aic DIVIDEND HERO

31 July 2018

The Merchants Trust PLC

Half-Yearly Financial Report

Allianz Global Investors

www.merchantstrust.co.uk

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.

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

Contents

The Merchants Trust PLC

The current board, from left to right, Mary Ann Sieghart, Timon Drakesmith, Simon Fraser, Sybella Stanley, Paul Yates.

Financial Highlights

Measure	Current	Comparative	Change
Dividends per ordinary share for the period	12.9p	31.7.17 12.3p	+4.9%
Yield	4.8%	31.1.18 5.2%	
Revenue earnings per ordinary share	15.61p	31.7.17 15.05p	+3.7%
Net asset value per share (debt at market value)	550.1p	31.1.18 523.9p	+5.0%
Share price	+6.1%	31.7.18 518.0p 31.1.18 488.0p	
Net Asset Value Total Return (debt at market value)	+7.4%	31.7.17 +9.9%	
Benchmark Total Return	+5.0%	31.7.17 +7.1% FTSE All-Share Index	
Gearing	17.8%	31.1.18 18.1%	

Revenue	For the 6 months ended 31 July 2018	For the 6 months ended 31 July 2017	% change
Income	£19.00m	£18.77m	+1.2
Net revenue return attributable to ordinary shareholders	£16.97m	£16.37m	+3.7
Net revenue return per ordinary share	15.61p	15.05p	+3.7
Dividends per ordinary share	12.90p	12.30p	+4.9

Assets	At 31 July 2018	At 31 January 2018	Capital return % change	Total return* % change
Total assets less current liabilities	£730m	£704m	+3.7	-
Total net assets with debt at par	£619m	£593m	+4.4	-
Total net assets with debt at market value (capital)	£598m	£570m	+4.9	-
Net asset value per ordinary share with debt at par	569.7p	545.8p	+4.4	+6.7
Net asset value per ordinary share with debt at market value (capital)	550.1p	523.9p	+5.0	+7.4
Ordinary share price	518.0p	488.0p	+6.1	+8.7
FTSE All-Share Index	4,253.3	4,137.7	+2.8	+5.0
Discount ordinary share price to net asset value	-9.1%	-10.6%	n/a	n/a
Discount (debt at market value)	-5.8%	-6.9%	n/a	n/a

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

Performance attribution analysis against FTSE All-Share Index	Capital return %	Income return %	Total return %
Return of Index	2.8	2.2	5.0
Relative return of portfolio	0.9	0.8	1.7
Return of portfolio	**3.7**	**3.0**	**6.7**
Impact of gearing on portfolio	0.9	0.6	1.5
Movement in market value of debt	0.2	-	0.2
Finance costs	-0.4	-0.2	-0.6
Management fee	-0.1	-0.1	-0.2
Administration expenses	-	-0.1	-0.1
Other	0.7	-0.8	-0.1
Change in net asset value per ordinary share (debt at market value)	**5.0**	**2.4**	**7.4**

The Trust's biggest new investment was Imperial Brands, the producer of cigarettes, tobacco and vaping products. The company's sustainability policy saw it plant 1.7 million trees in the last financial year.

Interim Management Report

Highlights

- Dividends declared for the first six months of 2018/19 are 12.9p per share, up 4.9% on last year.
- NAV total return* +7.4%, compared with +5.0% on the FTSE All-Share Index.
- Share price total return +8.7%
- Ordinary shares yield 5.0% at 492.0p, compared with 3.8% on the FTSE All-Share Index at the close of business on 20 September 2018.

** Debt at market value*

Half year results

When I last wrote to shareholders, six months ago, I reported a year of positive asset returns in both absolute and relative terms. I am pleased to announce that this outperformance has been maintained, both at portfolio and NAV level: your company has delivered robust results over the six months to 31 July 2018, with NAV total return of +7.4%, significantly ahead of the FTSE All-Share Index (+5.0%). You will find more information on the performance of the investment portfolio in the Investment Manager's Review on pages 8 to 15, and an attribution analysis on page 3.

Net earnings and dividends

Earnings in the first six months of the current year, to 31 July 2018, were 15.61p per ordinary share (2017: 15.05p).

Towards the end of 2017, the company announced the refinancing of the first tranche of its long-term borrowing, replacing it with new borrowings at a much lower interest rate. This factor, together with your board's confidence in the ongoing potential for income growth generation within the investment portfolio, has enabled dividends to grow faster. The board has declared a second quarterly dividend of 6.5p per ordinary share, payable on 15 November 2018 to shareholders on the register at close of business on 5 October 2018. A Dividend Reinvestment Plan (DRIP) is available for this dividend and the relevant Election Date is 19 October 2018 and the ex-dividend date is 4 October 2018.

We are proud to be an AIC 'Divided Hero', an elite group of investment trust companies that have increased their dividends each year for 20 years or more. The company's dividend has increased for 36 consecutive years, and a high and growing yield remains a key objective of the company. The total distribution declared for the first half of 2018/19 is 12.9p, an increase of 4.9% on the same period last year (12.3p). It is the board's intention to at least maintain quarterly dividends at the current level for the rest of the year, which would lead to a minimum annual dividend of 25.9p for 2018/19, an increase of 4.4% on the previous year.

As at 31 July 2018, the company's revenue reserve, after deducting the first and second quarterly dividends, represented 14.0p per share (2017 – 13.3p).

Net asset value

As at 31 July 2018, the NAV per ordinary share (with debt at market value) was 550.1p. On a capital basis, the NAV per ordinary share (with debt at market value) increased by 5.0%, outperforming the benchmark return of 2.8%.

