

The Merchants Trust PLC

AGM Presentation

18 May 2023

Simon Gergel

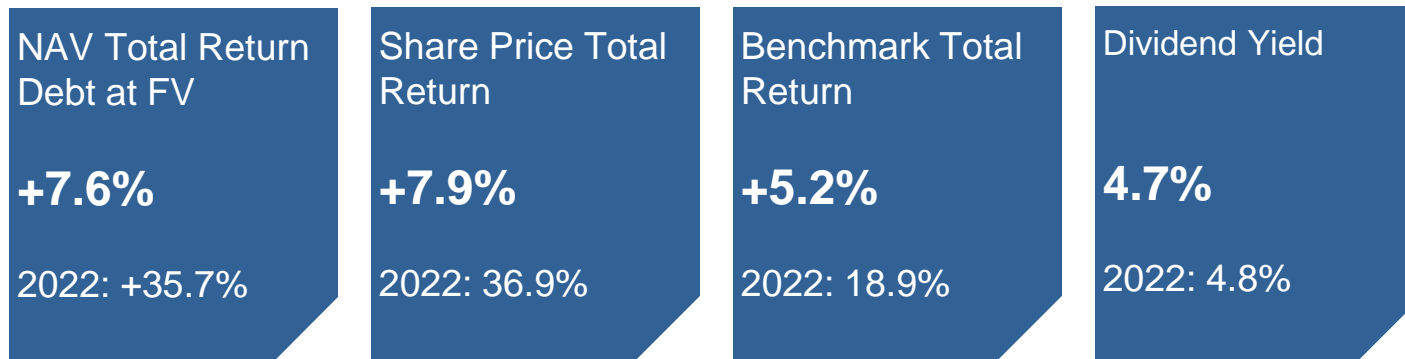
Portfolio Manager



Allianz 
Global Investors

This is a marketing communication. Please refer to the Key Information Document (KID) before making any final investment decisions.

Highlights: Financial Year to 31 January 2023



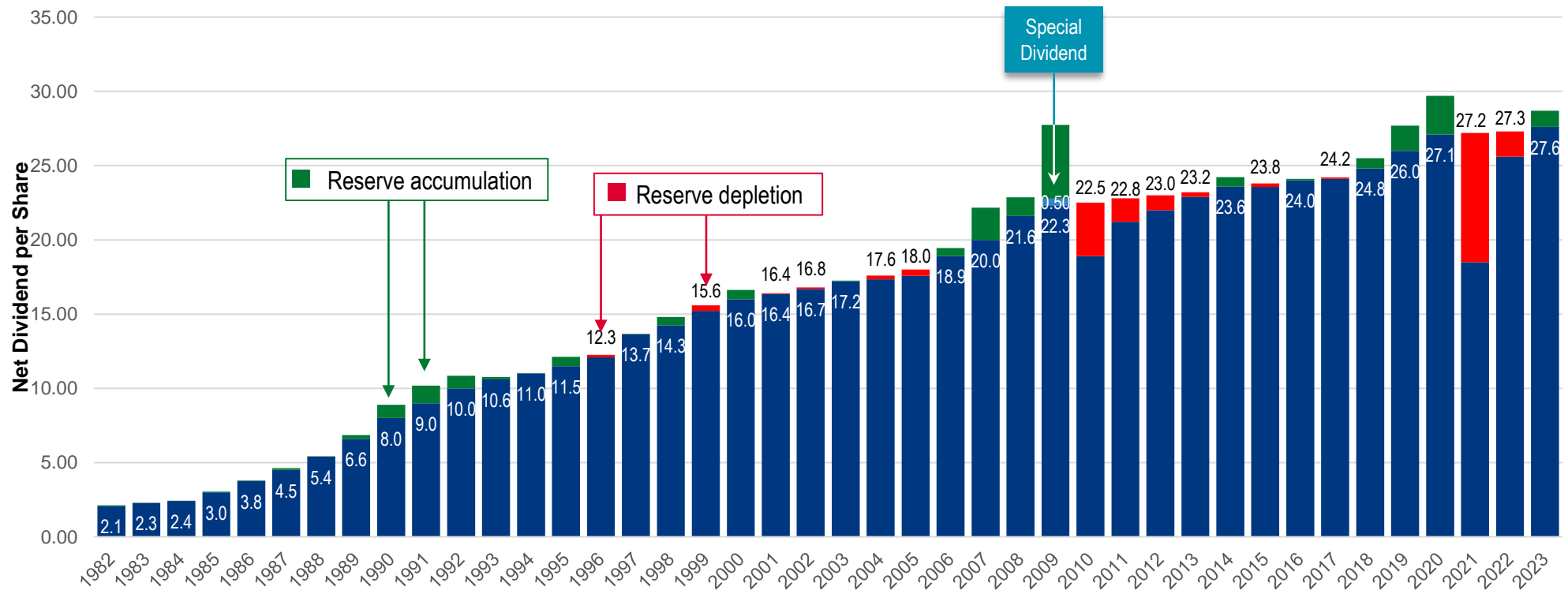
- 41 years of dividend growth – Dividend covered by earnings
- Strong performance record - Second (of 21 funds) in peer group over 1, 3 & 5 years*
- Citywire 2022 Investment Trust Awards – Winner, UK Equity Income, AIC “Best Report & Accounts”**
- £69m new shares issued in response to strong investor demand
- UK stock market modestly valued, with many attractive opportunities

