The Merchants Trust PLC

Half-Yearly Financial Report

31 July 2021

aic DIVIDEND HERO

aic Shareholder Communication Awards 2020 WINNER

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Allianz Global Investors

Why invest in The Merchants Trust?

Merchants' purpose is to provide a single investment that will give a high level of income and income growth together with long term capital growth.

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

Dividend growth
The trust has paid increasingly higher dividends to its shareholders year-on-year for the last 39 years – from 2.1p per share in 1982 to 27.2p in 2021.

Diversification
Merchants invests in a variety of large companies across a number of sectors, many with income derived internationally. This can help spread investment risk.

Cost-effective
Buying shares in an investment trust can be less costly than purchasing the underlying stocks individually – with an annual management fee of 0.35% (ongoing charges 0.61%*), Merchants provides a cost-effective way to access an active and expertly managed portfolio.

Longevity
Merchants has been providing active investment management since its launch in 1889. The trust can draw on reserves to help smooth dividend payments during short-term periods of difficult economic conditions, although income is not guaranteed and could go down as well as up.

Liquidity and gearing
With a market capitalisation of £637m and 125 million shares in issue, Merchants provides good liquidity to investors. Merchants is also able to employ gearing. This enhances the earnings per share, and potentially increases long term returns. However, losses are also amplified when markets fall.

* At 31 January 2021. See glossary on page 24.

Contents

New holding TotalEnergies has continued to pay a progressive dividend whilst increasing its activities in renewable energy.

Half Year Results

As at 31 July 2021

Yield*

5.3%

31 January 2021 **6.2%**

Dividend growth

+0.0%

31 July 2021 **13.6p**
31 July 2020 **13.6p**

Revenue earnings per ordinary share

+49.4%

31 July 2021 **13.3p**
31 July 2020 **8.9p**

Net Asset Value Total Return*#

+19.8%

31 July 2020 **-31.4%**

Share Price Total Return*

+19.6%

31 July 2020 **-34.3%**

Benchmark˜ Total Return*

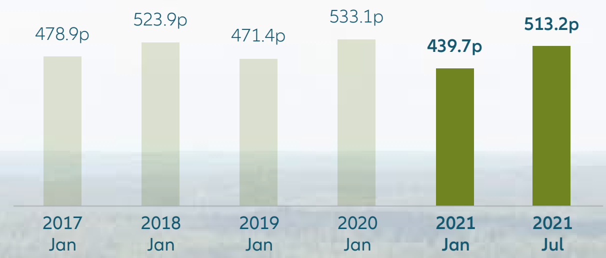
+12.6%

31 July 2020 **-17.8%**

Net Asset Value per ordinary share*#

513.2p

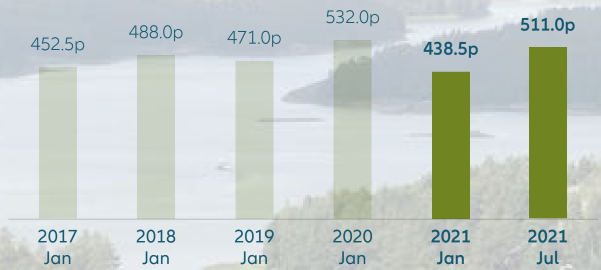
+16.7%



Share price

511.0p

+16.5%



During the period under review cyclical sectors such as transportation, mining and construction generally performed best. We sold our holding in building materials business CRH, a supplier for projects worldwide including the Lövö Bridge in Finland shown here, after it had benefited from improving prospects for infrastructure spending and strong operational performance.

Revenue

Six months ended 31 July	2021	2020	% change
Income	£18.1m	£12.0m	+50.8
Revenue earnings attributable to ordinary shareholders	£16.4m	£10.4m	+57.7
Revenue earnings per ordinary share	13.3p	8.9p	+49.4
Dividends per ordinary share	13.6p	13.6p	+0.0

Assets

	31 July 2021	31 January 2021	Capital return % change	Total return % change[1]
Net asset value per ordinary share with debt at par	529.3p	458.5p	+15.4	+18.4
Net asset value per ordinary share with debt at market value (capital)	513.2p	439.7p	+16.7	+19.8
Ordinary share price	511.0p	438.5p	+16.5	+19.6
FTSE All-Share Index	4,030.2	3,641.9	+10.7	+12.6
Discount ordinary share price to net asset value (debt at par)	-3.5%	-4.4%	n/a	n/a
Discount (debt at market value)	-0.4%	-0.3%	n/a	n/a

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

* Alternative Performance Measure (APM).
# Debt at market value.
~ FTSE All-Share Index
See Glossary on page 24.

Interim Management Report

Dear Shareholder

Net asset value – a year makes a big difference

I am pleased to be reporting on a period of very positive performance for the trust, both in an absolute sense but also relative to the benchmark index. At the half-way point last year we were having to report on a difficult six months, however as outlined in the latest annual report, the second half of the year brought relief with a considerable recovery and boost for many of the companies held in the portfolio. Over the six months to the end of July, Merchant's NAV total return (with debt at fair value) was 19.8%, very comfortably ahead of the benchmark return of 12.6%. This strong performance continued the recovery that started in the second half of the previous financial year. The ongoing recovery is being led by strong pockets of recovery from the effects of the pandemic and in the UK in particular, the apparent efficacy of the national vaccination programme.

Gearing – strategy holding firm

In the first half of the current financial year, financial gearing has amplified the portfolio's positive return. We remain confident in the strategy of maintaining gearing on the portfolio, believing it helps to achieve a level of outperformance over the long term where expected returns are ahead of the cost of debt. Gearing at the period end was 14.1% (31 July 2020: 20.9%).