The total return reflects both the change in net asset value per ordinary share and the ordinary dividends paid. For the six months to 31 July 2018, the NAV per ordinary share increased by 7.4%, whilst the FTSE All-Share Index increased by 5.0%.

Interim Management Report *(continued)*

Material events and transactions
At the company's annual general meeting, held in May, all resolutions put to shareholders were passed.

The third quarterly dividend of 6.2p per share was paid on 2 March 2018 to shareholders on the register on 26 January 2018. A final dividend of 6.3p per share was paid on 30 May 2018 to shareholders on the register on 20 April 2018. The total paid and declared for the year ended 31 January 2018 was 24.8p.

There were no related party transactions in the period.

Since the period end, the first quarterly dividend for the year ending 31 January 2019 of 6.4p per share was paid on 22 August 2018 to shareholders on the register on 13 July 2018.

Buybacks and share issuances
As explained in the annual report, we have a policy in place to (i) issue new shares when the company's ordinary shares are trading at a premium to NAV with debt at market value and (ii) buy back shares for holding in treasury to help dampen share price volatility when it is at a sustained discount to NAV. Since this programme was approved by shareholders at the AGM in May this year, we have seen the shares trading at a lower discount than the equivalent period last year (averaging 4.7% since May 2018). Accordingly, there have been no share issuances or buybacks during the period.

Gearing
The company has gearing in place which is deployed in the market for investment purposes. Towards the end of the last financial year we refinanced a debenture taken out in 1987 with new borrowing (in the form of loan notes) at a much lower interest rate. Following the refinancing, gearing amounts to £112 million, or 17.8% at 31 May, and comprises a long term debenture maturing in 2023, secured bonds maturing in 2029 and the recently issued loan notes, maturing in 2052.

As illustrated in the table on page 3, the portfolio's gearing delivered a gross beneficial effect of +1.1% after the cost of finance is deducted. Other costs, management fees and administration costs reduced the total return by -0.4%.

Board Succession
Board composition and succession is a continuous conversation for the directors. By the time of the next AGM in 2019 I will have completed nine years as Chairman and it is the current intention that I will retire during the course of next year. The board has begun its search for a new Chairman under the leadership of our Senior Independent Director, Sybella Stanley.

Prospects
Stock markets have experienced increasing volatility over the period and the risk profile for the UK economy remains elevated, primarily because of Brexit uncertainties as well as high levels of debt and rising interest rates. In spite of the political uncertainty in the UK and elsewhere, UK equities remain reasonably priced on a long term basis.

Market volatility creates its own opportunities, as our investment manager explains later, and we would remind shareholders that the UK stock market is not the same as the UK economy since many of the companies listed on the London Stock Exchange are truly international in nature, including some of the world's largest and best-known multinationals. Indeed, the UK stock market offers access to a diverse range of industries and markets and is predominantly exposed to economies outside the UK.

Over time, our fund managers have proven their ability to uncover many interesting investment opportunities that offer both good yields and prospects for attractive total returns. By focusing on individual stocks, they remain confident that they can continue to do that, aiming to ensure that Merchants' diversified portfolio continues to deliver a high and rising income together with capital growth for its shareholders.

Simon Fraser

Simon Fraser
Chairman

199 Bishopsgate
London EC2M 3TY

21 September 2018

During the period we sold NEX Group, the electronic exchange and financial information and services business. The company was being taken over by the American CME group at a high valuation, reflecting its strategic value and growth potential.

Interim Management Report *(continued)*

Principal Risks and Uncertainties

The principal risks and uncertainties facing the company, together with the board's controls and mitigation, are broadly unchanged from those described in the annual report for the year ended 31 January 2018 under the headings below:

- Investment and Portfolio Risks
- Business and Strategy Risks
- Operational Risks

The board's approach to mitigating these risks and uncertainties is set out in the explanation with the Risk Map in the annual report. In the board's view these will remain the principal risks and uncertainties for the six months to 31 January 2019.

Responsibility Statements

The directors confirm to the best of their knowledge that:

- The condensed set of financial statements contained within the half-yearly financial report has been prepared in accordance with FRS102 and FRS104, as set out in Note 2, the Accounting Standards Board's Statement 'Half-Yearly Financial Reports'; and
- The interim management report includes a fair review of the information required by Disclosure and Transparency Rule 4.2.7 R of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- The interim management report includes a fair review of the information concerning related parties transactions as required by the Disclosure and Transparency Rule 4.2.8 R.

Simon Fraser
Chairman

21 September 2018

Investment Manager's Review

Shares in the Trust's largest holding, GlaxoSmithKline, rallied during the period, helped by strong sales of their new shingles vaccine.

Investment Manager's Review

Economic and Market Background

Political developments have dominated news flow in the first half of this year. For most of my career, there has been a broad consensus amongst western governments that globalisation and the promotion of free trade were not only positive drivers of economic activity and prosperity, but were almost immutable forces that would continue indefinitely. That consensus is beginning to be challenged. US President Donald Trump has been threatening and imposing tariffs and trade barriers, with predictable retaliation from Europe and Asia.

Negotiations between the UK and EU on Brexit have been tortuous, with a deeply divided Conservative government struggling to agree an official UK position, let alone being able to forge agreement with the EU. Political division was also a feature in continental Europe with negotiations taking months for Angela Merkel to be reappointed as German Chancellor, after their elections, and an anti-establishment coalition government being formed in Italy.