Source: The Merchants Trust as of January 31, 2023. Past performance does not predict future returns. *JP Morgan Cazenove. RSMR. “RSMR (Rayner Spencer Mills Research) rated investment trusts are the trusts that RSMR feel have a robust, repeatable process and the ability to deliver strong performance in the future.” Citywire information is proprietary and confidential to Citywire Financial Publishers Ltd (“Citywire”), may not be copied and Citywire excludes any liability arising out its use. **A ranking, a rating or an award provides no indicator of future performance and is not constant over time.

The Merchants Trust

41 years of dividend growth

- Reserves built up in good years can smooth dividends in difficult years.
- Dividend fully covered by earnings, income has recovered since pandemic.
- Revenue reserves of 16.3p at Jan 2023.



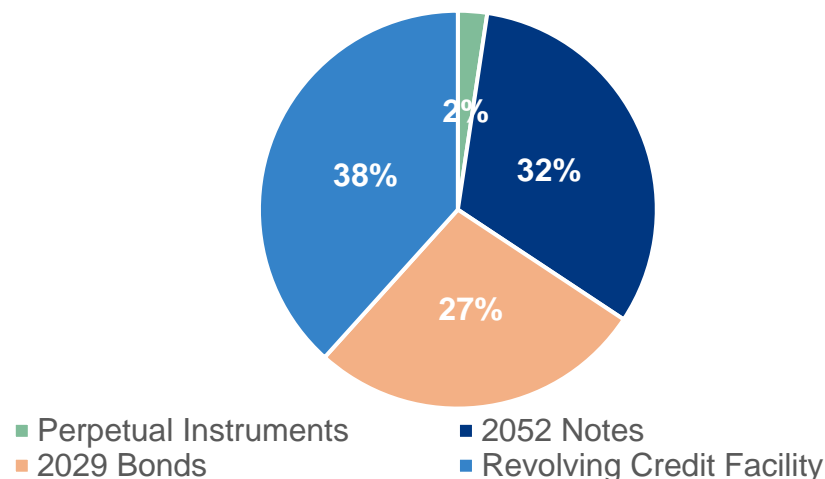
Past performance does not predict future returns.

Source: Annual Report and previous reports. April 2023. N.B. Disclaimer (page 19).

Gearing (debt) Policy

- Gearing 13.5% at year end. Policy range 10-25%*
- Gearing can enhance income (yield) and potential returns.
- However, gearing increases volatility and risk of greater loss in down markets.
- Cost of debt 4.65%, down from 8.5% in 2017
- In November 2022, board drew down £16m in the RCF (Revolving Credit Facility) to rebuild gearing to 15%

