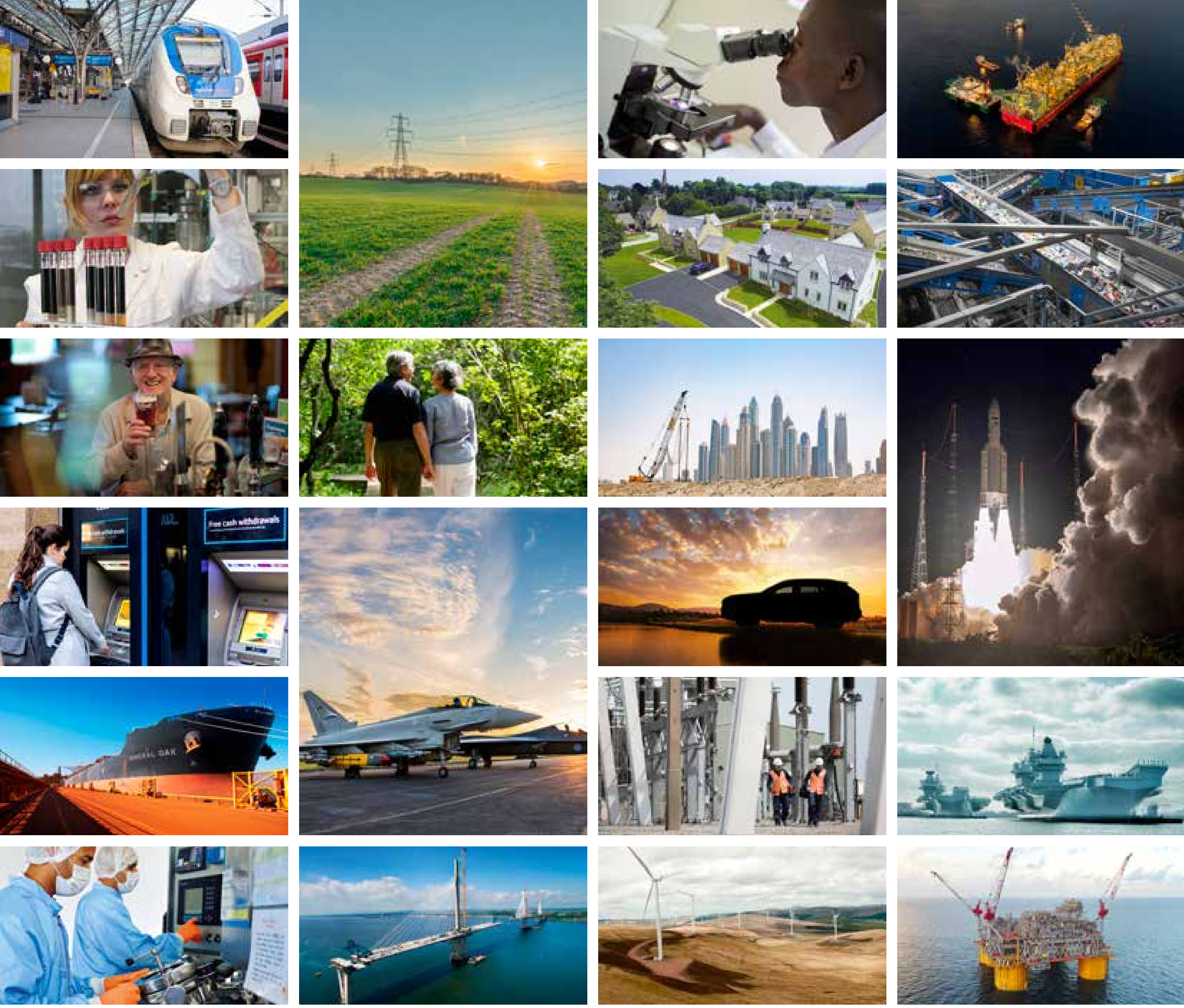

Diversifying for growth

The Merchants Trust PLC

Annual Report

31 January 2020

aic DIVIDEND HERO

Allianz Global Investors

Why invest in The Merchants Trust PLC?

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 companies. Portfolio Manager Simon Gergel draws on the considerable research resources of Allianz Global Investors as well as his 32 years of investment experience.

38 consecutive years of dividend growth
The trust has paid increasingly higher dividends to its shareholders year-on-year for the last 38 years – from 2.1 pence per share in 1982 to 27.1p in 2020. The trust can draw on revenue 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.

Cost-effective solution
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 0.59%),* Merchants provides a cost-effective way to access an actively managed portfolio.

Long-term conviction
The Merchants Trust has been providing active investment management since its launch in 1889. With a permanent capital base, the portfolio manager is able to construct a high conviction portfolio of investments, based upon the fundamental characteristics of companies and their long term prospects.

Liquidity and gearing
With a market capitalisation of £600m and over 112 million shares in issue, Merchants is one of the larger trusts in its sector providing high liquidity. As an investment trust, Merchants is also able to employ gearing. This enhances the earnings per share, and potentially increases long term returns. However, shareholders should be aware that losses are also amplified when markets fall as they have in the first quarter of 2020.

* At 31 January 2020. See glossary on page 101.

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Financial Highlights

As at 31 January 2020

Yield*

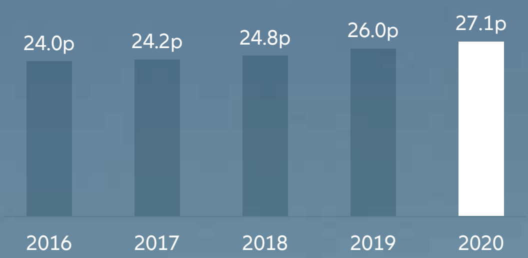
5.1%

2019 5.5%

Dividends in respect of the year

27.1p

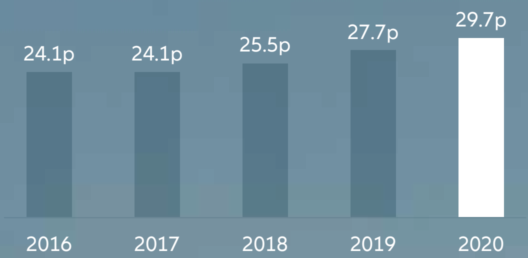
+4.2%



Revenue earnings per ordinary share

29.7p

+7.2%



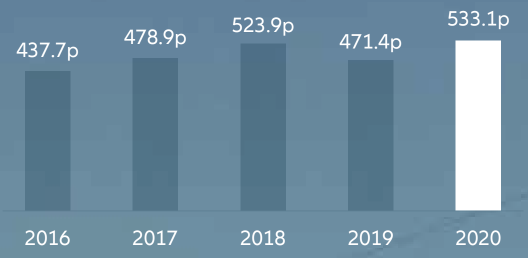
Utilities was one of the best performing larger sectors in the period under review, benefiting from a reduced risk of renationalisations under a potential Labour government.