A value rally

Some of the market performance we witnessed earlier in the year was attributed to a so-called rotation from growth into value in terms of favoured investment style in the market and consequently this favoured Merchants' portfolio where the manager follows a value philosophy. It should be noted however that the performance of the portfolio is not predicated solely on a 'recovery' in the share prices of what we feel are undervalued stocks. A recent quote from the trust's manager sums this up well – when asked "value or growth?", he responded "I would categorise myself as a value investor, meaning that the price I pay for an asset is a critical part of my investment process. However, value is not the opposite of growth. Ideally, I like to own companies that can grow fast, provided I can buy them at a sensible price." This is important to underline when reporting on a period of positive performance where a 'macro' market style rotation lifted many 'value' stocks simultaneously. Merchants' philosophy is not simply about buying cheap shares and waiting for such a rally or overarching market recovery. Rather it is about owning quality companies, backed by sound fundamental research, but not overpaying for those shares. Whilst many market pundits can be heard asking 'how long' the value rally might last, or whether it has already run its course, our manager remains focused on finding solid companies to invest in, with continuing depressed valuations simply providing additional opportunity. Ultimately, we hope that the market returns to valuing companies according to their underlying financial metrics but, while pricing inefficiencies remain, the portfolio stands to benefit from attractive entry points to good companies.

Earnings recovery (in part)

As well as a general recovery in market valuations, we are pleased to see a return to companies paying dividends. The recovery has been strong, although not to pre-COVID levels, with many companies taking the opportunity to rebase payments to a lower starting point. The portfolio revenue earnings per share (EPS) for the six months were up 49% over the corresponding period last year to 13.3p (2020: 8.9p), but this still lags the (pre-COVID) 2019 figure of 16.1p. As payment of income is typically biased to the first half of the year (including for the new European shares now held in the portfolio), we do not necessarily expect the second half of the year to provide as high a level of earnings, however portfolio earnings continue to recover from the very low base level last year caused by the effects of the pandemic.

Against this backdrop the trust's revenue reserves continue to provide a practical buffer to allow the flexibility to draw on them to support our key objective of paying a high and rising dividend to shareholders. As at 31 July 2021 revenue reserves were 17.6p per share (2020: 22.6p). It remains likely that we will have to call further on reserves this year as earnings continue to recover, but our manager maintains an optimistic outlook on dividends in the market over the coming years and, ultimately, a scenario where we return to a covered dividend and can begin rebuilding reserves once more.

Dividends

The board has declared a second quarterly dividend of 6.8p per ordinary share, payable on 11 November 2021 to shareholders on the register at close of business on 8 October 2021. A Dividend Reinvestment Plan ('DRIP') is available for this dividend for which the relevant Election Date is 21 October 2021 and the ex-dividend date is 7 October 2021.

For the first half of this financial year the dividend has been maintained at a consistent level with 2020, with a total distribution declared of 13.6p. As noted in the latest annual report, the board remains committed to the payment of a progressive dividend to shareholders, having now raised the dividend for 39 consecutive years and being one of the AIC's 'Dividend Heroes', an elite group of investment trust companies that have increased their dividends each year for 20 years or more.

A changing landscape

As shareholders will hopefully be aware, the board authorised the manager earlier this year to invest up to 10% of the portfolio in overseas listed securities. The aims of the slight shift are to allow the manager more flexibility to diversify the portfolio, to seek new diverse sources of income and to access sectors where there are limited or no opportunities in the UK market. At the end of the reporting period the portfolio had around 4% invested in overseas shares and in particular this flexibility has allowed access to the re-insurance sector, with more detail being given in the investment management report.

Market demand

We have witnessed continuing demand this year for the company's shares and this has led to periods where we have taken advantage of the authority to issue new shares at a premium to Net Asset Value (NAV). This improves the company's liquidity, modestly enhances NAV and limits the premium of our shares to the NAV. So far this fiscal year 3,745,000 new shares have been issued and no shares have been bought back. We continue to market to professional investors through a coordinated programme of meetings and events, as well as to private investors through relevant websites, publications and events.

Shareholder contact

As always, we encourage shareholders to visit our website in between reporting periods to view updates from our investment manager and to register to receive email updates when they are available.

The 2021 AGM was once again held as a virtual and closed event given the ongoing restrictions at the time. We hope to be able to meet with shareholders in person again in the not-too-distant future.

We are pleased to report that this year's annual report once again won the AIC's Shareholder Communications Award for Best Report & Accounts (Generalist). We hope shareholders feel as the judges did that our reporting is both accessible and useful to you as investors.

Simon Fraser

Shareholders may have heard by now of the sad passing of Simon Fraser. Simon was chairman of the Merchants board from 2010 to 2019, when I took the baton from him. Simon was a man of great judgment, wisdom and integrity and a beacon in the investment management industry. He was generous of his time and was very passionate about Merchants. The board acknowledges and thanks Simon for his contribution to Merchants and the wider industry and our thoughts are very much with his family and all others affected by this sad loss.

Outlook

The world remains a strange place. Some days one might be forgiven for thinking we were 'back to normal' whilst other times we are issued stark reminders of the ongoing pandemic which we are very much still struggling to get to grips with on a global scale. Economic recovery, whilst positive, is also bringing with it the spectre of rising inflation as governments throw the weight of policy behind supporting their economies and input prices rise. Markets seem to be acting in a reasonably stoic manner though and for some time now the question around recovery seems to have been one of trajectory and timescale rather than 'if'.

As manager Simon Gergel notes in his investment review on page 9, one certainty at the moment is that the UK stock market remains considerably cheaper than major global peers, even with the removal of political and Brexit uncertainty that has caused downward pressure over the past five years or so. In addition, there remains further apparently indiscriminate pressure on any company not viewed as high growth by the market. Ultimately this all spells opportunity for skilled stockpickers and should provide a good hunting ground for the investment manager to maintain a portfolio which can meet Merchants' long term objectives of capital growth plus a high and rising income for investors.

Colin Clark
Chairman
24 September 2021

Principal Risks and Uncertainties

As identified in the Annual Report, the board has maintained close contact with the manager and other third party service providers to understand their approaches to the COVID-19 pandemic and actions taken to mitigate the effects of the pandemic on the company and its business and their plan for future working arrangements.

The principal risks and uncertainties facing the company, together with the board's controls and mitigation, are those described in the Annual Report for the year ended 31 January 2021 published in April 2021 and are listed below:

– Investment strategy and investment performance; and
– Emerging risks which continue to have elements of uncertainty, including those caused by the COVID-19 pandemic and Brexit implementation are still significant but are better understood and mitigated than they were in 2020.

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 2022.

