due to the need for flotation tanks and tailings pools in modern production processes. Whilst Southern Spain is an area of water stress, water is less scarce here than in the global benchmark for copper mining, and largest producing country globally – Chile, where the problem is particularly acute. Atalaya's sustainability reports disclose a high and rising rate of water recycling, and water management is a clear area of focus for management.

Many of the other issues cited by our third-party research provider seem to stem from a combination of misunderstanding Atalaya's asset base, or from the lack of precisely specified disclosure in the expected format, that can be hard for a smaller company to provide. For example, there is apparently no evidence of environmental audits across all separate locations. Atalaya only has one producing mine, and the sustainability reports are thorough audits in themselves. Our research provider gives a low score for no evidence of a policy towards indigenous communities, and no violence and conflict management policy. These requirements are of more relevance to geographies outside of the European Union.

Copper is essential to decarbonising the global economy, but Atalaya is also making significant progress decarbonising its own operations. Atalaya has recently commissioned a solar plant that provides for more than 20% of the mine's electricity needs. Atalaya is also working on an innovative new solution to process ore in a novel and energy-efficient process called 'ELIX' that could materially increase saleable metal recovery at a lower per unit energy cost. These developments are driven by both economic and environmental sustainability incentives in harmony.

Atalaya's unusualness is part of its strength as an investment case. It is in a safe jurisdiction, with high governance standards, mining a critical resource with strategic importance for the country in which it operates. Many of the risks associated with mining apply differently to Atalaya than they do to global peers. As a smaller company with an unusual asset base, we have engaged with the company to help improve its disclosures and especially to highlight the relevant data to research providers and so promote a greater understanding of this company's material risks and how to mitigate them. The fundamental investment case of a well located company, supplying a strategically important metal, trading at a modest valuation, is supported by this environmental and social review.

Atalaya Mining's Proyecto Riotinto operation, with the San Dionisio pit in front and the Cerro Colorado pit behind.

PHOTO © ATALAYA MINING

CASE STUDY: PERFORMANCE

Close Brothers

Sector: Banks
Value of holding: £8,704,000
Percentage of portfolio: 0.9%
Benchmark weighting: 0.1%
Contribution: -0.7%

One of the most disappointing holdings in the portfolio in recent years has been Close Brothers, which has fallen in value by around 40% this financial year after falling heavily in the closing weeks of the last financial year. We think a lot about the risk of loss on a position and aim to buy robust and growing businesses on low valuations. Though banks are often volatile, this kind of decline is unusual and warrants some soul searching on our part. Close Brothers' performance is especially notable given the very strong performance of other UK banks over the period, most notably Barclays, which we own, but also NatWest, which we do not (though we have in the past).

Close Brothers is a bank with strong franchises in niche areas. Most of Close's business is asset-backed business-to-business lending. Close has many decades of underwriting experience in assets such as commercial vehicles, machinery, and even beer kegs. Good market positions and longstanding relationships have allowed the bank to earn good margins and returns on shareholder equity. The bank is also traditionally very defensive, with the bank's loans of a shorter length on average than its fixed deposits. This defensiveness has been shown over time through Close's ability to grow during periods of market weakness and macroeconomic uncertainty, as competitors tend to retrench.

Around a fifth of Close Brothers' loan book is motor finance, generally lending to consumers through brokers and dealerships to buy second-hand cars. The broader motor finance industry has been subject to a major new litigation risk that emerged in January of 2024. Rulings by the Financial Ombudsman Service alongside various court judgements against motor finance lenders prompted the Financial Conduct Authority to announce a market-wide review into historic commission and charging practices in the industry. In October of 2024 a Court of Appeal judgement significantly widened the potential scope of any redress payments. The final implications are highly uncertain, as even relatively small potential claim amounts are magnified by high complaints-related and administrative costs, as well as the long history of loans potentially in scope. Comparisons have been made in the press to other large issues of historic financial malpractice, such as payment protection insurance (PPI) in the last decade.

We find the comparisons to PPI overblown – that scandal involved much greater sums and the product of much more questionable use than sales commissions on car loans. We also believe that a particularly punitive approach to lending banks is increasingly at odds with political and regulatory priorities. Most importantly of all, we believe Close Brothers has more than adequate capital reserves to suffer even a 'reasonable worst case' outcome. Capital reserves have been strengthened throughout the year, with Close Brothers withholding the dividend, slowing down capital consumptive growth, and selling its asset management division. Through these difficult decisions Close management plans on having a contingency of at least £400m to cover any liability. This is a sum that represents a very high proportion of the current market capitalisation of the business, and beyond what we regard as a reasonable worst-case scenario. In short, we believe the shares have been too deeply discounted for uncertainty. They trade at a material discount to an even punitively adjusted asset value, and the strengths of the core business that we appraised in our original investment case remain.

Though the higher risk and the dent to our original investment case has caused us to maintain a smaller position in Close Brothers shares than in the past, we have nonetheless taken the opportunity to add to the position at very depressed prices. It is important that we are aware of and try to avoid two very human biases in making these kinds of investment decisions: first the impulse to 'double down' and stubbornly hold to our previous appraisal of fair value when the facts have changed; second the impulse to 'cut and run' from a poorly performing position. With Close Brothers we are recognising the value on offer at this point whilst accepting that the facts have changed. We have conviction that our modest position in Close Brothers can deliver a good return from here, offsetting some of the disappointing performance of this investment case in the past two financial years.

Close Brothers' London headquarters.

PHOTO: ROBERT EVANS / ALAMY STOCK PHOTO

CASE STUDY: NEW INVESTMENT

Burberry

Sector: Personal goods
Value of holding: £14,900,000
Percentage of portfolio: 1.6%
Benchmark weighting: 0.2%
Contribution: +0.6%

Burberry is a British luxury goods business older than The Merchants Trust. Founded in 1856, the business is best known for trench coats, scarves and certain check patterned fabrics. In 1879, the founder, Thomas Burberry invented Gabardine, a lightweight breathable and waterproof cloth, used for waterproof clothing worn by early polar explorers and British soldiers.

Nowadays, Burberry operates from over 400 stores in some of the prime destination shopping sites around the world. For many years it was a consistently profitable business, earnings high gross margins and growing sales steadily. However, in recent times the business has struggled. The management team tried to move further up market into higher priced accessories, such as leather handbags, whilst also incorporating a greater proportion of high-fashion 'runway' lines into the stores. This alienated some of Burberry's traditional customers, just as the whole luxury goods industry was seeing a slowdown.

This culminated in a drop in profits in the year to March 2024, followed by a collapse in sales in the first half of the 2025 year, which would eventually lead to a loss for the period. Meanwhile the share price had fallen from over £25 in 2023 to well below £10 in the middle of 2024. We had been tracking the company for some time and met the management team on several occasions.

The company met two of our three investment criteria. Firstly, Burberry has attractive fundamentals. A unique brand, a well invested store base, a strong balance sheet and a record of profitability and growth, albeit under severe short-term pressure. Secondly, it has exposure to some powerful long-term themes. A rising mass affluent population that wants to buy luxury brands, an emerging middle class in developing markets and the rise of social media and influencers who can showcase brands to a growing audience.

The third and key criteria is valuation. By the middle of 2024, the company's valuation had fallen to around £3bn, close to the value of its sales in 2024, with a dividend yield of over 6%. This valuation level was very attractive if the business could return to its previous level of sales and profits. The key questions were how bad could conditions get, could the business be turned around and how long would this take?

From our analysis, we believed the company did have a credible strategy to return the business to profitable growth: to move the focus back to its traditional products in stores and regain its core customers. Whilst acknowledging there were risks, the balance sheet was strong enough to cope with a prolonged period of difficult trading. Therefore, we made a first investment in July at just under £9.

Soon afterwards, the company announced a major management change, bringing in a very experienced chief executive, Joshua Shulman, to accelerate the turnaround. The company also warned about deteriorating sales trends and cancelled the dividend, to conserve cash through a difficult time. We had further meetings with the new Chief Executive and the Chairman of the company, which gave us added confidence in the turnaround strategy and the clear sense of urgency. As the share price fell further, we added to the position at share prices down to under £6, where the shares bottomed in September.

Subsequently, the shares started to recover, as investors began to buy into the recovery potential, even with the business reporting in November a 20% drop in underlying sales and first half loss. By January, it was clear that the turnaround strategy was having some success. The third quarter trading update showed a sharp improvement, with underlying sales only down 4%, and actually growing again in the Americas region. The share price continued to rally and ended the year at nearly £12, more than double the low point. Burberry made a useful contribution to investment performance for the year.

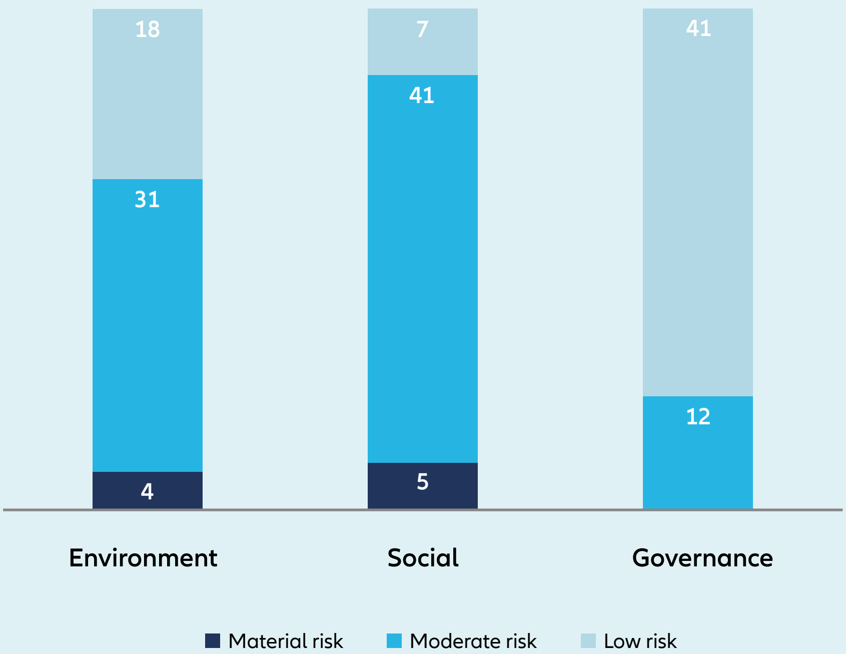
There is still a long way to go for Burberry to make a full return to being a growing and highly profitable brand, but it has made a promising start. We took some profits on the position as the shares rallied, but we continue to see further upside.

This investment case highlights one important feature of our investment process. Whilst we generally buy companies with high dividend yields, we do not buy companies because of the yield. We buy companies where we think we can make money, or total return. Therefore, even if a dividend is cut, as at Burberry, we have the flexibility to continue to add to the position if we retain conviction in the value opportunity. A stricter discipline on income investing could have prevented us from adding to the shareholding at the most opportune time. Whilst we did not expect an immediate dividend cut, it was a possibility we had considered before investing.

Burberry's 'It's Always Burberry Weather' campaign launched in October 2024 featuring seven key styles reimagined: the trench, the Harrington, the quilt, the puffer, the parka, the aviator and the duffle.

PHOTO © BURBERRY

Portfolio ESG risk assessment



ESG risk scores are not targeted as part of the investment objective. Instead, we use ESG scores as a means of monitoring underlying risk exposure, and providing transparency to clients. Ultimately, it is down to the discretion of individual portfolio managers to calculate the risk/reward trade-offs for each individual holding.

This chart displays the portfolio's exposure to ESG risk. The underlying data are risk scores for corporate issuers according to the ratings company MSCI. These scores aim to assess the potential financial risks arising from exposure and management of ESG issues.

The risk scale spans from 0 (material risk) to 10 (low risk). We have built three risk scoring clusters:

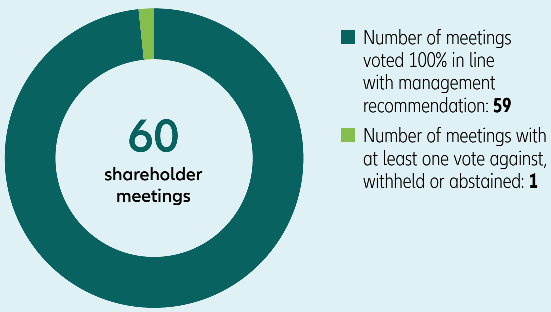
Low: >7 to 10
Moderate: >3.1 to 6.9
Material: 0 to 3

AllianzGI has chosen MSCI risk scores as research information input since they aim to measure financially material ESG risks. There were 53 stocks with MSCI risk scores in the portfolio at 31 January 2025 and the chart above shows how the risks for each are scored against E,S and G factors.

Proxy voting

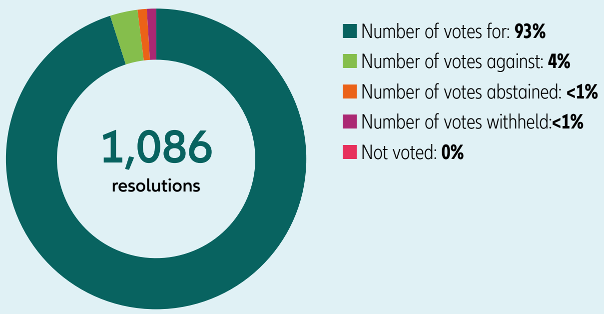
1 February 2024 to 31 January 2025

Company meeting voting record



In the year there were 60 shareholder meetings for companies in the portfolio and the manager voted on the company's behalf at 59 of these.

Vote distribution



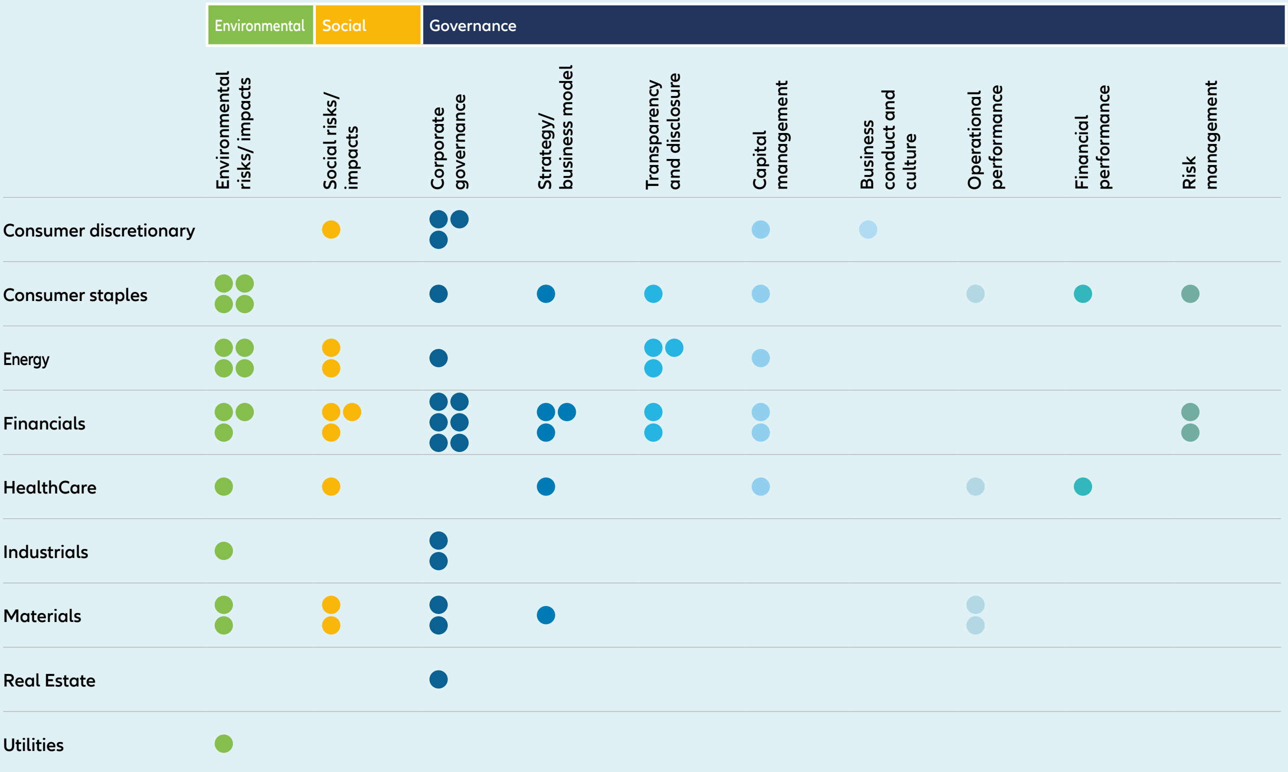
This represents a total of 1,086 resolutions and the company voted on 98% of these. Source: AllianzGI.

Active engagement

AllianzGI's engagement activities include: monitoring strategic developments, providing feedback, challenging corporate practices and seeking change.

Engagement can take various forms, including correspondence; face-to-face meetings and conference calls, as well as proxy voting and – in rare instances – public interventions through filing shareholder resolutions, speaking at shareholder meetings, and commenting in the media. In addition, AllianzGI sees value in collaborative engagement initiatives coordinated by investors, trade associations and other organisations, where these seek to address market or industry-wide concerns. As an active investment manager, AllianzGI sees engagement as a way to reduce investment risk, help improve corporate performance and better assure the long-term business prospects of investee companies.

Company engagements by sector and topic



A state of the art sustainability tool: SuSIE

Our Sustainability Insight Engine (SusIE), our digital ESG platform, allows stewardship analysts, portfolio managers and investment analysts from each asset class to centralise the recording of our engagement activity. Information, such as general context, corporate executives contacted, topics discussed with the companies and documents related to the engagement, is all made available for each engagement discussion. The ability to link different engagements and follow-up discussions allows efficient tracking. In addition, SusIE offers internal report functionality for our portfolio managers, displaying metrics related to engaged investee companies and enabling users to filter between themes discussed and dates.

Our engagement reporting templates also enable the investment and stewardship teams to evaluate the status of the engagement in terms of the specific discussions. We are also able to record concrete actions taken by companies which align to our engagement objectives and which we consider to be a direct stewardship outcome. These outcomes are tangible measures of engagement success and allow us to track the effectiveness of our activity over time.

Engagement notes and outcomes are available on SusIE, thus facilitating their incorporation in investment decisions. Whenever appropriate, engagement outcomes are also reflected in our proxy voting activities.

Carbon and climate

Reporting on climate risks

Merchants is not required to report its carbon footprint or provide other climate related financial disclosures under current legislation (see page 66). AllianzGI UK, the company's manager, has published its own TCFD statement and Merchants provides a link to this from its own website.

Insights

There are no climate-related targets for Merchants; the board and the portfolio managers do not make any claims about the carbon emissions status of the portfolio. However, the board and manager recognise that carbon is one of several significant factors in long-term company and share price performance.

AllianzGI has its own internal sustainability insights platform SusIE (see page 37).

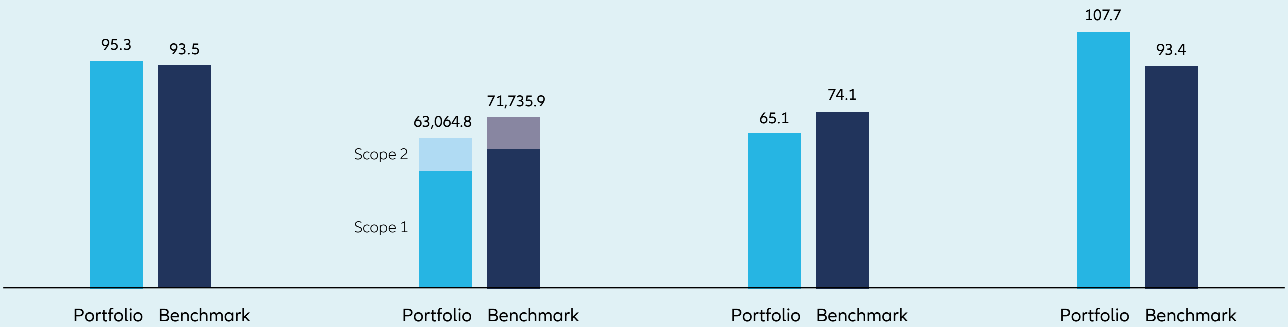
Purpose of climate data

- Assists active engagement with portfolio companies
- Identifies investment risks and opportunities
- Provides feedback and helps monitor progress towards climate goals and carbon reduction targets
- Supports portfolio managers' influence to achieve positive future outcomes
- Consistent reporting shows year-on-year trends.

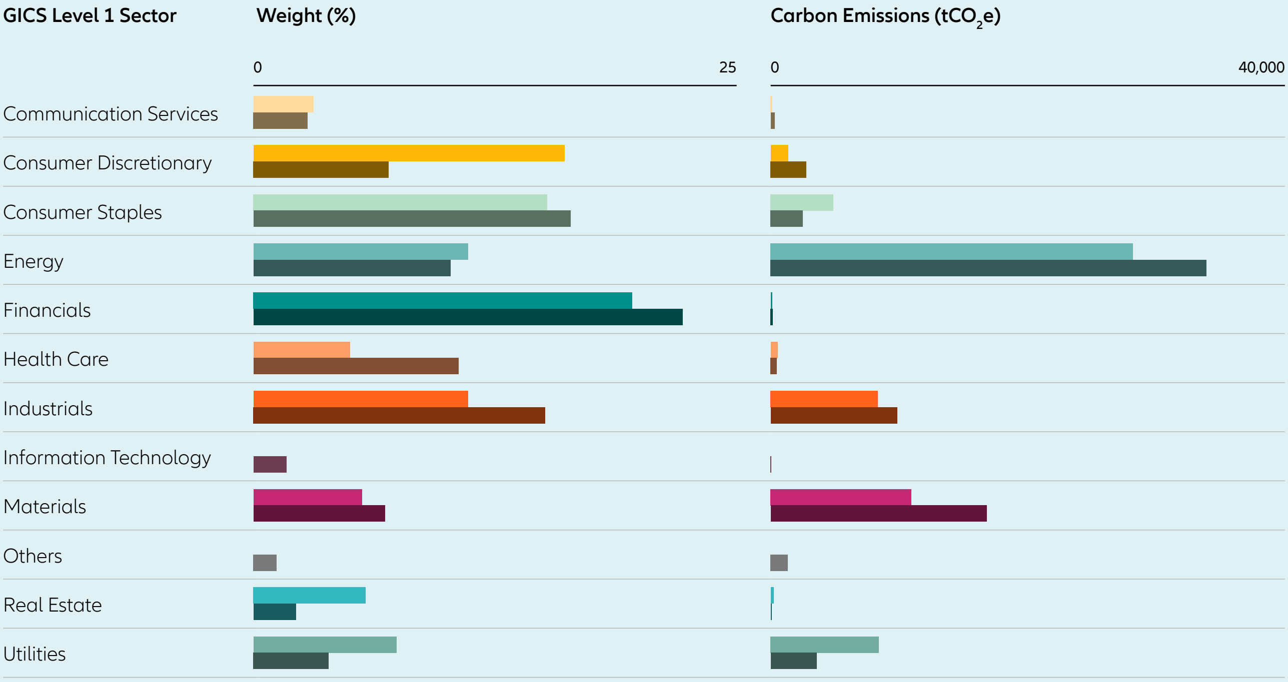
Some of these metrics, as last year, are shown below for Merchants' year to 31 January 2025.

Carbon footprint

Coverage (%)	Carbon emissions (tCO_2e)	Relative emissions exposure (tCO_2e / mn invested)	Relative emissions exposure (tCO_2e / mn sales)
		Relative carbon footprint	*Weighted average carbon intensity*



Carbon emissions by sector



Portfolio = top bar, benchmark = bottom bar.

We added to our position in **Assura**, the owner of 625 primary care properties, such as the GP surgery pictured, during the year. The company began building work on its new net zero carbon Altrincham head office towards the end of 2024. Assura subsequently received an unsolicited bid from a private equity fund.

PHOTO: ANDY MARSHALL PHOTOGRAPHY – ASSURA PLC

The Merchants Method

At the heart of our investment philosophy is a belief that stock markets are inefficient. By focusing on the fundamental qualities of businesses and identifying situations where those qualities are under-priced in the stock market, it is possible to deliver a high and rising income stream and superior long-term returns for investors.

A robust and repeatable investment process:

c. 1000+ stock universe, FTSE All-Share and AIM

Idea generation

- UK-listed income-generating equities with select overseas holdings
- Primary and secondary research

Stock selection

Fundamentals | Themes | Valuations

Portfolio construction

- 40-60 stocks
- High active share
- Risk management

Sell discipline

- Change of investment case
- Valuation
- Better opportunities

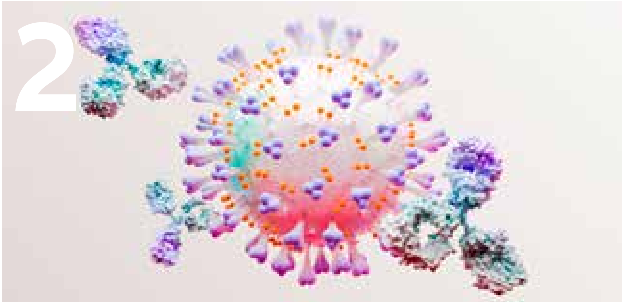
The Merchants Trust Portfolio

Top twenty holdings

British American Tobacco

Sector: Tobacco
Headquarters: United Kingdom
Value of holding: £47.3m
Percentage of portfolio: 4.9%

British American Tobacco (BAT) is one of the world's largest tobacco companies. The majority of its profits come from traditional cigarettes, but 17.5% of revenues in 2024 came from next-generation, non-combustible products which potentially offer reduced risk to consumers. BAT has prioritised investment in this area and these fast-growing products have achieved a profit contribution two years ahead of the original target. Strong cashflow and a high yield underpin the investment case.



GSK

Sector: Pharmaceuticals & Biotechnology
Headquarters: United Kingdom
Value of holding: £46.6m
Percentage of portfolio: 4.9%

GSK is a global bio-pharmaceutical company focused on vaccines, speciality medicines in areas such as HIV, respiratory illnesses and oncology, and some general medicines. We see an underappreciated improvement in performance, with GSK twice increasing its beyond 2030 sales projection, and some promising product developments including new HIV treatments and prevention therapies and a promising new treatment for multiple myeloma, a cancer of the bone marrow.

Shell

Sector: Oil, Gas & Coal
Headquarters: United Kingdom
Value of holding: £35.6m
Percentage of portfolio: 3.7%

Shell is a globally integrated energy company. By reallocating part of the profits from its legacy oil and gas activities towards lower carbon solutions – gas and liquefied natural gas in particular – Shell is playing a key role in delivering the energy transition. Our investment case has been based upon Shell's improving efficiency and profitability, a sound capital allocation strategy, which includes both financial returns and carbon emission criteria, and a modest valuation.

Lloyds Banking Group

Sector: Banks
Headquarters: United Kingdom
Value of holding: £35.5m
Percentage of portfolio: 3.7%

Lloyds is a leading UK retail bank, with a broad branch network and market share of around 20% in most retail products. Lloyds is focusing on digital transformation to reduce costs and improve service and efficiency. The bank has traditionally earned a premium return on equity by prioritising margin over volumes and through economies of scale. As profits have recovered, Lloyds has been increasing its cash returns to shareholders through higher dividends and a share buyback.

BP

Sector: Oil, Gas & Coal
Headquarters: United Kingdom
Value of holding: £32.4m
Percentage of portfolio: 3.4%

The investment case in BP is similar to Shell. BP is one of the global 'Oil Majors' – the largest and most influential multinational energy producers, with a blend of traditional and renewable energy assets. BP's robust oil and gas portfolio provides strong cash flow generation and a solid financial foundation. BP recently announced a welcome reset in its strategy, to allocate capital to higher returning businesses, pursue performance improvements and drive cost efficiencies.

DCC

Sector: Industrial Support Services
Headquarters: Ireland
Value of holding: £30.4m
Percentage of portfolio: 3.2%

DCC is a distribution operating in energy, healthcare and technology. Having started in Ireland and the UK, DCC acts as a consolidator in fragmented markets in Europe and the USA, reducing inefficiencies and boosting margins. The valuation is modest for a company with such an excellent track record of growth and the company is seeking to improve its value, initially by selling its healthcare division. This should achieve a good price and demonstrate the value in the group.