Net Asset Value Total Return *#	Share Price Total Return *	Benchmark Total Return *~
+18.7%	+18.6%	+10.7%
2019 -5.2%	2019 +1.7%	2019 -3.8%

Net Asset Value per ordinary share *#

533.1p

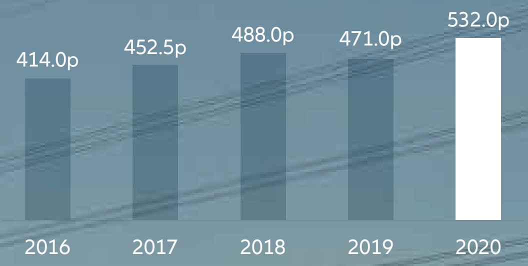
+13.1%



Share price

532.0p

+13.0%



* Alternative Performance Measure (APM). APMs are the board's preferred measures for the best value information for shareholders. Total return figures include dividends paid.

\# Debt at market value.

~ Benchmark is the FTSE All-Share Index.

See Glossary on page 101.

Chairman's Statement

Dear Shareholder

This is my first year-end as Chairman, and while I am delighted to be reporting that the year to 31 January 2020 was a very positive one for shareholders, this is of course tempered by the subsequent brutal impact of COVID-19 on economies, markets and people's health around the world.

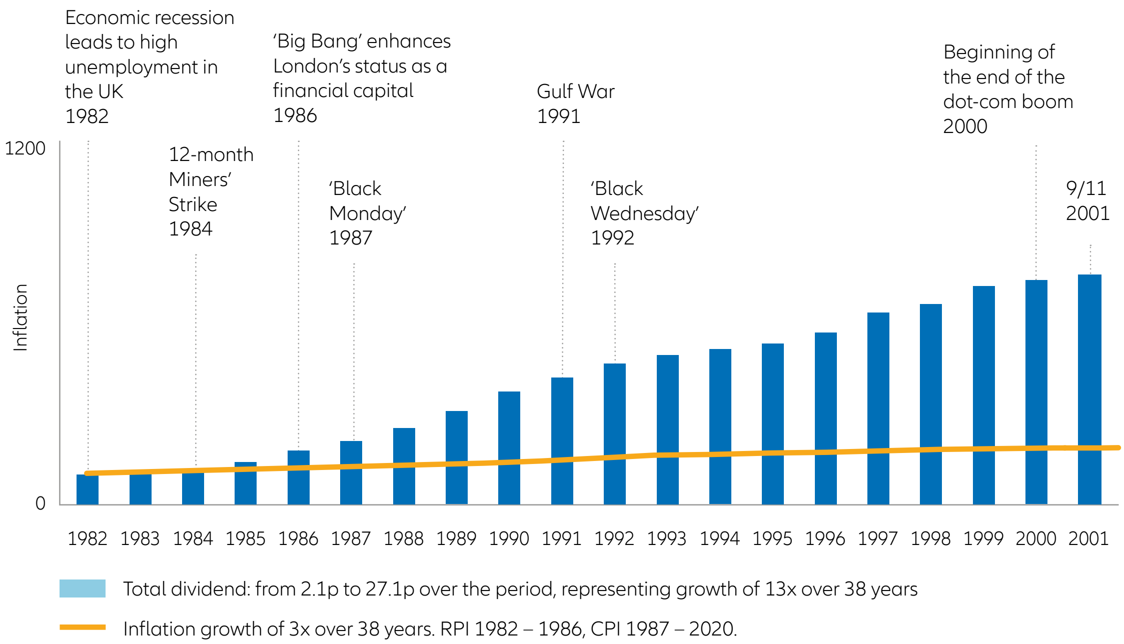
Nonetheless, I am pleased to report that Merchants Trust produced a return to its shareholders substantially higher than the benchmark in the year under review, despite a climate of political and Brexit uncertainty.

Income remains strong

We pride ourselves on the income we provide for our shareholders and we are very pleased to retain our AIC Dividend Hero status. We have this year provided one of the very highest yields in our peer group as part of an attractive total return for investors and we aim to continue to do so. Our dividend reserves of 28.2p per share, put aside from income over the years, support our aim. The payment of a fourth quarterly dividend of 6.8p on 29 May 2020, giving a full year dividend of 27.1p confirms our 38th successive year of dividend growth – a record of which we are extremely proud. Furthermore, the dividend growth we have been able to provide of 4.2% is ahead of the year end rate of inflation of 1.8% and therefore a real increase for shareholders. We are as focused on dividends as you are.

Highlights of the year

- 18.7% increase in the NAV total return against 10.7% benchmark return
- 18.6% rise in the share price
- 4.2% increase in the dividend
- 38th successive year of dividend growth
- Cost of debt more than halved over three years
- 4,150,000 new shares issued at a premium to NAV



Source: AllianzGI.

A year of positive performance

The year under review was a very successful one and the trust's total return Net Asset Value with debt at market (NAV) rose by 18.7% compared with a 10.7% increase in our benchmark, the FTSE All Share index, on a total return basis. The portfolio also significantly outperformed the benchmark and there are more details in the attribution table on page 10. Demand for our shares remained strong throughout the year and we were able to issue 4,150,000 new shares in aggregate over the year during periods when the trust was trading at a premium to Net Asset Value. Since the year end, a further 1,746,423 new shares were issued.

A full investment report containing an analysis of the company's performance is shown on page 12, and the portfolio performance attribution is explained by our investment manager Simon Gergel from page 15. I would also encourage you to read more in the same section about the interesting stock stories that have played out during the past year.

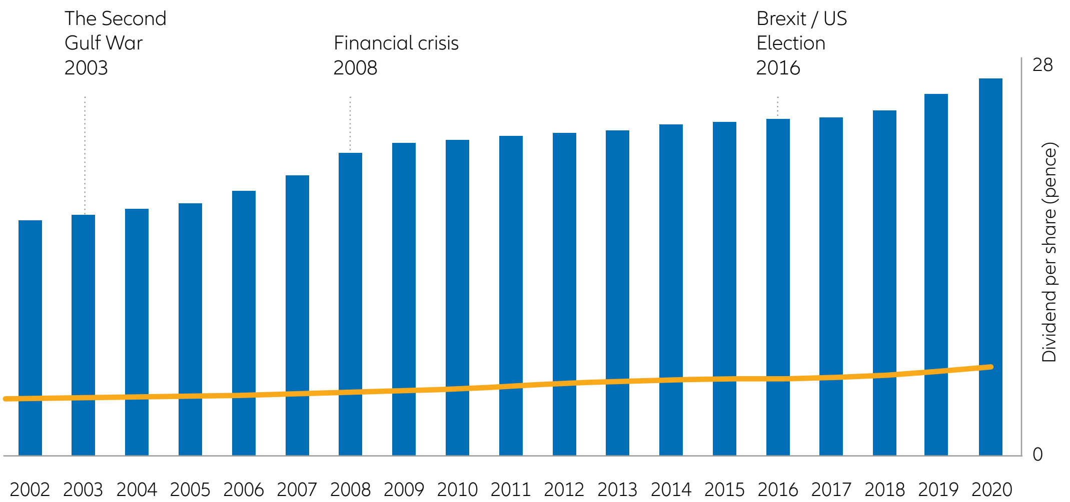
Active management plays its part

The board has long been a supporter of our manager's active approach and value style of investing and this approach showed its merit again this year. We are pleased to note that Simon Gergel, Matthew Tillett and the rest of the investment team delivered strong performance over the 12 months to the end of January 2020 by continuing to focus on high-quality UK companies at reasonable valuations with above-average yields.