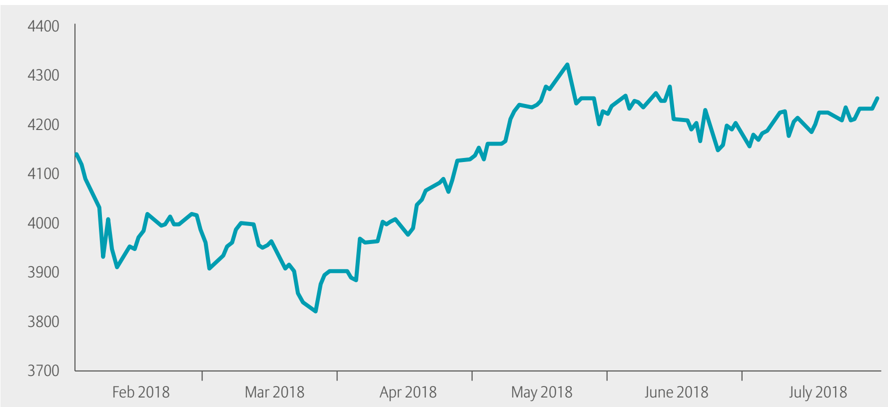
Although British people like discussing politics, the favourite national subject is the weather. It did not disappoint this year, with "The Beast from the East" extended winter freeze partly responsible for the UK economy having a slow start to the year, with very modest growth in the first quarter. Economic growth accelerated in the second quarter, whilst sustained high temperatures in the early summer were helpful for pubs and other leisure related sectors.

The stock market largely shrugged off political and economic developments, as it did in the first half of last year. After a weak start, the FTSE All-Share rallied to produce a total return of 5.0% in the period. Sector performances showed less of a clear pattern than last year. Certain defensive sectors performed well, such as food retail, pharmaceuticals and beverages, whilst others were weak; telecommunications , tobacco and food producers. Other strong performing large sectors included media, aerospace & defence and oil & gas producers, whilst the laggards included banks, financial services, life insurance and mining.

Investment Performance

We show on page 3 Merchants' performance attribution for the period. The table breaks down the Net Asset Value (NAV) performance between the performance of the investment portfolio and other factors. Overall the NAV

FTSE All-Share Index 31 January 2018 to 31 July 2018



Source: Thomson Reuters Datastream

Investment Manager's Review *(continued)*

total return was 7.4% compared to the FTSE All-Share Index benchmark return of 5.0%. The total return on the investment portfolio was 6.7%. Gearing had a beneficial effect of +1.5% gross, or +1.1% after taking account of the -0.6% cost of finance and the +0.2% movement in the value of debt. Fees, expenses and other costs came to -0.4%.

The portfolio performed well during the first half with a total return of 6.7%, which was 1.7% ahead of the 5.0% return on the FSTE All-Share Index benchmark. There was only one significant impact from sector selection. Not owning any tobacco shares for most of the period was beneficial to performance as the poor performance of the sector held back the index return. Tobacco shares were weak in response to poor cigarette industry volume trends in several major markets in 2017, as well as slowing growth of next generation tobacco products in the key Japanese market.

The table below shows the individual stock contributors to performance compared to the index. The largest single positive impact came from not owning tobacco company British American Tobacco, for the reasons cited above. Several stocks in the portfolio benefitted from takeover activity. NEX shares rose by over 60% in response to a bid by CME Group. UBM, a top 5 holding at the start of the year, continued to perform very well ahead of the Informa takeover concluding. Sainsbury returned over 30% in response to their proposed merger with Asda, and Inmarsat recovered from a depressed level, after receiving a potential takeover approach, even though the company rebuffed the proposal.

Elsewhere, GlaxoSmithKline shares rallied on strong sales of their new shingles vaccine and as management agreed to buy out the minority stake in their consumer health joint venture with Novartis, whilst ruling out the purchase of Pfizer's consumer business, which could have strained the balance sheet. Meggitt, the aerospace and defence company performed well, late in the period, as the company confirmed an improving trading outlook in their civil aerospace and defence markets, an important part of our investment thesis for this and other companies in the sector. BHP Billiton outperformed a weak mining sector, partly due to the announced sale of their US on-shore oil assets to BP. Finally amongst the top ten contributors, the portfolio benefitted from not owning two other shares that performed poorly and held back the market return, Vodafone and Glencore.

Estimated Contribution to Investment Performance Relative to the Index 31 January 2018 to 31 July 2018

Positive Contribution	%	Over/under weight	Negative Contribution	%	Over/under weight
British American Tobacco	0.7	-	Standard Life	-1.0	+
UBM	0.7	+	TP ICAP	-0.8	+
GlaxoSmithKline	0.6	+	AstraZeneca	-0.5	-
Vodafone Group	0.5	-	Shire	-0.3	-
NEX	0.5	+	Ashmore	-0.3	+
Glencore	0.4	-	Man	-0.2	+
Sainsbury (J)	0.4	+	Lloyds	-0.2	+
Meggitt	0.4	+	Sky	-0.2	-
Inmarsat	0.3	+	Tesco	-0.2	-
BHP Billiton	0.2	+	Equiniti	-0.2	+

Over / under weight: Whether proportion of stock in portfolio is higher (+) or lower (-) than its weighting in the FTSE All-Share Index.
Source: Allianz Global Investors

Investment Manager's Review *(continued)*

A number of financial companies were among the top ten negative contributors to relative performers. The biggest impact was from Standard Life Aberdeen, where outflows of client assets under management have continued since the merger that formed the business. The shares also reacted poorly to a complex deal to sell the life assurance assets to Phoenix, with investors concerned about headline earnings dilution, despite recent reassurance on that point, and the announcement of a large share buy-back. Another company that had been formed by a merger, TP ICAP, also saw its shares fall heavily following a profit warning that saw the Chief Executive Officer leave the company. TP ICAP warned that the company would not achieve all of the cost savings targeted in the deal, and would also see additional cost increases.