Going Concern

The directors have considered the company's investment objective and capital structure and having noted that the portfolio is liquid as it consists mainly of securities which are readily realisable, and through continuous assessment of the company's financial covenants, have concluded that the company has adequate resources to continue in operational existence for the foreseeable future. The directors have also considered the continuing risks and consequences of the COVID-19 pandemic and have concluded that the company has the ability to continue in operation and meet its objectives in the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

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 The Financial Conduct Authority's ('FCA') 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

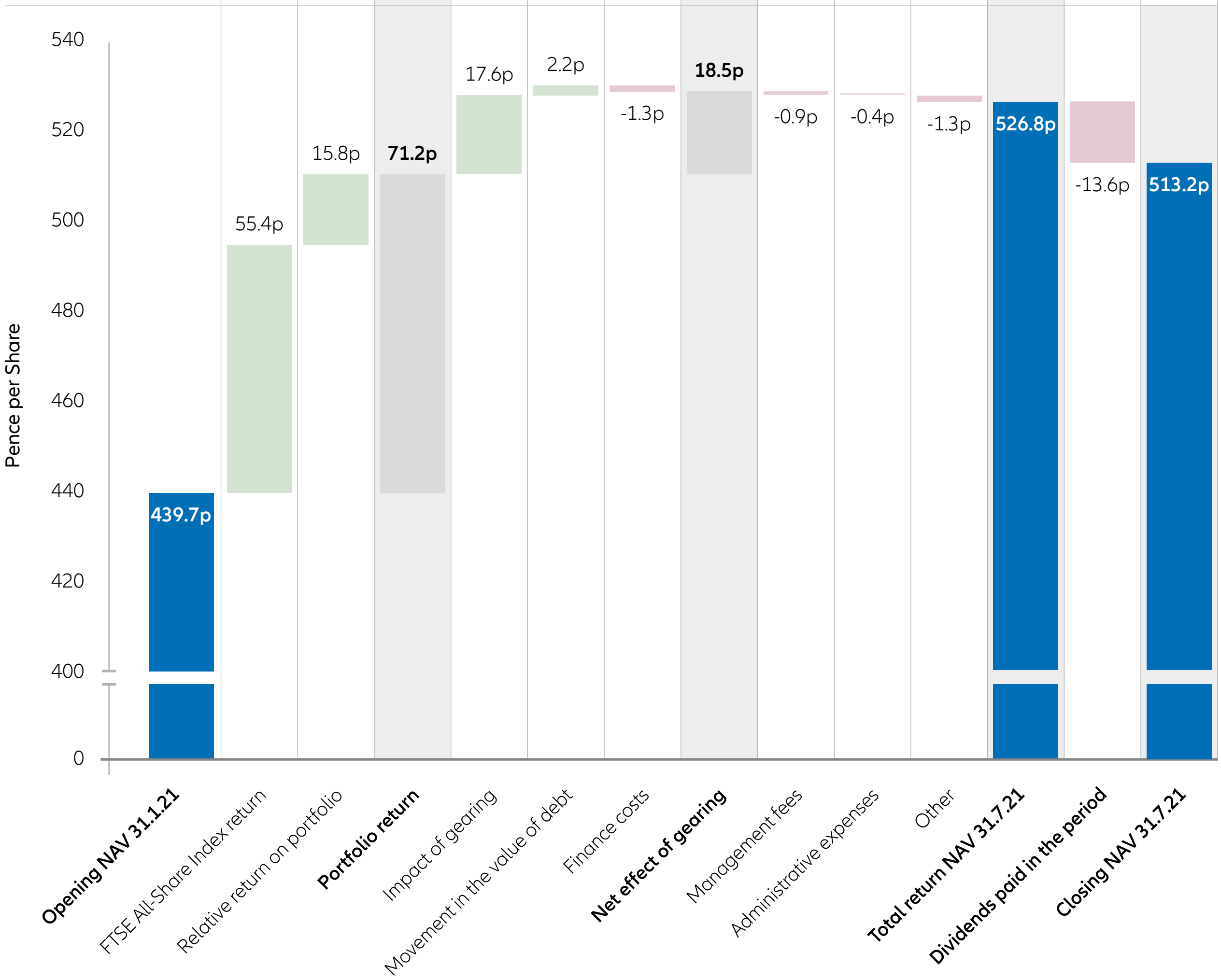
– The interim management report includes a fair review of the information concerning related parties transactions as required by the Disclosure and Transparency Rule 4.2.8 R.

Colin Clark
Chairman
24 September 2021

Attribution Analysis

Movement in Capital Return with Debt at Market Value for the six months ended 31 July 2021

	FTSE All-Share Index return	Relative return on portfolio	**Portfolio return**	Impact of gearing	Movement in the value of debt	Finance costs	**Net effect of gearing**	Management fees	Administrative expenses	Other	**Total return NAV 31.7.21**	**Dividends paid in the period**	**Capital return NAV 31.7.21**
Capital return	10.7%	3.1%	13.8%	3.3%	0.5%	-0.2%	3.6%	-0.2%	-	-0.5%	-	-	**16.7%**
Revenue return	1.9%	0.5%	2.4%	0.7%	-	-0.1%	0.6%	-	-0.1%	0.2%	-	**3.1%**	-
Total return	12.6%	3.6%	**16.2%**	4.0%	0.5%	-0.3%	**4.2%**	-0.2%	-0.1%	-0.3%	**19.8%**	-	-



The total return reflects both the change in net asset value, from 439.7p to 513.2p and the ordinary dividends paid in the year. The total return NAV of 526.8p as at 31 July 2021 is derived from the NAV with debt at market value of 513.2p plus dividends paid in the year of 13.6p.

A Glossary of Alternative Performance Measures (APMs) is on page 24.

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

Investment Manager's Review

Simon Gergel is Chief Investment Officer, UK Equities, Allianz Global Investors, based in London.

Economic and Market Background

The progress of the COVID-19 pandemic continued to drive activity in the economy and financial markets during the first half of year, just as it did last year. The vaccine rollout in most of the Western world allowed governments to gradually lift restrictions on behaviour, such as social distancing. However, new mutations of the virus, in particular the Delta variant, affected progress and led to some reversals of policy along the way. The UK lifted most of the remaining domestic restrictions in mid-July, although foreign travel was still heavily impacted.