WPP

Sector: Media
Headquarters: United Kingdom
Value of holding: £28.8m
Percentage of portfolio: 3.0%

WPP is a leading advertising and media agency group with a broad span of businesses covering creative work and communications. The company has been restructured from a conglomerate into a smaller number of more integrated businesses. This is increasing the focus on higher growth sectors of technology, e-commerce, and experiences, to address an evolving marketplace. WPP's modest valuation does not reflect the repositioning of the business.

Rio Tinto

Sector: Industrial Metals & Mining
Headquarters: United Kingdom
Value of holding: £28.6m
Percentage of portfolio: 3.0%

Rio Tinto is a leading global metals and mining company, with activities spanning iron ore, aluminium, copper, and minerals. Rio has world-class, low-cost assets capable of generating strong financial returns. Our investment case is based on attractive long-term industry fundamentals, strong financial returns, and high dividends. Rio has exposure to critical elements, that are well positioned to benefit from demand as the world electrifies.

Tate & Lyle

Sector: Food Producers
Headquarters: United Kingdom
Value of holding: £28.1m
Percentage of portfolio: 2.9%

Tate & Lyle has undergone a transition, divesting most of its more commoditised operations and focusing instead on higher-value food and beverage ingredients and solutions designed to reduce calories, add dietary fibre, or improve nutritional qualities and taste. It also acquired a US company with complementary assets, and the synergies from this should soon feed into profits. Tate's improving returns profile and growth prospects are not recognised in the company's valuation.

Inchcape

Sector: Retailers
Headquarters: United Kingdom
Value of holding: £27.0m
Percentage of portfolio: 2.8%

Inchcape is the world's largest independent car distribution company, consolidating a fragmented market and growing rapidly through acquisitions. Car manufacturers increasingly need stronger partners in smaller markets to provide digital capabilities and industry best practice. We see additional earnings opportunities from services over the lifecycle of the vehicle, such as spare parts and financial services. Inchcape generates high financial returns and strong cash flows.

Barclays

Sector: Banks
Headquarters: United Kingdom
Value of holding: £25.7m
Percentage of portfolio: 2.7%

Barclays' financial services include retail banking, wealth management, credit cards and one of the best investment banking franchises of any European bank, all of which provide diversification benefits. Its balance sheet is strong in line with tightened banking regulations since the financial crisis. A strong rise in profits has seen Barclays increase dividend payments and undertake large share buybacks, which the market has rewarded with recent share price growth.

SSE

Sector: Electricity
Headquarters: United Kingdom
Value of holding: £25.4m
Percentage of portfolio: 2.7%

SSE is a diversified energy company largely focused on electricity transmission and distribution networks in Scotland and England, and electricity generation assets. The company has built a leading UK portfolio of renewable power assets which has created significant shareholder value. The investment case for SSE is based upon the long-term growth opportunities in both of its main businesses and a modest valuation.

National Grid

Sector: Gas, Water & Multiutilities
Headquarters: United Kingdom
Value of holding: £23.4m
Percentage of portfolio: 2.5%

National Grid is a British multinational electricity and gas utility company. National Grid has pivoted its portfolio away from gas towards electricity, aligning towards the global shift towards electrification of the energy supply, capitalising on growth in the UK and US electricity transmission networks. With a very defensive business model, National Grid benefits from inflation protection in revenues and offers a steady dividend yield.

IG Group

Sector: Investment Banking & Brokerage
Headquarters: United Kingdom
Value of holding: £23.4m
Percentage of portfolio: 2.5%

IG is a global leader in financial derivatives for the retail market. A new CEO brought an increased growth focus to a high-return digital business serving the demands of sophisticated investors and offering exposure to a broad selection of assets. IG benefits from market volatility, and is exposed to positive themes such as rising wealth and increased investible disposable income, and digital trends that see more people trade in more assets, in more places and more often.

Legal & General

Sector: Life Insurance
Headquarters: United Kingdom
Value of holding: £22.0m
Percentage of portfolio: 2.3%

Legal & General is one of the UK's largest life insurance companies, a market-leading asset manager and provider of pension solutions. The company is also a major investor in UK infrastructure, and urban regeneration projects. L&G has achieved significant growth in areas such as individual and bulk annuities. It has sold non-core assets and will use some of the proceeds to buy back its lowly valued shares. Its cash generation underpins a rising dividend and an attractive yield.

Barratt Redrow

Sector: Household Goods & Home Construction
Headquarters: United Kingdom
Value of holding: £22.0m
Percentage of portfolio: 2.3%

Barratt Redrow is a housebuilder formed from a 2024 merger. It covers a large spread within the UK market, and gains synergies from operating its sites with multiple brands and price points. There is long-term structural growth in demand for housing, a shortage of supply and favourable competitive industry dynamics as the new government seeks to encourage more house building. With limited technological risk, this is an attractive, though cyclical, industry.

Pets At Home Group

Sector: Retailers
Headquarters: United Kingdom
Value of holding: £21.7m
Percentage of portfolio: 2.3%

Pets at Home combines a market leading pet store chain with a growing and highly attractive veterinary joint venture business. The shares have been weak due to a lull in sales after the Covid driven expansion in UK pet ownership and a competition and markets review into the veterinary industry. We believe the company's exposure to this review is limited and see the valuation as very attractive for a market leading business.

Drax Group

Sector: Electricity
Headquarters: United Kingdom
Value of holding: £19.6m
Percentage of portfolio: 2.1%

UK-based renewable energy company Drax Group produces sustainable biomass which it uses to create electricity to sell to businesses and consumers. Shares are cheaply valued in the context of current profitability, particularly as demand for clean energy grows. Drax has recently secured a contract in the UK to extend its electricity generation beyond 2027. Longer term, bioenergy carbon capture and storage technology could become a meaningful growth driver for the company.

Whitbread

Sector: Travel & Leisure
Headquarters: United Kingdom
Value of holding: £19.4m
Percentage of portfolio: 2.0%

Whitbread is a long-established company which owns the Premier Inn hotel chain. It has a leading position in the UK market and is investing in an exciting opportunity to grow into a similar position in Germany. Its large UK market share and strong freehold property base are strategic advantages. The company is modestly valued considering its long-term potential and growth drivers such as Germany and the repositioning of some of its restaurant space into additional rooms.

Imperial Brands

Sector: Tobacco
Headquarters: United Kingdom
Value of holding: £18.9m
Percentage of portfolio: 2.0%

Imperial Brands is a major global producer of cigarettes, tobacco, and nicotine products. The investment case is similar to British American Tobacco, although Imperial is further behind in next generation products. Under the current management team, the business has delivered improved operational performance. Having reduced its debt, it has been buying back shares, helping the shares' performance.

Total value of top twenty holdings: **£561.8m**   Percentage of portfolio: **58.9%**

Portfolio breakdown

at 31 January 2025

Name	Principal activities	Value £'000s	% of listed holdings	Benchmark weighting
British American Tobacco	*Tobacco*	47,284	4.9	2.6
GSK	*Pharmaceuticals & Biotechnology*	46,576	4.9	2.3
Shell	*Oil, Gas & Coal*	35,644	3.7	6.7
Lloyds Banking Group	*Banks*	35,522	3.7	1.5
BP	*Oil, Gas & Coal*	32,372	3.4	2.7
DCC	*Industrial Support Services*	30,380	3.2	0.2
WPP	*Media*	28,770	3.0	0.3
Rio Tinto	*Industrial Metals & Mining*	28,612	3.0	2.1
Tate & Lyle	*Food Producers*	28,120	2.9	0.1
Inchcape	*Retailers*	27,000	2.8	0.1
Barclays	*Banks*	25,691	2.7	1.7
SSE	*Electricity*	25,362	2.7	0.7
National Grid	*Gas, Water & Multiutilities*	23,425	2.5	1.9
IG Group	*Investment Banking & Brokerage*	23,386	2.5	0.1
Legal & General	*Life Insurance*	22,037	2.3	0.6
Barratt Redrow	*Household Goods & Home Construction*	22,006	2.3	0.2
Pets At Home Group	*Retailers*	21,677	2.3	0.0
Drax Group	*Electricity*	19,637	2.1	0.1
Whitbread	*Travel & Leisure*	19,410	2.0	0.2
Imperial Brands	*Tobacco*	18,904	2.0	0.9
Man Group	*Investment Banking & Brokerage*	18,488	1.9	0.1
Land Securities Group	*Real Estate Investment Trusts*	17,910	1.9	0.2
Dowlais Group	*Automobiles & Parts*	17,278	1.8	0.0
Harbour Energy	*Oil, Gas & Coal*	17,176	1.8	0.1
Energean	*Oil, Gas & Coal*	16,926	1.8	0.1
Unilever	*Personal Care, Drug & Grocery Stores*	16,675	1.7	4.6
Morgan Advanced	*Electronic & Electrical Equipment*	16,411	1.7	0.0
Grafton Group	*Industrial Support Services*	15,841	1.7	0.1
Assura	*Real Estate Investment Trusts*	15,725	1.6	0.0
Unite Group	*Real Estate Investment Trusts*	15,032	1.6	0.1
Burberry Group	*Personal Goods*	14,900	1.6	0.2
Bellway	*Household Goods & Home Construction*	14,462	1.5	0.1
OSB Group	*Finance & Credit Services*	12,747	1.3	0.1
Marshalls	*Construction & Materials*	12,570	1.3	0.0
Entain	*Travel & Leisure*	12,390	1.3	0.2

Name	Principal activities	Value £'000s	% of listed holdings	Benchmark weighting
Aena[1]	*Industrial Transportation*	11,333	1.2	-
SCOR[1]	*Non-Life Insurance*	11,309	1.2	-
Bank of Ireland Group[1]	*Banks*	11,277	1.2	-
Haleon	*Pharmaceuticals & Biotechnology*	11,238	1.2	1.2
Lancashire Holdings	*Non-Life Insurance*	11,176	1.2	0.1
Conduit Holdings	*Non-Life Insurance*	10,783	1.1	-
Atalaya Mining	*Precious Metals & Mining*	10,062	1.1	-
PZ Cussons	*Personal Care, Drug & Grocery Stores*	9,327	1.0	0.0
Next	*Retailers*	8,957	0.9	0.5
Tesco	*Personal Care, Drug & Grocery Stores*	8,747	0.9	1.0
Close Brothers Group	*Banks*	8,704	0.9	0.0
Keller	*Construction & Materials*	8,546	0.9	0.0
SThree	*Industrial Support Services*	8,312	0.9	0.0
DFS Furniture	*Retailers*	7,395	0.8	0.0
Norcros	*Construction & Materials*	6,675	0.7	0.0
CLS Holdings	*Real Estate Investment & Services*	5,184	0.5	0.0
XP Power	*Electronic & Electrical Equipment*	4,917	0.5	0.0
Duke Royalty	*Finance & Credit Services*	4,226	0.4	-
Total invested funds		**954,514**	**100.0**	

[1] International stock

The portfolio has been broken down into three categories to provide shareholders with a greater insight into the investment rationale for different shareholdings. These are:

Classic value: These are valuation-driven investments. Typically, the shares of a company will trade at a substantial discount to their intrinsic value because the business is misunderstood or out of favour with the market. While there need not be long-term growth, the business model is structurally sound and financial risk is limited.

Franchise: These are business model driven investments. Our investment cases are always premised on attractive absolute valuations. However, a franchise investment has the added advantage of delivering long-term growth with the potential to compound value. These are quality companies with sustainable advantages where either the market has lost sight of the fact or has yet to recognise it.

Special situations: These are catalyst driven investments. Each business within this category will face a unique set of circumstances that has caused the value of the shares to weaken significantly. These can include business turnarounds, spin-offs or balance sheet restructurings. For us to invest in such an event, the market's perception of this weakness needs to be overstated in the share price. Conversely, the market is also likely to be slow in recognising any ensuing recovery.

Written call options

As at 31 January 2025, the market value of the open option positions was £(238,500) (2024: £(56,825)), resulting in an underlying exposure to 1.48% of the portfolio (valued at strike price).

Distribution of total assets

at 31 January 2025

	2024 total %	2025 Composite benchmark sector weighting	2025 total %
Financials			
Banks	6.8	11.8	8.5
Finance & Credit Services	1.6	2.6	1.7
Investment Banking & Brokerage	5.5	3.6	4.3
Life Insurance	2.2	2.1	2.3
Non-Life Insurance	5.0	0.9	3.5
	21.1	**21.0**	**20.3**
Consumer Discretionary			
Automobiles & Parts	-	0.1	1.8
Consumer Services	-	1.9	-
Household Goods & Home Construction	4.2	1.0	3.8
Leisure Goods	-	0.2	-
Media	3.0	4.4	3.0
Personal Goods	-	0.2	1.5
Retailers	4.5	1.5	6.7
Travel & Leisure	1.1	2.3	3.3
	12.8	**11.6**	**20.1**
Consumer Staples			
Beverages	-	2.4	-
Food Producers	2.8	0.6	2.9
Personal Care, Drug & Grocery Stores	5.7	7.7	3.6
Tobacco	6.4	3.5	6.9
	14.9	**14.2**	**13.4**
Industrials			
Aerospace & Defence	-	4.1	-
Construction & Materials	6.5	0.5	2.9
Electronic & Electrical Equipment	2.5	1.1	2.2
General Industries	-	1.4	-
Industrial Engineering	-	0.6	-
Industrial Support Services	9.8	3.3	5.6
Industrial Transportation	1.3	1.2	1.2
	20.1	**12.2**	**11.9**

	2024 total %	2025 Composite benchmark sector weighting	2025 total %
Energy			
Oil, Gas & Coal	10.6	9.6	10.5
	10.6	**9.6**	**10.5**
Utilities			
Electricity	5.9	0.9	4.6
Gas, Water & Multiutilities	2.5	2.8	2.4
	8.4	**3.7**	**7.0**
Health Care			
Pharmaceuticals & Biotechnology	6.7	10.6	6.0
Health Care Providers	-	0.0	-
Medical Equipment & Services	-	0.5	-
	6.7	**11.1**	**6.0**
Real Estate			
Real Estate Investment Trusts	3.3	2.0	5.0
Real Estate Investment & Services	0.8	0.4	0.5
	4.1	**2.4**	**5.5**
Basic Materials			
Chemicals	-	0.4	-
Precious Metals & Mining	0.9	0.2	1.0
Industrial Metals & Mining	2.8	5.3	3.0
	3.7	**5.9**	**4.0**
Technology			
Software & Computer Services	-	1.3	-
	0.0	**1.3**	**0.0**
Telecommunications			
Telecommunications Service Providers	-	1.0	-
	0.0	**1.0**	**0.0**
Not classified	-	6.0	-
Total investments	**102.4**	**100.0**	**98.7**
Net current liabilities	**(2.4)**	**-**	**1.3**
Total assets*	**100.0**	**100.0**	**100.0**

The classifications and prior year comparatives have been updated, where required, to reflect recent changes in the Industry Classification Benchmark (ICB) standard.

* Total assets (less creditors due within one year) £966,603,000 (2024: £854,388,000).

We added to our position in pet retailer **Pets at Home**, where we believe the veterinary business is significantly undervalued.

Strategic Report

Our strategy

Business model

The Merchants Trust carries on business as an investment company and follows the investment policy described below. The company is governed by an independent board of non-executive directors and has no employees or premises of its own. Like other investment companies, it outsources investment management, accounting, company secretarial and other administration services to an investment management company – Allianz Global Investors UK Limited (AllianzGI UK) – and other third parties to provide shareholders with an efficient, competitive, cost-effective way to gain wide investment exposure through a single investment vehicle.

The company's shares are listing on the Main Market of the London Stock Exchange. In addition to annual and half-yearly financial reports, the company announces Net Asset Values per share daily and provides more detailed information monthly to the Association of Investment Companies (AIC), of which the company is a member, in order for brokers and investors to compare its performance with its peer group.

A review of the company's business, activities and prospects is given in the Chairman's Statement starting on page 7, and in the Investment Manager's Review starting on page 15.

Strategy review

Every year we hold a strategy meeting outside the regular timetable of board meetings. At the most recent meeting in November 2024 the topics covered included:

- Market background and Merchants' positioning
- UK equities long-term views
- Marketing and industry perspectives
- Gearing and a refinancing review

At the review it was agreed that the refinancing of borrowings would take place before the maturity of the Revolving Credit Facility in January 2025 and gearing would continue to be kept under review to ensure the financing structure was appropriate and to manage debt maturities.

The board would also continue its engagement with investment platforms in the year ahead to understand its retail investor audience. This would enable Merchants to promote and stimulate retail investor demand through compelling and authentic communications from the company and reaffirm Merchants as a core income vehicle for investors in UK equities.

Investment Policy

Objective

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

Performance is benchmarked against the FTSE All-Share Index, reflecting the emphasis within the portfolio. The company's investment performance is also assessed by comparison with other investment trusts within the UK Equity Income sector.

Gearing

The company's policy is to remain substantially fully invested. The company has the facility to gear – borrow money – with the objective of enhancing future returns. Gearing is in the form of a short-term revolving credit facility and fixed rate longer-term borrowings. The board monitors the level of gearing and makes decisions on the appropriate action based on the advice of the manager and the future prospects of the company's portfolio.

The company's authorised borrowing powers set out in the Articles state that the company's borrowings may not exceed its called up share capital and reserves. The board's policy is to maintain gearing (borrowings as a percentage of net assets) in the range of 10 - 25%, (measured at the time that any increase in total borrowing facilities is agreed). Gearing averaged 14.6% in the year to 31 January 2025 (2024: 13.8%).

Depending on equity market conditions, gearing may be outside this range from time to time but it is not the board's intention to increase total borrowing facilities if gearing is above the range.

Risk diversification

The company aims to achieve a spread of investments, with no single investment representing more than 15% of assets. The company seeks to diversify its portfolio into at least five market sectors, with no one sector comprising more than 35% of the portfolio.

Strategic aims

The company's aims, as reflected in the KPIs reporting on page 12, continue to be to:

Dividends

- Provide a high and progressively growing income stream. The chart on page 6 shows dividend increases every year since 1982 and the KPI chart on page 13 shows the contribution to dividend reserves in the past five years.

Shareholder return

- Provide long-term capital growth
- Provide a long-term total return above the benchmark and peers
- The KPI chart on page 13 shows the returns against the benchmark.

Investor appeal

- Position Merchants to outperform peers, ensuring that the company remains relevant and attractive to new and existing investor groups
- Manage the costs of running the company so that they remain reasonable and competitive
- The KPI charts on page 13 include a comparison of ongoing charges against the peer group.

Investment strategy

We aim to achieve our objective through a strategy of investing in a portfolio of mainly higher yielding large UK companies and by using appropriate gearing to enhance returns. This strategy is designed for those investors who require a single investment in a diversified and professionally managed portfolio.

More detail on the investment philosophy and stock selection process is set out in the investment manager's review from page 40, which will help shareholders understand how and why the manager invests the way he does and sets the background for individual investment decisions.

Marketing

The company's marketing activity promotes Merchants to investors looking for exposure to capital growth in large UK equities and an above average level of dividend. The policy is to reach out to private investors managing their own investments as well as wealth managers and institutional fund managers. The work with our partners to do this is discussed in the table of stakeholder engagement on page 52.

The company undertakes joint marketing initiatives with a number of market-leading investment platforms and this has proved to be a highly successful strategy. The portfolio manager, Simon Gergel, speaks at investor conferences and events and records interviews and podcasts available through our website.

Discount/premium

The discount/premium of the share price to Net Asset Value is closely monitored. When shares are trading at a premium, the policy is to be prepared to issue shares to meet natural demand in the market. Conversely, when shares are trading at a significant discount, shares may be bought back and cancelled or held in treasury.

Section 172 report

Engagement with key stakeholders

The company's shareholders are its primary stakeholders. Other stakeholders include service providers and the portfolio companies in which the company invests.

The board's strategy is facilitated by interacting with a wide range of stakeholders through meetings, seminars, presentations and publications and through contacts made through our suppliers and intermediaries.

Engagement with the company's stakeholders enables the company to fulfil its strategies and to promote the success of the company for the benefit of the shareholders as a whole.

Below are some examples of the ways that Merchants has interacted with stakeholders to demonstrate how the board and its agents have considered stakeholders in pursuit of the success of the company and the promotion of that success for the long term:

Shareholders

Why we engage:
Shareholders receive relevant information to enable them to evaluate whether their investment interests are aligned with the strategy of the company.

The directors get feedback and views on shareholder priorities such as sustainability of income, risks and gearing levels which inform the board's strategy discussions and decisions.

How we engage and what we do:
We communicate through the annual and half-yearly reports, monthly factsheets, website, press articles, podcasts and LinkedIn posts. Meetings are held with professional shareholder groups. The AGM provides a focus for interaction with shareholders. The AGM is a live event, and this year for the first time it will be run as a hybrid event, with the opportunity for shareholders to meet the board and managers and for live questions from shareholders both in person and online, as well as those submitted in advance.

Actions:
The board discussed and approved a budget for a marketing and communications programme which would extend information available to shareholders and potential new investors. The website was regularly updated with new podcasts and interviews with the portfolio manager. The company is working with a media partner to ensure Merchants and information about the company is easily accessible online.

Service providers

Why we engage:
The board works with AllianzGI who provide investment management, accounting and secretarial services as well as expertise in sales and marketing for a competitive management fee. The board has appointed HSBC as depositary and custodian and MUFG, formerly Link Group, as registrar to provide specialist services. Another key service provider is State Street who provide middle office and fund accounting services through a contractual arrangement with AllianzGI.

How we engage and what we do:
Our manager maintains regular contact and ensures service levels are satisfactory and appropriate controls are in place with Merchants' service providers. In the past year the manager has continued to report how it has adjusted the portfolio in response to the challenges of the geopolitical and economic environment.

Actions:
During the year the board worked with the manager to oversee and monitor the improved processes and controls at AllianzGI's outsourced third-party provider of middle office services and the board obtains regular updates on due diligence from the manager.

Portfolio companies

Why we engage:
The board approves the manager's active, stock picking approach and believes in good stewardship.

How we engage and what we do:
On the company's behalf the manager engages with investee companies, including on ESG matters and exercises its votes at company meetings. There are details of engagement and proxy voting on pages 36 and 37.

Actions:
Merchants actively votes at portfolio company meetings. Reports on engagement and case studies are in the Portfolio Manager's Report which starts on page 16.

Distribution and media partnerships

Why we engage:
To reach a wider audience of investors, the company works with firms providing access to platforms and wealth managers, as well as public relations advisers. The board receives detailed feedback to confirm wide and growing interest in the company's shares.

How we engage and what we do:
The manager together with our distribution partners arranges presentations about Merchants at virtual and real-life events and has employed research publications to reach investors through share trading platforms, wealth managers and through websites. The board has reflected on the value of this to the end user and has been focusing resources on partnerships with financial publications and making Merchants more accessible online.

Actions:
Merchants participated in events such as the AIC Showcase 2024 , a Citywire webinar and a recent in person and online AJ Bell conference. Spikes in website hits and new investment in the company on retail platforms after press coverage and distribution partner events. Shares were added to the holdings across direct-to-consumer platforms in the year.

Risk report

Risk policy

The board operates a risk management policy to ensure that the level of risk taken in pursuit of the board's objectives and in implementing its strategy is understood. The principal risks identified by the board are listed below, together with the actions taken to mitigate them, and set out in the Risk Map on page 55.

A more detailed version of the chart is reviewed and updated by the audit committee at least twice yearly. This sets out risk types, key risks identified and their status, the controls and mitigation in place to address these risks, together with the evidence of controls and gives an assessment of the risk using a traffic-light system, as shown at the bottom of the chart, to confirm the outcome of the assessment of the risk.

The board has carried out a robust assessment of the principal and emerging risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity and emerging risks and how they monitor and manage them and disclose them in the Annual Report. The process by which the directors monitor risk is described in the Audit Committee Report on page 77.

Investment and portfolio risks

1.1 Market decline

Risk: Macro-economic shocks to the portfolio if the board and manager fail to predict changes to the investment environment; significant market movements may adversely impact the investments held by the company increasing the risk of loss or challenges to the investment strategy; reduction of dividends across the market affecting the portfolio yield and the ability to pay in line with dividend policy.

Response: Macro-economic and political risks are taken into account during portfolio construction, although stock selection is predominantly 'bottom up' driven. The portfolio is diversified across industries and stocks to mitigate the impact of individual share price volatility. Whilst the portfolio is mainly invested in UK listed companies, the end market exposures of these businesses are spread around the world. The portfolio is stress-tested at least monthly.

1.2 Market liquidity and pricing

Risk: Failure of investments, for example, due to poor oversight and monitoring.

Response: Detailed reports on stock selection and other investment management processes are received from the manager by the board. Liquidity is monitored closely by the manager and any concerns are raised with the board for agreed action to be taken.

1.3 Counterparty

Risk: Non-delivery of stock by a counterparty leading to an interest claim or buy-in.

Response: The manager operates on a delivery versus payment system, reducing the risk of counterparty default. Any issues or systemic problems would be discussed with the board and remedial actions agreed.

1.4 Currency

Risk: Exposure to exchange rate movements which can affect, for example, dividend income.

Response: The portfolio is mainly invested in UK-listed companies, with shares predominantly priced in sterling. Exposure is therefore primarily indirect, but well diversified. Board papers monitor the income split by currency to assess risks to the revenue account.

Business and strategy risks

2.1 Shareholder relations

Risk: The investment objectives, or views on decisions such as gearing, discount management, dividend policy, of existing shareholders may not coincide with those of the board leading investors to sell the ordinary shares.

Response: Reports on shareholder sentiment are received from the manager and brokers and reviewed by the board. Shareholders are actively encouraged to make their views known.

2.2 Investment strategy

Risk: Inappropriate investment strategy for example asset allocation or the

ESG risks

ESG risks are covered and described in the Portfolio ESG risk assessment on page 36. SuSIE provides a tool to identify risks in ESG engagements and how they fit in the investment process - see page 37.

Principal risks

The principal risks are now considered to be emerging risks, followed by risks relating to investment strategy and investment performance. Those identified as having the highest impact and the greatest likelihood are the following:

3.9 **Geopolitical**.

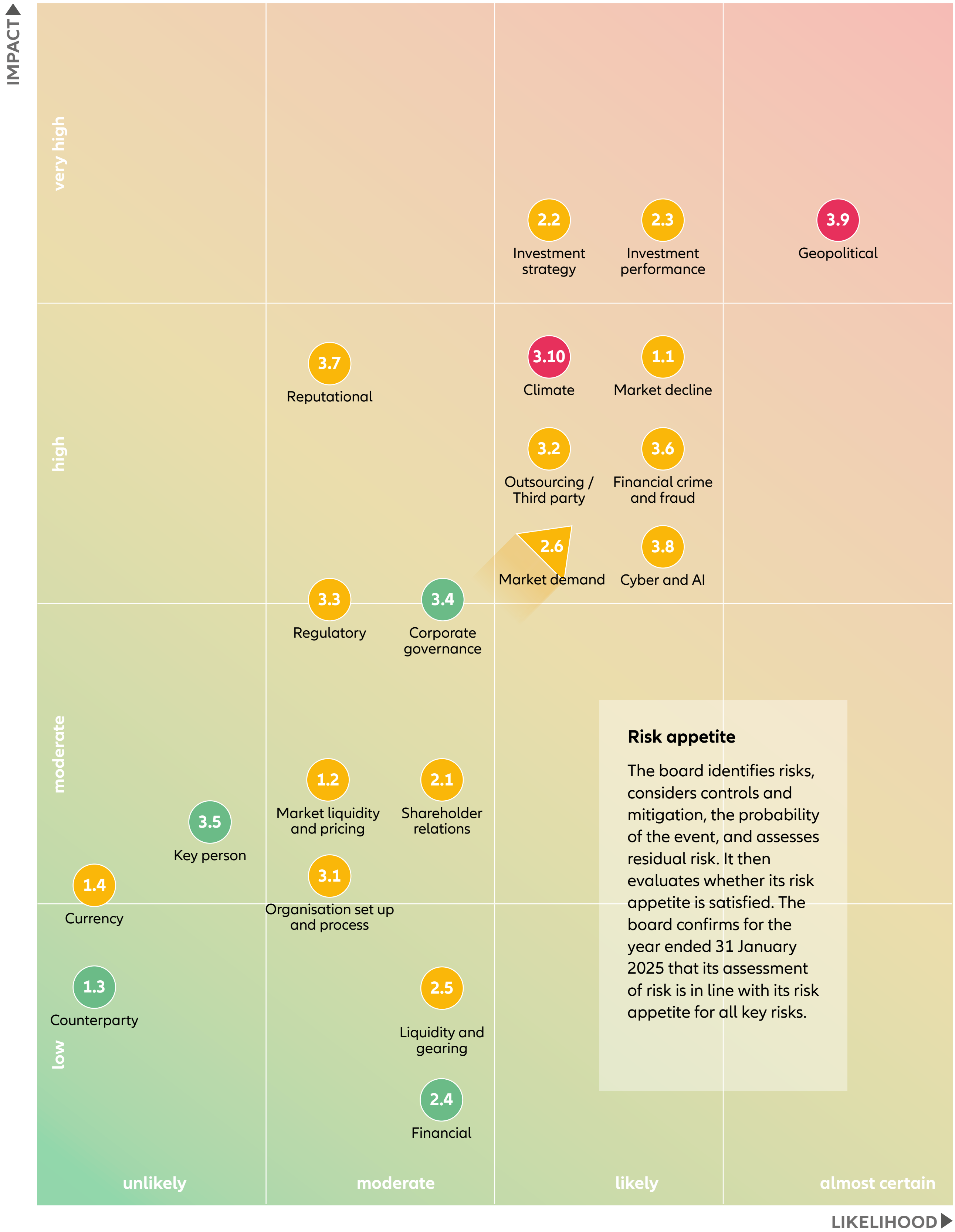
3.10 **Climate**.