Fund managers Ashmore and Man Group both saw their shares pull back after strong performance last year, with Ashmore in particular affected by worsening sentiment towards the emerging markets asset class. Lloyds Banking Group also underperformed modestly amid general uncertainty over the economic outlook.

Outside the financial sectors, Equiniti shares came back sharply after strong performance last year carried on into the first few weeks of the year, although the impact on performance was modest, as we had significantly reduced the holding at higher levels. Performance was also impacted by not owning certain shares that performed well and helped the index return; specifically the pharmaceutical stocks AstraZeneca and Shire, as well as Sky and Tesco.

Portfolio Changes

With investor sentiment reacting to political developments and changes in the economic outlook, there was a modest level of volatility within the stock market. This created several opportunities to either buy companies at

The food retail sector performed well. Sainsbury returned over 30% in response to their proposed merger with Asda.

Investment Manager's Review *(continued)*

attractive valuations or reduce and sell holdings as they approached full valuations. Overall, in the period, we added five new companies to the portfolio and sold out of two completely, leaving a portfolio of 48 holdings. There were also significant additions and reductions to a number of the existing positions. The new investments spanned a broad range of sectors and included both domestic and multi-national businesses.

The biggest new investment was Imperial Brands, the producer of cigarettes, tobacco and vaping products. We have not owned Imperial for nearly five years, or any tobacco company for almost a year, on concerns about high valuations and structural changes within the industry, such as competition from new products like e-cigarettes. However, after a period of extremely weak performance, the sector had de-rated significantly. Imperial Brands became lowly priced, with a dividend yield of around 7% and strong cash flow. Whilst there are challenges in the industry, Imperial has a strong suite of next generation products and the company's cigarette portfolio has been streamlined, with an improved focus on stronger brands in recent years.

We purchased shares in ITV, the UK's leading commercial television company. ITV has just under half of the UK's TV advertising market and 99% of all commercial audiences of over 5m viewers. It makes a third of its profits from the studio business which sells content and formats in the UK and internationally. The shares had been poor performers due to a difficult advertising environment in 2017 and wider structural concerns about changes in the TV market. These concerns brought the valuation down to an unusually attractive level, which included a 5% dividend yield. Although there are some risks we will continue to monitor, we see ITV as having a strong business selling traditional TV advertising, supplemented by growth opportunities for its own online and subscription services.

Meggitt, the aerospace and defence company, confirmed an improving trading outlook and performed well. Meggitt produces a number of the components used in the manufacture of the Lockheed Martin F-35.

Investment Manager's Review *(continued)*

Furthermore, its expanding studios business is increasingly valuable within a consolidating media industry.

In early March, we bought a holding in the real estate company Hammerson, which owns prime retail shopping centres such as the Bull Ring in Birmingham, premium outlets like Bicester Village, as well as prime retail properties in Ireland and France. The share price had fallen significantly, on concerns about the outlook for retail property, as online shopping takes share from store based sales. More specifically, the stock market reacted negatively to Hammerson's proposed combination with its peer Intu, which owns the Trafford Centre in Manchester, amongst other assets, pushing the shares down to an extreme discount of 40% to its net asset value. At that level Hammerson had a dividend yield comfortably over 5%, despite a good track record of earnings and dividend growth, and we saw compelling value, given the quality of the asset base. The low valuation of the shares tempted sector peer Klepierre to approach Hammerson's board about a possible takeover bid, although this approach was rejected.

Another purchase was St James's Place, a wealth management and financial advice business with £90bn of assets under management. The business has an exceptional growth record. Over the last decade, St James's Place has grown its advisor numbers by 9% p.a., funds under management by 17% p.a. and dividends by 25% p.a. This type of businesses is normally too highly priced for our value based investment approach, however, a period of sideways share price movement left the shares offering good value. St James's Place had a dividend yield over 4%, and a valuation underpinned by the existing book of business, even without future asset inflows. We believe the company is not only cheap, but also well positioned, with a strong competitive position in a structurally growing market.

The final new purchase was Keller, the world leader in geotechnical engineering (ground engineering), with roughly a 10% share of this fragmented market. The industry has structural growth opportunities, as rising city populations and ageing infrastructure around the world create increasing demand for complex underground structures and strong foundations for tall buildings and other large structures. Despite a good long term growth record, the company's shares were trading on a low valuation, possibly suffering from a UK discount, despite the fact that less than 5% of sales come from the UK.

The portfolio also inherited two new holdings, GVC and Informa, following the takeovers of Ladbrokes and UBM respectively. In addition to the new purchases, we took advantage of share price weakness to add significant amounts of money to several other lowly priced, high yielding and fundamentally sound businesses, including Standard Life Aberdeen, Tyman, TP ICAP, Land Securities and Legal & General.

There were two complete disposals. We sold NEX Group, the electronic exchange and financial information and services business. The company was being taken over by the American CME group at a high valuation, reflecting its strategic value and growth potential. We also sold Kier, the construction and services company. Whilst we like Kier's diversified business model and its focus on lower risk, smaller construction contracts, the company has a high level of debt which could be problematic should there be a downturn in the sector.

