

The Merchants Trust PLC

As focused on dividends as you are



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

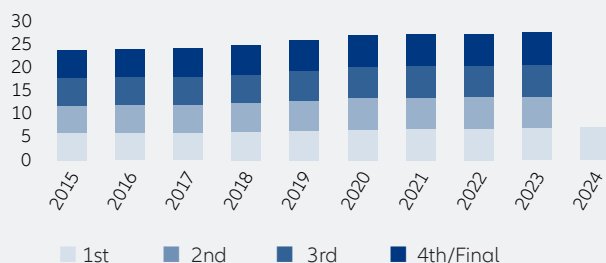
The Merchants Trust PLC was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, but now concentrates primarily on major UK 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 £905.8m

Shares in Issue 146,794,887 (Ordinary 25p)

Market Cap £817.6m

Share Price
557.0p

NAV per Share
551.0p

Premium/-Discount
1.1%

Dividend Yield
5.0%

Gearing
13.0%

Fund Manager's Review

The latest UK inflation figures showed a notable downward shift in both the headline and underlying inflation rate, with the readings coming below expectations, after several months where UK inflation had surprised to the upside. This prompted a significant change in the general narrative, that the UK had structurally higher and more sticky inflation than elsewhere. Stepping back from monthly data, it seems that the trajectory for UK inflation is very similar to that in the USA and the EU, though at a slightly higher level and a little later to come down.

There was an almost immediate response in financial markets to the inflation figures, as these reduce the pressure on the Bank of England to keep aggressively raising interest rates. UK government bond yields and sterling, which had both been rising, pulled back down, as interest rate expectations moderated. A lower peak in UK interest rates would have important implications for the UK economy, as it would reduce the peak in mortgage costs and lower other borrowing costs. This change in expectations lifted the stock market, especially the medium and smaller sized companies, which are generally more exposed to the domestic economy than the large multinational groups.

July also saw a raft of results announcements, as companies rushed to get reporting out of the way ahead of the holiday season. These results were particularly important as they came against background of considerable uncertainty about the strength of the economy, and with higher interest rates than seen for many years.

The stock market produced a positive return for the month, rising after the inflation figures, and led by medium and smaller sized companies. There was quite a wide range of sector returns, with cyclical sectors generally strongest. The biggest risers included house builders, construction & building materials, real estate and retailers, whilst the laggards included more defensive sectors such as electricity, pharmaceuticals and beverages, as well as life insurance.

“ Any optimism about an easing of UK interest rate expectations could lead to strong performance from some of the more cyclical and domestic sectors of the stock market

Portfolio performance was ahead of the benchmark, benefitting from a change in the market sentiment, as lower valued and more cyclical shares started to outperform. The Net Asset Value total return for July was 5.1% against the 2.6% return from the benchmark index. Two building and construction related companies, Keller and Tyman, rose by more than 20% on positive trading updates, benefitting in particular from their considerable US exposure. Several other building companies in the portfolio also produced double digit percentage gains, including the two housebuilders; Redrow and Bellway, as well as Grafton and Marshalls. Whilst the short-term outlook for these businesses may be challenging, indeed Marshalls warned on short term trading in July, a combination of low valuations and the change in sentiment led to sharp bounces in share prices.

Another company to rally on results, although it subsequently pulled back, was IG Group, which announced total annual revenue of over £1bn for the first time. It also announced a share buy-back of £250m, representing more than 8% of its market value. Performance also benefitted from not owning AstraZeneca and Compass, which both underperformed.

However, there were also some negative moves on results from portfolio companies, especially in the financial sector. St James's Place shares were under pressure. Whilst reported numbers and business flows were modestly below expectations, investors were more concerned by the company's decision to lower fees for longstanding clients, who have been



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.

with the firm for over a decade. This has lowered future earnings forecasts, though the share price reaction looks harsh and the company remains in a very strong competitive position. Several banks in the portfolio reported interim results. Credit conditions have generally been benign, with a low level of provisions, and cash flows and dividends have been strong, but there has been some disappointment over the projections for future net interest income. The most notable disappointment came at OSB (Onesavingsbank) which took a large (mostly non-cash) charge, as a certain group of mortgage customers were moving off variable rate mortgages onto cheaper fixed rate deals, at a faster pace than previously. This meant that the bank had to change its expectations for the profitability of these customers. The shares fell by nearly a quarter in the month, leaving them on an extremely low valuation. We took advantage of this move, which we believed to be an over-reaction, to add to the position.

Elsewhere, we added to a number of other companies where we have strong conviction, mostly in the energy, financial and consumer sectors. These purchases were funded by reducing the holding in CRH, partly through option exercises. CRH shares have performed very well over the last year, on the back of strong trading, and also optimism over the potential for a US stock market listing. This has taken the shares closer to fair value, prompting our profit taking.