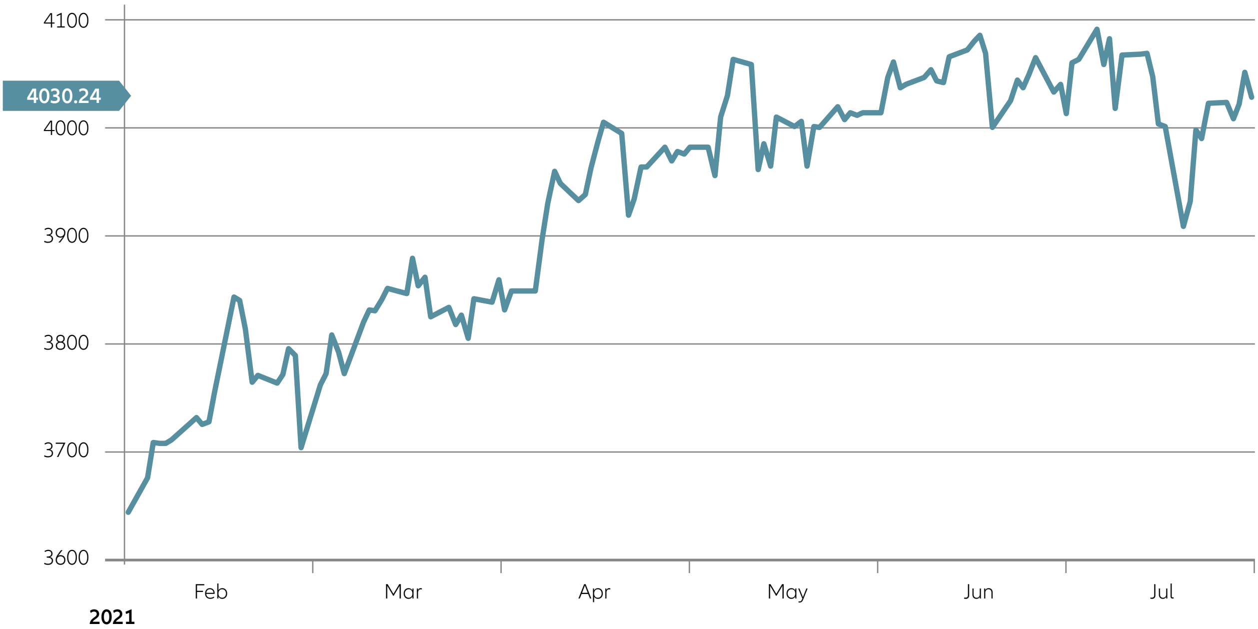
Economic activity rebounded rapidly, from a depressed base, with very strong annualised growth. Second quarter GDP growth in the UK was estimated at 4.8%. Many companies reported a strong recovery compared to a period heavily affected by lockdowns. As company profitability improved, a large number of businesses increased dividend pay-outs or resumed dividend payments that had been suspended last year, although total dividend payments remained below 2019 levels.

Inflationary pressures started to build, due to accelerating demand growth, industrial bottlenecks, logistical problems, rising commodity costs and some labour shortages. The UK consumer price index rose to 2.5% in June, above the Bank of England's 2% target, from well below 1% at the start of the year.

Equity markets made strong progress on the back of recovering economic conditions. The FTSE All-Share Index in the UK produced a total return, including income, of 12.6%, with smaller companies and many overseas markets performing even better. Rising inflationary pressures raised the prospect of earlier than expected interest rate increases, pushing up government bond yields significantly in the first quarter, and forcing government bond prices downwards, although this partially reversed in the second quarter.

Within the stock market, cyclical sectors that benefit from a recovering economy, and financials that benefit from rising interest rate expectations, generally performed best, including industrial transportation, mining and construction. However, the defensive beverages

FTSE All-Share Index



FTSE All-Share 31.1.21 - 31.7.21. Source: AllianzGI/Datastream.

sector also performed well. Most other defensive sectors underperformed, including personal care, electricity, food, tobacco and telecommunications.

Investment Performance

Merchants' NAV rose significantly in the first half of the year, due to a combination of the rising stock market, outperformance from the investment portfolio and the impact of financial gearing, which amplifies returns in either direction. A full attribution of NAV returns is shown on page 8. In this section we explain the performance of the investment portfolio compared to the FTSE All-Share Index benchmark.

The portfolio outperformed significantly in the first half, with a total return of 16.2%, compared to a return of 12.6% for the FTSE All-Share Index. Most of the outperformance was driven by individual stock selection, although there was some benefit from industry selection, with a low exposure to the weak personal care sector helping relative performance. The table shows the top ten positive and negative contributors to relative performance.

Many of the top ten positive contributors were companies that benefit from economic recovery, rising financial markets and increasing interest rate expectations. These included recruitment company SThree, wealth and asset managers St James's Place and Man Group, Barclays bank and the building products company Tyman. The gambling company Entain, which was last year's strongest performance contributor, continued to outperform on the back of the rapidly growing US online betting market. BAE Systems also outperformed, supported by strong operating results. Relative performance also benefited from not owning certain shares that underperformed and held back the overall index return. Most notable were the household and personal care companies Unilever and Reckitt Benckiser, which were annualising an exceptional growth period and also faced rising commodity costs. London Stock Exchange's shares also fell back, as investors worried about the costs of integrating a large acquisition.

