

The Merchants Trust PLC

As focused on dividends as you are

Allianz 
Global Investors

Aim

The Trust's objective is to provide an above average level of income, income growth and long-term growth of capital through a policy of investing mainly in higher yielding large UK companies.

History

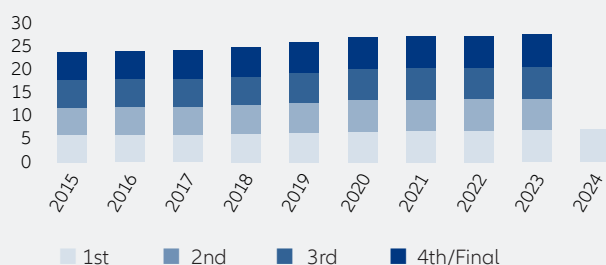
The Merchants Trust PLC was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, but now concentrates primarily on major UK companies with an above average rate of dividend yield.

Trust Benefits

Merchants has for many years focused on a simple proposition to deliver a high and rising income together with capital growth for its shareholders. Simon Gergel has been managing the trust for 15 years, investing in a diversified portfolio of large, well-established and well-known UK companies. Although past performance is no guide to the future, Merchants has paid increasingly higher dividends to its shareholders year on year for the last 41 years.

Ten Year Dividend History

Dividend Record in Pence per Share
To Year End 31 January



Last Four Dividend Payments per Share

Record Date	Pay Date	Dividend	Type
07.07.2023	24.08.2023	7.10p	1st Interim
21.04.2023	26.05.2023	7.00p	Final
03.02.2023	15.03.2023	6.90p	3rd Interim
07.10.2022	10.11.2022	6.85p	2nd Interim

Past performance is not a reliable indicator of future results.

Key Information

Launch Date	16 February 1889
AIC Sector	UK Equity Income
Benchmark	FTSE All-Share
Annual Management Fee	0.35%
Performance Fee	No
Ongoing Charges ¹	0.56%
Year End	31 January
Annual Financial Report	Final published in April, Half-yearly published in September
AGM	May
NAV Frequency	Daily
Dividends	March, May, August, November
Price Information	Financial Times, The Daily Telegraph, www.merchantstrust.co.uk
Company Secretary	Kirsten Salt
Investment Manager	Simon Gergel, CIO, UK Equities
Codes	RIC: MRCH.L SEDOL: 0580007

1. Source: AIC, as at the Trust's Financial Year End (31.01.2023). Ongoing Charges (previously Total Expense Ratios) are published annually to show operational expenses, which include the annual management fee, incurred in the running of the company but excluding financing costs.



A ranking, a rating or an award provides no indicator of future performance and is not constant over time.

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The RSMR rating is designed for use by professional advisers and intermediaries as part of their advice process. This rating is not a recommendation to buy. If you need further information or are in doubt then you should consult a professional adviser.

Total Assets £884.0m

Shares in Issue 146,644,887 (Ordinary 25p)

Market Cap £777.2m

Share Price

530.0p

NAV per Share

537.1p

Premium/-Discount

-1.3%

Dividend Yield

5.3%

Gearing

13.8%

Fund Manager's Review

June saw a continuation of the recent trend of domestic prices rising faster than expected. Core Consumer Price inflation rose to 7.1% year-on-year, against forecasts of 6.8%. Whilst this may seem a small difference, it was enough to prompt the Bank of England to raise interest rates by 0.5%, taking rates to 5%, the highest level since the 2008 Global Financial. This raised concerns about the outlook for consumer spending in the UK, as mortgage rates increased further. The pound rallied against the dollar, rising to \$1.27.

Global equity markets continued to be supported by strong gains in technology shares, with the US Nasdaq index again up sharply. UK equities were more subdued, due to concerns about rising interest rates, with the FTSE All Share index producing a small positive return. Medium sized companies, which tend to be more cyclical, pulled back modestly. Sector performances were mixed, with several cyclical sectors leading the market. Industrial transport and construction & materials were buoyed by strong gains at some large US-exposed companies, and the commodity exposed mining and oil & gas sectors were also strong. On the other hand, the weakest sectors also included many cyclical industries, especially those that are domestically exposed, like housebuilders and real estate. Other notably weak sectors included non-life insurance and telecommunications.

Investment performance was behind the benchmark, as lower valued shares continued to lag a market led by higher growth companies. The largest negative stock impacts, included weakness at the housebuilder Redrow, and the consumer stocks Tate & Lyle and PZ Cussons. Also, not owning HSBC held back performance as that stock rose. On the other hand, CRH and Next were strong performers, with Next reporting surprisingly good spring sales, whilst not owning AstraZeneca was beneficial, as the shares fell back, and held back the index return. The Net Asset Value Total Return for June was -1.1% against 1.0% from the benchmark index.