Total Borrowings £109.6m

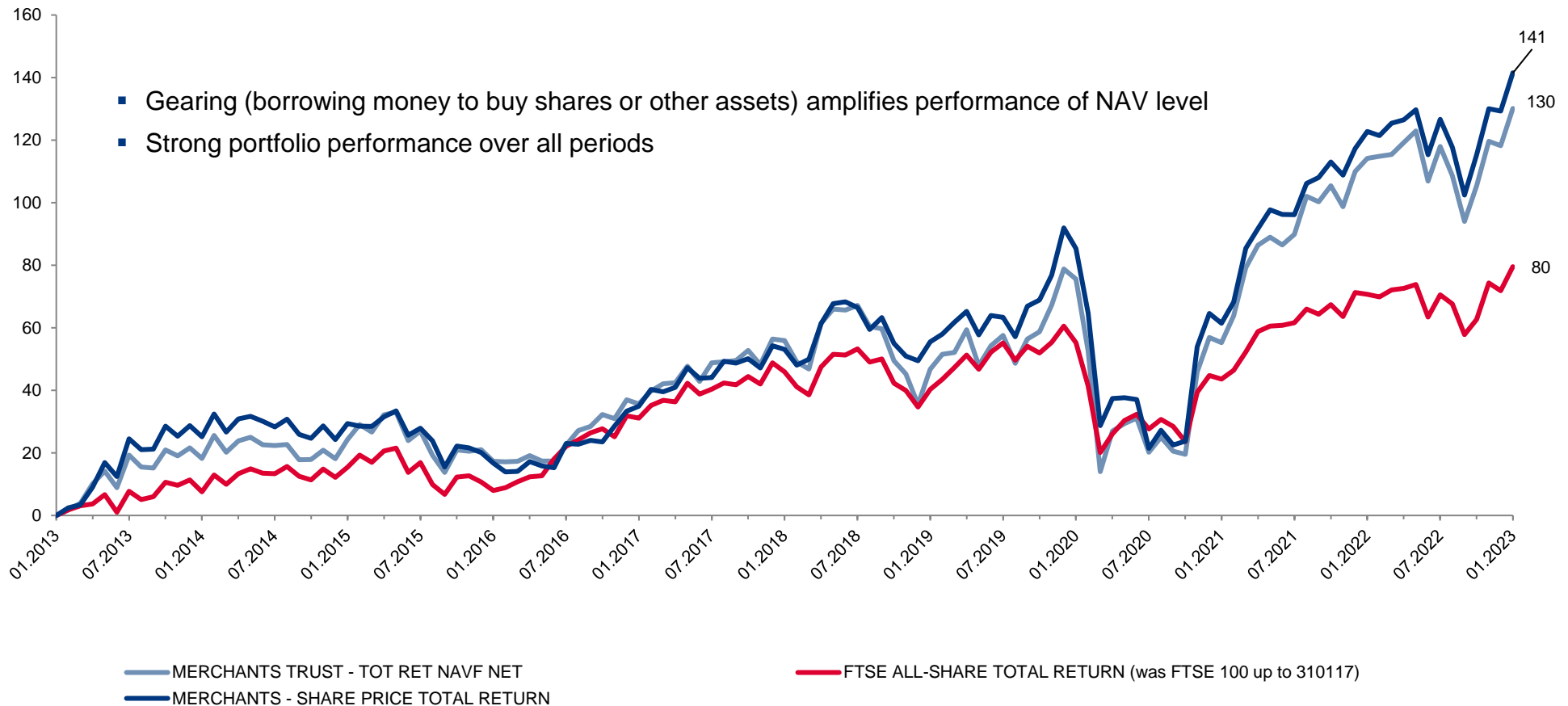


Borrowings as at 31.1.23	Amount £m	Interest rate %
2052 Notes	35.0	2.96
2029 Bonds	30.0	5.88
Revolving Credit Facility	42.0	Floating
Perpetual instruments	2.6	3.7-4.0
Total	109.6	4.65

* At time of increase in borrowing facilities. Gearing is where the Trust borrows money to buy shares or other assets.

Investment Performance: Strong Long-term Shareholder Returns

Merchants Trust Net Asset Value (NAV) Total Return vs Benchmark: 10 year history as of January 31, 2023



Past performance does not predict future returns.

Source: Thomson Reuters DataStream/AllianzGI as of January 31, 2023. Benchmark is the FTSE All Share Total Return. Up to January 31, 2017 the benchmark was the FTSE 100.