There were fewer significant negative stock contributors, but they typically reflected the same themes. Defensive companies that underperformed included the utility company

Contribution to Investment Performance relative to the FTSE All-Share Index

	Positive stocks	Performance impact %	Negative stocks	Performance impact %
Overweight (holding larger than index weight)	SThree	0.8	SSE	-0.4
	St James's Place	0.7	Vodafone	-0.4
	Man Group	0.7	SCOR	-0.3
	Barclays	0.6	Stock Spirits	-0.3
	Entain	0.4	Diversified Energy	-0.2
	BAE Systems	0.4		
	Tyman	0.4		
Underweight (zero holding or weight lower than index weight)	Unilever	0.7	Diageo	-0.3
	Reckitt Benckiser	0.4	Anglo American	-0.3
	London Stock Exchange	0.3	Lloyds Bank	-0.3
			Glencore	-0.3
			Ashtead	-0.3

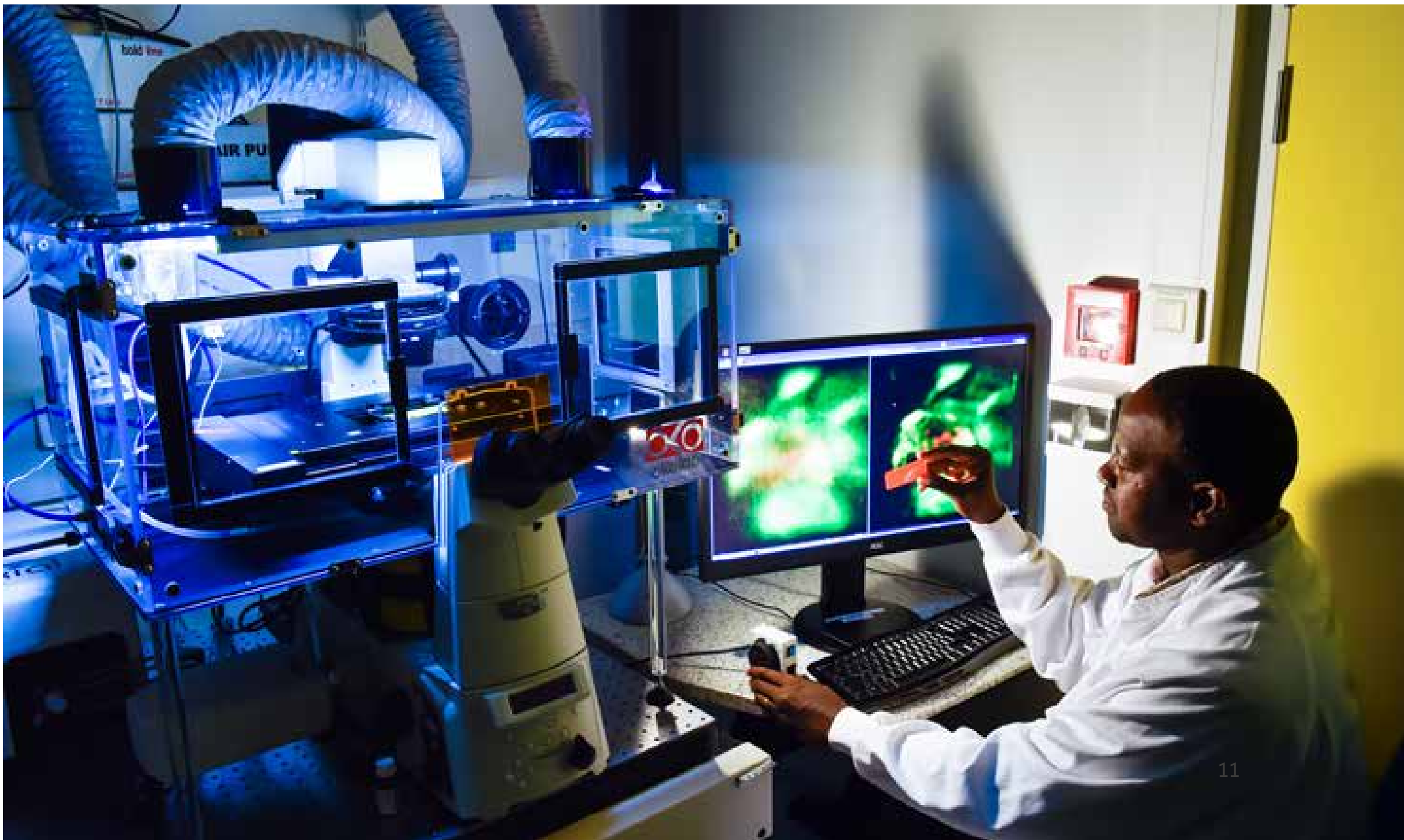
SSE, telecommunications company Vodafone, reinsurer SCOR and drink company Stock Spirits. Diversified Energy also underperformed. Relative returns were also adversely affected by not owning certain cyclical companies which appreciated, including the commodity producers, Anglo American and Glencore, Lloyds Banking Group and plant hire company Ashtead. The remaining top ten negative contributor, also not owned in the portfolio, was the global spirits business Diageo, which outperformed despite its defensive characteristics.

Portfolio Changes

In a calmer economic environment, investment activity returned to a more normal pattern, after a heightened level of activity last year. Most portfolio transactions reflected individual company circumstances, however there was one structural change. The Merchants Trust was originally established in the nineteenth century to invest in overseas securities, such as railroad bonds in the USA. However, in recent years the portfolio has been exclusively invested in equities listed in the UK. Whilst UK listed companies provide a high degree of geographic diversification of their underlying activities, the universe of higher yielding UK companies has become more concentrated, especially during the pandemic. As explained in the annual report, the directors have now allowed an allocation of up to 10% of the portfolio in overseas listed shares, in order to provide greater diversification of investments and particularly income.

We added four European listed shares, representing just over 4% of the total portfolio. We added two reinsurance companies, Swiss Re and SCOR. We believe that this is an attractive industry, benefiting from a cyclical increase in insurance pricing, after a period of heavy losses. The shares are modestly valued, pay attractive dividend yields and their prospects are largely uncorrelated to economic or stock market cycles. Within the pharmaceutical sector, we introduced a holding in Sanofi, a diversified business with activities spanning pharmaceuticals, vaccines and consumer health. It has good growth prospects and trades on a very reasonable valuation, as the whole sector has de-rated in recent months. Finally, we bought a position in TotalEnergies to diversify the energy sector exposure away from the two large UK integrated energy companies, BP and Shell. TotalEnergies has made good progress along a path to significantly reducing its exposure to oil products by 2030, whilst growing

We added pharmaceuticals, vaccines and consumer health business Sanofi to the portfolio. We believe the company was very reasonably valued within a sector that has de-rated in recent months.



its renewables & electricity and LNG operations. It has been managing this transition whilst also paying a progressive dividend, in contrast to many peers.