Some principal risks have been assessed as being as likely to occur as last year.

2.2 **Investment strategy**: for example, asset allocation or the level of gearing may lead to a failure to meet the company's objectives, such as income generation and dividend growth.

2.3 **Investment performance**: for example, poor stock selection for the portfolio leads to decline in the rating and attraction of the company.

Risk Map



Risk appetite

The board identifies risks, considers controls and mitigation, the probability of the event, and assesses residual risk. It then evaluates whether its risk appetite is satisfied. The board confirms for the year ended 31 January 2025 that its assessment of risk is in line with its risk appetite for all key risks.

- Risk is acceptable, no additional measures needed
- Risk is of concern but sufficient measures are defined and have been or are being implemented
- Risk is of concern, sufficient mitigation measures not possible

level of gearing may lead to a failure to meet the company's objectives, such as income generation and dividend growth, and capital growth, or lead to underperformance against the company's benchmark index or against peer group companies. This may lead to the company's shares trading on a wider discount.

Response: Board policies restrict the size of investments in individual companies and sectors. The board closely monitors the income projections for the portfolio, and the level of risk and diversification of this income, to ensure the company can meet its income objectives. The board also reviews the suitability of the investment strategy and the stock selection process regularly, and considers its gearing policy frequently. All of these topics are considered in depth at the annual strategy review.

2.3 Investment performance

Risk: Persistent poor performance against benchmark or peers leads to decline in rating and attraction of the company to investors.

Response: The Investment Manager attends all board meetings to discuss performance with the directors. The board manages these risks by giving investment guidelines which are monitored at each meeting. The board reviews the investment performance of the company against the benchmark and peer group. The board regularly discusses composition and succession planning to ensure that sufficient board members have the appropriate background and knowledge to evaluate performance.

2.4 Financial

Risk: Various factors might include poor title to investment holdings, Net Asset Values calculated incorrectly, written options not covered, inaccurate revenue forecasts, incorrectly calculated management fees, incorrectly identified expense payments.

Response: A rolling income forecast (including special dividends), balance sheet and expenses are reviewed at every board meeting. Reporting from the custodian covering internal controls in place over custody of investments and over appointment and monitoring of sub-custodians is produced and reviewed at least annually.

The board's investment restrictions are input in trading systems to impose a pre-trade check. The manager discusses derivative activity during a monthly risk call. Any overdue dividend debtors are monitored by the manager and variance analyses of income from meeting to meeting are provided to the board. The board annually reviews and approves the accounting policy for the income/capital split.

2.5 Liquidity and gearing

Risk: Insufficient income generated by the portfolio and due to stock market falls gearing increases to levels unacceptable to shareholders and the market which in extreme circumstances results in a breach of loan covenants.

Response: The board meets with the portfolio managers and considers asset allocation, stock selection and levels of gearing on a regular basis. Investment restrictions and guidelines are monitored and reported on by AllianzGI. Regular compliance information is prepared on covenant requirements.

2.6 Market demand

Risk: The level of discount of the share price to the NAV moves to unacceptable levels, threatening confidence in the company's shares.

Response: The board regularly reviews the level of premium and discount and new shares can be issued or existing shares bought back by the company at discounts greater than an agreed level when there is demand to do so.

Operational risks

3.1 Organisation set up and process

Risk: Failure or other issues in the operational set up of the company, through people, processes, systems or external events, examples including changes in management company structure, oversight issues, appropriate governance of processes could result in financial loss to the company or its inability to operate.

Response: The manager and the other key service providers report on business continuity plans and the resilience of their response to extreme situations. Third party internal controls reports are also received from these service providers.

3.2 Outsourcing and third party

Risk: Inadequate procedures for the identification, evaluation and management of risks at outsourced providers and roles of the third party are not clear and gaps in the service appear.

Response: The board receives formal assurance reports from all of its direct service providers and the manager carries out regular monitoring of outsourced administration functions, this includes compliance visits and risk reviews where necessary. Results of these reviews are supplied to the board.

3.3 Regulatory

Risk: Failure to be aware of or comply with legal, accounting and regulatory requirements which could result in censure, financial penalty or loss of investment company status.

Response: The board maintains close relations with its advisers and makes preparations for mitigation of these risks as and when they are known or can be anticipated.

3.4 Corporate governance

Risk: Weak adherence to best practice in corporate governance can result in shareholder discontent and potential reputational damage to the company.

Response: The board takes regular advice on best practice. The board is highly experienced and knowledgeable about corporate governance best practice, and the board includes directors who are board members of other large UK plcs and other investment companies.

3.5 Key person

Risk: Departure of the portfolio manager, certain professional individuals, and/or board members, may impact the management of the portfolio, the achievement of the company's investment objective and/or disruption to its operations.

Response: Manager and board succession plans are in place. Cover is available for core members of the relevant teams of the manager, and work can be carried out by other team members should the need arise.

3.6 Financial crime and fraud

Risk: That the company and the manager's firm, its employees, or clients are subject to financial crime or breach elements of the Bribery Act.

Response: AllianzGI has anti-fraud, anti-bribery policies and robust procedures in place. The board is alert to the risks of financial crime and reviews how third party service providers handle these. These reports confirm that all systems are secure and are updated in response to any new threats as they arise.

3.7 Reputational
Risk: Examples include unforeseen changes, oversight issues, appropriate governance of processes in the management company structure; association with poor governance in portfolio companies; and operational issues in service providers, all of which can affect the reputation of the company.

Response: Service providers are monitored and the manager provides oversight and timely and detailed information on any reputational issues and communicates actions being taken with the board for discussion.

3.8 Cyber security and AI
Risk: Increased cyber attacks and from traditional and generative Artificial Intelligence (AI) in respect of malicious AI, its rapid growth and the lack of regulation.

Response: The board is alert to the threat of and risks from cyber attacks and reviews how third party service providers handle these threats and risks. These reports confirm that all systems are secure and are updated in response to any new threats as they arise. The board asks for and receives assurance from key suppliers on AI developments and threats.

3.9 Geopolitical
Risk: Unpredictable consequences of political and macro-economic shocks such as the repercussions of the invasion of Ukraine by Russia and the conflict in Gaza, US interventions and tariff impositions, ongoing inflation concerns and the threat to income and cost of gearing.

Response: The board carries out horizon scanning by keeping informed through its manager and advisers on the political, economic and legal landscape, and reviews updates received on regulatory changes that affect the company including industry and manager thematic outlook and insights research publications. The board is fully engaged with its management company, AllianzGI, and its other advisers to keep informed about ongoing changes and is ready to adapt its strategies in order to achieve its objectives.

3.10 Climate
Risk: that climate change is not recognised or understood by the manager, exposing the portfolio to stocks not positioned to transition to decarbonisation.

Response: The manager has a detailed climate policy which is incorporated in the investment process, e.g., through exclusion policies and other methodologies. Its Sustainability Insights Engine (SusIE) facilitates the consideration of climate data in the investment process. The manager engages with investee companies on climate issues and to influence transition pathways.

Viability Statement

The Merchants Trust is an investment company and has operated as an investment vehicle since 1889 with the aim of offering a return to investors over the long term. The board has confidence in the future of the company. Over its 136 year history, the company has survived numerous external crises and economic events; it has a solid portfolio of blue chip stocks and has built up substantial revenue reserves. The directors have formally assessed the company's prospects for a period longer than the one year required by the Going Concern principle. The directors believe that five years is an appropriate outlook period for this review as this is broadly equivalent to the portfolio's investment cycle. Whilst acknowledging the difficulty of forecasting prospects for markets beyond a relatively short horizon, the board believes that this should give investors assurance that there is a realistic prospect that the company will continue to be viable and continue to seek to achieve its aim to provide an above average level of income and income growth together with long term capital growth.

The board has assessed the long-term viability of the company against the principal risks faced by the company, outlined in the risk reporting within the Strategic Report. The chief risks that could pose a threat to the future prospects of the company are investment strategy, investment performance, emerging risks and market decline, as described in the risk reporting from page 54.

The board considered the following in its assessment:

1. The company's investment strategy and the long-term performance of the company, together with the board's view that it will continue to provide long-term returns to shareholders as well as an attractive income as it has done in the past.
   (i) The board examines performance with the investment managers at each board meeting and strategy meeting. Performance is reviewed against the company's stated strategy and the continuing relevance of the company as a provider of a vehicle for investors looking for a portfolio invested in leading companies with strong balance sheets and the ability to pay attractive dividends.
   (ii) The board receives reports at every board meeting of the transactions in the company's shares. The company is a member of the FTSE 250 and there is liquidity in its shares.

2. The financial position of the company, including the impact of foreseeable market movements on cash flows - the board monitors the financial position in detail at each board meeting and at least twice each year it stress-tests the portfolio against significant market falls. The methods used are:
   (i) Loan covenants stress testing (checking monthly on the decline in asset values needed to breach covenants).
   (ii) Stress testing the portfolio (reviewing the time it would take to sell portfolio stocks).
   (iii) The assessment of future portfolio income and the impact of the payment of dividends on reserves (reviewing rolling forecasts of income based on the current portfolio at every meeting).

3. The company's ability to meet interest payments and debt redemptions as they fall due. The RCF was repaid in January 2025 with new Private Placement Notes which are due to mature in 2040.

The board continues to consider its gearing strategy on an ongoing basis. The next scheduled repayment of debt is in 2029 and the board continues to monitor how and when is best to fund this repayment.

4. The liquidity of the portfolio, and the company's ability to pay growing dividends and to meet the budgeted expenses of running the company, which is examined at each board meeting.

(i) Liquidity testing is carried out on Merchants' portfolio by AllianzGI on an ongoing basis. Stocks are listed on major exchanges. There are no unlisted investments in the portfolio.

(ii) Portfolio income is reviewed by the board at each meeting and conservative assumptions are made in estimated revenue accounts in the board meeting papers (based on historic portfolios, assuming no dividend increases).

(iii) Ongoing charges are operating expenses incurred in the running of the company (excluding financing costs). The ongoing charges figure is calculated by dividing operating expenses, i.e., the management fee and all administration expenses, by the company's Net Asset Value. This calculation is carried out formally each year and published in the Annual Report (in accordance with the AIC's recommendations). The expenses of running the company have been calculated at 0.52% of net assets in the latest year (2024: 0.55%). These charges are low and should be met by the company without difficulty in each of the five years under review.

5. The company's resilience in facing the risks and consequences of an unanticipated macroeconomic shocks and grave geopolitical events and its ability to continue to maintain its objectives and provide the required shareholder returns.

The board has received detailed reports and periodic updates from AllianzGI and its other key service providers on the resilience of their controls environment and ability to continue to deliver their services when necessary, with usage of remote access capabilities, including for portfolio management activities. The board has received assurances that AllianzGI operates to standards for business continuity management and resilience which reflect market standards, such as ISO22301. This resulted in minimum disruption through the pandemic and in the post-pandemic environment.

The portfolio manager has provided forecasts to demonstrate the reasonable prospect of, having utilised revenue reserves previously, maintaining a covered dividend and building reserves against future requirements. This supports the continuation of the company's objectives to provide a high level of income and income growth together with long-term capital growth for its shareholders and which supports the viability of the company for the five-year period contemplated.

The directors have evaluated the risks and consequences of global events and have considered the company's ability to maintain its objectives and provide shareholder returns in the five year horizon for viability and believe that the company is well placed to be able to achieve this.

Based on the results of this assessment and on the assumption that the risks above are managed or mitigated effectively, the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the five year period of their review.

Going Concern

Following all the investigations made in the Viability review above, the directors have concluded that the company has adequate resources to continue in operational existence. The directors have also considered the risks and consequences of macroeconomic and other unanticipated shocks on the company and have concluded that the company has the ability to continue in operation and meet its objectives for twelve months after the approval of the Annual Report. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

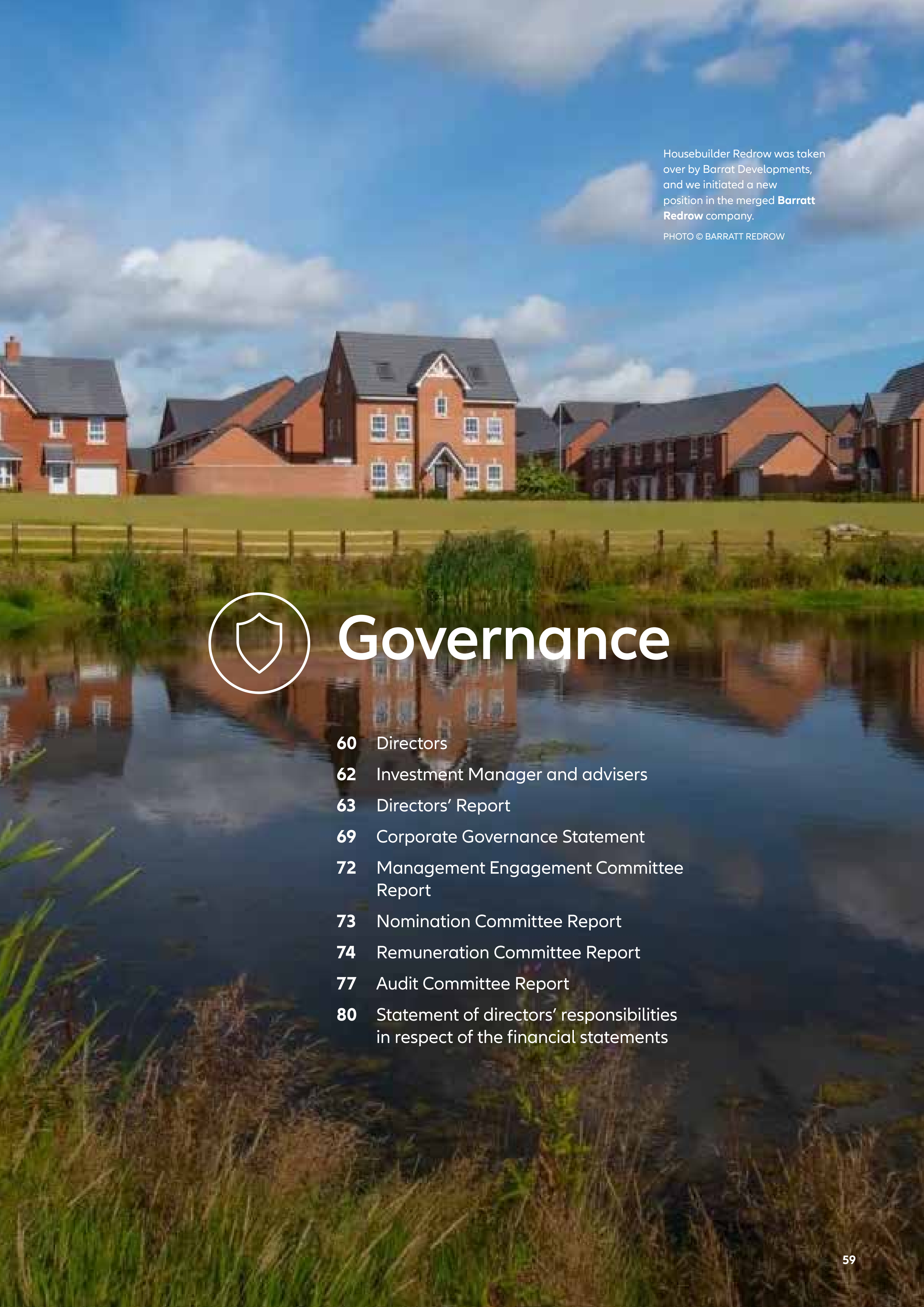
The future

As we set out on page 2, there are many reasons to invest and stay invested in The Merchants Trust. Merchants has experience of providing active investment management through many difficult environments and over time provides long-term capital growth and an above average income and income growth to investors.

Some of the trends likely to affect the company in the future are common to many investment companies, such as the future attractiveness of investment companies as investment vehicles. The outlook for economic growth, interest rates, inflation and asset returns will also be important factors. In particular for Merchants, the availability of attractive income producing UK equities and their future returns are central to the investment proposition. The board continues to believe that the continuing evolution of the investment platforms market offer many opportunities for the self-directed investor. The longevity of the company and its importance to investors continues to be a key concern of the board. I give my view of the outlook in my Chairman's Statement on page 10 and the portfolio manager discusses his view of the outlook for the company's portfolio in his review on page 16.

On behalf of the board.

Colin Clark
Chairman
8 April 2025



Housebuilder Redrow was taken over by Barrat Developments, and we initiated a new position in the merged **Barratt Redrow** company.

PHOTO © BARRATT REDROW

Governance

Directors

Colin Clark
Chairman

Joined the board in June 2019 and became Chairman in September 2019. Colin is Chairman of the board of AXA Investment Managers UK Ltd and a non-executive director of AXA IM SA global board. He is also Chairman of Aveni Plc, a leading provider of AI solutions for financial services organisations. Colin has had a 40 year career in asset and wealth management. His most recent executive roles were from 2010 at Standard Life Investments and as an executive director of Standard Life Plc. Prior to this he was with Mercury Asset Management, Merrill Lynch Investment Managers and S.G.Warburg & Co.

Experience:
Senior leadership roles in the asset management industry and an experienced chairman.

Reasons for the recommendation for re-election:
Colin's senior expertise and asset management knowledge are valued for their input into the board's governance and the response by the board to challenging external events.

Karen McKellar
Senior Independent Director

Joined the board in May 2020. Karen is a non-executive director and Chair of the Management Engagement Committee of JPMorgan European Investment Trust PLC. Karen has had a long career as an investment manager at Standard Life, managing the Standard Life Equity Income Investment Trust as well as several large UK equity open-ended funds. Karen was appointed as Senior Independent Director following the retirement of Sybella Stanley on 21 March 2024.

Experience:
An asset management professional with senior management, money management and investment trust board experience.

Reasons for the recommendation for re-election:
Karen brings to the board a deep understanding of portfolio management.

Timon Drakesmith
Chair of the Audit Committee

Joined the board in November 2016. Timon is Chief Financial Officer of ZSL (Zoological Society of London). Timon was formerly the Chief Financial Officer of Carbon Trust. Prior to that he was Chief Financial Officer of Hammerson plc, and before that the Finance Director of Great Portland Estates plc and Group Director of Financial Operations of Novar plc. He is a Chartered Accountant and has held previous financial roles at Credit Suisse, Barclays and Deloitte Haskins and Sells.

Experience:
Finance Director of large UK corporates and a chartered accountant.

Lisa Edgar

Joined the board in January 2024. Lisa is the founder and Chief Executive of Big Window Consulting, a consumer and B2B insight agency and until January 2024 was Chief Customer Officer on the Executive Leadership Team at Saga PLC. Lisa's career began as a brand planner and market research analyst and she developed customer insight agencies and her own companies in this field over the past twenty years.

Experience:
A market research expert, with experience of working at a senior level with large clients in the financial services sector.

Reasons for the recommendation for re-election:
Lisa's brings a wealth of retail market research experience to the board's understanding and direction of the marketing and distribution of the company's investment proposition.

Mal Patel

Joined the board in March 2024. Mal is Head of Investor Relations at Spirax Group plc and has held senior roles in IR and corporate development in a number of large UK companies. His early career was as an equities analyst in investment banking. He is a chartered accountant.

Experience:
A senior leader in a wide range of investor relations, corporate development and finance roles across a variety of businesses.

Reasons for the recommendation for re-election:
With a strong corporate background and financial expertise, Mal brings experience and skills in many areas including transactions, corporate finance and treasury, debt and equity raising and also external reporting and investor relations.

Committee memberships
All directors are non-executive and independent of the manager. All directors are members of the Management Engagement Committee. All directors, with the exception of the Chairman, Colin Clark, are members of the Audit Committee. Further details can be found from page 72.

Investment Manager and advisers

The Manager or Alternative Investment Fund Manager (AIFM)

Allianz Global Investors UK Limited (AllianzGI UK) is incorporated in the UK and its registered office is at 199 Bishopsgate, London EC2M 3TY. It is authorised by the Financial Conduct Authority (FCA). AllianzGI UK delegates some functions to Allianz Global Investors GmbH (AllianzGI).

AllianzGI is an active asset manager operating across nineteen markets with specialised in-house research teams around the globe, managing assets for individuals, families and institutions worldwide.

As at 30 September 2024, AllianzGI had €560 billion of assets under management worldwide.

Through its predecessors, AllianzGI has a heritage of investment trust management expertise in the UK reaching back to the nineteenth century and as at 31 December 2024 had £3.3 billion assets under management in a range of investment trusts.

Website: allianzgi.co.uk

Head of Investment Trusts

Stephanie Carbonneil
Email: stephanie.carbonneil@allianzgi.com

Investment Manager

Simon Gergel, Lead Portfolio Manager,
Richard Knight, Portfolio Manager,
Andrew Koch, Portfolio Manager.
Representing Allianz Global Investors UK Limited,
199 Bishopsgate, London EC2M 3TY (the manager).

Company Secretary and Registered Office

Kelly Nice and Kirsten Salt
199 Bishopsgate, London EC2M 3TY
Telephone: 0800 389 4696
Email: investment-trusts@allianzgi.com

Registered number

28276

Bankers and Custodian

HSBC Bank plc

Depositary

HSBC Securities Services

Solicitors

Dickson Minto W.S.

Custodian

HSBC Bank plc

Independent Auditor

BDO LLP

Registrar

MUFG Corporate Markets, formerly Link Group (full details on page 112)

Stockbrokers

J.P. Morgan Securities Limited

Depositary

HSBC Securities

Directors' Report

The directors present their report and the audited financial statements of the company for the year ended 31 January 2025.

Revenue

The revenue earnings attributable to ordinary shareholders for the year amounted to £43,671,000 or 29.4p per share (2024: £44,509,000, 30.5p per share).

The first quarterly dividend of £10,679,000, or 7.2p per share, and the second quarterly dividend of £10,835,000, or 7.3p per share, have been paid during the year. Since the year end the third quarterly dividend of £10,835,000, or 7.3p per share, was paid on 19 March 2025. A proposed final dividend of 7.3p will be paid on 29 May 2025 to shareholders on the register on 22 April 2025. In accordance with FRS 102 Section 32: 'Events after the end of the reporting period', the third and final quarterly dividends are not recognised as liabilities within the financial statements on the basis that at the year end the third and final quarterly dividends had not been paid.

Invested funds

Sales of investments during the year resulted in net gains based on historical costs of £39,889,000* (2024: gains of £536,000). Provisions contained in the Finance Act 2010 exempt approved investment trusts from corporation tax on their chargeable gains.

Share issuance and buy back

During the year there were share issuances totalling 100,000 shares and no share buybacks. No further shares have been issued since the year end. Further details are on page 100.

* Alternative Performance Measure (APM). A Glossary of APMs can be found on page 117.

Statement of the Depositary's Responsibilities in Respect of the Company

'The Depositary must ensure that the company is managed in accordance with the Financial Conduct Authority's Investment Funds Sourcebook, ('the Sourcebook'), the Alternative Investment Fund Managers Directive (AIFMD) (together 'the Regulations') and the company's Articles of Association.

The Depositary must in the context of its role act honestly, fairly, professionally, independently and in the interests of the company and its investors.

The Depositary is responsible for the safekeeping of the assets of the company in accordance with the Regulations.

The Depositary must ensure that:

- the company's cash flows are properly monitored and that cash of the company is booked into the cash accounts in accordance with the Regulations;
- the sale, issue, repurchase, redemption and cancellation of shares are carried out in accordance with the Regulations;
- the assets under management and the Net Asset Value per share of the company are calculated in accordance with the Regulations;
- any consideration relating to transactions in the company's assets is remitted to the company within the usual time limits;
- that the company's income is applied in accordance with the Regulations; and
- the instructions of the Alternative Investment Fund Manager ('the AIFM') are carried out (unless they conflict with the Regulations).

The Depositary also has a duty to take reasonable care to ensure that the company is managed in accordance with the Articles of Association in relation to the investment and borrowing powers applicable to the company.

Report of the Depositary to the Shareholders of The Merchants Trust PLC (the company) for the year ended 31 January 2025.

Having carried out such procedures as we consider necessary to discharge our responsibilities as Depositary of the company, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the company, acting through the AIFM has been managed in accordance with the rules in the Sourcebook, the Articles of Association of the company and as required by the AIFMD.'

HSBC Bank plc
14 February 2025

Further information about the relationship with the Depositary is on page 110.

Future development

The future development of the company is dependent on the success of the company's investment strategy against the economic environment and market developments. The Chairman's Statement on page 7 sets out the outlook for the company and the Portfolio Managers also discuss their view of the outlook for the company's portfolio in their report on page 16. The future is also discussed in the Strategic Report on page 58.

Section 992 of the Companies Act 2006

The following information is disclosed in accordance with Section 992 of the Companies Act 2006.

Capital structure

The company's capital structure is summarised in Note 11 on page 100. The details of the 4% Perpetual Debenture Stock and the 3.65% Cumulative Preference Stock are provided in Notes 10(ii) and 10(iii) respectively on page 100.

Voting rights in the company's shares

The voting rights to 3 April 2025 were:

Share class	Number of shares issued	Voting rights per share	Total voting rights
Ordinary shares of 25p	148,424,887	1	148,424,887
3.65% Cumulative Preference Stock of £1	1,178,000	1	1,178,000
Total	**149,602,887**		**149,602,887**

Every member on a show of hands has one vote. On a poll every member who is present in person or by proxy or representative has one vote for every £1 in nominal amount of preference stock or one vote for every ordinary share of 25p. The Perpetual Debenture Stock and Bonds carry no voting rights.

Interests in the company's share capital

As at 31 March 2025 the company has received no declarations of notifiable interests in the company's issued share capital.

Common Reporting Standards (CRS)

CRS is a global standard for the automatic exchange of information commissioned by the Organisation for Economic Cooperation and Development and incorporated into UK law by the International Tax Compliance Regulations 2015. CRS requires the company to provide certain additional details to HMRC in relation to UK resident foreign investment holders. The registrar, MUFG Corporate Markets, formerly Link Group, has been engaged to collate such information and file the reports with HMRC on behalf of the company.

The board and gender diversity reporting

The board is supportive of the FCA's updated UK Listing Rules (UKLR 6.6.6) to encourage greater diversity on listed company boards and has implemented the FCA's disclosure requirements. The board recognises the importance of having a range of skilled, experienced individuals with the right knowledge represented on the board. The board will continue to ensure that all appointments are made on the basis of merit against the specification prepared for each appointment. The board has chosen to align its diversity reporting reference date with the company's financial year end and proposes to maintain this alignment for future reporting periods. The company has met two of the targets on board diversity and at its chosen reference date, 31 January 2025 at least 40% of the individuals on its board of directors are women and one of its directors is from a minority ethnic background. Further details on the company's appointment process can be found under 'The board' and 'Board composition' on page 1. Further detail required by UKLR 6.6.6 in respect of the targets outlined above as at 31 January 2025 is disclosed in the table below.