It wasn't a completely comfortable ride. In a year that was markedly different between the first half and the second half, our investment team held, and indeed extended, their contrarian positioning earlier in the year, which meant that, in a highly polarised market environment, relative performance at the half-way point was weak. This positioning, though, provided excellent outperformance of a flat market in the second half, boosted by a move by investors back towards value shares later in the year.

A clear-cut General Election result and the return of a government with a sizeable majority and a perceived market-friendly approach also helped the investment managers' strategy towards the end of the year as UK equities became more attractive to both domestic and overseas investors.

The portfolio also benefits from the manager's active positioning to take advantage of the non-UK earnings of a large proportion of UK-listed stocks. This gives the trust a level of diversification and means that it is not wholly exposed to the UK domestic economy but can benefit from overseas growth too.



It is also encouraging that we are seeing media and analyst coverage of Merchants that recognises the positive performance that has been generated not only during the year under review but over a longer period too.

Reducing the costs and the level of gearing in the trust

Shareholders will be aware that, in line with its peers, the board of Merchants has long had the view that an element of gearing of the trust can enhance investment returns and increase dividend generation and that this is consistent with a long-term investment horizon. Between 2016 and 2020 this gearing has been between 15.4% and 27.4% of the portfolio. Two elements of gearing have a meaningful impact on shareholder returns: the cost of debt and the level of gearing.

As I hope you will be aware from previous communications, our board has been working to reduce the costs of debt. This year we have cut it to 3.8%, from a starting point of over 8.5% in 2017 and 6.1% in 2018. Although restructuring the debt incurred a one-off cost which reduced the NAV by 0.5%, it now produces greater earnings potential and a boost to the trust's capital account. The one-off hit to the NAV was experienced mid-way through the year when the more expensive debt was paid down and replaced with a revolving credit facility (RCF). As you can see from our performance figures, it hasn't detracted from a strong year for Merchants, and it will surely pay off to shareholders from now on.

The debt structure is now a mix of short-, medium- and long-term debt, giving a more flexible profile to the debt structure which our managers can use as needed.

At the end of the year the decision was made to reduce gearing to 15%, by paying down £16m of the RCF and that reduction was duly carried out on 29 January 2020, shortly before the year-end and before the market crash. Your board and the investment manager felt it was prudent to reduce risk in the portfolio following strong investment markets during the final quarter of 2019.

Share issuance: taking the opportunity to grow

As I noted earlier, thanks to the strong performance and demand in the market as a result of the marketing efforts we undertake, we have been in a position to issue new shares over the year. Shareholders unfamiliar with this mechanism may wonder what benefit they gain from this activity. Simply speaking, there is advantage to be had from increasing the scale of the trust, not least from fixed costs being spread over a larger fund. As scale increases, so does the attractiveness of the trust's shares to professional investors, who value liquidity in the company's shares. As issuance can only take place at a premium to NAV, it also adds value incrementally to NAV on each issuance.

Due to the demand we are seeing, as in previous years your board and investment manager will be seeking shareholder authority to issue up to 10% more shares in the coming year.

Strategy

At our annual strategy day, we once again took a more in-depth look at the matters we consider at each board meeting, including our objectives and key performance indicators. The Strategic Report follows on page 39.

In summary, the meeting found the key performance indicators we closely monitor still to be appropriate. We reviewed the investment philosophy, including the value style of investing, and we also found this to be appropriate for our objectives. We examined the structure of the portfolio and style exposures, in detail. Finally, from an investment perspective, we discussed the use of flexible debt and the trust's gearing policy.

Debt refinancing - reducing the cost of gearing

Financial year ending 31 January	2017	2018	2019	2020
Gross debt	£111m	£112m	£111m	£93m
Average interest rate*	8.5%	6.1%	6.1%	3.8%

*Effective interest rate at the year end - Includes RCF but excludes perpetual debt. See Note 11 on page 87.

From a sales and marketing perspective, we analysed competitive strategies from the peer group and considered our strategy for distribution via wealth managers and retail investment platforms.

Board succession

I would like to thank Paul Yates, who will step down from the board on 1 May 2020 after nine years, for his stalwart contribution to the Merchants Trust. His wise advice, deep investment experience and good humour have been very much appreciated by the Board and the investment management team.

I am delighted to announce the appointment of Karen McKellar to replace Paul on 1 May as a Non-Executive Director on the board, subject to election by shareholders at the AGM. Karen (formerly known as Karen Robertson) has had a long career as an investment manager at Standard Life, managing the Standard Life Equity Income Investment Trust as well as several large UK equity open-ended funds. The board looks forward to having the benefit of her investment expertise.

Annual General Meeting

Following the Prime Minister's announcement on 23 March 2020 of stay at home measures and possible further restrictions and the continuing impact of COVID-19 we have been unable to agree a format and set a date for the Annual General Meeting. Whilst this is usually held in May in all likelihood it will be delayed. At the time of writing we are awaiting direction as to what new arrangements will be permitted and will therefore be sending a Notice of the AGM as soon as it is possible to set a date.

As usual questions received from shareholders and answers from the board will be added to the Merchants website subsequent to the AGM.

Fourth interim dividend

Due to the need for us to postpone the AGM and with it the usual opportunity for shareholders to approve a final quarterly dividend the board has declared a fourth interim dividend in its place. Therefore, a quarterly dividend of 6.8p per ordinary share, in line with the third quarter's dividend, is payable on 29 May 2020 to holders on the register at the close of business on 24 April 2020. This means that the total dividend for the 2019/20 year is 27.1p, an increase of 4.2% on the previous year.

Outlook

The impact of COVID-19 is a very present shadow at the moment and, as we write, markets have produced sharply negative returns in the first weeks of our new financial year. There is clearly going to be a significant impact on the economy, corporate profitability and dividend income in addition to people's health. We are already seeing numerous company boards taking a cautious approach to payouts and some have decided to postpone or cancel dividend payments. Since some of the companies we own are in this position this will undoubtedly reduce the income stream for the trust in the new financial year. We will continue to monitor this situation closely, however, as Simon Gergel discusses in his Investment Manager's Review, Merchants started the year in a strong position and the dividend was comfortably covered by last year's earnings. In addition, the ability of an investment trust to be able to smooth dividend payments by building up reserves following strong performance and draw upon them in more challenging years is a positive feature of our structure.