Investment Performance: Investment Portfolio

- **2023 in line with benchmark, strong outperformance longer term**
- **2023 performance, benefitted from:**
 - Defensive earnings streams – **BAE Systems, Imperial Brands**
 - Exposure to rising energy prices – **Drax, SSE**
 - Takeover of cheap UK Company – **HomeServe**
- **But this was balanced by:**
 - Underperformance of economically sensitive companies – **Tyman, WPP, DFS**
 - Not owning – **AstraZeneca, Glencore**
 - Specific company factors – **National Express, DCC**

Merchants Trust Investment Portfolio Total Return vs Benchmark as of January 31, 2023










Past performance does not predict future returns.

Source: Thomson Reuters DataStream/AllianzGI as of January 31, 2023. Benchmark is the FTSE All Share Total Return. Up to January 31, 2017 the benchmark was the FTSE 100.

Portfolio Takeovers 2017-2022

Stock market inefficiencies have created opportunities

Company	Buyer	Buyer Type
 GREENE KING <small>QUEEN OF JOZELANDS</small>	CK Assets Holding	Public company (HK)
Hansteen	Potter UK Bidco Limited	Private limited company (UK)
 HomeServe	Brookfield	Public company (CAN)
 inmarsat	Viasat	Public company (USA)
 LADBROKES CORAL <small>GROUP</small>	Entain	Public company (UK)
MEGGITT	Parker-Hannifin Corporation	Public company (US)
NEX	CME Group	Public company (US)
 RSA	Intact Financial Corporation and Tryg A/S	Public company (CAN)
 STOCK <small>ROYAL BANK OF CANADA</small>	CVC	Private equity (LUX)
 UBM	Informa	Public company (UK)

New Acquisitions & Disposals

- 12 new purchase, 6 sales
- Purchases of strong franchises across defensive and cyclical industries
- Sales at full valuation or where investment case changed