As an externally managed investment company, the company has no executive directors, employees or internal operations. Therefore columns relating to executive management have been removed from the tables below. The roles of chief executive and chief financial officer are not applicable to the company, however, the company considers the roles of the Senior Independent Director and Chair of the Audit Committee to be senior board positions and the following disclosure is made on this basis.

As at 31 January 2025:

	Number of board members	Percentage of the board	Number of Senior Positions on the board (CEO, CFO, SID and chair)*
Men	3	60%	2
Women	2	40%	1
Other	-	-	-
Not specified/prefer not to say	-	-	-

	Number of board members	Percentage of the board	Number of Senior Positions on the board (CEO, CFO, SID and chair)*
White British or other White (including minority-white groups)	4	80%	3
Mixed/Multiple Ethnic Groups	-	-	-
Asian/Asian British	1	20%	-
Black/African/Caribbean/Black British	-	-	-
Other ethnic group	-	-	-
Not specified/prefer not to say	-	-	-

Since the reference date and up to the date that the Annual Report was approved there have been no further changes.

* The company only has two of the senior roles specified by the UK Listing Rules, that is the position of chair and SID. One of these roles is occupied by a man and one by a woman. However, the company considers that the chair of the audit committee, nomination committee and remuneration committee is a senior position. Of these three senior roles, two are performed by a man and one by a woman.

Directors

Biographical details of the current directors at the date of the signing of this report are shown on pages 60 and 61.

All of the directors are retiring at the Annual General Meeting and each offers themself for re-election with the exception of Timon Drakesmith who will stand down as Director at the conclusion of the AGM. The board considers each director to be independent of the manager and each has the full support of the board in standing for re-election.

Related party transactions

During the financial year no transactions with related parties, other than directors' fees payments, have taken place which would materially affect the financial position or the performance of the company.

Management contract and management fee

The management contract with Allianz Global Investors UK Limited (AllianzGI UK) provides for a fee of 0.35% per annum (2024: 0.35%) of the value of the assets, calculated quarterly, after deduction of current liabilities, short term loans with an initial duration of less than one year and any funds within the portfolio managed by AllianzGI. The management contract is terminable at one year's notice (2024: one year). Under the contract, other than a year's fees which may be paid in lieu of notice, there are no compensation payments due on termination.

The manager's performance under the contract and the contract terms are reviewed at least annually by the Management Engagement Committee. This committee consists of the directors not employed by the management company in the past five years and therefore includes the entire board. During the year, the committee met the manager to review the current investment framework, including the company's performance, marketing activity and ongoing charge.

The committee also reviewed the terms of the management contract and considered the level of the management fee. The committee was satisfied with its review and believes that the continuing appointment of the manager is in the best interests of shareholders as a whole.

Special rights disclosure

There are no restrictions concerning the transfer of securities in the company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the company; no agreements which the company is party to that might affect its control following a takeover bid; and no agreements between the company and its directors concerning compensation for loss of office.

The company is not aware of any agreements between holders of securities with regard to control of the company which may result in restrictions on voting rights.

Financial reporting

The Statement of Directors' Responsibilities in respect of the financial statements is on page 80. The Independent Auditor's Report begins on page 82.

Auditor's information

Each of the persons who is a director at the date of approval of this report confirms that:

(a) in so far as the director is aware, there is no relevant audit information of which the company's Auditor is unaware; and

(b) the director has taken all the steps he or she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Relations with shareholders

The board strongly believes that the Annual General Meeting should be an event which private shareholders are encouraged to attend. The Annual General Meeting is attended by the Chairman of the board, the Chairmen of the board's committees and the directors, and the Investment Manager makes a presentation at the Meeting. The number of proxy votes cast in respect of each resolution will be made available shortly after the conclusion of the Annual General Meeting.

The manager meets with institutional shareholders on a regular basis and reports to the board on matters raised at these meetings. The Chairman and, where appropriate, other directors, are available to meet with shareholders to discuss governance and strategy and to understand their issues and concerns. All correspondence with shareholders is reviewed by the board.

Shareholders who wish to communicate directly with the Chairman, the Senior Independent Director or other directors may write care of the Company Secretary, The Merchants Trust PLC, 199 Bishopsgate, London EC2M 3TY.

The Notice of Meeting sets out the business of the Meeting and special resolutions are explained more fully later in the Directors' Report. Separate resolutions are proposed for each substantive issue.

Social, community and human rights issues

As an investment trust, the company has no direct social or community responsibilities. However, the board shares the manager's view that it is in shareholders' interests to be aware of and consider human rights issues, together with environmental, social and governance factors when selecting and retaining investments. Details of the company's policy on socially responsible investment are set out above.

Criminal Finances Act 2017

The company has a commitment to zero tolerance towards the criminal facilitation of tax evasion.

Modern Slavery Act 2015

The company does not provide goods or services in the normal course of business, and as a financial investment vehicle does not have customers. The directors therefore consider that the company is not required to make a statement under the Modern Slavery Act 2015 in relation to slavery or human trafficking.

Bribery Act 2010

The board has a zero tolerance policy in relation to bribery and corruption and has received assurance through internal controls reporting from the company's main third party service providers that adequate safeguards are in place to protect against any such potentially illegal behaviour by employees or agents.

Stewardship and exercise of voting powers

The company's investments are held in a nominee name. The board has delegated discretion to discharge its responsibilities in respect of investments, including the exercise of voting powers on its behalf to the manager, AllianzGI. AllianzGI monitors our portfolio holdings and proactively engages with investee companies in line with the principles set out in the UK Stewardship Code and consistent with our investment objectives. AllianzGI subscribes to the ISS Proxy Voting Services. ISS manages the voting process and recommends actions based upon AllianzGI's global proxy voting policy guidelines.

Where directors hold directorships on the boards of companies in which the company is invested, they do not participate in decisions made concerning those investments.

ESG and Climate-related reporting

The integration of ESG into the portfolio management process is covered in the Investment Manager's review in detail. As an investment company with all of its activities outsourced to third parties, the company's own direct environmental impact is minimal. The company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. For the same reasons, the company considers itself to be a low energy user under the Streamlined Energy & Carbon Reporting (SECR) regulations and therefore is not required to disclose energy and carbon information.

As a listed investment company, Merchants is not required to provide a report under the Task Force on Climate-related Financial Disclosures (TCFD).

In accordance with the requirements of the TCFD, AllianzGI UK has issued a product level report which is available on the company's website www.merchantstrust.co.uk. The board receives a detailed report on ESG matters at every board meeting and discusses activities in the investment process:

interactions with the companies in the portfolio and the outcome of these engagements; proxy voting; and performance against industry data. The portfolio managers give an account of the engagement activities in the year on page 25, with many examples.

Sustainability disclosure requirements

The Financial Conduct Authority (FCA) has introduced sustainability disclosure requirements and investment labels regime (SDR) to address concerns about misleading environmental claims. The SDR has several dimensions, including an 'anti-greenwashing' rule, designed to increase trust and confidence in the sustainable investment market and to combat providers exploiting demand for sustainable products by making unsupported environmental claims.

The company's website https://www.merchantstrust.co.uk/en-gb/about-us/esg notes that Merchants' investment process only includes consideration of ESG factors, not Socially Responsible Investment (SRI) (i.e., building sustainable portfolios by delivering sustainable financial returns based on the assessment of ESG practices) nor impact aspects (i.e., promoting social and environmental goals and/or/outcomes alongside financial returns).

Annual General Meeting

As the Chairman explains in his Statement on page 9, the Annual General Meeting (AGM) of the Company will be held at 12 noon on Tuesday 20 May 2025 at Grocers' Hall, Princes Street, London, EC2R 8AD. This meeting will be held as a hybrid meeting. This means that there will be an in person meeting as well as it being streamed live for those shareholders who cannot attend in person. The formal Notice of AGM, including instructions on how to join online, starts on page 113.

Shareholders may and are strongly encouraged to participate in the business of the AGM by exercising their votes in advance of the meeting by completing and returning the form of proxy. Shareholders may also submit their proxy electronically using the share portal service at www.signalshares.com or via the registrar's VOTE+ shareholder App. Further details on voting via the VOTE+ App or online through the registrar's share portal are contained within the Notice of Meeting Notes on page 114. The deadline for you to submit your proxy votes to the registrar is 12 noon on Friday 16 May 2025.

Shareholders are invited to send any questions for the board and manager care of the company secretary at investment-trusts@allianzgi.com or in writing to the registered office, 199 Bishopsgate, London EC2M 3TY. Questions and answers will be published on the website.

At the AGM resolutions will be put to shareholders to cover ordinary business including the re-election and remuneration of the directors and the re-appointment of the Auditor, and special business such as the authority for the allotment and buyback of shares.

AGM special business

1. Allotment of new shares

Approval is sought in Resolution 10 for the renewal of the directors' authority to allot relevant securities, in accordance with section 551 of the Companies Act 2006, up to a maximum number of 49,474,962 ordinary shares, representing approximately one third of the existing ordinary share capital. This authority is renewable annually and will expire at the conclusion of the AGM in 2026.

2. Disapplication of pre-emption rights

A resolution was passed at the AGM held on 16 May 2024 in accordance with section 570 of the Companies Act 2006, to authorise the directors to allot ordinary shares for cash other than pro rata to existing shareholders. The authority is renewable annually and expires at the conclusion of the AGM in 2025. Special Resolution 11 is therefore proposed under special business at the forthcoming AGM to renew this authority until the conclusion of the AGM in 2026 or 19 August 2026 if earlier. This power is limited to a maximum number of 14,842,488 ordinary shares, being approximately 10% of the issued ordinary share capital of the company as at the date of this report, provided that there is no change in the issued share capital between the date of this report and the AGM to be held on 20 May 2025.

Authority will also be sought in Resolution 11, which will be proposed as a Special Resolution, to disapply pre-emption rights in respect of the allotment of shares by the sale and reissue of shares held by the company as treasury shares. The directors may allot shares under these authorities to take advantage of opportunities in the market as they arise but only if they believe it would be advantageous to the company's existing shareholders to do so. The directors confirm that no allotment of new shares will be made unless the lowest market offer price of the ordinary shares is at least at a premium to Net Asset Value , valuing debt at market value.

3. Purchase of own shares

The board is proposing that the company should be given renewed authority to purchase ordinary shares in the market to hold in treasury or for cancellation. The board believes that such purchases in the market at appropriate times and prices are a suitable method of enhancing shareholder value. The company would make either a single purchase or a series of purchases, when market conditions are suitable, with the aim of maximising the benefits to shareholders and within guidelines set from time to time by the board.

Under the Companies Act 2006, the company is allowed to hold its own shares in treasury following a buyback, instead of having to cancel them. This gives the company the ability to reissue treasury shares quickly and cost effectively (including pursuant to the authority under Resolution 11, see above) and provides the company with additional flexibility in the management of its capital base. Such shares may be resold for cash but all rights attaching to them, including voting rights and any right to receive dividends are suspended whilst they are in the treasury. If the board exercises the authority conferred by Resolution 12, which will be proposed as a Special Resolution, the company will have the option of either holding in treasury or of cancelling any of its shares purchased pursuant to this authority and will decide at the time of purchase which option to pursue.

Where purchases are made at prices below the prevailing Net Asset Value of the ordinary shares, this will enhance Net Asset Value for the remaining shareholders. It is therefore intended that purchases would only be made at prices below Net Asset Value , with the purchases to be funded from the capital reserves of the company (which are currently in excess of £555 million). The rules of the UK Listing Authority (UK Listing Rules) limit the price which may be paid by the company to 105% of the average middle-market quotation for an ordinary share on the five business days immediately preceding the date of the relevant purchase. The minimum price to be paid will be 25p per ordinary share (being the nominal value). Overall, this proposed share buyback authority, if used, could help to reduce the discount to Net Asset Value when the company's shares trade at a discount.

The board considers that it will be most advantageous to shareholders for the company to be able to continue to make such purchases as and when it considers the timing to be most favourable and therefore does not propose to set a timetable for making any such purchases.

Under the UK Listing Rules, the maximum number of its own shares which a listed company may purchase through the market pursuant to a general authority such as this is equivalent to 14.99% of its issued share capital. For this reason, the company is limiting its renewed authority to make such purchases to 22,248,891 ordinary shares, representing 14.99% of the issued share capital, provided that there is no change in the issued share capital between the date of this report and the AGM to be held on 20 May 2025.

In addition to renewing its powers to buy back and cancel shares, the board will seek shareholder authority to reissue shares from treasury.

The authority in accordance with section 701 of the Companies Act 2006, will last until the AGM of the company to be held in 2026 or the expiry of 15 months from the date of the passing of this resolution, whichever is the earlier. The authority will be subject to renewal by shareholders at subsequent AGMs.

The board and the Annual Report

The board reviewed the entire Annual Report and noted all the supporting information received. It then considered whether the Annual Report satisfactorily reflected a true picture of the company and its activities and performance in the year, with a clear link between the relevant sections of the report. The directors were then able to confirm that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

By order of the board

Kelly Nice
Company Secretary
8 *April 2025*

Corporate Governance Statement

The directors are responsible for good and effective governance and our approach is to ensure that we abide by the principles of the governance framework for investment companies and check these are embedded in our culture to give our stakeholders and the wider community confidence in our decision making and communications. In particular, the board believes in providing as much transparency for investors as is reasonably possible to ensure investors can clearly understand the prospects of the business.

The board has considered the Principles and Provisions of the AIC Code of Corporate Governance (AIC Code) issued in February 2019. The AIC Code addresses the Principles and Provisions set out in the UK Corporate Governance Code (the UK Code), as well as setting out additional Provisions on issues that are of specific relevance to the company.

The board considers that reporting against the AIC Code, which has been endorsed by the Financial Reporting Council (FRC), provides more relevant information to shareholders.

The company has complied with the Principles and Provisions of the AIC Code.

The AIC Code is available on the AIC website (www.theaic.co.uk). It includes an explanation of how the AIC Code adapts the Principles and Provisions set out in the UK Code to make them relevant for investment companies.

The board

The board is responsible for the effective stewardship of the company's affairs and aims to provide effective leadership so that the company has the platform from which it can achieve its investment objective. Its role is to guide the overall business strategy to achieve long-term success and value for the benefit of shareholders. A fuller description of the company's strategy can be found on pages 50 and 51. Strategic issues and all operational matters of a material nature are considered at its meetings.

Board composition

Both at the year end and at the date of signing this report there were five directors on the board. The optimum number of directors is five, but the number could fall to four and go as high as six to cover periods of recruitment and retirement.

The board's policy is for the Chairman to serve on the board for up to nine years, and if beyond then the company will explain why this continued appointment is in the best interests of shareholders. The chairman is to be independent and the other directors, led by the Senior Independent Director, discuss and report back on the performance and continuing independence of the Chairman on an annual basis.

The board has a plan for the tenure and retirement of directors to ensure that an orderly process of recruitment can take place and that the board's balance of skills and relevant experience is maintained. The biographies of the directors are set out on pages 60 and 61 together with the skills and experience each director brings to the board for the long-term sustainable success of the company. No contracts of significance in which directors are deemed to have been interested have subsisted during the year under review. Contracts of employment are not entered into with the directors, who hold office in accordance with the company's Articles.

All directors attended all board and relevant committee meetings during the year, as set out in the table on page 71.

Directors' and Officers' Liability insurance cover is held by the company. As permitted by the company's Articles, the company has granted indemnities to the directors.

Board effectiveness review

The board was subject to an internally facilitated formal board effectiveness review after the year end. This was conducted by means of a series of questionnaires completed by each director. The results of these surveys in an internally facilitated report compiled by the Chairman and the Company Secretary were reviewed by the nomination committee and the outcome of the exercise was discussed by the board. The review did not identify any concerns but did identify some areas to work on in 2025 including continued focus on marketing activities. Succession is considered on an ongoing basis but was also identified as a particular item in the board evaluation exercise which took place in March 2024 and there is more information on board succession in the Nomination Committee Report on page 73. The Senior Independent Director received the results of the survey relating to the evaluation of the effectiveness of the Chairman and reported this to the Nomination Committee. Upon receiving the reports, the board's Nomination Committee recommended to the board that each of the directors be nominated for re-election at the forthcoming Annual General Meeting.

Training and development

On joining the board new directors receive a comprehensive programme of induction. During the year, the directors received periodic guidance and updates on regulatory and compliance changes.

Board diversity

At the year end three of the directors were male and two were female and this was unchanged at the date of the signing of this report. The ethnicity composition of the board has changed during the year with the addition of a director with an ethnic minority background and there is more information in the tables on page 65. As the company is an investment trust, all of its activities are outsourced and it does not have any employees. In its brief on board succession the board looks to add to the diversity of approach and thinking as well as taking other factors into account.

The board has noted the Parker review which looked at how to improve the ethnic and cultural diversity of UK boards. As a FTSE-250 company, Merchants responded to the request for voluntary information on its current board membership from BEIS (Department for Business, Energy, and Industrial Strategy). As an investment company Merchants does not have any employees, therefore it has nothing further to report in respect of gender and ethnic representation within the company.

Conflicts of interest

The Companies Act 2006 provides that a director must avoid a situation where he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the company's interests. Directors are able to authorise these conflicts and potential conflicts. The board reports annually to shareholders on the company's procedures for ensuring that its powers of authorisation of conflicts are operated effectively and that the procedures have been followed.

Statements by the directors

Each of the directors provides a statement of all conflicts of interest and potential conflicts of interest relating to the company on appointment and subsequently in the event of any change or potential change to this statement. The statements made by each director are considered and approved by the board. The directors have undertaken to notify the Chairman and Company Secretary of any proposed new appointments and new conflicts or potential conflicts for consideration, if necessary, by the board.

The Merchants board follows good practice by having directors' interests as an agenda item at every scheduled board meeting, and a report of all directors' interests is tabled for consideration by the board. This means that any changes to the directors' interests can be noted and recorded, and any potential conflicts identified and dealt with by the board.

Procedure for assessing conflicts and potential conflicts

A director with a potential conflict might be asked to step out of the meeting room or be permitted to remain in the room but not participate in the discussion or take part in a vote on a course of action. The Merchants board composition has from time to time included directors who sit on the boards of trading companies in which the portfolio manager may be invested, and also may include from directors who sit on the boards of public bodies.

The board has agreed that only directors who have no interest in the matter being considered will be able to take the relevant decision on approval of any conflicts or potential conflicts, and that in taking the decision the directors will act in a way they consider, in good faith, will be most likely to promote the company's success.

The board is able to impose limits or conditions when giving authorisation if it thinks this is appropriate, such as ensuring that a director who also serves on the board of a company in the portfolio does not participate in any discussions on the investment decision.

Directors' interests register

The Merchants directors' interests register covers directors' outside interests (e.g., directorships, significant holdings) and where the directors use the services of suppliers to the company (e.g., accountancy firms) in their own capacity. The register also contains notes of any hospitality and gifts received from service providers, including the management company.

Confirmation to shareholders

The board confirms that the detailed procedures have been followed during the year and that its powers of authorisation are operating effectively.

Board committees

Audit committee

The audit committee meets at least twice each year and is chaired by Timon Drakesmith. The committee assists the board in relation to the reporting of financial information, the review of financial controls and the management of risk. The Audit Committee Report starts on page 77.

Nomination committee

The nomination committee meets as needed – at least once each year – and makes recommendations on board succession planning and the appointment of new directors and considers the composition and balance of the board. The committee is chaired by Colin Clark, the Chairman of the board, and met once in the last year when it considered the contribution and effectiveness of the board and formally considered the proposal for re-election of each director at the Annual General Meeting and noted the progress on the board's succession plans. All directors serve on the nomination committee and consider nominations made in accordance with an agreed procedure.

It is the board's policy to use external agencies to draw up lists of candidates as part of the recruitment of new directors. The brief to the recruitment consultant includes the request that the shortlist should include a diverse range of candidates.

The Nomination Committee Report is on page 73.

Management engagement committee

The management engagement committee met once in the year to review the Management and Administration Agreement and the manager's performance and a report of management fees. It has defined terms of reference and consists of all the directors. It is chaired by Colin Clark the Chairman of the board.

The Management Engagement Committee Report is on page 72.

Remuneration committee

The remuneration committee met once in the year. The committee consists of all the directors and during the year was chaired by Sybella Stanley until her retirement from the board on 21 March 2024, and thereafter by Karen McKellar. All directors serve on the committee and the Chair of the board's remuneration and the additional sum payable to the Chair of the audit committee are discussed without the involvement of the directors concerned. The committee determines the company's remuneration policy and determines the remuneration of each director within the terms of that policy. The Directors' Remuneration Report starts on page 74.

The terms of reference for each of the committees may be viewed by shareholders on request and are published on the company's website merchantstrust.co.uk.

Internal control

The directors have overall responsibility for the company's system of internal control. Whilst acknowledging their responsibility for the system of internal control, the directors are aware that such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable but not absolute assurance against material misstatement or loss.

The board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the company. This process has been fully in place throughout the year under review and up to the date of the signing of this Annual Report.

The key elements of the process are as follows:

- In addition to the review of the key risks (see page 54), the directors regularly review all the risks on the Risk Map and every six months the board receives from the manager a formal report which details any known internal controls failures, including those that are not directly the responsibility of the manager.
- Allianz Global Investors UK Limited (AllianzGI UK), as the appointed manager, provides investment management, accounting and company secretarial services to the company. The manager therefore maintains the internal controls associated with the day-to-day operation of the company. These responsibilities are included in the Management and Administration Agreement between the company and the manager. The manager's systems of internal control are regularly evaluated by its management and monitored by the manager's internal audit function.
- There is a regular review by the board of asset allocation and any risk implications. There are also regular and comprehensive reviews by the board of management accounting information, including revenue and expenditure projections, actual revenue against projections and performance comparisons.
- Authorisation and exposure limits are set and maintained by the board.
- The board meets with senior representatives of AllianzGI and also receives an internal controls report from the manager, together with a report on compliance with the manager's anti-bribery policy.
- The audit committee on behalf of the board reviews the internal controls reports of other third party service providers, including those of AllianzGI and all other providers of administrative and custodian services to AllianzGI or directly to the company.

The directors confirm that the audit committee has reviewed the effectiveness of the system of internal control, which it has found to be appropriate. During the course of its review of the system of internal control, the board has not identified nor been advised of any failings or weaknesses which it has determined to be significant.

Board attendance

Attendance by the directors at formal board and committee meetings during the year was as follows:

Director	Board	Board strategy meeting	Audit committee	Remuneration committee	Nomination committee	Management engagement committee
Colin Clark	6/6	1/1	2/2[1]	1/1	1/1	1/1
Timon Drakesmith	6/6	1/1	2/2	1/1	1/1	1/1
Lisa Edgar[3]	5/6	1/1	2/2	1/1	1/1	1/1
Karen McKellar	6/6	1/1	2/2	1/1	1/1	1/1
Sybella Stanley[2]	1/1	-	1/1	1/1	1/1	-
Mal Patel[3]	5/6	1/1	2/2	1/1	1/1	1/1

[1] Invited to attend meetings, although not a committee member.
[2] Retired from the board on 21 March 2024.
[3] Both Lisa Edgar, appointed 1 January 2024, and Mal Patel, appointed 1 March 2024, had prior commitments on appointment and it had not been possible to move the dates of the meetings they were unable to attend and neither had been able to attend the meetings virtually. Both had reviewed board papers and submitted their comments ahead of the meeting in each case..

Management Engagement Committee Report

Colin Clark

Role of the committee

The management engagement committee reviews the investment management agreement and monitors the performance of the manager for the investment, secretarial, financial, administration, marketing and support services that it provides under that agreement. It also reviews the terms of the agreement including the level and structure of fees payable, the length of notice period and best practice provisions generally.

Composition of the committee

All the directors are members of the committee. The terms of reference can be found on the website at merchantstrust.co.uk.

Manager evaluation process

The committee met once during the year for the purpose of the formal evaluation of the manager's performance. For the purposes of its ongoing monitoring, the board receives detailed reports and views from the portfolio manager on investment policy and strategies, asset allocation, stock selection, attributions, portfolio characteristics, gearing and risk. The board also assesses the manager's performance against the investment controls set by the board.

Portfolio performance information is set out on page 18.

AIFM

Details of the current AIFM, Allianz Global Investors UK Limited ('AllianzGI UK'), are on page 110. AllianzGI UK is authorised and regulated by the Financial Conduct Authority, with its registered office at 199 Bishopsgate, London EC2M 3TY.

Manager reappointment

The annual evaluation that took place in January 2025 included the noting of a presentation from AllianzGI's Head of Investment Trusts and the portfolio manager. This covered the work done with the board on strategy and the integrated sales and marketing activity, including the work with investment platforms and wealth managers. During the year the manager had also provided information on its succession plans. The evaluation of the management arrangements had also considered the manager's fee in relation to the peer group.

The result of a detailed questionnaire evaluating the manager completed by the directors was also reviewed by the board. The board concluded that the manager was performing well against the requirements set by the board and that it was satisfied with the performance of the investment manager, the support from the management company and the interaction of the management company with the board. Actions agreed for 2025 included meeting more senior management at AllianzGI as well as continuing to work closely with the sales and marketing team..

The board then met and concluded that in its opinion the continuing appointment of the manager on the terms agreed was in the interests of shareholders as a whole and recommended this to the board.

Note 2 on page 94 provides detailed information in relation to the management fee.

Committee evaluation

The activities of the management engagement committee were considered as part of the board evaluation process completed in accordance with standard governance arrangements as summarised on page 69. The conclusion from the process was that the committee was operating effectively, with the right balance of membership and skills.

Colin Clark
Chair of the management engagement committee
8 April 2025

Nomination Committee Report

Colin Clark

Role of the committee

The nomination committee leads the process for board appointments and makes nomination recommendations to the board. The committee reviews and makes recommendations on board structure, size and composition, the balance of knowledge, experience, skill ranges and diversity and considers succession planning and tenure policy.

Composition of the committee

All directors are members of the committee, and its terms of reference can be found on the website at merchantstrust.co.uk. Individual directors are not involved in decisions connected with their own appointments.

Activities of the committee

The committee met during the year and considered, in accordance with its terms of reference the structure, size and composition of the board and satisfied itself regarding succession planning, making recommendations to the board. The committee also discussed the results of the board and committee evaluation exercise, which covered the structure and size of the board and its composition particularly in terms of succession planning and the experience and skills of the individual directors and the topic of board diversity.

The committee notes that all the directors are independent of the manager. In the opinion of the board, each of the directors is independent in character and judgement and there are no relationships or circumstances relating to the company that are likely to affect their judgement.

Recruitment of new directors follows procedures for board succession including the appointment of external consultants and a specification to draw as wide a shortlist as possible taking account of the wish to retain a diverse and balanced board. The board was refreshed with new appointments to replace directors retiring from the board in January and March 2024. Spencer Stuart had been appointed to conduct the search. New directors follow a detailed induction programme run by the manager.

The latest board effectiveness review exercise took place in March 2025 and was internally facilitated by the Chair and Company Secretary. An effectiveness review was last previously conducted through an external service provider in 2024. In March 2025, detailed surveys covering a wide number of topics relating to the board, the Chairman, the directors individually and the board committees were completed by each of the directors and the outcome was and reported to the committee by the Chairman, except for the report relating to the Chairman which was conducted by the Senior Independent Director and reported to the committee by her. The exercise also covered a review of the relationship and interaction with the manager, AllianzGI UK. The results of this review were that the board, its directors and its committees are effective.
The review identified the continuing importance of focusing on marketing challenges. The results of the review of the Chairman were reported to the committee, and this concluded that the Chairman continued to be highly rated.

Succession planning: retirements and recruitment

As observed above, last year the committee had noted the planned retirements of Mary Ann Sieghart and Sybella Stanley and the appointment of two new directors, Lisa Edgar and Mal Patel.

Timon Drakesmith will reach his nine year tenure later in 2025 and has indicated a wish to retire from the board at the forthcoming AGM and will therefore not seek re-election. The board has appointed an independent executive search firm, Sapphire Partners, to assist in identifying a new director. Mal Patel will be appointed Chairman of the Audit Committee when Timon steps down.