As long-term investors, we are confident of our future returns and the investment team are actively reviewing individual company exposures and risks, and making portfolio adjustments, where necessary, to manage the income stream and to take advantage of exacerbated pricing anomalies. Our managers believe that, after the sharp pull back in the market, the UK stock market is offering good value and is one of the cheaper world markets. Against this backdrop they continue to seek out strong, structurally well positioned companies, paying above-average dividend yields, and trading on attractive valuations.

I hope this has given a flavour of the positive year experienced by The Merchants Trust for the year under review and I urge you to read the further detail contained in this report, as it will provide you with the full context and analysis of the past 12 months.

Colin Clark
Chairman
23 April 2020

Key Performance Indicators (KPIs)

The board uses certain financial Key Performance Indicators (KPIs) to monitor and assess the performance of the company.

Strategic Aims

The company's aims are:

Increasing and sustainable dividends

1. Provide a high and progressively growing income stream

Shareholder returns and performance

2. Provide long term capital growth

3. Provide a long term total return above the benchmark and peers

Investor appeal

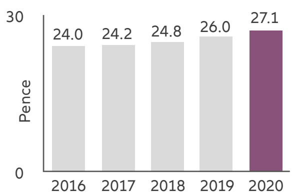
4. Position Merchants to outperform its peers, ensuring that the company remains relevant and attractive to new and existing investor groups

5. Manage the costs of running the company so that they remain reasonable and competitive

Increasing and sustainable dividends

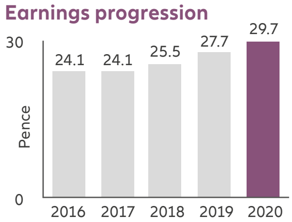
In recent years earnings have shown a steady improvement, benefiting from rising portfolio income and, in the last year, from refinancing debt at a lower interest cost. Revenue reserves were last drawn upon in 2017 and at the year end 28.2p was available for future requirements.

Dividend record per share



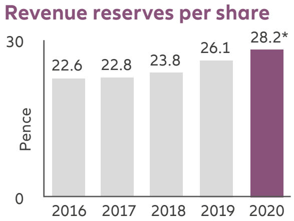
The board has a policy of paying a progressive dividend each year, taking into account inflation and subject to general earnings growth and dividends received in the portfolio. Ordinary dividends have risen in every year since 1982.

Earnings progression



Earnings per share (EPS) shows the income that the company generates each year which can be used to fund dividend payments to shareholders, over time.

Revenue reserves per share



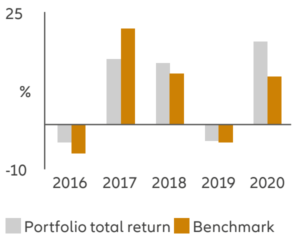
Revenue reserves can be used to ensure that dividend payments can be maintained through difficult market conditions. Income is put aside in good years and can be used when needed to maintain a steady increase in dividend payments when income is less readily available.

Revenue reserves are shown in the chart above in pence per share. * At the year end before payment of third and fourth interim dividends.

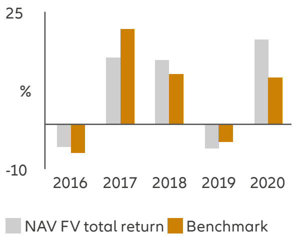
Shareholder returns and performance

Last year the portfolio's return was ahead of the benchmark. The NAV return was also ahead of the benchmark after the impact of gearing (borrowings). Gearing tends to amplify portfolio returns in both directions.

Portfolio return vs benchmark*



NAV return vs benchmark*

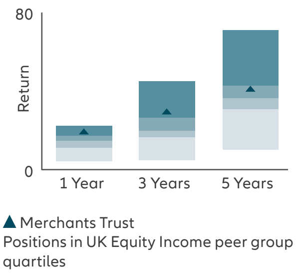


The board uses this KPI to monitor investment performance. The company's objective is to provide an above average level of income and income growth together with long term growth of capital through a policy of investing mainly in higher yielding large UK companies, and for this reason the FTSE All-Share Index* has been chosen as the benchmark index against which we measure our performance. The board seeks a return that is better than the benchmark over various time periods.

Investor appeal

Performance was in the top quartile of the peer group average over one year and three years, and ahead of the median over five years. Last year and this year the ongoing charges were 0.58% and 0.59%, respectively. The chart shows Merchants' costs are below average in the peer group.

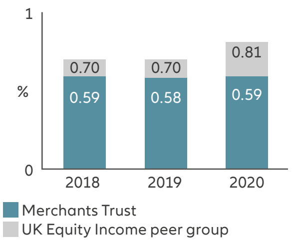
Peer rankings



Source: JP Morgan Cazenove.

The board also monitors the performance relative to a broad range of competitor investment trusts over a range of time periods, taking into account comparative investment policies and objectives. We look at the UK Equity Income investment trust sector and also compare the performance against a smaller number of competitors with the closest policies and objectives to our own.

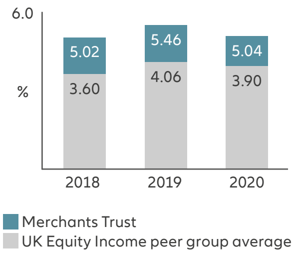
Ongoing charges



Source: Morningstar/AllianzGI.

The board has a policy of ensuring that the costs of running the company are reasonable and competitive.