Purchases

Admiral Group

Atalaya Mining

BMW

CLS

CRH

Grafton

Haleon

National Express

Natwest

OSB

Pets At Home

Unilever

Sales

Antofagasta

HomeServe

ITV

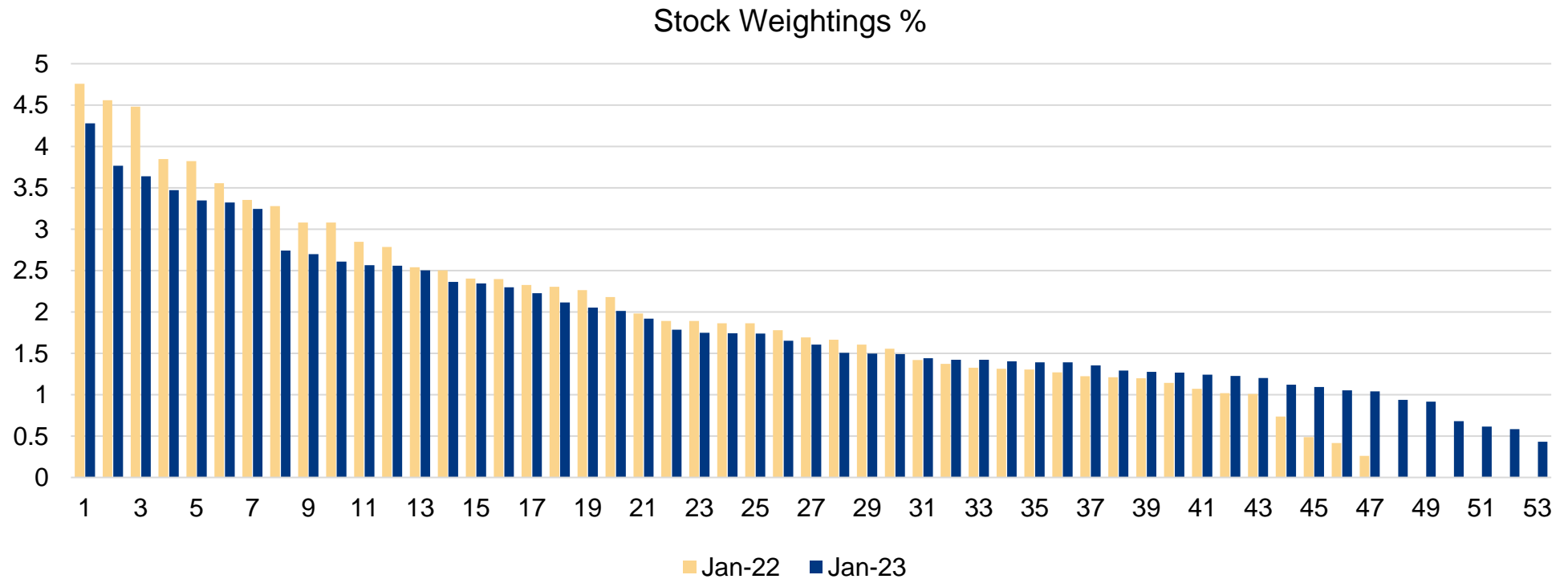
M&G

Relx

TotalEnergies

Broadened the portfolio during the year Increased number of attractive investment opportunities

- Broadened the portfolio as attractive income opportunities arose
- 53 holdings at year end
- High Conviction portfolio



This does not constitute a recommendation or solicitation to buy or sell any particular security or strategy.

Pets At Home– Franchise

Undervalued Market Leader

Fundamentals	The leading holistic pet care service company in the UK. Largest pet care retailer and a growing, high margin veterinary partnership business.
Themes	Humanisation of Pets. Premiumisation. Resilience.
Valuation	At the time of purchase for the portfolio, shares had derated significantly to a valuation which we believed did not reflect the high quality veterinary services business.

As of January 31 2023

Source: Allianz Global Investors as of January 31, 2023. This does not constitute a recommendation or solicitation to buy or sell any particular security or strategy. A stock mentioned as example above will not necessarily be comprised in the portfolio by the time this document is disclosed or at any other subsequent date. Past performance does not predict future returns.