Colin Clark
Chair of the nomination committee
8 April 2025

Remuneration Committee Report

Karen McKellar

I am pleased to present the report of the remuneration committee for the year ended 31 January 2025.

Composition

All the independent directors are members of the committee and its terms of reference can be found on the website at www.merchantstrust.co.uk.

Role

The committee leads the process for fixing directors' remuneration and makes recommendations to the board.

Activities

The committee's activities are set out in the report from the committee which follows.

The Directors' Remuneration Report

This is the Directors' Remuneration Report for the year. The report is submitted in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 for the year ended 31 January 2025.

An ordinary resolution for the approval of the Directors' Remuneration Policy Report was first put to a binding shareholder vote at the Annual General Meeting (AGM) in 2014 and was placed before shareholders for approval at the AGMs in 2017, 2020 and 2023. It will next be put to shareholders at the AGM in 2026.

The results of the vote at the 2023 AGM for this resolution were: In favour 98.52%, against 1.48% and 95,270 shares were withheld (in aggregate, 14,421,950 votes).

The results of the advisory vote at the 2024 AGM for the resolution to approve the Implementation Report were as follows: In favour 98.32%, against 1.68% and 203,980 shares were noted as votes withheld (in aggregate 16,421,668 votes). The Directors' Remuneration Implementation Report is to be put to the AGM, annually, as an advisory shareholder vote.

The information provided in this part of the Directors' Remuneration Report is not subject to audit unless specified below.

The board

The board of directors is composed solely of non-executive directors and the determination of the directors' fees is guided by the remuneration policy (see below) and the recommendations of the remuneration committee which is made up of the independent directors and was chaired by Sybella Stanley until her retirement from the board on 21 March 2024. The board has not been provided with advice or services by any person to assist it to make its remuneration decisions, although the directors carry out reviews from time to time of the fees paid to the directors of other investment companies in the peer group and review annual data on non-executive directors' pay in the investment trust industry.

Directors' shareholdings and share interests (audited)

The interest of the directors at the year end in the ordinary share capital of the company are set out below:

	2025	2024
Colin Clark	10,000	10,000
Timon Drakesmith	15,000	15,000
Lisa Edgar[1]	998	998
Karen McKellar	8,000	8,000
Mal Patel[2]	400	-
Mary Ann Sieghart[3]	-	1,000
Sybella Stanley[4]	-	3,114

[1] Appointed to the board 1 January 2024. [2] Appointed to the board 1 March 2024.
[3] Retired from the board 25 January 2024. [4] Retired from the board 21 March 2024.

The company's Articles provide for directors to hold qualifying shares in the nominal amount of £100, i.e., currently 400 shares.

Directors' remuneration policy
No director has a service contract with the company. The company's policy is for the directors to be remunerated in the form of fees, payable monthly in arrears. There are no long-term incentive schemes, bonuses, pension benefits, share options or other benefits and fees are not related to the individual director's performance, nor to the performance of the board as a whole.

The company's Articles limit the aggregate fees payable to the board of directors to a total of £250,000 per annum. Subject to this overall limit, it is the board's policy to determine the level of directors' fees having regard to the level of fees payable to non-executive directors in the investment trust industry generally, the role that individual directors fulfil, and the time committed to the company's affairs. The board believes that levels of remuneration should be sufficient to attract and retain non-executive directors to oversee the company.

Directors are entitled to be reimbursed for any reasonable expenses properly incurred by them in connection with the performance of their duties and attendance at meetings. There are no agreements between the company and its directors concerning compensation for loss of office.

The company's Articles also provide that additional discretionary payments can be made for services which in the opinion of the directors are outside the scope of the ordinary duties of a director. In the year under review no such payments were made.

This directors' remuneration policy is the same in all material respects as that currently followed by the board and summarised in the last Directors' Remuneration Report and approved by the shareholders at the Annual General Meeting held on 18 May 2023.

The company has no employees and consequently has no policy on the remuneration of employees.

The board will consider, where raised, shareholders' views on directors' remuneration. No comments have been received on this subject in the past year.

Annual Statement and Directors' Remuneration Implementation Report

Directors' emoluments (audited)
The policy is to review directors' fee rates from time to time, but reviews will not necessarily result in a change to the rates.

In the year under review the directors were paid at a rate of £28,500 per annum, with an additional £6,500 for the Chair of the Audit Committee, and the Chairman was paid at a rate of £42,500 per annum. The current fees have applied since 1 February 2024.

The fees were reviewed in March 2025. In the context of industry data reviewed, the committee considered the current level of directors' fees and the work undertaken during the year by the directors. Having considered these factors, the committee agreed that a modest increase would be appropriate and it has been agreed to increase the fees with effect from 1 February 2025. The Chairman will be paid £45,000 p.a., the directors will be paid £30,000 p.a., and an additional fee of £7,000 p.a. will be paid to the Chair of the Audit Committee.

The directors' emoluments during the year and in the previous year, all of which were in the form of fixed remuneration with no additional variable pay in 2025 or 2024, and were in the form of fees, were as follows:

	2025 Directors' fees £	2025 Expenses[1] £	2025 Total £	2024 Directors' fees £	2024 Expenses[1] £	2024 Total £
Colin Clark	42,500	-	42,500	42,000	-	42,000
Timon Drakesmith	35,000	-	35,000	34,000	-	34,000
Lisa Edgar	28,500	1,904	30,404	2,333	-	2,333
Karen McKellar	28,500	-	28,500	28,000	-	28,000
Mal Patel	26,125	-	26,125	-	-	-
Mary Ann Sieghart	-	-	-	27,713	-	27,713
Sybella Stanley	4,019	-	4,019	28,000	-	28,000
	164,644	**1,904**	**166,548**	**162,046**	**-**	**162,046**

[1] Travel and subsistence expenses incurred in attending board and committee meetings.

	2025 £	% change from 2024 to 2025	2024 £	% change from 2023 to 2024	2023 £	% change from 2022 to 2023	2022 £	% change from 2021 to 2022	2021 £	% change from 2020 to 2021	2020 £
Chairman	42,500	1.2	42,000	3.7	40,500	1.9	39,750	0.0	39,750	3.9	38,250
Audit Chair	35,000	2.9	34,000	3.0	33,000	2.3	32,250	0.0	32,250	4.0	31,000
Independent Director	28,500	1.8	28,000	3.7	27,000	1.9	26,500	0.0	26,500	3.9	25,500

Any increase in pay was effective from 1 February in any given year.

There are no other benefits requiring reporting.

Analysis of pay against distributions

A table showing actual expenditure by the company on remuneration and distributions to shareholders for the year and the prior year is below:

Expenditure by the company on remuneration and distributions to the shareholders

	2025 £	2024 £
Remuneration paid to all directors	164,644	162,046
Distributions to shareholders	42,576,000	40,638,000

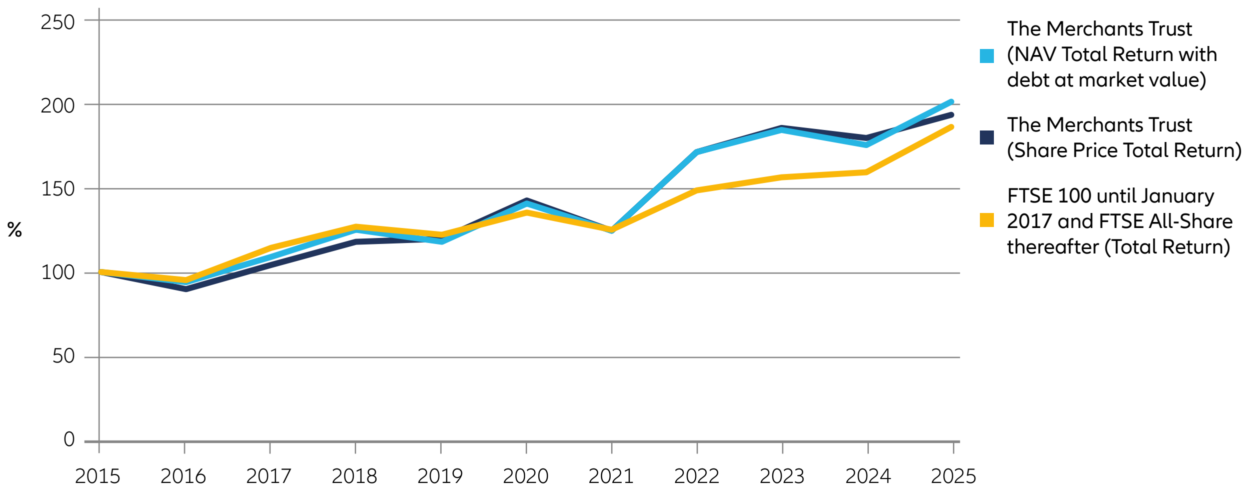
The disclosure is a statutory requirement, however the directors do not consider that the comparison of directors' remuneration with distributions to shareholders is a meaningful measure of the company's overall performance.

Performance graph

The graph below measures the company's share price and Net Asset Value performance against its benchmark index of the FTSE All-Share Index and is re-based to 100.

The company's performance is measured against the FTSE All-Share Index as this is the most appropriate comparator in respect of its asset allocation. An explanation of the company's performance is given in the Chairman's Statement and the Investment Manager's Review.

Total shareholder return for the ten years to 31 January 2025



Source: AllianzGI / Datastream in GBP. Figures have been rebased to 100 as at January 2015.

Signed on behalf of the board

Karen McKellar
Chair of the remuneration committee
8 April 2025

Audit Committee Report

Timon Drakesmith

I am pleased to present the report of the audit committee for the year ended 31 January 2025.

Composition

The audit committee consists of all of the independent non-executive directors, with the exception of the Chairman of the board. The committee considers that, collectively, its members have sufficient recent and relevant financial experience to discharge their responsibilities fully. I am a chartered accountant and have recent previous experience as Chief Financial Officer of a large public company as well as holding positions of a similar capacity in other large companies. I will be retiring as a director at the forthcoming AGM. Upon my retirement, Mal Patel will be appointed as Chairman of the Audit Committee. Mal is a chartered accountant and has held senior finance roles across a variety of businesses.

Role

The principal role of the audit committee is to assist the board in relation to the reporting of financial information, the review of financial controls and the management of risk. The committee has defined terms of reference and duties and the terms of reference are published on the company's website. These include:

- responsibility for the review of the Annual Report and the Half-yearly Report;
- consideration of the nature and scope of the external audit and the findings therefrom; and
- consideration of the terms of appointment of the Auditor, including their remuneration and the provision of any non-audit services by them.

Activities

During the year the committee had two regular meetings during which the Annual Report and the Half-yearly Report respectively were reviewed in detail. The regular meetings were attended by representatives of the manager, including its compliance and risk departments. At each regular meeting the committee received reports on the operation of financial controls relating to the company and the proper conduct of its business in accordance with the regulatory environment in which both the company and the manager operate. At the meeting following the year end the committee also considered the Auditor's report on the audit findings, the process of the audit and the Auditor's independence and objectivity. The audit committee reviews the company's accounting policies with the manager and considers their appropriateness. The committee also reviews the terms of appointment of the Auditor together with their remuneration.

Significant issues considered by the audit committee in the year

Controls oversight

In the prior year we reported on NAV errors calculated by a third-party service provider and the corrective actions taken to prevent recurrence. During the last year AllianzGI, has reported to the board and audit committee on the due diligence performed with the service provider, the corrective actions taken and the service enhancements that resulted from this. The audit committee will continue to monitor this progress closely.

Cyber and artificial intelligence (AI) risks

As part of our risk management responsibilities we have worked with AllianzGI and our other key suppliers such as HSBC, State Street and MUFG to assess continuing business resilience from cyber attacks and data breaches and also from AI threats including malicious AI, its rapid growth and the lack of regulation.

Capital structure assessment

The audit committee constantly monitors Merchants' equity and debt capital structure to ensure that returns are optimised whilst retaining flexibility and resilience. We continue to analyse different capital management scenarios in the context of market movements and the company's appetite for gearing.

Gearing levels remained in the lower half of the policy range of 10 – 25% throughout the year and the investment managers continued to be confident that returns in excess of the cost of debt could be generated. Therefore, the decision was made to refinance the revolving credit facility (RCF) that was due to mature on 31 January 2025.

Throughout the year we reviewed possible refinancing options and it was concluded that medium term financing in the form of private placement notes was the most beneficial option.

In December 2024 the board announced that Merchants had agreed an issue of two £25m fixed rate 15 year secured private placement notes at a coupon of 5.91%, raising total proceeds of £50m. The £50m proceeds received on 21 January 2025 were used to repay the £42m RCF on the same day, with the additional funds being used for investment opportunities. Following the refinancing the weighted average cost of debt was 5.2%.

The risk that income from the portfolio of investments was not correctly recognised and accounted for

The committee noted that the board receives income forecasts throughout the year and is able to compare these against actual income received. The committee has also received assurances from the manager that the company's stated accounting policies, which are set out on pages 102 and 103, were noted and adhered to, for example, each special dividend received is considered by the board at its meetings and is treated as a capital or revenue item depending on the facts or circumstances of each dividend. The board also receives reports on the impact of currency movements on the portfolio revenue.

Risks around the valuation and the ownership of investments and risks of management override

The company's assets are principally invested in large UK listed equities traded on major exchanges. The committee notes that investments are valued using stock exchange prices provided by third party financial data vendors. During the year the committee reviewed internal controls reports from the manager concerning the systems and controls around the pricing and valuation of securities.

Risk

Although the board has ultimate responsibility for the management of risk, the audit committee assists by monitoring the formal reports from the manager and third party service providers' reports on internal controls.

The committee reviewed its approach to the risk management process and concluded that existing processes were adequate to ensure that its assessment of risk is robust and of sufficient frequency.

A Risk Map is reviewed at each of the committee's meetings. We consider whether new risks should be added or existing risks removed, assess their likelihood of occurring and potential scale, review the mitigating actions and assess the residual risk against what we regard as acceptable 'risk appetite'.

Assurance over mitigating actions in relation to these risks is provided in a series of reports from all the third party service providers.

Resulting from the work of the audit committee, certain key risks are identified for disclosure and discussion in our Annual Report. We have also assessed residual risks after controls and mitigating actions have been applied and have evaluated if our risk appetite has been satisfactorily addressed. The principal risks are in relation to portfolio, business and operational matters. The risks identified together with mitigating actions are set out in the Strategic Report from page 54.

Viability Statement

Based on the above review of risk, including the chief risks around investment performance and market volatility and the arrangements in place to manage and mitigate these risks, the committee reviewed a paper that supported the board's conclusion, set out on page 57 in the strategic report, of their reasonable expectation that the company is viable in the longer term, assessed as the next five years.

Internal audit

The audit committee continues to believe that the company does not require an internal audit function of its own as it delegates its day to day operations to third parties from whom it receives internal controls reports.

Assessment of fair, balanced and understandable

The audit committee and then the whole board reviewed the entire Annual Report and noted all the supporting information received. It then considered whether the Annual Report satisfactorily reflected a true picture of the company and its activities and performance in the year, with a clear link between the relevant sections of the report and concluded that it did so. The directors were then able to confirm that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

Review of disclosure and communication

At our meetings the audit committee reviews whether we are following best practice in our disclosure and whether we believe we are communicating clearly. In order to assist us we receive reports on current and future changes to regulatory and accounting reporting from the manager and Auditor.

During the year we carried out further reviews of the format and content to refresh and invigorate the Annual Report to continue to ensure it is appealing and informative to readers.

Whistleblowing

As the company has no employees it does not have a formal policy concerning the raising, in confidence, of any concerns about improprieties, whether in matters of financial reporting or otherwise, for appropriate independent investigation. The audit committee has, however, received and noted the manager's policy on this matter. Any matters concerning the company may be raised with the Chairman or the Senior Independent Director.

Financial Report and review with Auditor

The audit committee met with the Auditor at the half-year point to discuss the audit plan for the year and identify the significant issues to be dealt with in the review of the year end results. The committee then met with the Auditor following the year end to discuss the results of the audit.

These and other matters, identified as posing lesser risk, were considered and discussed with the manager and the Auditor as part of the year end process.

We also agreed the degree of materiality that the Auditor would apply in their work, which is £8.49 million, or about 1% of net assets, although the Auditor would bring to the audit committee's attention any significant misstatements below that level.

Auditor tenure and Auditor reappointment

This is BDO LLP's seventh year as the company's independent Auditor. The company is subject to mandatory Auditor rotation requirements and so will put the external audit out to tender at least every ten years and change Auditor at least every twenty years. The next tender will therefore be required no later than 2028. The Auditor is required to rotate partners every five years and Chris Meyrick has led the audit for two years as Audit Partner.

The audit and its effectiveness

The committee reviewed the terms of appointment of the Auditor, monitored the audit process, assessed the Auditor's independence, objectivity and the effectiveness of the audit process, including the provision of non-audit services by the firm, and determined that they have had no impact on the Auditor's independence and objectivity.

As part of the review of the Auditor, the members of the committee and those representatives of the manager involved in the audit process reviewed and considered a number of areas including: the reputation and standing of the audit firm; the audit processes, evidence of partner oversight and external information about the firm; the skills, experience and specialist knowledge of the audit team, particularly relating to investment trusts; audit communication including details of planning, information on relevant accounting and regulatory developments, and recommendations on corporate reporting; the reasonableness of audit fees; and the Financial Reporting Council's Audit Quality Report on BDO LLP for 2023/24.

The committee was satisfied that the audit process was effective for the year under review.

The committee considered the representations made by the Auditor and sought comments from representatives of the manager on the provision of services by the Auditor and the effectiveness of the external audit. The audit committee believes that the performance of the Auditor was satisfactory.

Non-audit services

Non-audit services relate to reporting in connection with the covenants under the debenture trust deeds and the audit committee agreed that it was appropriate that the company's Auditor should be asked to provide these services.

Fees accrued in the year that related to non-audit services were £5,000 (2024: £5,000) and £5,000 for non-audit services in relation to issue of the 2040 Loan Notes (2024: nil).

Timon Drakesmith
Chair of the audit committee
8 April 2025

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (UK Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit of the company for that period. In preparing these financial statements, the directors are required to:

– select suitable accounting policies and then apply them consistently;
– state whether applicable UK Accounting Standards have been followed, comprising FRS 102, subject to any material departures disclosed and explained in the financial statements;
– make judgements and accounting estimates that are reasonable and prudent; and
– prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors each have a duty to make themselves aware of any 'relevant audit information' and ensure that the Auditor has been made aware of that information. A disclosure stating that each director has complied with that duty is given in the Directors' Report on page 66.

The directors are responsible for ensuring that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

The financial statements are published on www.merchantstrust.co.uk, which is a website maintained by the company's investment manager, AllianzGI. The directors are responsible for the maintenance and integrity of the company's website. The work undertaken by the Auditor does not involve consideration of the maintenance and integrity of the website and, accordingly, the Auditor accepts no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement under Disclosure and Transparency Rule 4.1.12

The directors at the date of approval of this report, each confirm to the best of their knowledge that:

– the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the company;
– the Strategic Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that they face; and
– the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.

For and on behalf of the board

Colin Clark
Chairman
8 April 2025

Financial Statements

British American Tobacco was the portfolio's largest holding at year end. The shares rallied by 50% as investors appreciated the company's portfolio of less harmful, next generation tobacco products.

Independent Auditor's Report to the members of The Merchants Trust PLC

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 January 2025 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of The Merchants Trust PLC (the 'Company') for the year ended 31 January 2025 which comprise Income Statement, Statement of Changes in Equity, Balance Sheet, Cash Flow Statement and Notes to the Financial Statements, including Statement of Accounting Policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

Independence

Following the recommendation of the audit committee, we were appointed by shareholders on 16 May 2018 to audit the financial statements for the year ended 31 January 2019 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is seven years, covering the years ended 31 January 2019 to 31 January 2025. We remain independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Company.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating the appropriateness of the Directors' method of assessing the going concern in light of economic and market conditions by reviewing the information used by the Directors in completing their assessment;
- Assessing the appropriateness of the Directors' assumptions and judgements made by comparing the prior year forecasted costs to the actual costs incurred to check that the projected costs are reasonable;
- Assessing the projected management fees for the year to check that it was in line with the current assets under management levels and the projected market growth forecasts for the following year;
- Assessing the appropriateness of the Directors' assumptions and judgements made in their base case and stress tested forecasts including consideration of the available cash resources relative to forecast expenditure and commitments;
- Challenging the Directors' assumptions and judgements made in their forecasts by performing an independent analysis of the liquidity of the portfolio; and
- Reviewing the loan agreements to identify the covenants and assessing the likelihood of them being breached based on the Directors' forecasts and our sensitivity analyses.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the Company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

Key audit matters		**2025**	**2024**
	Valuation and ownership of investments	✓	✓
	Revenue recognition	✓	✓
Materiality	*Company financial statements as a whole* £8.49m (2024: £7.87m) based on 1% (2024: 1%) of Net assets		

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Company and its environment, including the Company's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the scope of our audit addressed the key audit matter
Valuation and ownership of investments *(Note 8 on Page 98)* The investment portfolio at the year-end comprised of listed equity investments held at fair value through profit or loss. We considered the valuation and ownership of investments to be a significant audit area as investments represent the most significant balance in the financial statements and underpins the principal activity of the entity. There is a risk that the bid price used as a proxy for fair value of investments held at the reporting date is inappropriate. Given the nature of the portfolio is such that it comprises solely of listed investments, we do not consider the use of bid price to be subject to significant estimation uncertainty. There is also a risk of error in the recording of investment holdings such that those recording do not appropriate reflect the property of the Company. For these reasons and the materiality of the balance in relation to the financial statements as a whole, they are considered to be a key area of our overall audit strategy and allocation of our resources and hence a key audit matter.	We responded to this matter by testing the valuation and ownership of the whole portfolio of listed equity investments. We performed the following procedures: – Confirmed the year-end bid price was used by agreeing to externally quoted prices; – Assessed if there were contra indicators, such as liquidity considerations, to suggest bid price is not the most appropriate indication of fair value by considering the realisation period for individual holdings; – Recalculated the valuation by multiplying the number of shares held per the statement obtained from the custodian by the valuation per share; and – Obtained direct confirmation of the number of shares held per equity investment from the custodian regarding all investments held at the balance sheet date. *Key observations:* Based on our procedures performed we are satisfied the valuation or ownership of the listed equity investments are not materially misstated.

Revenue recognition *(Page 92 and Note 1 on Page 94)* Revenue is a key indicator of performance of the Company, as such there may be an incentive to recognise income as revenue where it is more appropriately of a capital nature. Additionally, judgement may be required by management in determining the allocation of dividend income to revenue or capital for certain corporate actions or special dividends. For this reason we considered revenue recognition to be a Key Audit Matter.	We responded to this matter by performing the following procedures: – We performed walkthroughs of the internal process and obtained an understanding of the design and implementation of controls in place in relation to allocation of dividend revenue recognised as revenue or capital for dividend. – We assessed the treatment of dividend income from corporate actions and special dividends and challenged if these had been appropriately accounted for as income or capital by reviewing the underlying reason for issue of the dividend and whether it could be driven by a capital event. – We analysed the whole population of dividend receipts to identify items for further investigation that could indicate a capital distribution, for example where a dividend represents a particularly high yield. In these instances we performed a combination of inquiry with management and our own independent research, including inspection of financial statements and public information of investee companies, to ascertain whether the underlying event was indeed of a capital nature. In addition, we formed our own expectation of dividend income for the whole portfolio using the entity's investment holdings and dividend announcements from independent sources. We vouched a sample of dividend receipts to bank. *Key observations:* Based on our procedures performed we are satisfied that revenue recognised is not materially misstated.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

Company financial statements:	**2025**	**2024**
Materiality	£8.49m	£7.87m
Basis for determining materiality	1% of Net assets	
Rationale for the benchmark applied	As an investment trust, the net asset value is the key measure of performance for users of the financial statements	
Performance materiality	£6.37m	£5.90m
Basis for determining performance materiality	75% of materiality	
Rationale for the percentage applied for performance materiality	The level of performance materiality applied was set after having considered a number of factors including the expected total value of known and likely misstatements and the level of transactions in the year.	

Specific materiality
We also determined that for items impacting revenue return, a misstatement of less than materiality for the financial statements as a whole, specific materiality, could influence the economic decisions of users. As a result, we determined materiality for these items to be £2.24m (2024: £2.26m), based on 5% (2024: 5%) of revenue return before tax. We further applied a performance materiality level of 75% (2024: 75%) of specific materiality to ensure that the risk of errors exceeding specific materiality was appropriately mitigated.

Reporting threshold
We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £424,000 or £112,000 for items impacting revenue return (2024: £113,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Corporate governance statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit.

Going concern and longer-term viability
- The Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified; and
- The Directors' explanation as to their assessment of the Company's prospects, the period this assessment covers and why the period is appropriate.

Other Code provisions
- Directors' statement on fair, balanced and understandable;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems; and
- The section describing the work of the Audit Committee.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

Directors' remuneration
In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement
In our opinion, based on the work undertaken in the course of the audit the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Guidance and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in this information.

In our opinion, based on the work undertaken in the course of the audit information about the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the Company.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. We considered the significant laws and regulations to be the Companies Act 2006, the FCA listing and DTR rules, the principles of the AIC Code of Corporate Governance, industry practice represented by the AIC SORP, the applicable accounting framework, and qualification as an Investment Trust under UK tax legislation as any non-compliance of this would lead to the Company losing various deductions and exemptions from corporation tax.

Non-compliance with laws and regulations
We focused on laws and regulations that could give rise to a material misstatement in the Company financial statements. Our tests included, but were not limited to:

- agreement of the financial statement disclosures to underlying supporting documentation;
- enquiries of management and those charged with governance relating to any instances of any non-compliance with laws and regulations;
- reviewing minutes of meeting of those charged with governance throughout the period for instances of non-compliance with laws and regulations; and
- reviewing the calculation in relation to Investment Trust compliance to check that the Company was meeting its requirements to retain their Investment Trust Status.

Fraud
We assessed the susceptibility of the financial statement to material misstatement including fraud.

Our risk assessment procedures included:

- Enquiry with the Investment Manager, the Administrator and those charged with governance regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Company's risk management policies relating to:
  - Detecting and responding to the risks of fraud; and
  - Internal controls established to mitigate risks related to fraud.
- Review of minutes of meeting of those charged with governance for any known or suspected instances of fraud; and
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements.

Based on our risk assessment, we considered the areas most susceptible to be management override of controls and revenue recognition as outlined in the Key Audit Matters section.

Our procedures in respect of the above included:

- In addressing the risk of management override of control, we:
  - Performed a review of estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias;
  - Considered the opportunity and incentive to manipulate accounting entries and target tested relevant adjustments made in the period end financial reporting process; and
  - Reviewed for significant transactions outside the normal course of business; and
  - Performed a review of unadjusted audit differences, if any, for indications of bias or deliberate misstatement.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Chris Meyrick (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Edinburgh, UK
8 April 2025

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Income Statement

for the year ended 31 January 2025

	Notes	2025 Revenue £'000s	2025 Capital £'000s	2025 Total Return £'000s	2024 Revenue £'000s	2024 Capital £'000s	2024 Total Return £'000s
Gains (losses) on investments held at fair value through profit or loss	8	-	66,566	66,566	-	(69,095)	(69,095)
Losses on derivatives	8	-	(202)	(202)	-	(20)	(20)
Gains (losses) on foreign currencies		-	43	43	-	(58)	(58)
Income	1	48,482	-	48,482	49,563	-	49,563
Investment management fee	2	(1,160)	(2,153)	(3,313)	(1,093)	(2,031)	(3,124)
Administration expenses	3	(1,108)	(4)	(1,112)	(1,229)	(4)	(1,233)
Profit (loss) before finance costs and taxation		**46,214**	**64,250**	**110,464**	**47,241**	**(71,208)**	**(23,967)**
Finance costs: interest payable and similar charges	4	(2,009)	(3,648)	(5,657)	(1,954)	(3,549)	(5,503)
Profit (loss) on ordinary activities before taxation		**44,205**	**60,602**	**104,807**	**45,287**	**(74,757)**	**(29,470)**
Taxation	5	(534)	-	(534)	(778)	-	(778)
Profit (loss) after taxation attributable to ordinary shareholders		**43,671**	**60,602**	**104,273**	**44,509**	**(74,757)**	**(30,248)**
Earnings (loss) per ordinary share (basic and diluted)	7	**29.43p**	**40.84p**	**70.27p**	**30.53p**	**(51.28p)**	**(20.75p)**

Dividends in respect of the financial year ended 31 January 2025 total 29.10p (2024: 28.40p), amounting to £43,184,000 (2024: £41,916,000). Details are set out in Note 6 on page 97.