There were four other additions to the portfolio. Tesco, the UK's largest food retailer, also has a leading position in online food delivery and wholesaling to independent retailers and the catering industry. Despite resilient trading during the pandemic, and a refocusing of the business on key geographies, the shares have lagged behind the broader stock market, providing an attractive entry point. The investment case reflects the company's strong underlying cash generation and the opportunity to gain share in the fragmented catering and wholesale channels.

Relx is a leading provider of science, medical, legal, risk and other information and services to professional and business customers. The company has a good record of growth across its operations, which could accelerate as the business mix improves, and it also stands to benefit from a recovery in the exhibitions business, which was heavily impacted last year. After a period of underperformance, we were able to buy the shares at an unusually attractive level for the quality of the business.

Drax, historically the UK's largest coal fired power station, has transitioned into a 100% renewable power generator, operating biomass and hydro-electric generation assets, as well as producing wood pellets for biomass energy production. The company is hoping to agree a subsidy regime with the government to allow bio-energy carbon capture and storage (BECCS) which could turn Drax into a major "carbon negative" generator and could be critical in helping the UK become carbon neutral as a nation. This is a high-profile political project, which could represent significant upside for the business and in our view, was not reflected in the share price.

The final new holding is a modest investment in Duke Royalty, which provides royalty finance to a number of small businesses. This specialist financing can be attractive to borrowers as there are no "bullet" payments and no dilution of equity ownership. Duke's and the borrower's interests are aligned by payments that rise and fall, to a limited extent, in relation to the growth of the business. This allows Duke to make high returns from the royalty stream and a premium if the financing is repaid early. There was an attractive entry point into this business coming out of the pandemic, with Duke having demonstrated the resilience of its model through a particularly tough period.

Apart from these new holdings, the main purchase in the period was a significant addition to Vodafone as we switched out of BT within the telecommunications sector. BT was one of five holdings sold completely. Although we had not owned BT for long, the shares had performed well, closing much of the valuation opportunity, and we saw more potential in Vodafone.

Two shares were sold after strong share price gains had taken them up to fair value. CRH had benefited from improving prospects for infrastructure spending and strong operational performance. Kin & Carta had been completely transformed from a print services business to a digital transformation company over a period of years. The shares responded to this change, after some challenges, with an exceptional gain over the last 12 months.

We also exited the remaining position in Standard Life Aberdeen, having sold much of the investment last year. The company has successfully realised value by selling stakes in listed subsidiaries, but the operational turnaround of the business has been more challenging. Whilst there remains potential value in the company, we decided to divest, in order to fund higher conviction positions. Also, we sold the remaining position in the shopping centre owner, Hammerson. Whilst this has been a disappointing investment overall, as we had underestimated the industry's structural pressures, which were exacerbated by the pandemic, the shares have recovered well since we supported the rights issue last summer.

Other than these complete disposals, we reduced exposure to a number of shares, typically where strong performance had moved them closer to fair value and therefore we could only justify a smaller investment. The most significant of these were Barclays bank, the gambling company Entain and household products company PZ Cussons.

Outlook

The UK and major world economies are expected to continue their recovery. Growth remains vulnerable to restrictions on activity, in response to new variants of the COVID-19 virus and further waves of infection, but a high level of vaccination, especially in the UK, should mitigate this risk. Government and central bank policy remains supportive of the economy, although rising inflationary pressures could lead to higher interest rates down the road.

At the end of July, the UK stock market was almost back at the level it reached before the pandemic. However, the UK remains one of the cheapest major countries, having underperformed most European and US markets significantly since the Brexit referendum in 2016. Furthermore, there remains a high level of dispersion, with many shares trading on very modest valuations. As the pandemic has only had a limited impact on the longer-term prospects for most industries, this set of circumstances has created interesting investment opportunities. The low valuations of many fundamentally sound companies in the UK have not gone unnoticed. There has been a large number of takeover bids in the UK this year, typically from private equity investors or other corporations, and often at substantial premiums to the prevailing share price. If the stock market fails to fairly price companies, we can expect more of these bid approaches.

The high dispersion of UK company valuations has created a good environment for stock picking. Merchants holds a portfolio of fundamentally sound businesses, trading on attractive valuations, where we see supportive structural trends or other themes. The portfolio is diversified across industries, geographic end markets and degrees of economic sensitivity. We believe that this portfolio is capable of delivering a level of income and long term capital growth in line with Merchants' objectives.

Simon Gergel
Allianz Global Investors

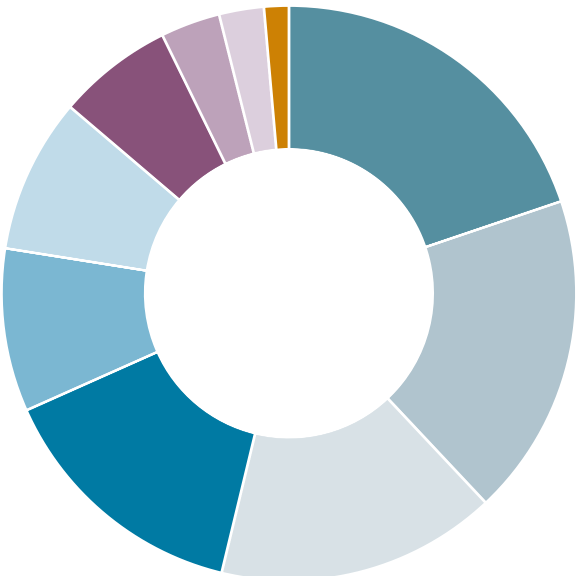
New holding Drax, historically the UK's largest coal fired power station, has transitioned into a 100% renewable power generator.