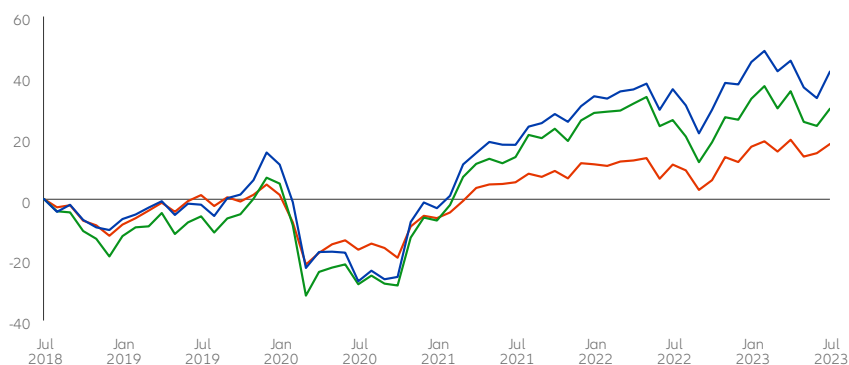
The UK stock market is trading on a low valuation and at a significant discount to global equities. There have been many suggested explanations for this disparity, with the most recent being the UK's stubbornly high rate of inflation. As discussed above, UK inflationary pressures seem to be following other regions, which could lead to a reassessment of the market's prospects. We do not try to predict market returns, but low valuations mean that we have been able to invest in many strong businesses, listed in the UK, which are trading well below our assessment of their fair value. We believe that starting from such attractive valuations, the portfolio is well placed to deliver the income and total returns objectives of Merchants Trust. Any optimism about an easing of UK interest rate expectations could lead to strong performance from some of the more cyclical and domestic sectors of the stock market, where we see the greatest opportunities.

Simon Gergel
25 August 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	-2.5	-2.2	4.3	94.6	41.9
NAV (debt at fair value)	-3.2	-1.4	4.1	88.7	35.7
Benchmark	-1.2	0.8	6.1	41.8	18.1

Discrete 12 Month Returns to 31 July (%)

	2023	2022	2021	2020	2019
Share Price	4.3	15.5	61.5	-25.7	-1.9
NAV (debt at fair value)	4.1	14.8	57.9	-23.7	-5.7
Benchmark	6.1	5.5	26.6	-17.8	1.3

Source: Thomson Reuters Refinitiv DataStream, percentage growth, mid to mid, total return to 31.07.23. 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.

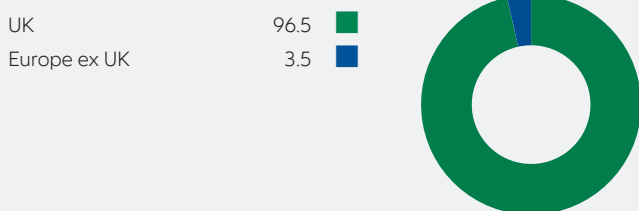
Past performance does not predict future returns. Investing involves risk. The value of an investment and the income from it may fall as well as rise and investors might not get back the full amount invested. This investment trust charges 65% of its annual management fee to the capital account and 35% 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	20.9	<div style="width: 20.9%;"></div>
Industrials	17.4	<div style="width: 17.4%;"></div>
Consumer Discretionary	14.3	<div style="width: 14.3%;"></div>
Consumer Staples	13.5	<div style="width: 13.5%;"></div>
Energy	11.8	<div style="width: 11.8%;"></div>
Health Care	7.3	<div style="width: 7.3%;"></div>
Utilities	6.7	<div style="width: 6.7%;"></div>
Materials	3.8	<div style="width: 3.8%;"></div>
Real Estate	2.9	<div style="width: 2.9%;"></div>
Cash	1.4	<div style="width: 1.4%;"></div>

Geographic Breakdown* (%)



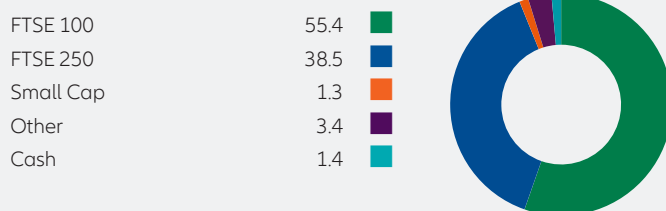
Top Ten Holdings (%)

GSK plc	4.5
Shell	4.4
British American Tobacco	3.6
Rio Tinto	3.2
BP	3.1
DCC	3.0
IG Group	2.9
WPP	2.8
Energear	2.7
Inchcape	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 31.07.23 unless otherwise stated.

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