The total return column of this statement is the profit and loss account of the company. The supplementary revenue return and capital return columns are both prepared under the guidance published by the Association of Investment Companies.

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

The net profit for the year disclosed above represents the company's total comprehensive income.

The Statement of Accounting Policies and Notes on pages 92 to 108 form an integral part of these Financial Statements.

Statement of Changes in Equity

for the year ended 31 January 2025

	Notes	Called up share capital £'000s	Share premium account £'000s	Capital redemption reserve £'000s	Capital reserve £'000s	Revenue reserve £'000s	Total £'000s
Net assets at 1 February 2024		37,081	228,174	293	495,155	26,819	787,522
Revenue profit		-	-	-	-	43,671	43,671
Dividends on ordinary shares	6	-	-	-	-	(42,576)	(42,576)
Unclaimed dividends		-	-	-	-	26	26
Capital profit		-	-	-	60,602	-	60,602
Shares issued during the year	11	25	552	-	-	-	577
Net assets at 31 January 2025		**37,106**	**228,726**	**293**	**555,757**	**27,940**	**849,822**
Net assets at 1 February 2023		35,034	184,239	293	569,912	22,897	812,375
Revenue profit		-	-	-	-	44,509	44,509
Dividends on ordinary shares	6	-	-	-	-	(40,638)	(40,638)
Unclaimed dividends		-	-	-	-	51	51
Capital loss		-	-	-	(74,757)	-	(74,757)
Shares issued during the year	11	2,047	43,935	-	-	-	45,982
Net assets at 31 January 2024		**37,081**	**228,174**	**293**	**495,155**	**26,819**	**787,522**

The Statement of Accounting Policies and Notes on pages 92 to 108 form an integral part of these Financial Statements.

Balance Sheet

at 31 January 2025

	Notes	2025 £'000s	2025 £'000s	2024 £'000s
Fixed assets				
Investments held at fair value through profit or loss	8		954,514	874,668
Current assets				
Other receivables	9	1,891		1,923
Cash at bank and in hand		15,604		22,886
		17,495		**24,809**
Current liabilities				
Other payables	9	(5,167)		(45,032)
Derivative financial instruments	8	(239)		(57)
		(5,406)		**(45,089)**
Net current assets (liabilities)			12,089	(20,280)
Total assets less current liabilities			**966,603**	**854,388**
Creditors: amounts falling due after more than one year	10		(116,781)	(66,866)
Total net assets			**849,822**	**787,522**
Capital and reserves				
Called up share capital	11		37,106	37,081
Share premium account	12		228,726	228,174
Capital redemption reserve	12		293	293
Capital reserve	12		555,757	495,155
Revenue reserve	12		27,940	26,819
Equity shareholders' funds	13		**849,822**	**787,522**
Net asset value per ordinary share	13		**572.6p**	**530.9p**

The financial statements of The Merchants Trust PLC on pages 88 to 91 were approved and authorised for issue by the board of directors on 8 April 2025 and signed on its behalf by:

Colin Clark
Chairman

The Statement of Accounting Policies and Notes on pages 92 to 108 form an integral part of these Financial Statements.

Cash Flow Statement

for the year ended 31 January 2025

	Notes	2025 £'000s	2024 £'000s
Operating activities			
Profit (loss) before finance costs and taxation[1]		110,464	(23,967)
(Less) add: (gains) losses on investments held at fair value		(67,746)	67,949
Add: losses on derivatives		182	20
(Less) add: (gains) losses on foreign currency		(43)	58
Proceeds from special dividend credited to capital[2]		565	-
Purchase of fixed asset investments held at fair value through profit or loss		(221,421)	(242,189)
Sales of fixed asset investments held at fair value through profit or loss		212,511	211,377
Transaction costs		(1,180)	(1,146)
Decrease (increase) in other receivables		72	(24)
(Decrease) increase in other payables		(184)	60
Less: overseas tax suffered		(534)	(778)
Net cash inflow from operating activities		**32,686**	**11,360**
Financing activities			
Interest paid		(5,845)	(5,233)
Issue costs in relation to the 5.91% Fixed Rate Notes 2040		(150)	-
Proceeds from 5.91% Fixed Rate Notes 2040 A		25,000	-
Proceeds from 5.91% Fixed Rate Notes 2040 B		25,000	-
Repayment of Revolving Credit Facility[3]		(42,000)	-
Dividend paid on cumulative preference stock		(43)	(43)
Dividends paid on ordinary shares	6	(42,576)	(40,638)
Unclaimed dividends over 12 years		26	51
Share issue proceeds		577	45,982
Net cash (outflow) inflow from financing activities		**(40,011)**	**119**
(Decrease) increase in cash and cash equivalents		**(7,325)**	**11,479**
Cash and cash equivalents at the start of the year		22,886	11,465
Effect of foreign exchange rates		43	(58)
Cash and cash equivalents at the end of the year		15,604	22,886
Comprising:			
Cash at bank and in hand		15,604	22,886

[1] Cash inflow from dividends was £46,700,000 (2024: £47,137,000) and cash inflow from interest was £280,000 (2024: £409,000).
[2] Tyman dividend paid in relation to the acquisition by Quanex Building Products.
[3] Revolving Credit Facility drawdowns and repayments are presented on a net basis.

The Statement of Accounting Policies and Notes on pages 92 to 108 form an integral part of these Financial Statements.

Statement of Accounting Policies

for the year ended 31 January 2025

The company is incorporated in the United Kingdom under the Companies Act 2006.

The company is a public company limited by shares and is registered in England and Wales. The address of the company's registered office is shown on page 62. The company is an investment company as defined in section 833 of the Companies Act 2006.

The principal activity of the company and the nature of its operations are set out in the Strategic Report starting on page 50. The company conducts its business so as to qualify as an investment trust company within the meaning of sub-section 1158 of the Corporation Tax Act 2010.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

1 **Basis of preparation** – The financial statements have been prepared under the historical cost convention, except for the revaluation of financial instruments held at fair value through profit or loss and in accordance with applicable United Kingdom law and UK Accounting Standards (UK GAAP), including Financial Reporting Standard 102 – the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (FRS 102) and in line with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued by the Association of Investment Companies (AIC SORP) in July 2022.

Investments and derivative financial instruments are designated as held at fair value through profit or loss in accordance with FRS 102 sections 11 and 12.

In order to better reflect the activities of an investment trust company, and in accordance with guidance issued by the AIC, supplementary information which analyses the Income Statement between items of revenue and capital nature has been presented alongside the Income Statement. In accordance with the company's Articles of Association, net capital returns may be distributed by way of dividend.

Going concern

The directors believe that 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 significantly exceed liabilities. Accordingly, the directors believe that the company has adequate financial resources, to continue in operational existence for the foreseeable future. The directors have also considered the risks and consequences of unanticipated shocks on the company, including geopolitical and macroeconomic events and have concluded that the company has the ability to continue in operation and meet its objectives for twelve months after the approval of the financial statements.

2 **Income** – Dividends received on equity shares are accounted for on an ex-dividend basis. Foreign dividends are grossed up at the appropriate rate of withholding tax.

Special dividends are recognised on an ex-dividend basis and treated as a capital or revenue item depending on the facts and circumstances of each dividend. The board reviews special dividends and their treatment at each meeting.

Where the company has elected to receive its dividends in the form of additional shares rather than in cash, the equivalent of the cash dividend is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend is recognised in capital reserves.

Deposit interest receivable is accounted for on an accruals basis.

3 **Investment management fees and administrative expenses** – The investment management fee is calculated on the basis set out in Note 2 to the financial statements and is charged to capital and revenue in the ratio 65:35 to reflect the board's investment policy and prospective split of capital and revenue returns. The split is reviewed annually. Other administration expenses are charged in full to revenue, except custodian handling charges on investment transactions which are charged to capital. All expenses are recognised on an accrual basis.

4 **Investments** – As the company's business is investing in financial assets with a view to profiting from their total return in the form of increases in fair value, financial assets are designated as held at fair value through profit or loss in accordance with FRS 102 Section 11: 'Basic Financial Instruments' and Section 12: 'Other Financial Instruments'. The company manages and evaluates the performance of these investments on a fair value basis in accordance with its investment strategy, and information about the investments is provided on this basis to the board.

Investments held at fair value through profit or loss are initially recognised at fair value. After initial recognition, these continue to be measured at fair value, which for quoted investments is either the bid price or the last traded price depending on the convention of the exchange on which the investment is listed. Gains or losses on investments are recognised in the capital column of the Income Statement. Purchases and sales of the financial assets are recognised on the trade date, being the date which the company commits to purchase or sell the assets.

Unlisted investments are valued by the Directors based upon the latest dealing prices, stockbrokers' valuations, net asset values, earnings and other known accounting information in accordance with the principles set out by the International Private Equity and Venture Capital Valuation Guidelines issued in December 2022.

After initial recognition unquoted stocks are valued by the board on an annual basis.

5 **Transaction costs** – In accordance with FRS 102 section 12.7, transaction costs are immediately expensed to the profit and loss account and are not included in the carrying value of investments as these are measured at fair value through the profit and loss account.

6 **Derivatives** – Options may be purchased or written over securities held in the portfolio for generating or protecting capital returns, or for generating or maintaining revenue returns. Where the purpose of the option is the maintenance of capital the premium is treated as a capital item. In accordance with FRS 102 Section 12: 'Other Financial Instruments', options are valued at fair value and are included in current assets or current liabilities in the balance sheet. When an option is closed out or exercised the gain or loss is accounted for as capital.

Where the purpose of the option is the generation of income, the premium is treated as a revenue item. Premiums received on written options are amortised to revenue over the period to expiry. If an option is exercised early unamortised premiums are taken to capital.

7 **Finance costs** – In accordance with the FRS 102 Section 11: 'Basic Financial Instruments' and Section 12 'Other Financial Instruments', long-term borrowings are stated at the amortised cost being the amount of net proceeds on issue plus accrued finance costs to date. Finance costs are calculated over the term of the debt on the effective interest rate basis.

Where debt is issued at a premium, the premium is amortised over the term of the debt on the effective interest rate basis.

Finance costs net of amortised premiums are charged to capital and revenue in the ratio 65:35 to reflect the board's investment policy and prospective split of capital and revenue returns.

Dividends payable on the 3.65% cumulative preference stock are classified as an interest expense and are charged in full to revenue.

8 **Taxation** – Where expenses are allocated between capital and revenue, any tax relief obtained in respect of those expenses is allocated between capital and revenue on the marginal basis using the company's effective rate of corporation tax for the accounting period.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax or a right to pay less tax in the future have occurred. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements.

A deferred tax asset is recognised when it is more likely than not that the asset will be recoverable. Deferred tax is measured on a non-discounted basis at the rate of corporation tax that is expected to apply when the timing differences are expected to reverse.

9 **Foreign currency** – In accordance with FRS 102 Section 30: 'Foreign Currency Translation', the company is required to nominate a functional currency, being the currency in which the company predominately operates and in which its expenses are generally paid. The functional and reporting currency is pounds sterling. Transactions in foreign currencies are translated into pounds sterling at the rates of exchange ruling on the date of the transaction. Foreign currency monetary assets and liabilities are translated into sterling at the rates of exchange ruling at the balance sheet date. Profits and losses thereon are recognised in the capital column of the income statement and taken to the capital reserve.

10 **Dividends** – In accordance with FRS 102 Section 32: 'Events After the End of the Reporting Period', any final dividend proposed on ordinary shares is recognised as a liability when approved by shareholders. Interim dividends are recognised only when paid. Dividends are paid from the revenue reserve.

11 **Cash and cash equivalents** – Cash comprises cash in hand and on demand deposits. Cash equivalents include bank overdrafts repayable on demand and short-term, highly liquid investments, that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

12 **Shares repurchased for cancellation and for holding in treasury** – Share capital is reduced by the nominal value of the shares repurchased, and the capital redemption reserve is correspondingly increased in accordance with section 733 Companies Act 2006. The full cost of the repurchase is charged to the capital reserve within gains (losses) on sales of investments.

For shares repurchased for holding in treasury, the full cost is charged to the capital reserve.

13 **Shares sold (reissued) from treasury** – Proceeds received from the sale of shares held in treasury are treated as realised profits in accordance with Section 731 of the Companies Act 2006. Proceeds equivalent to the original cost, calculated by applying a weighted average price, are credited to the capital reserve to replenish the profits available for distribution; proceeds in excess of the original cost are credited to the share premium account.

14 **Shares issued** – Share capital is increased by the nominal value of shares issued. The proceeds in excess of the nominal value of shares net of expenses are allocated to the share premium account.

15 **Significant judgements, estimates and assumptions** – In the application of the company's accounting policies, which are described above, the directors are required to make judgements, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

There are no significant judgements, estimates, and assumptions. The investment portfolio currently consists of listed investments and therefore no significant estimates have been made in valuing those securities.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Notes to the Financial Statements

for the year ended 31 January 2025

1. Income

	2025 £'000s	2024 £'000s
Income from investments*		
Equity dividends from UK investments#	36,041	36,628
Unfranked dividends from UK investments	2,054	1,238
Equity dividends from overseas investments	9,159	10,364
	47,254	**48,230**
Other income		
Deposit interest	337	446
Premiums on derivative contracts	891	887
	1,228	**1,333**
Total income	**48,482**	**49,563**

* All equity income is derived from listed investments
# Includes special dividends of £2,062,000 (2024: £1,379,000)

During the year, the company received premiums totalling £884,000 (2024: £911,000) for writing covered call options for the purpose of revenue generation. Premium income of £891,000 was amortised to income (2024: £887,000). All derivatives transactions were based on FTSE 100 stocks or the related index. At the year end there were three open positions with a net liability value of £239,000 (2024: £57,000).

2. Investment management fee

	2025 Revenue £'000s	2025 Capital £'000s	2025 Total £'000s	2024 Revenue £'000s	2024 Capital £'000s	2024 Total £'000s
Investment management fee	**1,160**	**2,153**	**3,313**	**1,093**	**2,031**	**3,124**

Under the terms of the Management and Administration Agreement the company's manager is Allianz Global Investors UK Limited. On 30 May 2024 the Agreement was novated from Allianz Global Investors GmbH to Allianz Global Investors UK Limited (AllianzGI UK). The Agreement was restated in July 2014, with the appointment of AllianzGI as the Alternative Investment Fund Manager. In both cases the terms of the Agreement were unchanged: it provides for a management fee based on 0.35% (2024: 0.35%) per annum of the value of the assets after deduction of current liabilities, short-term loans with an initial duration of less than one year and other funds managed by AllianzGI. Under the contract, AllianzGI UK provides the company with investment management, accounting, company secretarial and administration services.

3. Administration expenses

	2025 £'000s	2024 £'000s
Auditor's remuneration		
For audit services	48	43
Non-audit services - agreed upon procedures relating to loan covenants	5	5
VAT on Auditor's remuneration	11	10
	64	**58**
Directors' fees	162	162
Directors' NI contributions	21	15
Marketing costs	387	428
Registrars' fees	116	153
Depositary fees	53	51
Professional and advisory fees	32	116
Printing and postage	75	58
Stock exchange fees	52	40
Custody fees	32	29
Other administration expenses	114	119
	1,108	**1,229**

(i) The above expenses include value added tax where applicable.
(ii) Directors' fees are set out in the Directors' Remuneration Report on page 75.
(iii) Custody handling charges of £4,000 were charged to capital (2024: £4,000).
(iv) AllianzGI received fees for the provision of marketing activities of £371,000 (2024: £341,000) during the year. At 31 January 2025 marketing costs payable were £nil (2024: £291,000).
(v) Non-audit services paid in the year were £5,000 (2024: £5,000). An additional £5,000 for auditors certificates was capitalised as part of issue costs in relation to the issue of the 2040 Loan Notes.
(vi) Professional and advisory fees includes directors' search fees of £nil (2024: £86,000).

4. Finance costs: interest payable and similar charges

	2025 Revenue £'000s	2025 Capital £'000s	2025 Total £'000s	2024 Revenue £'000s	2024 Capital £'000s	2024 Total £'000s
On 4% Perpetual Debenture Stock repayable after more than five years	19	36	55	19	36	55
On 5.875% Secured Bonds repayable after more than five years	637	1,182	1,819	635	1,179	1,814
On 3.65% Preference Stock repayable after more than five years	43	-	43	43	-	43
On 2.96% Fixed Rate Notes repayable after more than five years	365	678	1,043	365	677	1,042
On Revolving Credit Facility	913	1,694	2,607	892	1,657	2,549
On 5.91% Fixed Rate Notes A repayable after more than five years	16	29	45	-	-	-
On 5.91% Fixed Rate Notes B repayable after more than five years	16	29	45	-	-	-
	2,009	**3,648**	**5,657**	**1,954**	**3,549**	**5,503**

5. Taxation

	2025 Revenue £'000s	2025 Capital £'000s	2025 Total £'000s	2024 Revenue £'000s	2024 Capital £'000s	2024 Total £'000s
Overseas taxation*	534	-	534	778	-	778
Total tax	**534**	**-**	**534**	**778**	**-**	**778**
Reconciliation of tax charge						
Profit (loss) before taxation	44,205	60,602	104,807	45,287	(74,757)	(29,470)
Tax on profit (loss) at 25.00% (2024: 24.03%)	**11,051**	**15,151**	**26,202**	**10,882**	**(17,964)**	**(7,082)**
Effects of						
Non taxable income	(11,300)	-	(11,300)	(11,292)	-	(11,292)
Non taxable capital (gains) losses	-	(16,591)	(16,591)	-	16,608	16,608
Irrecoverable overseas tax	534	-	534	778	-	778
(Losses) gains on foreign currencies	-	(11)	(11)	-	14	14
Disallowable expenses	106	494	600	82	441	523
Excess of allowable expenses over taxable income	143	957	1,100	328	901	1,229
Total tax	**534**	**-**	**534**	**778**	**-**	**778**

* Irrecoverable overseas tax on Aena, BMW, CRH, Diversified Energy Company, Grafton Group, Quanex Building Products, SCOR and Swiss Re.

The company's taxable income is exceeded by its tax allowable expenses, which include both the revenue and capital elements of the management fee and finance costs. As at 31 January 2025, the company had accumulated surplus expenses of £242.9 million (2024: £238.5 million).

The company has not recognised a deferred tax asset of £60.7 million (2024: £59.6 million) in respect of these expenses, based on a prospective corporation tax rate of 25% (2024: 25%) because there is no reasonable prospect of recovery. Provided the company continues to maintain its current investment profile, it is unlikely that these expenses will be utilised and that the company will obtain any benefit from this asset.

In May 2013 the company received confirmation from HM Revenue & Customs of its status as an approved investment trust for accounting periods commencing on or after 1 February 2012, subject to the company continuing to meet the eligibility conditions at Section 1158 Corporation Tax Act 2010 and the ongoing requirements for approved companies in Chapter 3 of Part 2 Investment Trust (Approved Company) Tax Regulations 2011 (Statutory Instrument 2011/2999). The company intends to retain this approval and self-assesses compliance with the relevant conditions and requirements and will do so on an annual basis..

6. Dividends on ordinary shares

	2025 £'000s	2024 £'000s
Dividends paid on ordinary shares		
Third interim dividend 7.1p paid 14 March 2024 (2023: 6.9p)	10,531	9,669
Final dividend 7.1p paid 22 May 2024 (2023: 7.0p)	10,531	10,115
First interim dividend 7.2p paid 22 August 2024 (2023: 7.1p)	10,679	10,412
Second interim dividend 7.3p paid 15 November 2024 (2023: 7.1p)	10,835	10,442
	42,576	**40,638**

Dividends payable at the year end are not recognised as a liability under FRS 102 Section 32 'Events After the End of the Reporting Period' (see page 93 - Statement of Accounting Policies). Details of these dividends are set out below.

	2025 £'000s	2024 £'000s
Third interim dividend 7.3p paid 19 March 2025 (2024: 7.1p)	10,835	10,531
Final proposed dividend 7.3p payable 29 May 2025 (2024: 7.1p)	10,835	10,531
	21,670	**21,062**

The declared final dividend accrued is based on the number of shares in issue at the year end. However, the dividend payable will be based on the numbers of shares in issue on the record date and will reflect any changes in the share capital between the year end and the record date.

All dividends disclosed in the tables above have been paid or are payable from the revenue reserves.

7. Earnings per ordinary share

	2025 Revenue £'000s	2025 Capital £'000s	2025 Total £'000s	2024 Revenue £'000s	2024 Capital £'000s	2024 Total £'000s
Profit (loss) after taxation attributable to ordinary shareholders	43,671	60,602	104,273	44,509	(74,757)	(30,248)
Earnings (loss) after taxation attributable to ordinary shareholders	29.43p	40.84p	70.27p	30.53p	(51.28p)	(20.75p)

The earnings per ordinary share is based on the weighted average number of shares in issue of 148,372,564 (2024: 145,769,940).

Basis and diluted earnings per share are the same as the company has no dilutive instruments.

8. Fixed asset investments

	2025 £'000s	2024 £'000s
Opening book cost	878,851	847,052
Opening book cost: derivative financial instruments	(42)	(201)
Opening investment holding (losses) gains	(4,183)	62,586
Opening investment holding (losses) gains: derivative financial instruments	(15)	181
Opening market value	**874,611**	**909,618**
Additions at cost	225,171	244,339
Disposals proceeds received*	(213,071)	(211,360)
Premiums recognised in current year	(787)	(808)
Realised gains on investments	40,454	589
Realised gains on derivative financial instruments	765	967
Movement in unrealised gains (losses)	27,292	(68,538)
Movement in unrealised losses on derivative financial instruments	(160)	(196)
Market value of investments held at 31 January	**954,275**	**874,611**
Closing book cost	932,498	878,851
Closing book cost: derivative financial instruments	(64)	(42)
Closing investment holding gains (losses)	22,016	(4,183)
Closing investment holding losses: derivative financial instruments	(175)	(15)
Closing market value	**954,275**	**874,611**

* This includes Tyman special dividend of £565,000 credited to capital.

The company received £222,887,000 (2024: £211,307,000) from investments sold in the year. The book cost of these investments when they were purchased was £183,040,000 (2024: £210,771,000). These investments have been revalued over time and until they were sold any unrealised gains/losses were included in the fair value of the investments.

Transaction costs and stamp duty on purchases amounted to £1,135,000 (2024: £1,093,000) and transaction costs on sales amounted to £45,000 (2024: £53,000).

	2025 £'000s	2024 £'000s
Gains (losses) on investments		
Gains (losses) on investment held at fair value through profit or loss	67,181	(67,949)
Transaction costs	(1,180)	(1,146)
Special dividend credited to capital	565	-
	66,566	**(69,095)**
Losses on derivatives		
Gains on derivative financial instruments	605	771
Option premiums and fees	(807)	(791)
	(202)	**(20)**
Total gains (losses)	**66,364**	**(69,115)**

9. Other receivables and other payables

		2025 £'000s	2024 £'000s
Other receivables			
Sales for future settlement		40	-
Prepayments		36	38
Accrued income		1,815	1,885
		1,891	**1,923**
Other payables: amounts falling due within one year			
Purchases for future settlement		3,619	1,004
Other payables		1,109	1,293
Interest on borrowings		439	350
Revolving Credit Facility	(i)	-	42,385
		5,167	**45,032**
Interest on outstanding borrowing consists of:			
5.875% Secured Bonds 2029		207	208
4% Perpetual Debenture Stock		14	14
2.96% Fixed Rate Notes 2052		128	128
5.91% Fixed Rate Notes 2040 A		45	-
5.91% Fixed Rate Notes 2040 B		45	-
		439	**350**

(i) On 31 January 2022 the company renegotiated the revolving credit facility agreement of £42m, to extend it for another three years. Under this agreement £21m was drawndown on 25 July 2024 and £21m was drawndown on 25 October 2024. The facility was repaid on 21 January 2025 and subsequently cancelled.

10. Creditors: amounts falling due after more than one year

		2025 £'000s	2024 £'000s
5.875% Secured Bonds 2029	(i)	29,678	29,621
4% Perpetual Debenture Stock	(ii)	1,375	1,375
3.65% Cumulative Preference Stock	(iii)	1,178	1,178
2.96% Fixed Rate Notes 2052	(iv)	34,700	34,692
5.91% Fixed Rate Notes 2040 A	(v)	24,925	-
5.91% Fixed Rate Notes 2040 B	(vi)	24,925	-
		116,781	**66,866**

(i) The £30,000,000 of 5.875% Secured Bonds is stated at £29,678,000 (2024: £29,621,000), being the net proceeds of £28,943,000 plus accrued finance costs of £735,000 (2024: £678,000). The Bonds are repayable on 20 December 2029 and carry interest at 5.875% per annum on the principal amount. Interest is payable in June and December each year. The effective interest rate of this loan is 6.23% per annum.

(ii) The 4% perpetual debenture stock of £1,375,000 is secured by a floating charge on the assets of the company, which ranks prior to any other floating charge. Interest is payable on 1 May and 1 November each year.

(iii) The 3.65% Cumulative Preference Stock is recognised as a creditor due after more than one year under the provisions of FRS 102 Section 11: 'Basic Financial Instruments' and Section 12: 'Other Financial Instruments'. The right of the preference stock holders to receive payments is not calculated by reference to the company's net return and, in the event of a return of capital is limited to a specific amount, being £1,178,000. Dividends on the preference stock are payable on 1 February and 1 August each year. The preference stock is non-redeemable.

(iv) The £35,000,000 of Fixed Rate Notes is stated at £34,700,000 (2024: £34,692,000), being the net proceeds of £34,656,000 plus finance costs of £44,000 (2024: £36,000). The Bonds are repayable on 18 December 2052 and carry interest at 2.96% per annum on the principal amount. Interest is payable in June and December each year. The effective interest rate of this loan is 3.03% per annum.

(v) The £25,000,000 of Fixed Rate Notes is stated at £24,925,000 (2024: £nil), being the net proceeds of £24,925,000 plus finance costs of £nil (2024: £nil). The Bonds are repayable on 21 January 2040 and carry interest at 5.91% per annum on the principal amount. Interest is payable in January and July each year. The effective interest rate of this loan is 6.03% per annum.

(vi) The £25,000,000 of Fixed Rate Notes is stated at £24,925,000 (2024: £nil), being the net proceeds of £24,925,000 plus finance costs of £nil (2024: £nil). The Bonds are repayable on 21 January 2040 and carry interest at 5.91% per annum on the principal amount. Interest is payable in January, April, July and October each year. The effective interest rate of this loan is 6.07% per annum.

The two Private Placements of £25m each, 5.91% Fixed Rate Notes 2040 were funded on 21 January 2025. The funds were used to repay the £42m Revolving Credit Facility on the same day.

11. Called up share capital

	2025 £'000s	2024 £'000s
Allotted and fully paid		
148,424,887 ordinary shares of 25p (2024: 148,324,887)	**37,106**	**37,081**

	2025 Number	2025 £'000s	2024 Number	2024 £'000s
Allotted 25p ordinary shares				
Brought forward	148,324,887	37,081	140,134,887	35,034
Shares issued during the year	100,000	25	8,190,000	2,047
Carried forward	**148,424,887**	**37,106**	**148,324,887**	**37,081**

During the year 100,000 shares were issued (2024: 8,190,000) for a total consideration of £577,000 (2024: £45,982,000), net of issues costs of £1,000 (2024: £83,000). The directors are seeking authority at the Annual General Meeting on 20 May 2025 for an ordinary resolution to be passed to allot relevant securities, in accordance with section 551 on the Companies Act 2006, up to a maximum of 49,474,962 ordinary shares of 25p each.