Investment Portfolio

as at 31 July 2021

Twenty Largest Equity Holdings

Name	Value (£'000s)	% of listed holdings	Benchmark weighting	Principal Activities
GlaxoSmithKline	39,432	5.32	2.90	Pharmaceuticals & Biotechnology
Imperial Brands	35,929	4.84	0.60	Tobacco
British American Tobacco	32,166	4.34	2.53	Tobacco
BAE Systems	27,619	3.72	0.77	Aerospace & Defence
National Grid	25,179	3.39	1.36	Gas, Water & Multiutilities
Royal Dutch Shell B	25,106	3.39	2.18	Oil, Gas & Coal
SSE	24,935	3.36	0.62	Electricity
Vodafone Group	24,826	3.35	1.35	Telecommunications Service Providers
St. James's Place	24,194	3.26	0.35	Investment Banking & Brokerage
WPP	23,948	3.23	0.45	Media
BP	23,905	3.22	2.38	Oil, Gas & Coal
Legal & General	21,827	2.94	0.64	Life Insurance
Man Group	21,651	2.92	0.12	Investment Banking & Brokerage
IG Group Holdings	21,198	2.86	0.13	Investment Banking & Brokerage
Tate & Lyle	19,921	2.69	0.14	Food Producers
Redrow	19,803	2.67	0.06	Household Goods & Home Construction
Tyman	18,733	2.53	0.03	Construction & Materials
Barclays	18,493	2.49	1.22	Banks
Keller	16,280	2.20	0.03	Construction & Materials
BHP	15,847	2.14	2.00	Industrial Metals & Mining
	480,992	**64.86**		**% of Total Invested Funds**



Portfolio Analysis

Sector	% Held	Benchmark weighting
Financials	20.22	17.95
Industrials	18.54	13.72
Consumer Staples	16.10	15.49
Consumer Discretionary	14.86	12.81
Energy	9.36	7.32
Utilities	8.89	3.00
Health Care	6.65	10.48
Telecommunications	3.42	2.24
Basic Materials	2.57	10.57
Real Estate	1.42	3.42
Technology	-	3.00
Net current liabilities	(2.03)	

Financial Statements

Science, Technology, Engineering and Mathematics (STEM) recruitment specialist SThree was the top contributor to performance over the period under review,

Income Statement

	For the six months ended 31 July 2021			For the six months ended 31 July 2020		
	Revenue £'000s	Capital £'000s	Total Return £'000s (Note 1)	Revenue £'000s	Capital £'000s	Total Return £'000s (Note 1)
Gains (losses) on investments held at fair value through profit or loss	-	88,533	88,533	-	(194,751)	(194,751)
Losses on foreign currencies	-	(2)	(2)	-	(7)	(7)
Income from investments	17,434	-	17,434	11,624	-	11,624
Other income	715	-	715	424	-	424
Investment management fee	(442)	(822)	(1,264)	(345)	(641)	(986)
Administrative expenses*	(468)	(1)	(469)	(665)	(1)	(666)
Profit (loss) before finance costs and taxation	**17,239**	**87,708**	**104,947**	**11,038**	**(195,400)**	**(184,362)**
Finance costs: interest payable and similar charges	(590)	(1,048)	(1,638)	(629)	(1,105)	(1,734)
Profit (loss) on ordinary activities before taxation	**16,649**	**86,660**	**103,309**	**10,409**	**(196,505)**	**(186,096)**
Taxation	(288)	-	(288)	(19)	-	(19)
Profit (loss) after taxation attributable to ordinary shareholders	**16,361**	**86,660**	**103,021**	**10,390**	**(196,505)**	**(186,115)**
Earnings per ordinary share (basic and diluted) (Note 4)	**13.33p**	**70.58p**	**83.91p**	**8.92p**	**(168.76p)**	**(159.84p)**

*Administrative expenses for 2020 include the London Stock Exchange block listing fee of £155,000.

Balance Sheet

	As at 31 July 2021 £'000s	As at 31 July 2020 £'000s	As at 31 January 2021 £'000s
Investments held at fair value through profit or loss	741,650	518,067	638,235
Net current liabilities	(14,764)	(6,970)	(16,814)
Total assets less current liabilities	**726,886**	**511,097**	**621,421**
Creditors: amounts falling due after more than one year	(66,728)	(66,678)	(66,704)
Total net assets	**660,158**	**444,419**	**554,717**
Called up share capital	31,182	29,724	30,246
Share premium account	102,192	75,984	84,137
Capital redemption reserve	293	293	293
Capital reserve	504,599	311,604	417,939
Revenue reserve	21,892	26,814	22,102
Equity shareholders' funds	**660,158**	**444,419**	**554,717**
Net asset value per ordinary share	**529.3p**	**373.8p**	**458.5p**

The net asset value as at 31 July 2021 is based on 124,729,887 ordinary shares.
The net asset value as at 31 July 2020 is based on 118,894,887 ordinary shares.
The net asset value as at 31 January 2021 is based on 120,984,887 ordinary shares.

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 2021						
Net assets at 1 February 2021	30,246	84,137	293	417,939	22,102	554,717
Revenue profit	-	-	-	-	16,361	16,361
Dividends on ordinary shares (Note 3)	-	-	-	-	(16,571)	(16,571)
Capital profit	-	-	-	86,660	-	86,660
Shares issued during the period	936	18,055	-	-	-	18,991
Net assets at 31 July 2021	**31,182**	**102,192**	**293**	**504,599**	**21,892**	**660,158**

	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 2020						
Net assets at 1 February 2020	28,220	54,093	293	508,109	31,820	622,535
Revenue profit	-	-	-	-	10,390	10,390
Dividends on ordinary shares (Note 3)	-	-	-	-	(15,443)	(15,443)
Unclaimed Dividends	-	-	-	-	47	47
Capital loss	-	-	-	(196,505)	-	(196,505)
Shares issued during the period	1,504	21,891	-	-	-	23,395
Net assets at 31 July 2020	**29,724**	**75,984**	**293**	**311,604**	**26,814**	**444,419**

Cash Flow Statement

	Six months ended 31 July 2021 £'000s	Six months ended 31 July 2020 £'000s
Operating activities		
Profit (loss) before finance costs and taxation	104,947	(184,362)
Less: (Gains) losses on investments at fair value	(88,138)	195,343
Add: losses on foreign currency	2	7
Purchase of fixed asset investments held at fair value through profit or loss	(104,954)	(131,577)
Sales of fixed asset investments held at fair value through profit or loss	94,207	121,259
Transaction costs	(395)	(592)
Increase in other receivables	(1,421)	(955)
Increase (decrease) in other payables	13	(285)
Less: Overseas tax suffered	(288)	(19)
Net cash inflow (outflow) from operating activities	**3,973**	**(1,181)**
Financing activities		
Interest paid	(1,599)	(1,712)
Dividend paid on cumulative preference stock	(22)	(21)
Dividends paid on ordinary shares	(16,571)	(15,443)
Unclaimed dividends	-	47
Share issue proceeds	17,983	25,566
Net cash (outflow) inflow from financing activities	**(209)**	**8,437**
Increase in cash and cash equivalents	**3,764**	**7,256**
Cash and cash equivalents at the start of the period	6,623	10,546
Effect of foreign exchange rates	(2)	(7)
Cash and cash equivalents at the end of the period	10,385	17,795
Composed of:		
Cash at bank	10,385	17,795

