

The Merchants Trust PLC

As focused on dividends as you are



Aim

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

History

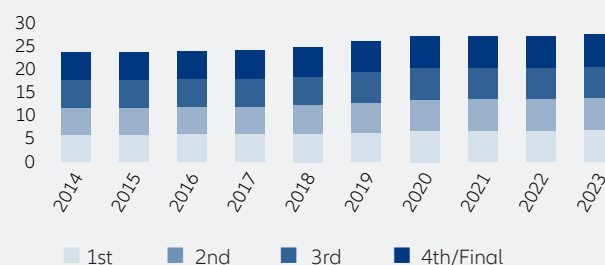
The Merchants Trust PLC was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, but now concentrates primarily on major UK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

Trust Benefits

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

Ten Year Dividend History

Dividend Record in Pence per Share To Year End 31 January



Last Four Dividend Payments per Share

Record Date	Pay Date	Dividend	Type
21.04.2023	26.05.2023	7.00p	Final
03.02.2023	15.03.2023	6.90p	3rd Interim
07.10.2022	10.11.2022	6.85p	2nd Interim
15.07.2022	24.08.2022	6.85p	1st Interim

Past performance is not a reliable indicator of future results.



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

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

Total Assets £886.7m

Shares in Issue 146,064,887 (Ordinary 25p)

Market Cap £794.6m

Share Price

544.0p

NAV per Share

540.0p

Premium/-Discount

0.7%

Dividend Yield

5.1%

Gearing

10.6%

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

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

The NAV figure above is based on the fair/

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

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

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

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

Fund Manager's Review

There were some major themes affecting the UK equity market in May, partly domestic and partly international. Domestically, a surprisingly high core inflation figure, especially linked to rising food prices, led to concern that the Bank of England will have to raise interest rates further than previously expected. This pushed up gilt (government bond) yields and created nervousness in the equity market over the risk to economic growth. This happened, despite the International Monetary Fund raising its economic growth forecasts for the UK, and predicting that the UK will avoid recession this year. Nervousness was also heightened internationally, by concerns over political wrangling in the USA, as the country approached its national debt ceiling.

On the more positive side, the global technology sector was boosted by rapid growth in the use of generative artificial intelligence, and exceptional trading figures from chip maker Nvidia, which is benefiting from this trend. In fact, the technology sector has dominated US equity market returns so far in 2023, in a reversal of last year's market dynamics.

The UK stock market declined, falling by nearly 5%. Although the UK has relatively few technology shares, there was still a large divergence between the performance of higher growth / higher return companies and shares on lower valuations. There were few sectors that recorded positive returns, but there were double-digit percentage declines in sectors like telecommunications, tobacco and oil & gas. The portfolio's performance lagged behind the index return, with the gap largely explained by not owning some of the stronger performers in the market, like AstraZeneca, HSBC and Compass, but also from weak performance in stocks like Imperial Brands and Drax. On the other hand, there were some positive stock movements, with outperformance from building materials company Tyman, car company BMW, the renewable power company SSE and SCOR, a reinsurance business. Against this backdrop, the NAV Total Return for May was -7.4%, behind the -4.6% from the benchmark index.

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investment opportunities, as a result of the low valuation of the UK equity market, volatility in individual share price movements and a high degree of polarisation between those stocks favoured by investors and the rest of the stock market. In May, we made a number of changes to the portfolio.

We made a new investment in Inchcape, the world's largest independent car distribution company, which has exclusive relationships representing over 50 brands in more than 40 countries. Some of these relationships date back decades. Inchcape is consolidating a fragmented market as car manufacturers need strong partners in the smaller markets, to provide the latest digital capabilities to consumers and to manage an increasingly complex industry structure. We had sold out of Inchcape shares on valuation grounds in 2021. Since then, the company has grown rapidly via acquisition, with almost half group profits now coming from Latin America. Some short-term concerns over a large recent transaction upset investors, and provided us with an opportunity to re-invest at what we believe was a compelling valuation, and below the price we had sold at in 2021.

We also made a new investment in building materials company Marshalls. Well known for its paving products, Marshalls is diversified into commercial, infrastructure, new housing and repair & maintenance products. It has an attractive and growing presence in more sustainable



Simon Gergel, Portfolio Manager

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

products, like concrete products with a low carbon footprint, and complete roofing solutions with integrated solar panels. Like Inchcape, Marshalls trades on a modest valuation for the quality of the company and its strong market position, and both companies pay healthy dividends from their cash flows.

We also made two switches within financial sectors. We bought a new holding in Lancashire Holdings, a reinsurance company with a strong presence in the Lloyd's of London market. Lancashire has a disciplined approach to insurance, only committing capital when it views pricing as favourable. In the last two years it has built up its book of business rapidly, as reinsurance pricing has improved, and it should be a beneficiary of this stronger market environment, as well as from higher interest rates, which boost investment returns. We funded Lancashire partly by selling Swiss Re. Although Swiss Re is also exposed to the same improving market conditions, its exposure is diluted by a more diversified business model, and its valuation was significantly higher than Lancashire, where we see more upside.