We took a significant amount of money out of the oil sector. BP and Royal Dutch Shell were the largest two partial sales, and their combined weighting in the portfolio was reduced from approximately 13% at the start of the year to just under 10.5%. Two years ago the stock market was concerned about whether the dividends of these companies were sustainable and they both carried extremely high dividend yields, but since then, their profitability has recovered due to cost cutting and rising oil prices and the shares have delivered a very strong performance, taking the shares closer to our estimate of fair value. The fundamental earnings recovery has been so strong that BP has just raised its interim dividend by a small amount, which would have been unthinkable in 2016. Other notable reductions to positions included Sainsbury, which rallied on the proposed merger with Asda, Informa following the UBM takeover, and Lloyds Bank for risk control reasons.

Investment Manager's Review *(continued)*

Derivatives Strategy

Merchants operates a covered call strategy on a limited proportion of the portfolio to generate additional income. In "writing" or selling an option, we give 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 revenue. We get the full benefit of any move in the share price up to the strike price but not beyond. If the share price rises above the strike price there is a potential "opportunity" cost (but not a cash cost) to Merchants as the option holder can exercise their option to buy the shares at the strike price.

The option strategy once again delivered its primary objective of income generation, with approximately £400,000 of option premium accrued. Strong performance from some of the oil shares where we had written options led to a number of option exercises. This meant that the strategy was loss making over the six months after taking account of the opportunity costs incurred from option exercises. However we were happy to reduce positions at the valuations represented by the strike prices.

Outlook

There are a number of risks to the outlook for economies and markets. On the political front there is continuing uncertainty over the Brexit negotiations with a wide range of potential outcomes. There is a weak and divided Conservative government, with a socialist opposition with sharply different views on economic policy and the role of the state, especially concerning privatised businesses like rail and utilities. Trade tensions are increasing around the world, with the US raising tariffs, and provoking a response in China, the EU, Turkey and elsewhere.

On the domestic scene, the Bank of England has recently raised interest rates for the second time this cycle, after the emergency cut following the Brexit referendum. Higher interest rates increase borrowing costs and can lead to slower economic growth in the future, as well as potentially affecting stock price valuations due to a higher discount rate.

All of these factors may put pressure on share prices. At the very least, this is a particularly difficult environment in which to have a high degree of confidence in any one specific course of future events.

However, there are several positive factors to consider as well. The UK economy is growing at a reasonable pace, albeit after a slow first quarter. Unemployment is at extremely low levels and there are few signs of systemic stress, apart from in particular industries such as retail, which face specific structural pressures. Interest rates are rising but remain extremely low by historic standards. In any case, the majority of UK listed companies' sales and profits comes from overseas, mostly outside of the EU. This provides investors with a considerable level of protection from the worst case Brexit scenarios, especially as any weakness of sterling would result in an appreciation of the value of these overseas earnings.

Another supporting factor is that equity valuations in the UK are close to long term averages, and are lower than for many other leading stock markets. So some element of downside is already priced into shares. Indeed, many domestically oriented shares are at significant discounts to their long term average valuations.

In this environment, our strategy is not to position the portfolio for one specific scenario, but to place a strong emphasis on portfolio construction. We aim to hold a broadly diversified portfolio of companies, across many different industries, both domestically exposed and those with multinational or global businesses. We vary position sizes according to the upside potential in individual shares and the level of risk in that company and the industry. We have also been diversifying the portfolio's income generation, with a lower proportion now coming from the ten largest contributors.

We consider three broad categories of risk; operational, financial and valuation risk. Operational risk can be thought of as the risk to a specific business or an industry, and can include the level of competitive intensity in the industry, product cycles, technology risks, management ability and depth, cyber security, regulatory changes and many

Investment Manager's Review *(continued)*

other operational factors. Clearly the level of operational risk varies enormously from one company to another and across different industries. Financial risk looks at the level of leverage in the business, including other liabilities such as leases and pension fund deficits, and also the levels of liquidity and access to capital. Companies often get into trouble when operational difficulties combine with high leverage, so we are particularly focused on companies with high levels of operational and financial risk, and we have made some specific reductions to such positions in recent months.

Finally, valuation risk is also very important. A highly priced company can suffer a significant loss of value if high expectations are disappointed. Conversely, a low valuation often means that expectations are already depressed, so that incremental disappointments may already be priced in, and any surprise positive news flow can lead to large share price gains.

Due to the modest valuation of the UK stock market, we have been able to identify many attractively priced companies that meet our investment criteria. Specifically we are looking for fundamentally sound businesses, trading on reasonable valuations, that benefit from supportive structural and cyclical thematic trends. The five new companies introduced into the portfolio this year are a representative sample of the diverse range of attractive opportunities available, spanning different industries, some more domestically focused, and others more international. By focusing on the risk factors above and careful position sizing, we believe the Merchants' portfolio should be able to deliver a healthy level of income, income growth and capital returns in the medium to long term.

Simon Gergel
Allianz Global Investors

UBM, the exhibitions and events specialist, continued to perform very well ahead of the Informa takeover concluding.