Yields



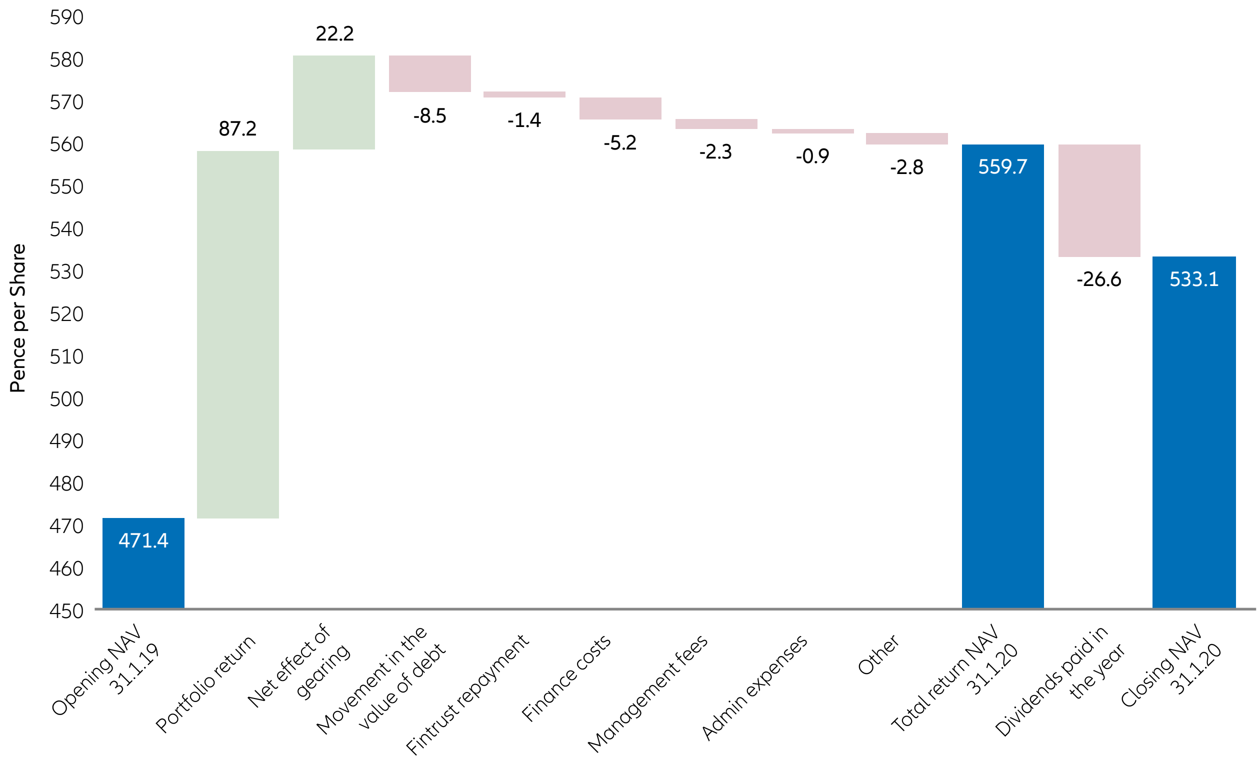
Source: Morningstar/AllianzGI.

Merchants consistently has a higher than average yield.

* The benchmark was the FTSE 100 Index until 31 January 2017. Ongoing charges are operating expenses incurred in the running of the company, whether charged to revenue or capital, but excluding financing costs. The ongoing charges figure (OCF) is calculated by dividing operating expenses, that is, the company's management fee and all other ongoing charges, by the average net asset value (with debt at market value) over the period. Ongoing charges are published by the AIC.

Attribution Analysis

Movement in Capital Return with Debt at Market Value for Year Ended 31 January 2020



The total return reflects both the change in net asset value, from 471.4p to 533.1p and the ordinary dividends paid in the year. The total return NAV of 559.7p as at 31 January 2020 is derived from the NAV with debt at market value of 533.1p plus dividends paid in the year of 26.6p.

Performance Attribution Analysis against the FTSE All-Share Index	Capital return %	Revenue return %	Total return %
Return of Index	6.1	4.6	10.7
Relative return on portfolio	6.3	1.5	7.8
Return of portfolio	12.4	6.1	18.5
Impact of gearing	3.3	1.4	4.7
Movement in market value of debt	-1.8	0.0	-1.8
Impact of Fintrust repayment	-0.3	0.0	-0.3
Finance costs	-0.6	-0.5	-1.1
Management fee	-0.3	-0.2	-0.5
Administration expenses	0.0	-0.2	-0.2
Retained revenue	0.7	-0.7	0.0
Other	-0.3	-0.3	-0.6
Change in net asset value per ordinary share (debt at market value)	13.1	5.6	18.7

A Glossary of Alternative Performance Measures (APMs) is on page 101.

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

Inmarsat, the satellite communications company, launched its fifth GX fleet satellite in 2019. We sold our holding following a private equity takeover bid which valued the shares at a substantial premium to the prevailing price.

Investment Manager's Review

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

Economic & Market Background

As explained in the chairman's statement, the coronavirus pandemic has significantly impacted the outlook for this year. We discuss this in the Economic and Market Outlook section. The year under review, however, was a very different environment.

On the last day of the Company's financial year, the UK left the European Union. Coming three and a half years after the Brexit referendum, the build up to this historic event dominated domestic politics and was a major driver of investor sentiment towards the stock market. But there were also other important factors driving financial markets during the year.

To borrow an overused sporting analogy, it was a year of two halves. In the first six months, markets were driven mostly by fear and uncertainty. There was uncertainty over the trading relationship between the USA and China, with tariffs levied or threatened on many goods. This had an impact on international trade and economic growth, and raised fears of a potential recession. In turn, these fears led the US central bank to cut interest rates and prompted other central banks to ease monetary policy. Bond yields fell significantly in response, boosting government bond prices.

In the UK, there was considerable political uncertainty. The failure to leave the UK at the end of March, as promised, led to the resignation of Theresa May as prime minister, and Boris Johnson taking over a minority government. The Brexit process was deadlocked in parliament. Investors feared a potential "no-deal" Brexit outcome, as well as the possibility of a potential future Labour government, led by Jeremy Corbyn with a hard socialist agenda.

Global pharmaceuticals and biotechnology company GSK was the portfolio's largest holding at the end of the financial year.

On top of the human cost, the COVID-19 pandemic could alter consumer and business behaviour and accelerate structural trends. Industries like telecommunications, travel and exhibitions might all be impacted as people adapt to working in different ways.