Portfolio Positioning: Longer Term Themes

Nutrition & Wellbeing












Healthy Food | Medicines & Vaccines | Pets & Vets


Wealth accumulation

Asset Management | Trading & investing | Financial Advice






Sustainable living









Greener buildings | Recycling | Greener Transport

Normalisation of interest rates




Banks | Insurance

Driving energy transition

Differentiated Fossil Fuels | Transition Metals | Renewables

Digital economy

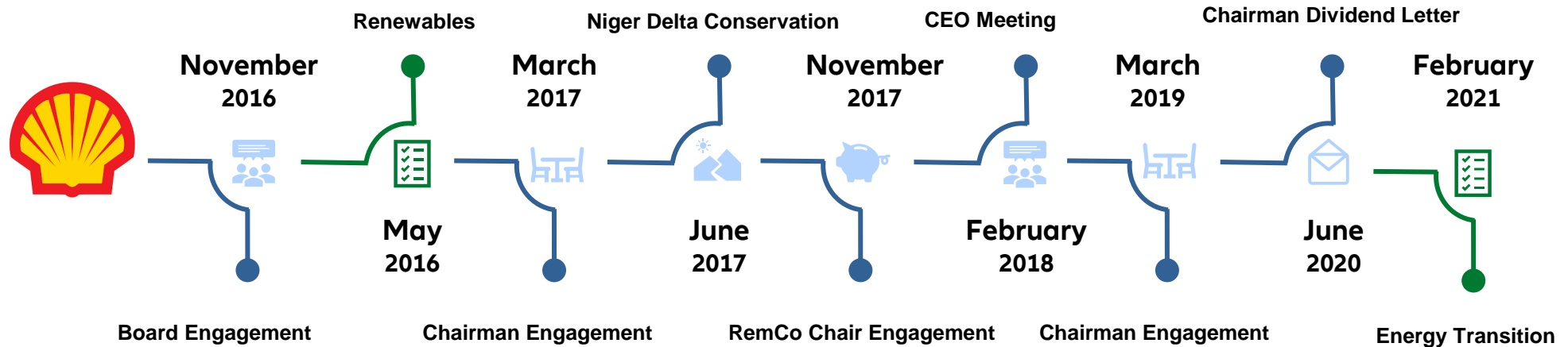





Professional Services | Media & Communications | Gambling | Online Retail

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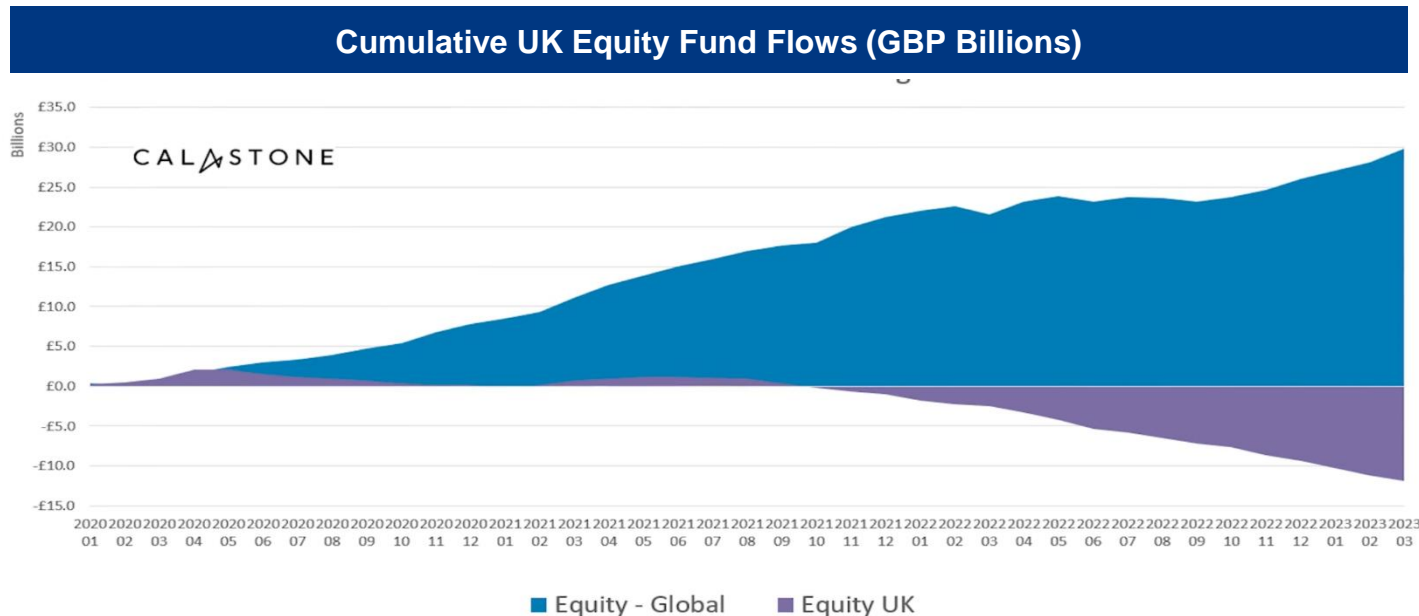
Active Stewardship: 31 Engagement meetings in FY23

Royal Dutch Shell – Engagement history



Market Outlook: It is Darkest Before Dawn

- Challenging economic backdrop, with risk of recession and higher interest rates
- Companies under pressure: consumer demand, rising interest rates, de-globalisation, labour costs
- However, commodity costs rolling over, unemployment remains low, bond yields may have peaked
- UK equity market modestly priced after outflows
- Cyclical shares priced for recession
- High dispersion presents stock selection opportunities