Investment Portfolio

as at 31 July 2018

Twenty Largest Equity Holdings

Security Name	Market Value £'000s	Total Assets* %	Principal Activity
GlaxoSmithKline	48,568	6.66	Pharmaceuticals & Biotechnology
Royal Dutch Shell B	47,765	6.55	Oil & Gas Producers
HSBC Holdings	31,278	4.29	Banks
BHP Billiton	29,858	4.09	Mining
BP	28,635	3.92	Oil & Gas Producers
Standard Life Aberdeen	25,523	3.50	Financial Services
BAE Systems	23,351	3.20	Aerospace & Defence
Legal & General	22,461	3.08	Life Insurance
Imperial Brands	21,915	3.00	Tobacco
Lloyds Banking Group	20,398	2.80	Banks
Prudential	19,940	2.73	Life Insurance
SSE	19,313	2.65	Electricity
Tate & Lyle	17,404	2.38	Food Producers
Meggitt	17,186	2.35	Aerospace & Defence
Tyman	16,183	2.22	Construction & Materials
Green King	15,503	2.12	Travel & Leisure
Pennon Group	14,689	2.01	Gas, Water & Multiutilities
Inmarsat	13,849	1.90	Mobile Telecommunications
Land Securities Group	13,194	1.81	Real Estate
National Express Group	12,592	1.73	Travel & Leisure
	459,605	**62.99**	

** Total Assets include current liabilities*

Portfolio Analysis

Sector	Market Value £'000s	Total Assets** %
Financials	208,522	28.57
Industrials	119,548	16.38
Consumer Services	98,093	13.44
Oil & Gas	76,400	10.47
Consumer Goods	57,201	7.84
Health Care	48,568	6.66
Utilities	46,560	6.38
Basic Materials	40,640	5.57
Telecommunications	13,849	1.90
Net current assets	20,398	2.79
	729,799	**100.00**

*** Total Assets include current liabilities*

As at 31 July 2018 call options were written over 0.53% of the portfolio (valued at strike price). During the period, income generated from call options amounted to 390,560.

The Merchants Trust PLC

Financial Statements

(Unaudited)

Once again the oil & gas production sector was a strong performer.

Income Statement and Balance Sheet

Income Statement

	for the six months ended 31 July 2018		
	Revenue £'000s	Capital £'000s	Total Return £'000s
			(Note 1)
Gains on investments held at fair value through profit or loss	-	25,533	25,533
Gains on foreign currencies	-	-	-
Income from investments	18,573	-	18,573
Other income	425	-	425
Investment management fee	(433)	(805)	(1,238)
Administrative expenses	(429)	(1)	(430)
Profit before finance costs and taxation	**18,136**	**24,727**	**42,863**
Finance costs: interest payable and similar charges	(1,168)	(2,130)	(3,298)
Profit on ordinary activities before taxation	**16,968**	**22,597**	**39,565**
Taxation	-	-	-
Profit after taxation attributable to ordinary shareholders	**16,968**	**22,597**	**39,565**
Earnings per ordinary share (Note 4)			
(basic and diluted)	15.61p	20.78p	36.39p

Balance Sheet

	as at 31 July 2018
	£'000s
Investments held at fair value through profit or loss	709,381
Net current assets (liabilities)	20,398
Total assets less current liabilities	**729,779**
Creditors: amount falling due after one year	(110,327)
Total net assets	**619,452**
Called up share capital	27,182
Share premium account	33,718
Capital redemption reserve	293
Capital reserve	529,023
Revenue reserve	29,236
Equity shareholders' funds	**619,452**
Net asset value per ordinary share	569.7p

The net asset value is based on 108,728,464 ordinary shares at 31 July 2018.

for the six months ended 31 July 2017		
Revenue £'000s	Capital £'000s	Total Return £'000s
		(Note 1)
-	40,059	40,059
-	5	5
18,342	-	18,342
432	-	432
(418)	(777)	(1,195)
(387)	(1)	(388)
17,969	**39,286**	**57,255**
(1,601)	(2,933)	(4,534)
16,368	**36,353**	**52,721**
-	-	-
16,368	**36,353**	**52,721**
15.05p	33.44p	48.49p

as at 31 July 2017	as at 31 January 2018
£'000s	£'000s
680,069	685,350
(19,390)	18,571
660,679	**703,921**
(75,904)	(110,443)
584,775	**593,478**
27,182	27,182
33,718	33,718
293	293
495,713	506,426
27,869	25,859
584,775	**593,478**
537.8p	545.8p

The net asset value is based on 108,728,464 ordinary shares at 31 July 2017.

The net asset value is based on 108,728,464 ordinary shares at 31 January 2018.

Statement of Changes in Equity

	Called up Share Capital £'000s	Share Premium Account £'000s	Capital Redemption Reserve £'000s	Capital Reserve £'000s	Revenue Reserve £'000s	Total £'000s
Six months ended 31 July 2018						
Net assets at 1 February 2018	27,182	33,718	293	506,426	25,859	593,478
Revenue profit	-	-	-	-	16,968	16,968
Dividends on ordinary shares (Note 3)	-	-	-	-	(13,591)	(13,591)
Capital profit	-	-	-	22,597	-	22,597
Net assets at 31 July 2018	**27,182**	**33,718**	**293**	**529,023**	**29,236**	**619,452**
Six months ended 31 July 2017						
Net assets at 1 February 2017	27,182	33,718	293	459,360	24,765	545,318
Revenue profit	-	-	-	-	16,368	16,368
Dividends on ordinary shares (Note 3)	-	-	-	-	(13,264)	(13,264)
Capital profit	-	-	-	36,353	-	36,353
Net assets at 31 July 2017	**27,182**	**33,718**	**293**	**495,713**	**27,869**	**584,775**

Cash Flow Statement

	Six months ended 31 July 2018 £'000s	Six months ended 31 July 2017 £'000s
Operating activities		
Profit before finance costs and taxation	42,863	57,255
Less: Gains on investments at fair value	(25,533)	(40,059)
Less: Gains on foreign currency	-	(5)
Purchase of fixed asset investments held at fair value through profit or loss	(124,680)	(91,540)
Sales of fixed asset investments held at fair value through profit or loss	128,031	93,263
Increase in other receivables	(2,010)	(1,682)
Increase in other payables	733	1,228
Net cash inflow from operating activities	**19,404**	**18,460**
Financing activities		
Interest paid	(3,372)	(4,792)
Dividend paid on cumulative preference stock	(22)	(21)
Dividends paid on ordinary shares	(13,591)	(13,264)
Net cash outflow from financing activities	**(16,985)**	**(18,077)**
Increase in cash and cash equivalents	**2,419**	**383**
Cash and cash equivalents at the start of the year	20,096	14,485
Effect of foreign exchange rates	-	5
Cash and cash equivalents at the end of the year	22,515	14,873
Comprising:		
Cash at bank	22,515	14,873