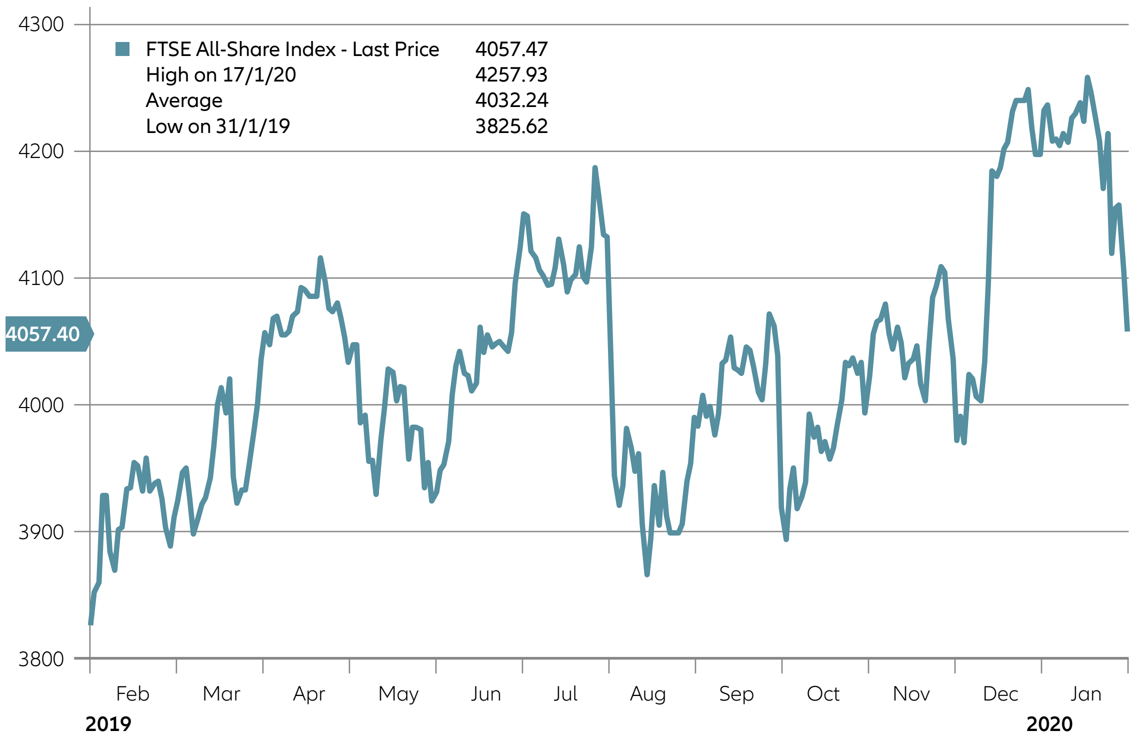
MYKOLA ROMANOVSKY / SHUTTERSTOCK.COM

Stock markets generally performed well in the first six months, despite the uncertainty, responding in particular to the stimulus of low interest rates. However, the UK stock market was highly polarised, as we reported in the interim report, with domestic, "value" orientated companies and smaller companies lagging well behind multinational, higher "quality" and "growth" orientated companies and larger stocks.

The second half of the year was a complete contrast. Many of the major risks and uncertainties were, at least partially, resolved. US Sino relations improved, with some tariffs rolled back. The global economic growth outlook improved, even if it remained subdued, which helped government bond yields to rise again. Although, in January, bond yields fell as the coronavirus spread through China, threatening the world economic growth outlook.

In Britain, Parliament ruled out a no-deal Brexit and Boris Johnson agreed a new EU Withdrawal deal, against many commentators' expectations. Parliamentary gridlock was eventually broken by a general election on 12th December that returned the Conservatives with a clear majority of 80 MPs. This result helped market sentiment, as it removed the risk of a hard left government and it brought clarity to the Brexit process, facilitating the UK's departure from the EU on 31st January, although the future trading relationship between the UK and EU remains to be agreed.

The UK stock market produced a zero total return in the second half of the year, giving up earlier gains in January. There was also a major change in leadership within the UK stock market in the last six months, with a sharp reversal of the polarisation in the first half. Domestically exposed and smaller sized companies rallied, benefiting from greater political certainty, whilst the larger and more international companies generally underperformed. "Value" stocks outperformed the more highly rated "growth" and "quality" stocks that had been strong in the first six months. Over the full year the FTSE All Share index produced a total return of 10.7%, with medium sized and smaller companies outperforming the top hundred shares.



FTSE All-Share 31.1.19 - 31.1.20. Source: AllianzGI/Datastream.

There was a wide range of sector performances and a significant dispersion of returns within sectors too. The best performing larger sectors included many defensive sectors such as pharmaceuticals, tobacco and utilities, with the later benefiting from a reduced risk of renationalisations under a potential Labour government. But there were also cyclical and financial sectors that performed well, such as financial services, real estate and construction & building materials. The worst performing sectors included the natural resources sectors; oil & gas and mining, as well as banks and several industrial sectors.

Investment Performance

A full attribution of performance is shown on page 10. In this section we concentrate on the performance of the investment portfolio and compare it to the benchmark, the FTSE All-Share Index. The portfolio return was significantly ahead of the benchmark, with a total return of 18.5%, compared to the return of 10.7% on the FTSE All-Share Index. Relative performance reflected the contrasting trends within the stock market, between the first and second six month periods. The portfolio's value style was out of favour in the first half, as the market became more extremely polarised, leaving the total return behind the index. However, this underperformance was more than made up, with extremely strong relative performance in the second half. The table below shows the ten biggest positive and negative contributors to performance relative to the benchmark.

As well as performance benefiting from a general recovery in lowly valued shares in the second half, there were three underlying themes that are visible in the list of top ten performance contributors. First, the portfolio benefited from a recovery in medium sized and smaller companies, with the top four contributors, Pennon, Keller, Greene King and Vistry (Bovis Homes) all outside the FTSE 100 index, and each returning between 47% to 70%. Second, a reduction in political risk helped utilities Pennon, SSE and National Grid (outside the top ten), as well as defence company BAE Systems. Third, the portfolio benefited from three takeovers. The depressed valuations of many British

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)	Pennon	0.9	Senior	-0.7
	Keller	0.8	Imperial Brands	-0.6
	Greene King	0.8	Hammerson	-0.4
	Vistry	0.7	Antofagasta	-0.2
	BAE Systems	0.6		
	SSE	0.6		
	Inmarsat	0.5		
Underweight (zero holding or weight lower than index weight)	Glencore	0.5	AstraZeneca	-0.9
	HSBC	0.5	London Stock Exchange	-0.4
	Royal Dutch	0.5	Experian	-0.2
			Relx	-0.2
			Ferguson	-0.2
			Unilever	-0.1

Case study: investment performance driver

Pennon

Sector Gas, Water & Multiutilities
Value of holding 17,586,297
% of portfolio 2.6

Pennon has two distinct businesses, a regulated water and sewage business, including South West Water and Bournemouth Water, and a waste management and recycling business, Viridor, which has been building up a large portfolio of energy recovery facilities (ERFs) which produce electricity and heat from waste.

The shares were very depressed at the beginning of the year, due to two major concerns. First, uncertainty over the forthcoming 5 yearly regulatory review of the water industry, which could lead to lower allowed returns and lower profitability. Second, more critically, concerns that a potential Labour government, under Jeremy Corbyn's leadership, might renationalise the water industry at a price below fair market value. The latter risk had caused many utility share prices to fall to levels well below normal for relatively predictable cash and dividend payers.

A number of events through the year led the shares to regain favour with investors and become one of the top performers, with a total return of over 50%. On the last day of the previous financial year, the water regulator announced that South West Water's 5 year business plan had been 'fast tracked', the only water company to achieve this status for two successive reviews. This provided more certainty over the profile of future cash flows.

In September, the company announced it was initiating a full review of its strategic focus and capital allocation policy, which was interpreted as a potential precursor to a demerger of the fast growing, and increasingly valuable, Viridor business. This was followed in January, by a newspaper article suggesting that Pennon had received a £4bn offer for Viridor from a private equity company, well above most analysts' assessment of fair value.

Probably the biggest share price driver though, was in the second half of the year, in the run up to the general election and in its aftermath. The success of Boris Johnson's Conservative party removed the risk of renationalisation under a Labour government, and cleared a significant overhang in investor sentiment. In addition to all these factors, we have seen the investment community pay much greater attention to the environmental impact of businesses in the last year. This has helped support the valuations of companies like Pennon, which make a meaningful positive contribution to the environment through recycling, and providing alternative energy sources.

companies attracted interest, often from overseas investors or private equity companies. Inmarsat's leading position in mobile satellite connectivity, and Greene King's large portfolio of well-located freehold pubs, attracted takeover offers well above the prevailing share prices. Hansteen also received a takeover offer, although this was not a top ten contributor. The three remaining top ten contributors, Glencore, HSBC and Royal Bank of Scotland, were poor performing stocks, which Merchants did not own or held less than an index weighting.