“ Our general views on the market have not changed, and we remain excited about the numerous opportunities to buy strong companies on compelling valuations

We sold two holdings from the portfolio during June, Vodafone and Ashmore. In our investment process, there are three reasons for selling an investment. First, it may reach our target price. Second, the investment view may have changed. And third, there may be better opportunities elsewhere. Whilst we saw better uses for the proceeds, both of these sales were examples of the second reason; a change in investment view. Changes of opinion are often the most psychologically difficult decisions. They usually follow a period of poor stock performance. Either, we have to admit to being wrong about our initial investment decision, or we have to recognise that something has fundamentally changed to challenge our initial view. Both can be uncomfortable, but it is important to be as objective as we can.

Investing in Vodafone was a poor investment decision for the portfolio. We had not owned the company for many years, due to concerns over the highly competitive industry structure and the need for persistently high capital expenditure. However, we bought a position during the pandemic, as we liked its strong cash generation, a high dividend yield and limited economic sensitivity. We also saw some signs that the business was performing better, especially in the German market. However,



Simon Gergel, Portfolio Manager

The Merchants Trust PLC is managed by Simon Gergel who is Chief Investment Officer, UK Equities at AllianzGI and has 32 years investment experience. Simon joined AllianzGI in April 2006 from HSBC Halbis Partners where he managed over £900m in high income funds as well as core institutional and life UK equity portfolios. Prior to joining HSBC, Simon worked for 14 years at Phillips & Drew Fund Management / UBS Asset Management.

that business improvement proved short-lived, and the performance in Germany and several other markets has since deteriorated. We sold part of the investment a year ago, close to the original cost price, as our level of conviction declined, but we held onto the rest, and only sold it in June after another trading disappointment. Whilst the share price is lower, we have to recognise that our initial investment case was wrong, and we do not have sufficient confidence to maintain a position within the Merchants' portfolio.

Ashmore is a slightly different situation. It is a leading emerging market, predominantly fund (bonds are financial investments that involve lending money to a company or government) management business, with a strong culture and a differentiated market position. Merchants has owned Ashmore previously and made a good return. When we bought back into the shares in 2021, Ashmore's funds had been through a period of poor performance, and it had seen outflows. Our investment case was built around the potential for a recovery in the emerging markets asset class, improvement in the company's funds' performance and a return to inflows, which would lead to a strong pick up in profitability. However, performance and flows have been worse than we expected, making it more challenging for the business to retain assets and to take advantage of an eventual recovery. We had already sold part of the holding earlier in the year, as our level of conviction declined, and we decided to sell the rest in June. We used the proceeds to allocate capital to companies where we had higher conviction. We continued adding to the recent new purchases of Inchcape, Marshalls and Lancashire Holdings, as well as a few other high conviction ideas.

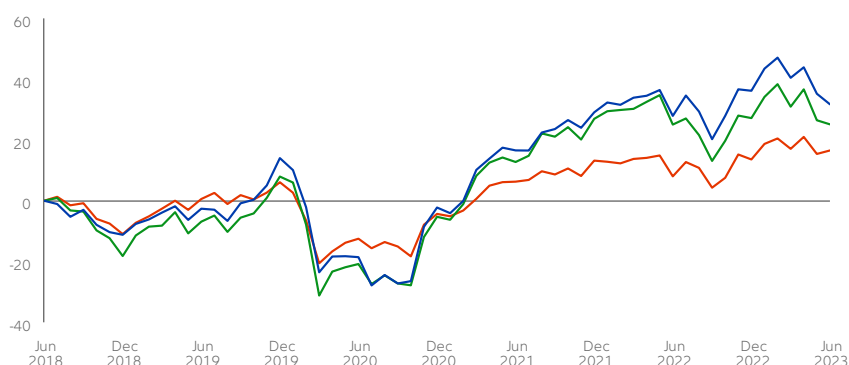
Our general views on the market have not changed, and we remain excited about the numerous opportunities to buy strong companies on compelling valuations that, we believe, can deliver an attractive yield and a total return to meet Merchants' objectives.

Simon Gergel
24 July 2023

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

Performance Track Record

Five Year Performance (%)



■ Share Price ■ NAV (debt at fair value)

■ Benchmark: With effect from 1 February 2017 the benchmark changed from the FTSE 100 to the FTSE All-Share Index

Risk & Features

Investment trusts are quoted companies listed on the London Stock Exchange. Their share prices are determined by factors including the balance of supply and demand in the market.