Notes

Note 1 – Financial Statements

The half-yearly financial report has been neither audited nor reviewed by the company's auditors. The financial information for the year ended 31 January 2018 has been extracted from the statutory financial statements for that year which have been delivered to the Registrar of Companies. The auditors' report on those financial statements was unqualified and did not contain a statement under section 498 of the Companies Act 2006.

The total return column of the Income Statement is the profit and loss account of the company.

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

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

Note 2 – Accounting Policies

The Company presents its results and positions under 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102), which forms part of revised Generally Accepted Accounting Practice ('New UK GAAP') issued by the Financial Reporting Council.

The condensed set of financial statements has been prepared on a going concern basis in accordance with FRS 102 and FRS 104, 'Interim Financial Reporting' and the Statement of Recommended Practice – 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (SORP). They have also been prepared on the assumption that approval as an investment trust will continue to be granted.

The interim financial statements and the net asset value per share figures have been prepared in accordance with FRS 102 using the same accounting policies as the preceding annual accounts.

Note 3 – Dividends on Ordinary Shares

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

	Six months ended 31 July 2018 £'000s	Six months ended 31 July 2017 £'000s
Third quarterly dividend 6.20p paid 2 March 2018 (2017 - 6.10p)	6,741	6,632
Final dividend 6.30p paid 30 May 2018 (2017 - 6.10p)	6,850	6,632
	13,591	13,264

In accordance with FRS 102 section 32 'Events After the End of the Reporting Period', dividends payable at the period end have not been recognised as a liability.

	Six months ended 31 July 2018 £'000s	Six months ended 31 July 2017 £'000s
First quarterly dividend 6.40p paid 22 August 2018 (2017 - 6.10p)	6,959	6,632
Second quarterly dividend 6.50p payable 15 November 2018 (2017 - 6.20p)	7,067	6,741
	14,026	13,373

Notes *(continued)*

Note 4 – Earnings per Ordinary Share

The earnings per ordinary share is based on a weighted number of shares 108,728,464 (31 July 2017 - 108,728,464) ordinary shares in issue.

Note 5 – Fair Value Hierarchy

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.

FRS 102 as amended for fair value hierarchy disclosures (March 2016) 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. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (ie developed using market data) for the asset or liability, either directly or indirectly. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place.

Level 3: Inputs are unobservable (ie 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 July 2018, the financial assets at fair value through profit and loss of £709,358,000 (31 July 2017: £679,944,000; 31 January 2018: £685,298,000) are categorised as follows:

Financial assets at fair value through profit or loss at 31 July 2018	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Equity investments	709,353	-	-	709,353
Financial instruments	-	-	28	28
Derivatives financial instruments - written call options	(23)	-	-	(23)
	709,330	**-**	**28**	**709,358**

Financial assets at fair value through profit or loss at 31 July 2017	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Equity investments	680,041	-	-	680,041
Financial instruments	-	-	28	28
Derivative financial instruments - written call options	(125)	-	-	(125)
	679,916	**-**	**28**	**679,944**

Financial assets at fair value through profit or loss at 31 January 2018	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Equity investments	685,321	-	-	685,321
Financial instruments	-	-	28	28
Derivatives financial instruments - written call options	(51)	-	-	(51)
	685,270	**-**	**28**	**685,298**

Notes *(continued)*

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 are no investments held which are valued in accordance with level 2.