12. Reserves

			Capital Reserve		
	Share premium account £'000s	Capital redemption reserve £'000s	Gains (losses) on sales of investments £'000s	Investment holding gains (losses) £'000s	Revenue reserve £'000s
Balance at 1 February 2024	228,174	293	505,875	(10,720)	26,819
Gains on sales of fixed asset investments	-	-	39,889	-	-
Losses on derivative financial instruments	-	-	(42)	-	-
Net movement in fixed asset investment holding gains	-	-	-	27,292	-
Movement in derivative holding losses	-	-	-	(160)	-
Special dividends	-	-	565	-	-
Transaction costs	-	-	-	(1,180)	-
Unclaimed dividends	-	-	-	-	26
Losses on foreign currencies	-	-	-	43	-
Transfer on sale of investments	-	-	(76,072)	76,072	
Issue of ordinary shares	552	-	-	-	-
Investment management fee	-	-	(2,153)	-	-
Finance costs of borrowings	-	-	(3,648)	-	-
Other capital expenses	-	-	(4)	-	-
Dividends appropriated in the year	-	-	-	-	(42,576)
Profit retained for the year	-	-	-	-	43,671
Balance at 31 January 2025	**228,726**	**293**	**464,410**	**91,347**	**27,940**

The share premium and capital redemption reserve are not distributable reserves under the Companies Act 2006. In accordance with the Articles of Association, distributions can be made from both the revenue reserve and capital reserves to the extent they are realised (Gains (losses) on sales of investments). All paid or payable dividends for the year are payable from the revenue reserve (2024: same).

13. Net Asset Value per share

The net asset value total return for the year is the percentage movement from the capital net asset value as at 31 January 2024 to the net asset value, on a total return basis as at 31 January 2025. The net asset value total return with debt at market value is +13.5% (2024: -3.1%) and the net asset value total return with debt at par is +13.3% (2024: -3.6%).

The net asset value per ordinary share is based on 148,424,887 ordinary shares in issue at the year end (2024: 148,324,887). The method of calculation of the Net Asset Value with debt at market value is described in Note 15(c) on page 106.

The Net Asset Value per ordinary share was as follows:

	Debt at fair value 2025	Debt at par 2025	Debt at fair value 2024	Debt at par 2024
Net Asset Value per ordinary share attributable	582.4p	572.6p	538.6p	530.9p
Dividends paid in the year	28.7p	28.7p	28.4p	28.4p
Net Asset Value Total Return	**611.1p**	**601.3p**	**567.0p**	**559.3p**
Net Asset Value attributable £'000s	**864,485**	**849,822**	**798,854**	**787,522**

14. Contingent liabilities, capital commitments and guarantees

At 31 January 2025 there were no contingent liabilities, capital commitments or guarantees (2024: £nil).

15. Financial risk management policies and procedures

The company invests in equities and other investments in accordance with its investment objective as stated in the Strategic Report on page 50. In pursuing its investment policy, the company is exposed to certain inherent risks that could result in either a reduction in the company's net assets or a reduction in the profits available for distribution by way of dividends.

The main risks arising from the company's financial instruments are: market risk (comprising market price risk, market yield risk, foreign currency risk and interest rate risk), liquidity risk and credit risk. The directors' approach to the management of these risks, are set out below. The directors determine the objectives and agree policies for managing each of these risks, as set out below. The manager, in close cooperation with the directors, implements the company's risk management policies. The company's policy allows the use of derivative financial instruments to moderate risk exposure and to generate additional revenue. These policies have remained substantially unchanged during the current and preceding period.

(a) Market risk

The manager assesses the exposure to market risk when making each investment decision, and monitors the risk on the investment portfolio on an ongoing basis. Market risk comprises market price risk (price and yield), foreign currency risk and interest rate risk.

(i) Market price risk

Market price risk arises mainly from the uncertainty about future prices of financial instruments held. It represents the potential loss the company might suffer through holding market positions in the face of price movements. An analysis of the company's portfolio is shown on pages 46 and 47.

Changes in stock market valuations lead to changes in gearing ratios. The board's procedure for monitoring the gearing of the company is set out in Note 16 on page 107. This takes into account the investment manager's view on the market, covenant requirements and the future prospects of the company's performance.

Market price risk sensitivity

The value of the company's listed investments (i.e., fixed asset investments, excluding unlisted equities) and derivative financial instruments which were exposed to market price risk as at 31 January 2025 was as follows:

	2025 £'000s	2024 £'000s
Listed investments held at fair value through profit or loss	954,514	874,668
Derivative financial instruments – written call options	(239)	(57)
Total listed investments	**954,275**	**874,611**

The following illustrates the sensitivity of the return and the net assets to an increase or decrease of 20% and 50% (2024: 20% and 50%) in the fair values of the company's listed investments. The 20% level of change is considered to be reasonably possible based on observation of market conditions in recent years. The 50% level demonstrates the impact in extreme conditions. The sensitivity analysis on the net return after tax is based on the impact of a 20% and 50% increase or decrease in the value of the company's listed equity investments at each balance sheet date and the consequent impact on the investment management fees for the year, with all other variables held constant.

	2025 20% increase in fair value £'000s	2025 20% decrease in fair value £'000s	2025 50% increase in fair value £'000s	2025 50% decrease in fair value £'000s	2024 20% increase in fair value £'000s	2024 20% decrease in fair value £'000s	2024 50% increase in fair value £'000s	2024 50% decrease in fair value £'000s
Revenue earnings								
Investment management fees	(234)	234	(585)	585	(214)	214	(536)	536
Capital earnings								
Gains (losses) on investments at fair value	190,855	(190,855)	477,138	(477,138)	174,922	(174,922)	437,306	(437,306)
Investment management fees	(434)	434	(1,086)	1,086	(398)	398	(995)	995
Change in net earnings and net assets	**190,187**	**(190,187)**	**475,467**	**(475,467)**	**174,310**	**(174,310)**	**435,775**	**(435,775)**

Management of market price risk

The directors meet regularly to consider the asset allocation of the portfolio in order to minimise the risk associated with particular industry sectors. A dedicated fund manager has the responsibility for monitoring the existing portfolio selection in accordance with the company's investment objectives and to ensure that individual stocks meet an acceptable risk reward profile. Call options are only written on stock owned within the portfolio with a maximum exposure of 15% of gross assets at the time of writing the call.

(ii) Market yield risk

Market yield risk arises from the uncertainty about the company's ability to maintain its income objectives due to systematic decline in corporate dividend levels.

Where call options are sold (written), in all cases a sufficient position is maintained in the underlying equity to cover any potential option exercise. Whilst the option value can be volatile, price movements should to some extent be offset by opposing movements in the value of the underlying equity. If options are retained until expiry they will either expire worthless or be exercised. The effect of any option exercise is to sell the underlying shares at the strike price of the option. A schedule of the company's listed holdings is shown on pages 46 and 47. Where put options are purchased, the market value of such options can be volatile but the maximum loss on any contract is limited to the original investment cost. No put options were purchased in the year (see Note 1 on page 94 for detail of income received).

Further explanation of the derivatives strategy is included in the Glossary on page 117.

Management of market yield risk

The directors regularly review the current and projected yield of the investment portfolio, and discuss with the manager the extent to which it will enable the company to meet its investment income objective.

(iii) Foreign currency risk

Foreign currency risk is the risk of the movement in the values of overseas financial instruments as a result of fluctuations in exchange rates.

Management of foreign currency risk

The company invests predominantly in UK listed equities and although there is no direct impact there is implicit exposure as some of the companies in the portfolio generate income and cashflows in foreign currencies. (2024: same).

Any income denominated in foreign currency is converted into sterling on receipt. The company does not hedge against foreign currency exposure.

(iv) Interest rate risk

Interest rate risk is the risk of movements in the value of financial instruments as a result of fluctuations in interest rates.

Interest rate exposure

The table below summarises in sterling terms the financial assets and financial liabilities whose values are directly affected by changes in interest rates.

	2025 Fixed rate interest £'000s	2025 Floating rate interest £'000s	2025 Nil interest £'000s	2025 Total £'000s	2024 Fixed rate interest £'000s	2024 Floating rate interest £'000s	2024 Nil interest £'000s	2024 Total £'000s
Financial assets	-	15,604	956,405	972,009	-	22,886	876,591	899,477
Financial liabilities	(116,781)	-	(5,406)	(122,187)	(66,866)	(42,385)	(2,704)	(111,955)
Net financial (liabilities) assets	**(116,781)**	**15,604**	**950,999**	**849,822**	**(66,866)**	**(19,499)**	**873,887**	**787,522**

As at 31 January 2025, the interest rates received on cash balances or paid on bank overdrafts, was 2.55% and 5.75% per annum respectively (2024: 2.75% and 6.25% per annum).

The fixed rate interest bearing liabilities bear the following coupon and effective rates as at 31 January 2025 and 31 January 2024.

	Maturity date	Amount borrowed £'000s	Coupon rate	Effective rate since inception*
5.875% Secured Bonds 2029	20/12/2029	30,000	5.875%	6.23%
Fixed Rate Notes 2052	18/12/2052	35,000	2.96%	3.03%
4% Perpetual Debenture Stock	n/a	1,375	4.00%	4.00%
3.65% Cumulative Preference Stock	n/a	1,178	3.65%	3.65%
5.91% Fixed Rate Notes 2040 A	21/01/2040	25,000	5.91%	6.03%
5.91% Fixed Rate Notes 2040 B	21/01/2040	25,000	5.91%	6.07%
		117,553		

* The effective rates are calculated in accordance with FRS 102 Section 12: 'Other Financial Instruments' as detailed in the Statement of Accounting Policies on page 93.

On 21 January 2025, £50m was funded by the two £25m, 5.91% Fixed Rate Notes 2040. This was used to repay the £42m Revolving Credit Facility on the same day. Details in respect of the other loans remains unchanged since the previous accounting period.

The weighted average effective rate of the company's fixed interest bearing liabilities (excluding the 3.65% Cumulative Preference Stock and the 4% Perpetual Debenture Stock) is 5.18% (2024: 4.51%) and the weighted average period to maturity of these liabilities is 16.2 years (2024: 18.3 years).

The above year end amounts are reasonably representative of the exposure to interest rates during the year, as the level of exposure does not change materially. Therefore, the company's net return and net assets are not significantly affected by changes in interest rates.

Management of interest rate risk
The company invests predominantly in equities, the values of which are not directly affected by changes in prevailing market interest rates. In the year to 31 January 2025, the company held no fixed interest securities. The company's policy is to remain substantially fully invested and thus does not expect to hold significant cash balances. The financial assets have minimal exposure to interest rate risk.

The company finances its operations through a mixture of share capital, retained earnings and long-term borrowings which are subject to fixed rates. Movement in interest rates will not have a material effect on the finance costs and financial liabilities of the company as all the borrowings of the company are subject to fixed rates of interest.

(b) Liquidity risk

Liquidity risk relates to the capacity to meet liabilities as they fall due and is dependent on the liquidity of the underlying assets.

Maturity of financial liabilities

The table below presents the future cash flows payable by the company in respect of its financial liabilities.

Cash flows in respect of the principal and interest on the Fixed Rate Notes 2052, Fixed Rate Notes 2040 and 5.875% Secured Bonds 2029 reflect the maturity dates as set out in Notes 9 and 10 on pages 99 and 99. The loans are each governed by a trust deed. Only if the covenants are breached would early repayment be enforced. Therefore, their repayment is not considered to be a likely short term liquidity issue. Cash flows in respect of the 4% Perpetual Debenture Stock and 3.65% Cumulative Preference Stock, which have no fixed repayment date, assumes maturity of 20 years from the balance sheet date. Cash flows have not been discounted.

	Three months or less £'000s	Between three months and one year £'000s	Between one and five years £'000s	More than five years £'000s	Total £'000s
2025					
Other payables					
Finance costs of borrowing	391	5,461	-	-	5,852
Other payables	4,728	-	-	-	4,728
Derivative financial instruments	239	-	-	-	239
Creditors: amounts falling due after more than one year					
Amounts payable on maturity of borrowings	-	-	30,000	87,553	117,553
Finance cost of borrowings	-	-	23,407	54,862	78,269
	5,358	**5,461**	**53,407**	**142,415**	**206,641**
2024					
Other payables					
Finance costs of borrowing	336	3,605	-	-	3,941
Revolving Credit Facility	21,000	21,000	-	-	42,000
Other payables	2,297	-	-	-	2,297
Derivative financial instruments	57	-	-	-	57
Creditors: amounts falling due after more than one year					
Amounts payable on maturity of borrowings	-	-	-	67,553	67,553
Finance costs of borrowing	-	-	11,587	28,132	39,719
	23,690	**24,605**	**11,587**	**95,685**	**155,567**

Management of liquidity risk

Liquidity risk is not significant as the company's assets mainly comprise realisable securities, which can be sold to meet funding requirements if necessary. Short term flexibility can be achieved through the use of overdraft facilities, where necessary. As at the 31 January 2025, the company had an undrawn committed borrowing facility of £nil (2024: £nil).

(c) Credit risk

Credit risk is the risk of default by a counterparty in discharging its obligations under transactions that could result in the company suffering a loss. There were no impaired assets as of 31 January 2025 (2024: nil). The counterparties the company engages with are regulated entities and are of high credit quality.

Management of credit risk

Outstanding settlements are subject to credit risk. Credit risk is mitigated by the company through its decision to transact with counterparties of high credit quality. The company only buys and sells investments through brokers which are approved counterparties, thus minimising the risk of default during settlement. The credit ratings of brokers are reviewed quarterly by the manager.

The company is also exposed to credit risk through the use of banks for its cash position. Bankruptcy or insolvency of banks may cause the company's rights with respect to cash held by banks to be delayed or limited. The company's cash balances are held by HSBC Bank PLC, rated A1 by Moody's rating agency and UBS, rated A3 by Moody's rating agency. The directors believe the counterparties the company has chosen to transact with are of high credit quality, therefore the company has minimal exposure to credit risk.

The table below summarises the credit risk exposure of the company as at 31 January:

	2025 £'000s	2024 £'000s
Other receivables:		
Accrued income	1,815	1,885
Cash and cash equivalents	15,604	22,886
	17,419	**24,771**

Fair values of financial assets and financial liabilities

With the exception of those financial liabilities measured at amortised cost, the financial assets and financial liabilities are either carried at their fair value, or the balance sheet amount is a reasonable approximation of their fair value. The financial liabilities measured at amortised cost, including interest on outstanding borrowings due within one year, have the following fair values:*

	2025 Book value £'000s	2025 Fair value £'000s	2024 Book value £'000s	2024 Fair value £'000s
Revolving Credit Facility	-	-	42,385	42,385
5.875% Secured Bonds 2029	29,885	31,353	29,829	31,739
4% Perpetual Debenture Stock	1,389	1,067	1,389	1,162
3.65% Cumulative Preference Stock	1,178	845	1,178	920
2.96% Fixed Rate Notes 2052	34,828	19,999	34,820	22,063
5.91% Fixed Rate Notes 2040 A	24,970	24,648	-	-
5.91% Fixed Rate Notes 2040 B	24,970	24,645	-	-
	117,220	**102,557**	**109,601**	**98,269**

The Net Asset Value per ordinary share, with debt at fair value is calculated as follows:

	2025 £'000s	2024 £'000s
Net assets per balance sheet	849,822	787,522
Add: financial liabilities at book value#	117,220	109,601
Less: financial liabilities at fair value*	(102,557)	(98,269)
Net assets (debt at fair value)	**864,485**	**798,854**
Net Asset Value per ordinary share (debt at fair value)	**582.4p**	**538.6p**

Book value, par value and amortised cost are used interchangeably throughout the Annual Report.
* The fair value has been derived from the closing market value as at 31 January 2025 and 31 January 2024. Fair value and market value are used interchangeably throughout the Annual Report.

The fair value of the long-term debt is calculated with reference to the nearest relevant gilt based on repayment date. A margin is added to the yield of the relevant reference gilt to calculate the fair value. This margin is derived from the excess of UK corporate bond yields over gilt yields.

The Net Asset Value per ordinary share is based on 148,424,887 ordinary shares in issue at 31 January 2025 (2024: 148,324,887).

The company's investments and derivatives financial instruments, as disclosed in the company's Balance Sheet, are valued at fair value.

The company has chosen to adopt sections 10 and 11 from FRS 102 to account for its financial instruments.

Investments are designated as held at fair value through profit or loss in accordance with FRS 102 sections 10 and 11.

FRS 102 sets out three fair value levels.

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e., developed using market data) for the asset or liability, either directly or indirectly.
Level 3: Inputs are unobservable (i.e., for which market data is unavailable) for the asset or liability.

With the exception of those financial liabilities measured at amortised cost, all other financial assets and financial liabilities are either carried at their fair value or the balance sheet amount is a reasonable approximation of their fair value.

As at 31 January the financial assets at fair value through profit and loss are categorised as follows:

	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
2025				
Financial assets at fair value through profit or loss				
Equity investments	954,514	-	-	954,514
Derivative financial instruments: written call options	-	(239)	-	(239)
	954,514	**(239)**	**-**	**954,275**
2024				
Financial assets at fair value through profit or loss				
Equity investments	874,668	-	-	874,668
Derivative financial instruments: written call options	-	(57)	-	(57)
	874,668	**(57)**	**-**	**874,611**

For exchange listed equity investments the quoted price is either the bid price or the last traded price depending on the convention of the relevant exchange. For written options the value of the option is marked to market based on traded prices. Financial instruments valued using valuation techniques level 3 have, in the absence of relevant trading prices or market data, been valued based on the directors' best estimate.

There were no transfers between levels for financial assets and financial liabilities during the year recorded at fair value as at 31 January 2025 and 31 January 2024.

16. Capital management policies and procedures

The company's objective is to provide an above average level of income and income growth together with long-term capital growth. It invests in high yielding stocks and receives premium income from options.

The company's capital at 31 January comprises:

	2025 £'000s	2024 £'000s
Debt		
Creditors: amounts falling due after more than one year	116,781	66,866
	116,781	**66,866**
Equity		
Called up share capital	37,106	37,081
Share premium account and other reserves	812,716	750,441
	849,822	**787,522**
Total capital	**966,603**	**854,388**
Debt as a percentage of total capital	12.1%	7.8%

	Debt at par		Debt at fair value	
	2025 £'000s	2024 £'000s	2025 £'000s	2024 £'000s
Debt				
Revolving Credit Facility	-	42,385	-	42,385
Creditors: amounts falling due after more than one year	117,220	67,216	102,557	55,884
Gross debt	**117,220**	**109,601**	**102,557**	**98,269**
Total net assets	849,822	787,522	864,485	798,854
Gross gearing	**13.8%**	**13.9%**	**11.9%**	**12.3%**
Gross debt	117,220	109,601	102,557	98,269
Less: cash	(15,604)	(22,886)	(15,604)	(22,886)
Net debt	**101,616**	**86,715**	**86,953**	**75,383**
Total net assets	849,822	787,522	864,485	798,854
Net gearing	**12.0%**	**11.0%**	**10.1%**	**9.4%**

The board, with the assistance of the investment manager, monitors and reviews the broad structure of the company's capital on an ongoing basis. The level of gearing is monitored, taking into account the investment manager's view on the market and the future prospects of the company's performance. Capital management also involves reviewing the difference between the Net Asset Value per share and the share price (i.e. the level of share price discount or premium) to assess whether to issue shares or repurchase shares for cancellation or for holding in treasury. Further details on the Revolving Credit Facility and the Fixed Rate Loan Notes 2040 and 2052 can be found in Notes 9 and 10.

The company is subject to several externally imposed capital requirements; the bank borrowings under the overdraft facility are not to exceed £10m, and as a public company the minimum share capital is £50,000. The company's objective, policies and processes for managing capital are unchanged from the preceding accounting period, and the company has complied with them. The terms of the debenture trust deeds have various covenants which prescribe that moneys borrowed should not exceed the adjusted total value of the capital and reserves. These are measured in accordance with the policies used in the Annual Report. The company has complied with these.

17. Transactions with the Investment Manager and related parties

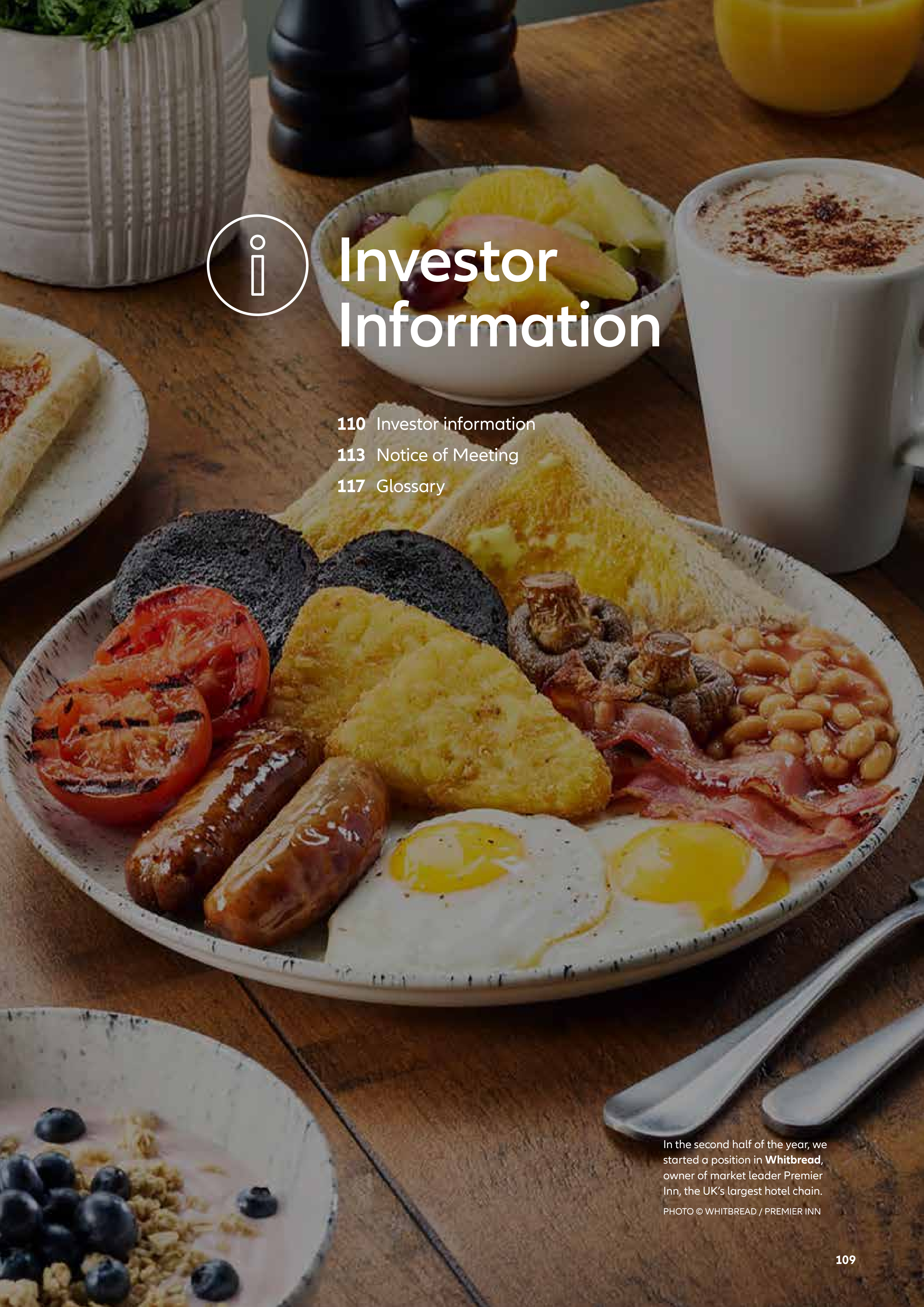
The amounts paid to the Investment Manager together with details of the investment management contract are disclosed in Note 2 on page 94. The existence of an independent board of directors demonstrates that the company is free to pursue its own financial and operating policies and therefore, under FRS102 Section 33: Related Party Disclosures, the Investment Manager is not considered to be a related party.

The company's related parties are its directors. Fees paid to the company's board are disclosed in the Directors' Remuneration Report on page 75.

There are no other identifiable related parties at the year end, and as of 8 April 2025.

18. Post Balance Sheet events

As at 8 April 2025, no further shares have been issued since the year end.



Investor Information

In the second half of the year, we started a position in **Whitbread**, owner of market leader Premier Inn, the UK's largest hotel chain.

PHOTO © WHITBREAD / PREMIER INN

Investor information

AIFM and Depositary

Allianz Global Investors UK Limited (AllianzGI UK) is designated the Alternative Investment Fund Manager (AIFM). AllianzGI UK is authorised to act as an AIFM and to conduct its activities by the Financial Conduct Authority (FCA) in accordance with AIFMD and FCA requirements. The management fee and the notice period are unchanged in the restated management and administration agreement (details in Note 2 on page 94).

The company appointed HSBC Bank PLC as its depositary and custodian in accordance with AIFMD under an agreement between the company, AllianzGI and HSBC. Depositary fees are charged in addition to custody fees and are calculated on the basis of net assets.

Leverage and risk policies under AIFMD

Details of leverage and risk policies required under AIFMD are published on the website www.merchantstrust.co.uk under Literature/Trust Documents/Disclosures to Investors under AIFMD. These policies represent no change to the board's policies in existence prior to AIFMD and are in place to ensure that these limits would not be breached under any foreseeable circumstances.

Remuneration Disclosure of the AIFM

The following table shows that total amount of remuneration granted to the employees of Allianz Global Investors UK Ltd (AllianzGI UK) for the past financial year divided into fixed and variable components. It is also broken down by members of management/ Senior Management Function holders and other risk takers.

Number of employees: 310

	All employees	thereof Material Risk Takers	thereof Board Members/ SMF	thereof Other Material Risk Takers
Fixed compensation	38,208,950	3,773,014	3,773,014	N/A
Variable compensation	35,897,533	8,614,518	8,614,518	N/A
Total compensation	**74,106,484**	**12,387,532**	**12,387,532**	**N/A**

Note: All Material Risk Takers are performing a Senior Management Function.

The information on employee remuneration does not include remuneration paid by delegated managers to their employees. AllianzGI UK does not pay remuneration to employees of delegated companies directly from the fund.

Setting the remuneration

AllianzGI UK is subject to certain requirements applicable to investment management companies with regard to structuring the remuneration system. The board of directors of AllianzGI UK has set up a remuneration committee. It has the overall responsibility for overseeing the implementation of the remuneration policy and practices. Working in close cooperation with control functions as well as with external advisers and in conjunction with the management, the human resources department has developed AllianzGI UK's remuneration policy. The remuneration committee ensures that on a regular basis the implementation of the remuneration policy is subject to a central and independent internal review.

Remuneration structure

The primary components of monetary remuneration are the basic salary, which typically reflects the scope, responsibilities and experience required in a particular role, and an annual variable remuneration. The total amount of the variable remuneration payable throughout AllianzGI UK depends on the performance of the business and on the company's risk position and will therefore vary every year. In this respect, the allocation of specific amounts to particular employees will depend on the performance of the employee and their departments during the period under review. Variable remuneration includes an annual bonus paid in cash following the end of the financial year. In the case of employees whose variable remuneration exceeds a certain threshold, a substantial portion of the annual variable remuneration is deferred for a period of three years. The deferred portions increase in line with the level of the variable remuneration. Half of the deferred amount is linked to the performance of AllianzGI UK, and the other half is invested in the funds managed by AllianzGI UK. The amounts ultimately distributed depend on the company's business performance or the performance of shares in certain investment funds over several years. In addition, the deferred remuneration elements may be withheld under the terms of the plan. Certain employees are also eligible for a Carried Interest Award. The remuneration overview includes Carried Interest Grant which is awarded in the fiscal year for the previous performance year.

Performance evaluation
The level of pay awarded to employees is linked to both quantitative and qualitative performance indicators. For investment managers, whose decisions make a real difference in achieving our clients' investment goals, quantitative indicators are geared towards sustainable investment performance. For portfolio managers in particular, the quantitative element is aligned with the benchmark of the client portfolios they manage or with the client's expected return, measured over a period of one year and three years. For client-facing employees, goals also include client satisfaction, which is measured independently. The remuneration of employees in controlling functions is not directly linked to the business performance of individual departments monitored by the controlling function.

Risk takers
The following groups of employees were qualified as risk takers: members of management/Senior Management Function holders and other risk takers.