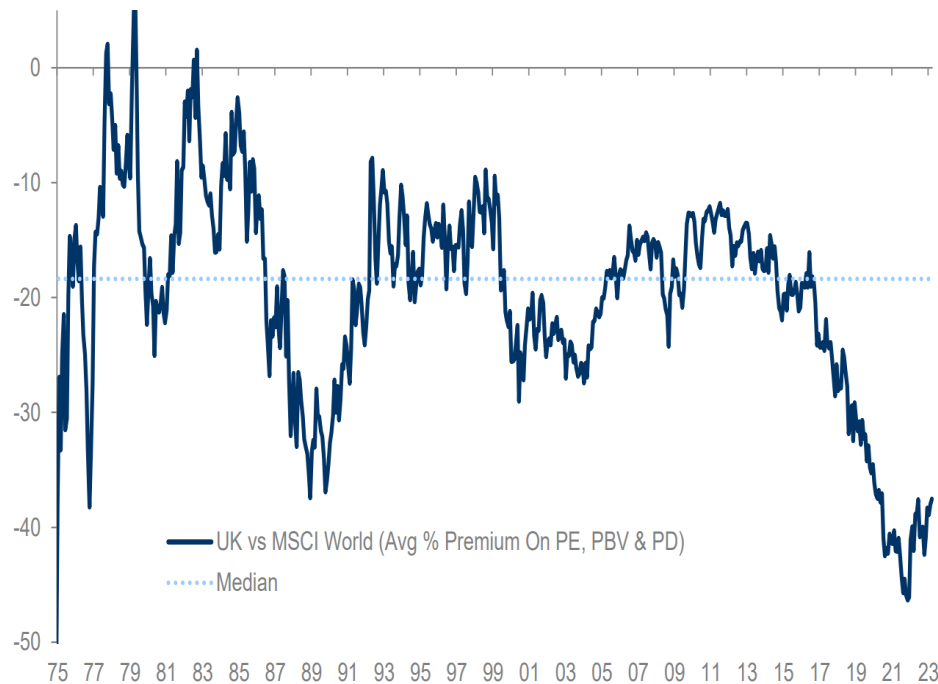


Source: Calastone Fund Flow Index as of March 31, 2023 <https://www.calastone.com/category/fund-flow-index/>

The Case for UK Equities

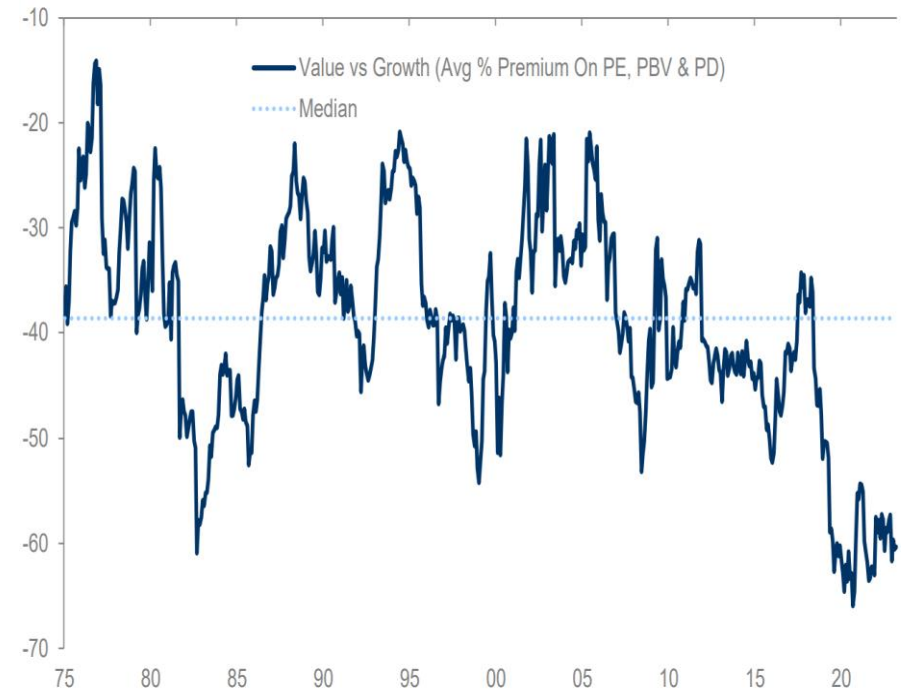
Current Valuations Are Attractive

UK vs MSCI World ex UK Average Valuation Premium



Even after a recent correction, the UK is at a 50-year discount to the rest of the World

UK Value vs Growth average valuation premium



UK Value at c.20pp excess discount to growth, even after recent rallies

The Merchants Trust: A Differentiated Proposition



“Leading standards of corporate governance and an established dividend tradition, make the UK an attractive home for investors seeking higher yielding shares, with exposure to diverse domestic and global industries.” **Simon Gergel**

1 **4.7% Yield***: AIC Dividend Hero, 41 years of dividend growth, significant reserves.