Notes to the Financial Statements

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 2021 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). The impact of COVID-19 has been thoroughly considered and the directors have concluded that there are no material uncertainties related to going concern. 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:

Dividends on Ordinary Shares of 25p:	**Six months ended 31 July 2021 £'000s**	**Six months ended 31 July 2020 £'000s**
Third quarterly dividend 6.8p paid 16 March 2021 (2020: 6.8p)	8,227	7,649
Final dividend 6.8p paid 18 May 2021 (2020: Final 6.8p)	8,344	7,794
	16,571	**15,443**

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. Details of these dividends are set out below.

	Six months ended 31 July 2021 £'000s	**Six months ended 31 July 2020 £'000s**
First quarterly dividend 6.8p paid 20 August 2021 (2020: 6.8p)	8,451	8,085
Second quarterly dividend 6.8p payable 11 November 2021 (2020: 6.8p)	8,482	8,085
	16,933	**16,170**

The dividends above are based on the number of shares in issue at the period end. However, the dividend payable will be based upon the number of shares in issue on the record date and will reflect any purchase or cancellation of shares by the company settled subsequent to the period end.

Note 4 – Earnings per Ordinary Share

The earnings per ordinary share is based on a weighted number of ordinary shares 122,779,445 (31 July 2020: 116,440,988) 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 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.

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.

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 2021, the financial assets at fair value through profit and loss of £741,637,000 (31 July 2020: £517,938,000; 31 January 2021: £638,182,000) are categorised as follows:

	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Financial assets at fair value through profit or loss at 31 July 2021				
Equity investments	741,646	-	-	741,646
Financial instruments	-	-	4	4
Derivative financial instruments - written call options	-	(13)	-	(13)
	741,646	**(13)**	**4**	**741,637**

	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Financial assets at fair values through profit or loss at 31 July 2020				
Equity investments	518,063	-	-	518,063
Financial instruments	-	-	4	4
Derivative financial instruments - written call options	-	(129)	-	(129)
	518,063	**(129)**	**4**	**517,938**

	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Financial assets at fair value through profit or loss at 31 January 2021				
Equity investments	638,231	-	-	638,231
Financial instruments	-	-	4	4
Derivative financial instruments - written call options	-	(53)	-	(53)
	638,231	**(53)**	**4**	**638,182**

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.

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 8: 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 2021, 31 July 2020 and 31 January 2021.

Investor Information (unaudited)

Directors
Colin Clark (Chairman)
Timon Drakesmith (Chairman – Audit Committee)
Karen McKellar
Mary Ann Sieghart
Sybella Stanley (Senior Independent Director)

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

Head of Investment Trusts
Stephanie Carbonneil
Email: stephanie.carbonneil@allianzgi.com

Secretary and Registered Office
Kirsten Salt ACG
199 Bishopsgate, London, EC2M 3TY
Telephone: +44 (0)20 3246 7513
Registered Number: 28276

Registrars
Link Asset Services, Link Group, 10th Floor, Central Square, 29 Wellington Street, Leeds LS1 4DL. Telephone: 0371 664 0300. Lines are open 9.00 a.m. to 5.30 p.m. (UK time) Monday to Friday.
Email: enquiries@linkgroup.co.uk
Website: www.linkgroup.eu

Financial Calendar
Year end 31 January.
Full year announced in March.
Annual report posted to shareholders in April.
Annual general meeting held in May.
Half year results announced and half-yearly Financial Report posted to shareholders in September.

Ordinary Dividends

1st interim	August
2nd interim	November
3rd interim	February/March
Final	May

Website
Further information about The Merchants Trust PLC, including monthly fact sheets, daily share price and performance, is available on the company's website: www.merchantstrust.co.uk.

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.

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.

Shareholder Enquiries
In the event of queries regarding their holdings of shares, lost certificates, dividend payments, registered details, etc., shareholders should contact the registrars on 0371 664 0300. Lines are open 9.00 a.m. to 5.30 p.m. (London 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 registrars 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.

Net Asset Value
The net asset value of the ordinary shares is calculated and announced daily and the top ten holdings are announced monthly. They are published on the London Stock Exchange Regulatory News Service. They are also available from the Allianz Global Investors, via Investor Services on 0800 389 4696, or on the company's website: www.merchantstrust.co.uk.

Glossary of UK GAAP Performance Measures and Alternative 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. As at 31 July 2021, the NAV with debt at par value was £660,158,000 (31 January 2021: £554,717,000) and the NAV per share was 529.3p (31 January 2021: 458.5p).

Earnings per ordinary share is the profit after taxation, divided by the weighted average number of shares in issue for the period. For the period ended 31 July 2021 earnings per ordinary share was 13.3p (31 July 2020: 8.9p), calculated by taking the profit after tax of £16,361,000 (31 July 2020: £10,390,000), divided by the weighted average shares in issue of 122,779,445 (31 July 2020: 116,440,988).

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 trust'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)

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. As at 31 July 2021, the NAV with debt at market value was £640,056,000 (31 January 2021: 531,921,000) and the NAV per share with debt at market value was 513.2p (31 January 2021: 439.7p).

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 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. The share price as at 31 July 2021 was 511.0p, an increase of 72.5p from the price of 438.5p as at 31 January 2021. The change in share price of 72.5p plus the dividends paid in the period of 13.6p are divided by the opening share price of 438.5p to arrive at the share price total return for the period ended 31 July 2021 of 19.6% (year ended 31 January 2021: -12.5%).

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 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.

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 period and this is calculated in accordance with guidance issued by the Association of Investment Companies.

Yield represents dividends declared in the past year as a percentage of share price. This is shown as 5.3% at 31 July 2021 in the highlights on page 2.

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