In the banking sector, we switched out of NatWest into Lloyds. Both banks are well capitalised and benefiting from better industry conditions than in recent years, with higher interest rates boosting margins and relatively low bad debt charges, despite economic uncertainty. Both banks are modestly valued, but we now have a slight preference for Lloyds, given the scale advantage of its leading position in UK consumer banking, and an improving cash generation profile.

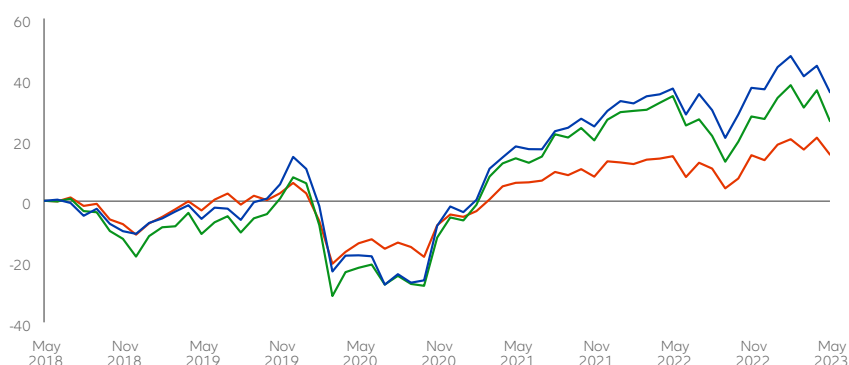
The high level of activity in the portfolio, with the introduction of four new holdings, reflects the large number of compelling opportunities we currently see within a modestly priced stock market, that is highly polarised. This represents the flipside of a long period of selling of UK equities by domestic institutions and retail investors, with some of the stock price movements looking indiscriminate. However, history shows that buying shares on low valuations is more likely to lead to superior returns for investors, compared to paying high valuations. We believe that the portfolio is well positioned to deliver income and total returns in line with Merchants long term objectives.

Simon Gergel
26 June 2023

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

Performance Track Record

Five Year Performance (%)



■ Share Price ■ NAV (debt at fair value)

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

Risk & Features

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

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

Derivatives may be used to manage the Trust efficiently.

Cumulative Returns (%)

	3M	6M	1Y	3Y	5Y
Share Price	-8.1	-1.1	-0.9	65.4	35.7
NAV (debt at fair value)	-8.6	-1.2	-2.7	67.7	30.7
Benchmark	-4.2	0.2	0.4	33.9	15.2

Discrete 12 Month Returns to 31 May (%)

	2023	2022	2021	2020	2019
Share Price	-0.9	16.1	43.7	-12.8	-5.9
NAV (debt at fair value)	-2.7	18.0	46.0	-12.5	-10.9
Benchmark	0.4	8.3	23.1	-11.2	-3.2

Source: Thomson Reuters Refinitiv DataStream, percentage growth, mid to mid, total return to 31.05.23. Copyright 2023 © DataStream, a Thomson Reuters company. All rights reserved. DataStream shall not be liable for any errors or delays in the content, or for any actions taken in reliance thereon.

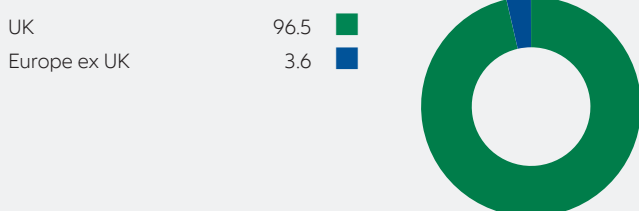
Past performance does not predict future returns. Investing involves risk. The value of an investment and the income from it may fall as well as rise and investors might not get back the full amount invested. This investment trust charges 65% of its annual management fee to the capital account and 35%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

Portfolio Breakdown

Sector Breakdown (%)

Financials	21.6	
Industrials	15.6	
Consumer Discretionary	14.0	
Consumer Staples	14.0	
Energy	10.8	
Health Care	7.0	
Utilities	7.0	
Materials	3.6	
Real Estate	2.8	
Communication Services	0.9	
Cash	2.7	

Geographic Breakdown* (%)



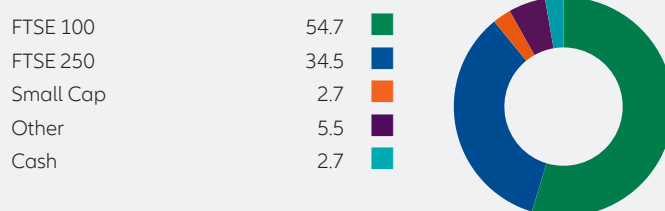
Top Ten Holdings (%)

Shell	4.3
GSK plc	4.3
British American Tobacco	3.6
DCC	3.2
Rio Tinto	3.1
Scottish & Southern Energy	3.1
BP	3.0
Tate & Lyle	2.9
IG Group	2.9
WPP	2.7

Total number of holdings** 54

**Excludes derivatives

Market Cap Breakdown (%)



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

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

*Excludes Cash

Key Information

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

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

Board of Directors

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

How to invest

You can buy shares in the Trust through:

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

Contact us

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

0800 389 4696

www.merchantstrust.co.uk

E-mail: investment-trusts@allianzgi.com

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

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



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All data source Allianz Global Investors as at 31.05.23 unless otherwise stated.

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