There were relatively few stocks in the portfolio that performed poorly. In fact, six of the top negative contributors to relative performance were strong performers that were not in the portfolio, but which helped to lift the index return. These included AstraZeneca, which rose nearly 40% on optimism over their sales from new oncology drugs, and London Stock Exchange, which was up over 70% on market enthusiasm for their proposed Refinitiv deal. The other four were Experian, Relx, Ferguson and Unilever. However, there were some underperforming portfolio stocks too. Senior Engineering had the biggest impact, as the company had a number of trading difficulties, which were exacerbated by the grounding of the Boeing 737 Max, which is one of the company's largest programmes. Imperial Brands shares were weak due to disappointments around trading, especially in their next generation products, a slow pace of asset disposals, and also increased regulatory intervention in the USA. Elsewhere, Hammerson shares declined as investors shunned the retail property sector, due to pressures in the retail industry, and Antofagasta declined modestly.

Portfolio Changes

A highly polarised stock market and major swings between sectors and stocks, created many opportunities for our disciplined, value orientated investment process to identify strong businesses, paying above average dividend yields, that we could buy on attractive valuations. There were also several opportunities to sell other businesses at full valuations, after their shares had appreciated.

Overall, during the year, there were 7 new companies added to the portfolio and 7 others sold completely, whilst we also altered the position sizes of many existing portfolio holdings in response to trading news and shifts in valuations. At the year end, there were 45 companies in the portfolio, up from 44 a year

Large Net Purchases	£m	Largest Net Sales	£m
Royal Bank of Scotland	16.0	HSBC	-25.1
Stock Spirits	13.6	Greene King	-14.9
PZ Cussons	13.3	Inmarsat	-12.4
Royal Dutch Shell B	11.7	TP ICAP	-11.7
WPP	10.2	Marks & Spencer	-9.3
Inchcape	9.8	Ashmore	-8.9
Redrow	9.7	BHP	-7.8
Barclays	9.6	Tate & Lyle	-7.1
British American Tobacco	8.8	Hansteen	-5.7
ITV	4.8	CRH	-5.2

Case study: new investment

Inchcape

Sector General Retailers
Value of holding 10,774,800
% of portfolio 1.5

Inchcape is an unusual British company, that is the world leader in the highly fragmented and relatively unknown car distribution industry. It holds exclusive licenses to distribute premium and luxury automotive brands in specific territories, where it acts as the brand ambassador, handling marketing, car and parts distribution, retail network management and related services. Inchcape has long standing relationships with car manufacturers, for example, it has a 50 year relationship with Toyota, representing their brands in Hong Kong, Singapore and several other markets, as well as 40 year relationships with Jaguar, Land Rover and Suzuki. In addition the company acts as a retailer for certain brands in the UK, Russia and elsewhere, although it has been reducing retail exposure, where returns are lower.

Overall, the company operates in over 30 markets, and has a strategy to broaden its distribution business further into emerging markets and with more brands, consolidating the industry. Around 80% of cars globally are distributed directly by the manufacturers, in the large markets, typically where they have their own manufacturing presence. However, that still leaves a market of around 14 million cars to be distributed elsewhere, and Inchcape are the leading operator, despite only having about a 1% market share of this volume. Inchcape is in prime position to acquire franchises as small operators increasingly lack the necessary skills to sell cars digitally, innovate in financial services, and communicate with the manufacturers at a strategic level.

The shares offered good value, last year, after a difficult period in the global car industry, and in some of Inchcape's territories. The share price did not reflect the strong cash generation of the company, or its improving quality and growth prospects, as it reallocates capital towards distribution activities, now representing around 90% of profits, and towards emerging markets.

earlier, with one holding, M&G, coming from the demerger of Prudential's asset management and UK life insurance businesses.

Many of the new holdings were out of favour medium sized or smaller businesses, or domestically exposed companies, where valuations were most depressed. As described in the interim report, in the first half we bought three very different consumer oriented companies; Inchcape, Stock Spirits and PZ Cussons. They were modestly valued, and each has a significant presence in emerging markets, where growth prospects are generally better than in the western world.

In the second half, we invested in DFS, the UK's leading sofa retailer, with a consistent track record of market share gains, driven by organic investment and acquisitions, such as the recent purchase of the Sofology brand. Sofa retailing is relatively well protected against pure online retailers, with clear scale advantages to the market leader. Sofas are typically made to order, so manufacturing efficiencies are critical, customers like to touch and feel the product, and the logistics of sofa delivery are complex and costly. The valuation of the shares was low, due to concerns about Brexit and the economy. We believed this undervalued the potential for the business, with the benefit of recent acquisitions, especially if there is any improvement in the general economy.

We made a small investment in Norcros, a manufacturer of bathroom fittings and accessories, which owns brands such as Triton showers, Johnson tiles and Vado taps, with strong market positions in the UK and South Africa. In recent years the business has been built by acquisitions of businesses selling complementary products, enabling the company to benefit from sharing overheads and cross-selling. It has also successfully reoriented its sales to builders merchants and housebuilders, away from the more challenging DIY channel. The company has a strong record of earnings and dividend growth, driven by market share gains. However, like many smaller UK companies exposed to the domestic consumer, the shares were out of favour and traded on a very lowly valuation.

We also bought a new position in Redrow, the fifth largest housebuilder in the UK. Housebuilding is an attractive sector, with strong demand for new homes, a decent supply of large plots of land, which favours large housebuilders, and supportive government policy. Redrow is a highly profitable company

New holding PZ Cussons is a leading manufacturer of soaps and beauty products, with brands such as Carex, Imperial Leather and St Tropez.

Case study: disposal

Greene King

Sector Travel & Leisure
Value of holding N/A
% of portfolio N/A

Greene King has one of the largest UK portfolios of pubs, restaurants and hotels with over 2,700 properties in its portfolio, mostly freehold owned. Key brands include Chef & Brewer, Hungry Horse and Farmhouse Inns. It also brews beers such as Abbots Ale, Old Speckled Hen and Belhaven. Greene King has been around for over 200 years and had a long and successful history of organic growth as a public company, supplemented by acquisitions. It had paid a progressive dividend over several decades, making it an ideal share to own in an income portfolio.

We liked the company's strong and valuable assets and its successful track record of growth and industry consolidation. The shares were modestly valued in the last few years, due to general investor uncertainty over the potential impact of Brexit on the domestic economy, but also due to more challenging conditions in the pub and restaurant industry, with rising cost pressures, greater home delivery of take-away food and overexpansion of many high street restaurant chains. Greene King's management had addressed the challenges with a programme of investment in service, quality and value, which was having some success, just as a number of high street restaurant chains were closing down.