Merchants seeks to enhance returns for its shareholders through gearing which can boost the Trust's returns when investments perform well, though losses can be magnified when investments lose value. You should be aware that this Trust may be subject to sudden and large falls in value and you could suffer substantial capital loss.

Derivatives may be used to manage the Trust efficiently.

Cumulative Returns (%)

	3M	6M	1Y	3Y	5Y
Share Price	-6.2	-3.3	3.0	61.8	31.7
NAV (debt at fair value)	-4.4	-1.6	3.8	63.7	29.6
Benchmark	-0.5	2.6	7.9	33.2	16.5

Discrete 12 Month Returns to 30 June (%)

	2023	2022	2021	2020	2019
Share Price	3.0	9.7	43.1	-16.4	-2.6
NAV (debt at fair value)	3.8	10.9	42.2	-15.0	-6.9
Benchmark	7.9	1.6	21.5	-13.0	0.6

Source: Thomson Reuters Refinitiv DataStream, percentage growth, mid to mid, total return to 30.06.23. Copyright 2023 © DataStream, a Thomson Reuters company. All rights reserved. DataStream shall not be liable for any errors or delays in the content, or for any actions taken in reliance thereon.

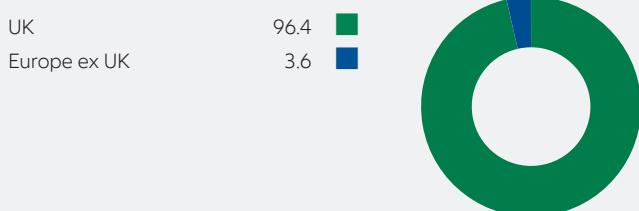
Past performance does not predict future returns. Investing involves risk. The value of an investment and the income from it may fall as well as rise and investors might not get back the full amount invested. This investment trust charges 65% of its annual management fee to the capital account and 35% to revenue. This could lead to a higher level of income but capital growth will be constrained as a result.

Portfolio Breakdown

Sector Breakdown (%)

Financials	21.1	
Industrials	17.3	
Consumer Discretionary	13.7	
Consumer Staples	13.5	
Energy	11.1	
Health Care	7.3	
Utilities	7.1	
Materials	3.8	
Real Estate	2.7	
Cash	2.4	

Geographic Breakdown* (%)



Top Ten Holdings (%)

GSK plc	4.6
Shell	4.5
British American Tobacco	3.7
Rio Tinto	3.2
BP	3.1
DCC	3.0
Scottish & Southern Energy	3.0
IG Group	2.9
WPP	2.7
Tate & Lyle	2.7

Total number of holdings** 52

**Excludes derivatives

Market Cap Breakdown (%)



The data shown is not constant over time and the allocation may change in the future. Totals may not sum to 100.0% due to rounding.

This is no recommendation or solicitation to buy or sell any particular security.

*Excludes Cash

Board of Directors

Colin Clark (Chairman)

Timon Drakesmith (Chairman of the Audit Committee)

Karen McKellar

Mary Ann Sieghart

Sybella Stanley (Senior Independent Director)

Glossary

Share Price is the price of a single ordinary share, as determined by the stock market. The share price above is the mid-market price at market close.

Net Asset Value (NAV) per Share is calculated as available shareholders' funds divided by the number of shares in issue, with shareholders' funds taken to be the net value of all the company's assets after deducting liabilities.

The NAV figure above is based on the fair/market value cum income of the company's long-term debt and preference shares (known as debt at market value). This allows for the valuation of long-term debt and preference shares at fair value or current market price, rather than at final repayment value (known as debt at par).

Premium/Discount. Since investment company shares are traded on a stock market, the share price that you get may be higher or lower than the NAV. The difference is known as a premium or discount.

Dividend Yield is calculated using the latest full year dividend divided by the current share price.

Gearing is a measure of a company's financial leverage and shows the extent to which its operations are funded by lenders versus shareholders.

How to invest

You can buy shares in the Trust through:

- A third party provider - see 'How to Invest' on our website, where you will find links to a range of these platforms, many of which allow you to hold the shares within an ISA, Junior ISA, SIPP and/or savings scheme.
- A stockbroker.
- A financial adviser.

Contact us

If you have any queries regarding our investment trusts our Investor Services team can be contacted on:

0800 389 4696

www.merchantstrust.co.uk

E-mail: investment-trusts@allianzgi.com

You will find much more information about The Merchants Trust on our website.

Please note that we can only offer information and are unable to provide investment advice. You should contact your financial adviser before making any investment decision.



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All data source Allianz Global Investors as at 30.06.23 unless otherwise stated.

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