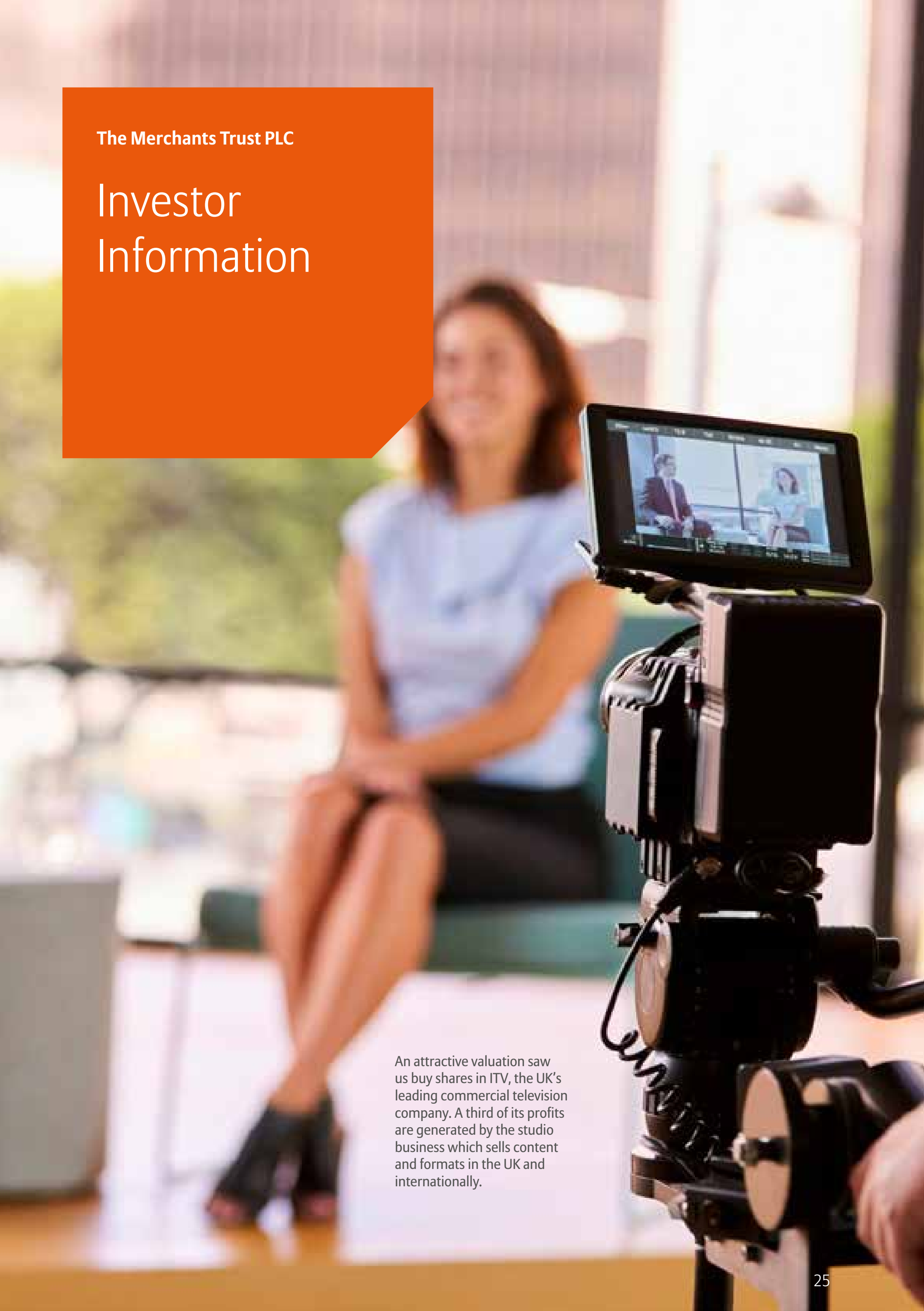
Note 6 – Status of the Company

The company applied for and was accepted as an approved investment trust for accounting periods commencing on or after 1 February 2013, subject to it continuing to meet eligibility conditions at section 1158 Corporation Taxes Act 2010 and the on-going requirements for approved companies in Chapter 3 Part 2 Investment Trust (Approved Company) (Tax) Regulations 2011 (Statutory Instrument 2011/2999).

Note 7 – Transactions with the Investment Manager and related parties

As disclosed in the annual report, 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 FRS 102 Section 33: Related Party Disclosures, the investment manager is not considered to be a related party. The company's related parties are its directors.

There are no other identifiable related parties as at 31 July 2018, 31 July 2017 and 31 January 2018.



The Merchants Trust PLC

Investor Information

An attractive valuation saw us buy shares in ITV, the UK's leading commercial television company. A third of its profits are generated by the studio business which sells content and formats in the UK and internationally.

Investor Information

Directors

Simon Fraser (Chairman)
Timon Drakesmith (Chairman – Audit Committee)
Mary Ann Sieghart
Sybella Stanley
Paul Yates

Managers

Allianz Global Investors GmbH, UK Branch
199 Bishopsgate, London, EC2M 3TY
Telephone: +44 (0)20 3246 7000
Represented by Simon Gergel

Secretary and Registered Office

Kirsten Salt BA (Hons) ACIS
199 Bishopsgate, London, EC2M 3TY
Telephone: +44 (0)20 3246 7513
Registered Number: 28276

Registrars

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The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU
Telephone: +44 (0)371 664 0300
Email: enquiries@linkgroup.co.uk
Website: www.linkassetservices.com

Results

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

Website

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

AIC Membership

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

Ordinary Dividends 2018/2019

	Dividend	Payment Date
First quarterly	6.4p	22 August 2018
Second quarterly	6.5p	15 November 2018
Third quarterly		February 2019
Final		May 2019

How to invest

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

Net Asset Value

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

Shareholders' Enquiries

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

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

Glossary of Performance Measures

UK GAAP performance measures

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 and, if issued at a premium, the amortised premium to date.

Earnings per ordinary share is the profit after taxation, divided by the weighted average number of shares in issue for the period.

Alternative Performance Measures (APMs)

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.

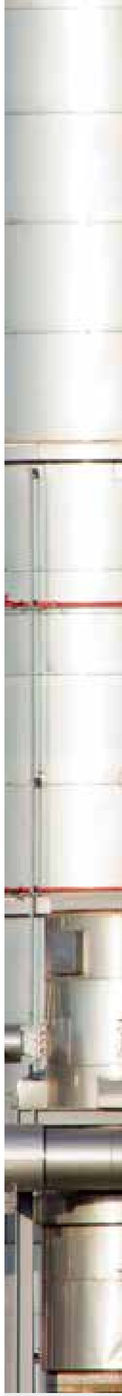
Net Asset Value per ordinary share, total return represents the theoretical return on NAV per ordinary share, assuming that dividends paid to shareholders were reinvested at the NAV per ordinary share at the close of business on the day the shares were quoted ex dividend.

Share Price Total Return represents 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.

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.

Discount is the amount by which the stock market price per ordinary share is lower than the Net Asset Value, or NAV, with either debt at par or debt at market value, per ordinary share. The discount is normally expressed as a percentage of the NAV per ordinary share. The opposite of a discount is a premium.

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.



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