Risk avoidance
AllianzGI UK has comprehensive risk reporting in place, which covers both current and future risks of our business activities. Risks which exceed the organisation's risk appetite are presented to the global remuneration committee, which will decide, if necessary, on the adjustments to the total remuneration pool. Individual variable compensation may also be reduced or withheld in full if employees violate our compliance policies or take excessive risks on behalf of AllianzGI UK.

Annual review and material changes to the remuneration system
The board of AllianzGI UK approved the remuneration policy which had been implemented in accordance with the remuneration regulations.

Key Information Document (KID)

The Key Information Document (KID) is a standardised pan-European document that contains product, risk, charges and other information. It is a regulatory requirement that you are provided with a KID before you invest, and you will be required to declare that you have seen the latest KID when you make your investment.

Merchants' KID is available from the Information/Documents pages at www.merchantstrust.co.uk. However, your chosen platform provider or stockbroker should provide you with a copy before accepting your investment instructions. Please note that existing investors do not need to review the KID unless planning to add to an investment. The KID's standardised format is intended to allow potential investors to compare funds easily, on a like-for-like basis.

The KID now includes the same ongoing charge figure as we disclose in this report (in line with the AIC methodology described in the Glossary at the back of this document). There is also now a narrative statement within that document, as well as on our monthly factsheets, which reminds prospective investors and shareholders that the 'charges' disclosed are already accounted for within the NAV and therefore also the price paid – investors do not have to pay any further charges to their investment trust or its manager after purchasing shares.

Financial calendar

Year end 31 January.
Full year results announced and Annual Report posted to shareholders in April.
Annual General Meeting held in May.
Half-Yearly Report posted to shareholders in September.

Ordinary dividends

It is anticipated that dividends will be paid as follows:

1st interim	August
2nd interim	November
3rd interim	March
Final	May

Preference dividends

Payable half-yearly 1 February and 1 August.

Benchmark

The company's benchmark is the FTSE All-Share Index.

Market and portfolio information

The company's ordinary shares are listed on the London Stock Exchange. The market price range, gross yield and Net Asset Value are shown daily in the Financial Times and The Daily Telegraph under the headings 'Investment Companies' and 'Investment Trusts', respectively. The Net Asset Value of the ordinary shares is calculated daily and published on the London Stock Exchange Regulatory News Service. The ten largest holdings are published monthly on the London Stock Exchange Regulatory News Service. They are also available from the manager's Investors' Helpline on 0800 389 4696 or via the company's website: merchantstrust.co.uk.

Website

Further information about The Merchants Trust PLC, including monthly factsheets, daily share price and performance, is available on the company's website: merchantstrust.co.uk.

How to invest

Information is available from Allianz Global Investors either via Investor Services on 0800 389 4696 or on the company's website: www.merchantstrust.co.uk.

A list of providers can be found at the company's website: www.merchantstrust.co.uk/about-us/how-to-invest.

Dividend

The board is proposing a final dividend of 7.3p payable on 29 May 2025 to shareholders on the Register of Members at the close of business on 22 April 2025, making a total distribution of 29.1p per share for the year ended 31 January 2025, an increase of 2.5% over last year's distribution. The ex-dividend date is 17 April 2025. A Dividend Reinvestment Plan (DRIP) is available for this dividend and the relevant Election Date is 7 May 2025. Cash dividends will be sent by cheque to first-named shareholders at their registered address. Dividends may be paid directly into shareholders' bank accounts. Details of how this may be arranged can be obtained from MUFG Corporate Markets. Dividends mandated in this way are paid via Bankers' Automated Clearing Services (BACS).

Registrar

MUFG Corporate Markets, Central Square, 29 Wellington Street, Leeds, LS1 4DL. Lines are open 9.00 am to 5.30 pm (UK time) Monday to Friday.

Website: https://eu.mpms.mufg.com
Email: shareholderenquiries@cm.mpms.mufg.com
Telephone: 0371 664 0300.

Shareholder enquiries

In the event of queries regarding their holdings of shares, lost certificates, dividend payments, registered details, etc., shareholders should contact the registrar by email at shareholderenquiries@cm.mpms.mufg.com or by calling 0371 664 0300. Lines are open 9.00 am to 5.30 pm (UK time) Monday to Friday. Calls to the helpline number from outside the UK are charged at applicable international rates. Different charges may apply to calls made from mobile telephones and calls may be recorded and monitored randomly for security and training purposes.

Changes of name and address must be notified to the registrar in writing. Any general enquiries about the company should be directed to the Company Secretary, The Merchants Trust PLC, 199 Bishopsgate, London EC2M 3TY. Telephone: 020 3246 7513.

Dividend Reinvestment Plan for ordinary shareholders (DRIP)

The registrar offers a DRIP which gives ordinary shareholders the opportunity to use their cash dividend to buy further shares in the company under a low-cost dealing arrangement. Terms and Conditions and an application form are enclosed with each dividend payment. For more information please email shares@cm.mpms.mufg.com or call 0371 664 0381.

Share dealing services

MUFG Corporate Markets, formerly Link Group, operate an online and telephone dealing facility for UK resident shareholders with share certificates. Stamp duty and commission may be payable on transactions.

For further information on these services please contact: www.cm.mpms.mufg.com for online dealing or 0371 664 0445 for telephone dealing. Lines are open 8.00 am to 4.30 pm Monday to Friday (UK time). Calls to the helpline number from outside the UK are charged at applicable international rates. Different charges may apply to calls made from mobile telephones and calls may be recorded and monitored randomly for security and training purposes.

Share Portal

MUFG Corporate Markets offer shareholders a free online service called Share Portal, enabling shareholders to access a comprehensive range of shareholder related information. Through Share Portal, shareholders can: view their current and historical shareholding details; obtain an indicative share price and valuation; amend address details; view details of dividend payments; and apply for dividends to be paid directly to a bank or change existing bank details.

Shareholders can access these services at www.signalshares.com. Shareholders will need to register for a Share Portal account by completing an on-screen registration form. An email address is required.

International payment services

MUFG Corporate Markets operate an international payment service for shareholders, whereby they can elect either for their dividend to be paid by foreign currency draft or they can request an international bank mandate. This service is only available for dividend payments of £10 or more and a small administration fee per dividend payment applies.

For further information on these services please contact: 0371 664 0300. Lines are open between 9.00 am and 5.30 pm, (UK time) Monday to Friday.

Shareholder proxy voting

Shareholders may submit their proxy electronically using the Share Portal service at www.signalshares.com. Or via the registrar's VOTE+ shareholder App. Further details on voting via the VOTE+ App, online through the registrar's Share Portal, or by post using the personalised proxy card provided, are contained within the Notice of Meeting Notes on page 114.

CREST proxy voting

Shares held in uncertificated form (i.e., in CREST) may be voted through the CREST proxy voting service in accordance with the procedures set out in the CREST manual. Voting via the Proxymity platform is also available to institutional shareholders. Further details are contained within the Notice of Meeting Notes on page 114.

Association of Investment Companies (AIC)

The company is a member of the AIC, the trade body of the investment trust industry, which provides a range of literature including fact sheets and a monthly statistical service. Copies of these publications can be obtained from the AIC, 9th Floor, 24 Chiswell Street, London, EC1Y 4YY, or at www.theaic.co.uk.

AIC Category: UK Equity Income.

Notice of Meeting

Notice is hereby given that the Annual General Meeting of The Merchants Trust PLC will be held at Grocers' Hall, Princes Street, London, EC2R 8AD, on Tuesday 20 May 2025 at 12 noon to transact the following business.

The AGM will be held in person and voting will be conducted on a poll. However, shareholders will be able to view and listen to a live webcast of the AGM and submit questions to the meeting electronically. Those attending virtually will not be able to vote for the purposes of the business transacted at the AGM and are therefore encouraged to vote ahead of the meeting. Instructions on how to join the meeting virtually are contained on page 116.

AGM Voting

Shareholders are encouraged to vote by proxy. Detail of how to vote, either electronically by proxy form or through CREST or Proxymity, can be found on pages 114 to 115.

The results of the AGM will be announced via the London Stock Exchange and placed on the Company's website as soon as practicable after the conclusion of the AGM.

Ordinary business

1. To receive and adopt the Directors' Report and the Financial Statements for the year ended 31 January 2025 together with the Auditor's Report thereon.
2. To declare a final dividend of 7.1p per ordinary share.
3. To re-elect Colin Clark as a director.
4. To re-elect Karen McKellar as a director.
5. To elect Lisa Edgar as a director.
6. To elect Mal Patel as a director.
7. To approve the Directors' Remuneration Implementation Report.
8. To reappoint BDO LLP as Auditor of the company, to hold office until the conclusion of the next general meeting at which financial statements are laid before the company.
9. To authorise the directors to determine the remuneration of the Auditor.

Special business

To consider and, if thought fit, to pass the following resolutions. Resolution 10 will be proposed as an ordinary resolution and Resolutions 11 and 12 as special resolutions:

10. That for the purposes of section 551 of the Companies Act 2006 the directors be generally and unconditionally authorised to exercise all the powers of the company to allot relevant securities (within the meaning of the said section) up to a maximum number of 49,474,962 ordinary shares provided that:

(i) the authority granted shall expire one year from the date upon which this resolution is passed but may be revoked or varied by the company in general meeting and may be renewed by the company in general meeting for a further period not exceeding one year; and

(ii) the authority shall allow and enable the directors to make an offer or agreement before the expiry of that authority which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of any such offer or agreement as if that authority had not expired.

11. That the directors be empowered in accordance with section 570 of the Companies Act 2006 (the Act) to allot equity securities (within the meaning of section 560 of the Act) either for cash pursuant to the authority conferred by Resolution 10 or by way of a sale of treasury shares as if sub-section (1) of section 561 of the Act did not apply to any such allotment provided that:

(i) the power granted shall be limited to the allotment of equity securities wholly for cash up to a maximum number of 14,842,488 ordinary shares;

(ii) the power granted shall (unless previously revoked or renewed) expire at the conclusion of the next Annual General Meeting of the company after this resolution is passed, or 19 August 2026 if earlier; and

(iii) the said power shall allow and enable the directors to make an offer or agreement before the expiry of that power which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if that power had not expired.

12. That the company be and is hereby generally and unconditionally authorised in accordance with section 701 of the Companies Act 2006 (the Act) to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 25p each in the capital of the company (ordinary shares), either for retention as treasury shares or for cancellation provided that:

(i) the maximum number of ordinary shares hereby authorised to be purchased shall be 22,248,891;

(ii) the minimum price which may be paid for an ordinary share is 25p;

(iii) the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average of the middle-market quotations for an ordinary share taken from the London Stock Exchange Official List for the five business days immediately preceding the day on which the ordinary share is purchased or such other amount as may be specified by the London Stock Exchange from time to time;

(iv) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the company in 2025 or, if earlier, on the expiry of 15 months from the passing of this resolution, unless such authority is renewed prior to such time; and

(v) the company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares pursuant to any such contract.

By order of the board

Kelly Nice
Company Secretary
199 Bishopsgate, London, EC2M 3TY
8 April 2025

Notes:

The following notes explain your general rights as a shareholder and your right to attend and vote at this Meeting or to appoint someone else to vote on your behalf.

1. To be entitled to attend and vote at the Meeting (and for the purpose of the determination by the company of the number of votes they may cast), shareholders must be registered in the Register of Members of the company at close of trading on Friday 16 May 2025 (the record date). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the Meeting.

2. Shareholders are entitled to appoint another person as a proxy to exercise all or part of their rights to attend and to speak and vote on their behalf at the Meeting. A shareholder may appoint more than one proxy in relation to the Meeting provided that each proxy is appointed to exercise the rights attached to a different ordinary share or ordinary shares held by that shareholder. A proxy need not be a shareholder of the company.

3. A personalised form of proxy which may be used to make such appointment and give proxy instructions accompanies this Notice. If you do not have a form of proxy and believe that you should have one, or if you require additional forms, please contact the registrar of the company whose contact details are provided in note 6 below.

4. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the company's Register of Members in respect of the joint holding (the first named being the most senior).

5. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.

6. To be valid, any form of proxy or other instrument appointing a proxy, must be returned by no later than 12 noon on Friday 16 May 2025 through any one of the following methods:

(i) by post, courier or (during normal business hours only) hand to the Company's registrar at: MUFG Corporate Markets, PXS1, Central Square, 29 Wellington Street, Leeds, LS1 4DL

(ii) electronically through the website of the Company's registrar at www.signalshares.com (see note 8 below).

(iii) via VOTE+ (see note 9 below).

(iv) via Proxymity (see note 10 below).

(v) in the case of shares held through CREST, via the CREST system (see note 13 below).

7. If you return more than one proxy appointment, either by paper or electronic communication, the appointment received last by the registrar before the latest time for the receipt of proxies will take precedence. You are advised to

read the terms and conditions of use carefully. Electronic communication facilities are open to all shareholders and those who use them will not be disadvantaged.

8. To submit your proxy instructions electronically through the company's registrar, please complete the online form of proxy by logging on to www.signalshares.com. If you have not previously registered for the share portal you will need your investor code (IVC) which is detailed on your share certificate or is available by emailing shareholderenquiries@cm.mpms.mufg.com or by calling our registrar, MUFG Corporate Markets on 0371 664 0300 or, if calling from overseas, on +44 (0) 371 664 0300. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. The registrar is open between 9.00 am and 5:30 pm, Monday to Friday excluding public holidays in England and Wales.

9. VOTE+ is a free app for smartphones and tablets provided by MUFG Corporate Markets (the company's registrar). It offers shareholders the option to submit a proxy appointment quickly and easily online, as well as real-time access to their shareholding records. The app is available to download on both the Apple App Store and Google Play. QR codes to facilitate this are shown below. Your vote must be lodged by 12 noon on Friday 16 May 2025 in order to be considered valid or, if the Meeting is adjourned, by the time which is 48 hours before the time of the adjourned Meeting.

Apple App Store **GooglePlay**

10. If you are an institutional investor, you may be able to appoint a proxy electronically via the Proxymity platform, a process which has been agreed by the company and approved by the registrar. For further information regarding Proxymity, please go to www.proxymity.io. Your proxy must be lodged by 12 noon on Friday 16 May 2025 in order to be considered valid or, if the Meeting is adjourned, by the time which is 48 hours before the time of the adjourned Meeting. Before you can appoint a proxy via this process you will need to have agreed to Proxymity's associated terms and conditions. It is important that you read these carefully as you will be bound by them and they will govern the electronic appointment of your proxy. An electronic proxy appointment via the Proxymity platform may be revoked completely by sending an authenticated message via the platform instructing the removal of your proxy vote.

11. The return of a completed form of proxy, electronic voting on the Share Portal or via the VOTE+ app or any CREST Proxy Instruction (as described in note 13 below) or the appointment of a proxy via Proxymity will not prevent a shareholder from attending the Meeting and voting in person if he/she wishes to do so.

12. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Meeting (and any adjournment of the Meeting) by using the procedures described in the CREST manual (available from www.euroclear.com). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

13. In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a 'CREST proxy instruction') must be properly authenticated in accordance with Euroclear UK & International Limited's specifications and must contain the information required for such instructions, as described in the CREST manual. The message must be transmitted so as to be received by the issuer's agent (ID RA10) by 12 noon on Tuesday 14 May 2025. For this purpose, the time of receipt will be taken to mean the time (as determined by the timestamp applied to the message by the CREST application host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

14. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & International Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST proxy instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that the CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings. The company may treat as invalid a CREST proxy instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

15. Unless otherwise indicated on the form of proxy, CREST voting, Proximity or any other electronic voting channel instruction, the proxy will vote as they think fit or, at their discretion, withhold from voting.

16. Corporate representatives are entitled to vote on behalf of the corporate member in accordance with section 323 of the Companies Act 2006. Pursuant to the Companies (Shareholders' Rights) Regulations 2009 (SI 2009/1632), multiple corporate representatives appointed by the same corporate member can vote in different ways provided they are voting in respect of different shares.

17. Members have a right under section 319A of the Companies Act 2006 to require the company to answer any question raised by a member at the Meeting, which relates to the business being dealt with at the Meeting, although

no answer need be given (a) if to do so would interfere unduly with the preparation of the Meeting or involve disclosure of confidential information; (b) if the answer has already been given on the company's website; or (c) it is undesirable in the best interests of the company or the good order of the Meeting.

18. Members satisfying the thresholds in section 527 of the Companies Act 2006 can require the company, at its expense, to publish a statement on the company website setting out any matter which relates to the audit of the company's accounts that are to be laid before the Meeting. Any such statement must also be sent to the company's Auditor no later than the time it is made available on the website and must be included in the business of the Meeting.
19. As at 3 April 2025, the latest practicable date before this notice is given, the total number of ordinary shares and preference stock in the company in respect of which members are entitled to exercise voting rights was 148,324,887 ordinary shares of 25p each and 1,178,000 3.65% cumulative preference stock of £1 each. Each carries the right to one vote and therefore, the total number of voting rights in the company is 149,502,887.
20. Further information regarding the Meeting which the company is required by section 311A of the Companies Act 2006 to publish on a website in advance of the Meeting (including this notice), can be accessed at www.merchantstrust.co.uk.
21. Contracts of service are not entered into with the directors, who hold office in accordance with the company's Articles.

Instructions for electronic attendance at the Annual General Meeting

We are pleased to be able to provide a facility for shareholders to follow the AGM remotely and submit questions to the Board on the business of the Meeting.

How to join the virtual meeting

You will need to visit https://webcast.openbriefing.com/mrch-25agm/, using your smartphone, tablet or computer. You will then be prompted to enter your unique 11 digit Investor Code (IVC) including any leading zeros and 'PIN'. Your PIN is the last 4 digits of your IVC. This will authenticate you as a shareholder.

Your IVC can be found on your share certificate, or Signal Shares users (www.signalshares.com) will find this under 'Manage your account' when logged in to the Signal Shares portal. You can also obtain this by contacting MUFG Corporate Markets, our Registrar, by calling +44 (0) 371 277 1020.*

Access to the AGM will be available from 30 minutes before the start of the event, although you will not be able to submit questions until you are logged in.

If you wish to appoint someone to attend the virtual meeting on your behalf, please contact MUFG Corporate Markets on +44 (0) 371 277 1020* in order to obtain their IVC and PIN. It is suggested that you do this as soon as possible and at least 48 hours (excluding non-business days) before the meeting.

If your shares are held within a nominee and you wish to attend the electronic meeting, you will need to contact your nominee as soon as possible. Your nominee will need to present a corporate letter of representation to MUFG Corporate Markets, our registrar, as soon as possible and at least 72 hours (excluding non-business days) before the meeting, in order that they can obtain for you your unique IVC and PIN to enable you to attend the electronic meeting.

* Lines are open from 9.00 a.m. to 5.30 p.m. Monday to Friday, calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate.

Glossary

UK GAAP performance measures

Earnings per ordinary share is the profit after taxation, divided by the weighted average number of shares in issue for the period. For the year ended 31 January 2025 earnings per ordinary share was 29.4p (2024: 30.5p), calculated by taking the profit after tax of £43,671,000 (2024: £44,509,000), divided by the weighted average shares in issue of 148,372,564 (2024: 145,769,940).

Net Asset Value is the value of total assets less all liabilities. The Net Asset Value, or NAV, per ordinary share is calculated by dividing this amount by the total number of ordinary shares in issue. The debt in the company used in the calculation is measured at par value, that is, the net proceeds on issue plus accrued finance costs to date. As at 31 January 2025, the NAV with debt at par value was £849,822,000 (2024: £787,522,000) and the NAV per share was 572.6p (2024: 530.9p).

Derivatives

The company operates a covered call overwriting strategy on a limited proportion of the portfolio to generate additional income. In 'writing' or selling an option, Merchants 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 Merchants receives an option premium, which is taken to the revenue account.

Merchants 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' (but not cash) cost, as the option holder can exercise their option to buy the shares at the strike price.

Merchants' selective approach to option writing is driven by the investment fundamentals on each stock we hold, rather than by a separate derivatives rationale. We write calls on portions of shareholdings that we are happy to sell at the strike price, provided that the premium income received is sufficiently attractive. The options written are typically short dated with most less than four months duration. The total exposure is closely monitored and is limited to 15% of the portfolio value with all option positions 'covered' by shares owned. From a holistic view, it can be argued that the overall strategy slightly reduces the company's gearing to the equity market, neutralising a small part of the financial leverage. It tends to be more profitable in sideways or downwards markets but less profitable in rising markets.

Alternative Performance Measures (APMs)

Benchmark Total Return is the return on the benchmark, on a closing market price basis, assuming that all dividends received were reinvested into the shares of the underlying companies at the time their shares were quoted ex dividend (see page 5).

Discount or premium is the amount by which the stock market price per ordinary share is lower (discount) or higher (premium) than the Net Asset Value, or NAV, with either debt at par or debt at market value, per ordinary share. The discount/premium is normally expressed as a percentage of the NAV per ordinary share (see page 14).

Dividend yield represents dividends declared in the past year as a percentage of the share price. This is shown as 5.2% at 31 January 2025 in the highlights on page 5.

	2025	2024
Dividends declared for the year	29.1p	28.4p
Share price at year end	556.0p	543.0p
Annual dividend as a percentage of share price	**5.2%**	**5.2%**

Gearing is the amount of debt as a percentage of the net assets (see Note 16 on page 107).

Net Asset Value, debt at market value is the value of total assets less all liabilities, with the company's debt measured at the market value at the time of calculation. The Net Asset Value, or NAV, per ordinary share with debt at market value is calculated by dividing this amount by the total number of ordinary shares in issue (see page 106). As at 31 January 2025, the NAV with debt at market value was £864,485,000 (2024: £798,854,000) and the NAV per share with debt at market value was 582.4p (2024: 538.6p). (Further details can be found in Note 15(c) on page 105).

Net Asset Value per ordinary share, total return represents the theoretical return on NAV per ordinary share, assuming that dividends paid to shareholders were reinvested at the NAV per ordinary share at the close of business on the day the shares were quoted ex dividend (see Note 13 on page 101).

Net gains/losses based on historical costs are gains/losses from sales of investments of £39,889,000 (2024: £589,000) less transaction costs on sales of £45,000 (2024: £53,000).

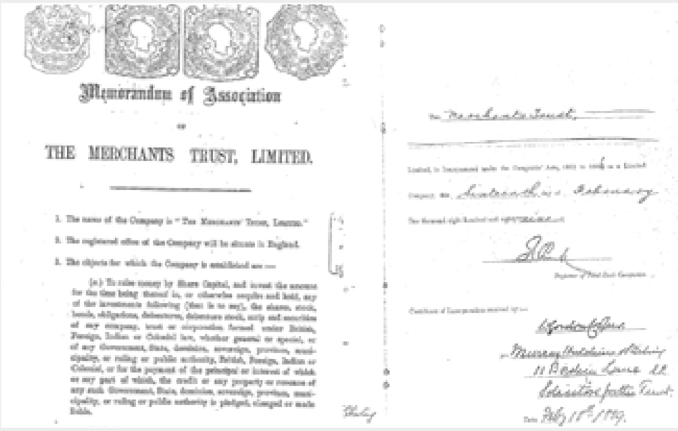
Ongoing charges are operating expenses incurred in the running of the company, whether charged to revenue or capital, but excluding financing costs. These are expressed as a percentage of the average Net Asset Value during the year and this is calculated in accordance with guidance issued by the Association of Investment Companies (see page 13).

	2025 £'000s	2024 £'000s
Management fee	3,313	3,124
Administration expenses	1,108	1,229
Total expenses (A)	**4,421**	**4,353**
Average Net Asset Value with debt at market value (B)	844,251	792,739
Ongoing charge (A/B)	**0.52%**	**0.55%**

Revenue reserve per ordinary share of 18.8p (2024: 18.1p) is the revenue reserve per the balance sheet of £27,940,000 (2024: £26,819,00) divided by the total number of ordinary shares in issue of 148,424,887 (2024: 148,324,887).

Share price Total Return is the theoretical return to a shareholder, on a closing market price basis, assuming that all dividends received were reinvested, without transaction costs, into the ordinary shares of the company at the close of business on the day the shares were quoted ex dividend (see page 5). The share price as at 31 January 2025 was 556.0p, an increase of 13.0p from the price of 543.0p as at 31 January 2024. The change in share price of 13.0p plus the dividends paid in the year of 28.7p are divided by the opening share price of 543.0p to arrive at the share price total return for the year ended 31 January 2025 of +7.7% (2024: -3.4%).

FOCUSED ON DIVIDENDS SINCE 1889


Memorandum of Association

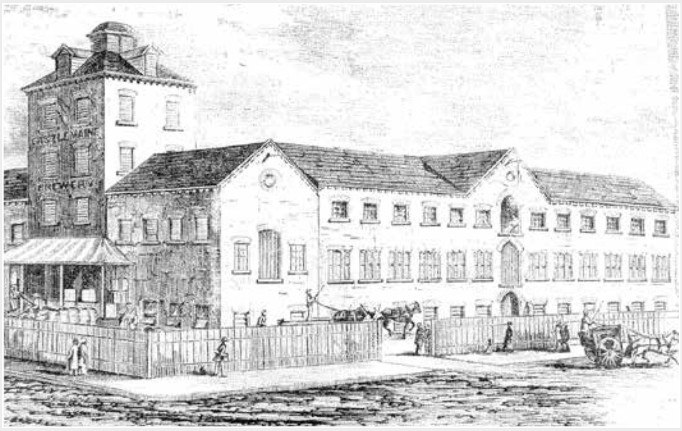
OF

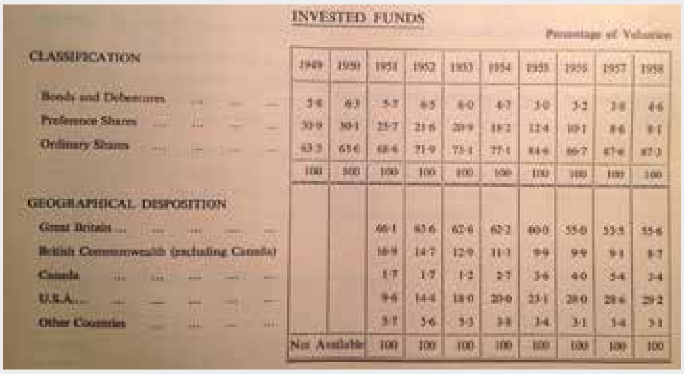
THE MERCHANTS TRUST, LIMITED.

1. The name of the Company is "The Merchants' Trust, Limited."

2. The registered office of the Company will be situate in England.

3. The objects for which the Company is established are:—




INVESTED FUNDS

Percentage of Valuation

CLASSIFICATION	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958
Bonds and Debentures	3·6	6·3	5·7	6·5	6·0	4·7	3·0	3·2	3·8	4·6
Preference Shares	30·9	30·1	25·7	21·6	20·9	18·2	12·4	10·1	8·6	8·1
Ordinary Shares	65·5	63·6	68·6	71·9	73·1	77·1	84·6	86·7	87·6	87·3
	100	100	100	100	100	100	100	100	100	100
GEOGRAPHICAL DISPOSITION										
Great Britain			66·1	63·6	62·6	62·2	60·0	55·0	53·5	55·6
British Commonwealth (excluding Canada)			16·9	14·7	12·9	11·1	9·9	9·9	9·1	8·7
Canada			1·7	1·7	1·2	2·7	3·6	4·0	5·4	3·4
U.S.A.			9·6	14·4	18·0	20·0	23·1	28·0	28·6	29·2
Other Countries			5·7	5·6	5·3	3·8	3·4	3·1	3·4	3·1
	Not Available		100	100	100	100	100	100	100	100

Clockwise from top-left: Memorandum of Association, 1889; The American Telephone and Telegraph Company (AT&T) was another early Merchants Trust investment, made in 1906; Aside from his directorship of the trust and other business interests Arthur, Lord Kinnaird (1847-1923) was described as 'the first Lord of football'; The Castlemaine Brewery in Newcastle, New South Wales was one of The Merchants Trust's first equity investments; From the 1958 Annual Report: the changing shape of the trust's portfolio in the post-World War Two era as the 'age of the equity' developed; Violet 'Floss' Lincoln, shown here in 1965, was only one of three women employees when she joined the firm in 1927. Future Merchants Trust Chairman Constantine (Con) Benson was awarded the DSO at the age of 22 for his actions at Passchendaele during Haig's Flanders offensive in 1917.

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