2 **Strong performance track record**: Active, high conviction and value driven portfolio.

3 **Low management fee**, with experienced independent board.

*Source: AllianzGI, as of January 31, 2023. Past performance does not predict future returns. A ranking, a rating or an award provides no indicator of future performance and is not constant over time.



Global Investors

Opportunities and Risks

Opportunities

- High return potential of stocks in the long run
- Investments specifically in the UK stock market
- Dividend stocks outperform in some phases
- Broad diversification across numerous securities
- Possible extra returns through single security analysis and active management

Risks

- High volatility of stocks, losses possible. The volatility of fund unit prices may be strongly increased.
- Underperformance of the investment style possible
- Dividend stocks may underperform at times
- Limited participation in the yield potential of single securities
- Success of single security analysis and active management not guaranteed

Biographies



Simon Gergel

Chief Investment Officer, UK Equities / UK Income

Simon is Chief Investment Officer, UK Equities and head of the European Value & Income Investment Style Team. He manages The Merchants Trust plc, co-manages the Allianz UK Listed Equity Income Fund, and is deputy portfolio manager on The Brunner Investment Trust and the Allianz UK Listed Opportunities Fund. He joined AllianzGI in April 2006 from HSBC Halbis Partners, where he was Head of Institutional UK Equities, portfolio manager of the HSBC Income Funds and manager of several segregated institutional accounts. Prior to HSBC, Simon was an Executive Director at Phillips & Drew Fund Management Ltd (a subsidiary of UBS), where he spent 14 years as a portfolio manager of UK equity portfolios. Simon is an Executive Director of Allianz Global Investors UK Ltd. Simon graduated from Cambridge University in 1987 with an MA (Hons) Cantab in Mathematics. He is an Associate of the CFA Society of the UK



Richard Knight, CFA

Portfolio Manager, UK Opportunities / UK Income

Richard is the lead portfolio manager of the Allianz UK Listed Opportunities Fund, and the co-manager of the Allianz UK Listed Equity Income Fund. He joined AllianzGI in November 2013, initially working in Global Emerging Market Equities. After gaining experience in a number of equity analyst roles, Richard joined the European Value & Income Style Team in March 2018, with a focus on the UK market. Richard specialises in value and income investing and was formerly an analyst covering the European media and telecoms sectors. He graduated from Lincoln College, Oxford University, with a degree in History and Politics, and also holds a masters (with distinction) in Global Economic History from the London School of Economics. Richard is a CFA® charterholder.



James Davis

Portfolio Analyst, UK Equities

James Davis is a Portfolio Analyst covering UK Equities with a focus on UK Value and Income. He joined AllianzGI in July 2021 as an intern within the Global Growth Equities team. Then, he spent a year in the Global High Yield team as a Portfolio Assistant, assisting portfolio managers with portfolio construction. Prior to that, James ran one of the only UK Student-funded Equity Fund (NEFS Equity Fund) as a Student Fund Manager. He graduated from the University of Nottingham with a BA Hons In Philosophy. James is currently working towards CFA designation.

Disclaimer

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, which means that the shares may trade below (at a discount to) or above (at a premium to) the underlying net asset value.

A trust's Net Asset Value (NAV) 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. In line with current industry best practice NAVs are now shown that take into account the 'fair value' of debt. This means NAVs are calculated after allowing for the valuation of debt at fair value or current market price, rather than at final repayment value. NAVs with debt at market value provide a more realistic impact of the cost of debt, and thus a more realistic discount. It is the capital NAV that is shown, which excludes any income.

Past performance does not predict future returns. You should not make any assumptions on the future on the basis of performance information. The value of an investment and the income from it can fall as well as rise as a result of market fluctuations and you may not get back the amount originally 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.

Merchants seeks to enhance returns for its shareholders through gearing. Gearing 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 are used to manage the trust efficiently. Covered call options are written to supplement the income generation of the portfolio. This may lead to an opportunity cost if options are exercised.

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Web site: www.merchantstrust.co.uk