The low valuation of the shares, due to short term trading difficulties and Brexit fears, and its unique asset base, caught the attention of a Hong Kong entrepreneur, who already owned several pubs operated by Greene King. His company launched a takeover offer for the company last summer at a 50% premium to the prevailing price. This fully valued the company and we therefore sold the investment.

with a good track record of growth from supplying high quality homes. The shares were modestly valued, with the stock market pricing in a future decline in profitability. We were more optimistic for Redrow, and indeed for the sector, as there is a structural shortage of housing in the UK.

The final new investment was Royal Bank of Scotland. RBS has been through a very long restructuring process, since the financial crisis, and now has an extremely strong capital position. We were expecting to see improving profitability and cash returns for shareholders. The shares were modestly valued, for a number of legacy reasons, such as a large government shareholding, but we saw an improving outlook. The RBS purchase was part of a bigger switch within the banking sector, as we sold out of the longstanding position in HSBC, and also increased the exposure to Barclays. This switch reflected an opportunity to add to domestic UK banks, which were trading on particularly low valuations, due to the market's nervousness over the economic risks associated with Brexit uncertainty, even as a resolution to the Brexit impasse seemed increasingly likely. In contrast, whilst we still saw long term attractions in HSBC, we did not believe the valuation was sufficiently compensating for shorter term risks in Hong Kong and heightened global trade tensions.

Three disposals were explained in the interim report. Inmarsat, which received a takeover approach, Marks & Spencer, where our opinion of the investment case changed, and Ashmore, which reached a fair valuation. In addition, we sold out of Greene King, Hansteen and TP ICAP in the second half. Greene King and Hansteen both received takeover approaches, which took the share prices up to a full valuation. TP ICAP shares rebounded strongly following last year's profit warning. We decided to sell, in order to fund other investments.

As well as these transactions, we also made significant additions or reductions to several existing positions. We switched part of the BP holding into Royal Dutch Shell, our preferred oil & gas company, and added further to Shell at more attractive valuation levels late in the year. We also added to WPP, with increasing confidence on the turnaround strategy under the new management team, and BAT and ITV, as our conviction in the investment cases

New purchase Stock Spirits, an Eastern European spirits company, was modestly valued, with strong cash generation and a good dividend yield.

increased. Key reductions included profit taking in Tate & Lyle and Meggitt, which had both performed well and were closer to fair value.

Derivatives

Option activity was limited with relatively few situations that met our specific criteria. The option strategy once again delivered its primary objective of income generation, with approximately £270,000 of option premiums accrued. There was also a small net profit of approximately £150,000 as the premiums received more than offset any opportunity costs on option exercises.

Stewardship

Our investment process does not end with purchases of shares. As explained in the directors' report on page 55, we believe that we have an important duty to engage with the boards and executive management teams of the companies in the portfolio. This is not purely about holding management to account, but also about influencing company strategy and promoting effective governance, to help improve long term performance. In particular, we focus on the sustainability of the business model and factors such as the environmental impact of the business, social policies and capital management. Allianz Global Investors is a founder member of the Investor Forum which fosters collective engagement with businesses that have diverse shareholder bases.

The table below shows our engagements with businesses last year, and breaks this down into different categories. Overall, we engaged 39 times with 22 different portfolio companies. Engagements covered a wide range of topics. One example, was a discussion with a mining company to get an updated view of their tailings management policy, the status of investigations into the integrity of a specific dam and the quality and safety controls that have been put in place. Another example, was engagement with a financial institution on their remuneration policy to try to link pay more closely to shareholder returns, but also to reduce the variable pay element of the Chief Risk Officer, to reduce potential conflicts of interest.

Company Engagement Activities

Topics and Engagements by Sector

Sector	Business Model	Financial Performance	Capital Management	Operational Performance
Consumer Discretionary				
Consumer Staples			1	1
Energy				
Financials	1		1	
Industrials			1	
Materials				
Real Estate				
Telecoms	1	1		1

Several issues may be covered in each meeting.

Economic and Market Outlook

Just as the defining feature of last year was Brexit, the defining feature of this year seems likely to be the coronavirus, COVID-19. The outlook has changed dramatically since the end of January. The rapid spread of the disease outside Asia, within Italy and elsewhere, since the middle of February, has fundamentally shifted a general consensus that this may be a containable issue, into a view that this is threat of major global significance. The pandemic has already had a massive impact on travel, with many countries restricting flights, including the USA stopping almost all flights to Europe. Several countries have moved to virtual shutdowns, and normal daily life has been severely impacted for tens of millions of people.

This is primarily a human tragedy, and our sympathies are with the affected people and their families. In thinking about the investment outlook, however, we need to assess the impact on economies and companies from this pandemic. Stock and bond markets have already moved materially, with the sharpest stock market falls since the crash of 1987, and with the UK stock market down by over a quarter in the first eight weeks of this financial year, and with certain sectors and stocks falling considerably further.

We do not claim any particular insight into how COVID-19 will progress and how successful government policies in the UK or elsewhere will be in reducing the impact on people's wellbeing or economic disruption. The UK and world economies have rapidly entered into recession. Government and central bank responses of fiscal spending, payments to employees, infrastructure investments, tax breaks, lower interest rates and support to the banking sector will only help to counteract some of the worst economic impacts. The collapse in the oil price, due to a temporary breakdown of the relationship between OPEC and Russia, may also provide some relief, given the importance of energy costs to businesses and consumers.

Our focus, as always, is on the fundamental qualities of companies, such as the strength of their competitive position and technology, their long-term growth potential and their cash generation. This focus has not changed.

Audit & Accounting	Corporate Governance	Environmental Risks / Impacts	Social Risks / Impacts	Business Conduct & Culture	Transparency & Disclosure
	3				
1	5	4	1	4	1
			1		
	7			3	
	6	2	2	1	
	2	4	2		
	1	1			
	4		1	1	1

Case study: ESG engagement

BHP

Sector Mining
Value of holding 16,455,339
% of portfolio 2.3

BHP is one of the largest natural resources companies in the world, with significant positions in the iron ore, copper and petroleum industries, amongst others. We have had several engagements with the business last year, outside of the routine meetings with executive directors, to discuss environmental, social and governance issues.

On the environmental side, there were several meetings. We engaged with the Chairman, who noted that climate change is a highly material factor and whilst they recognise there is more to be done, they are making progress with the significant investment to scale up low carbon technology, and they are increasing their focus on emissions throughout the value chain. We also had meetings with BHP as well as a key mining association in Australia to understand their policy positions regarding climate change.

In addition we had discussions with the company on how they could better utilise workforce feedback to spot health and safety and environmental risks. We discussed how effective their anonymous hotlines and whistle-blower policies are, and how the company brings managers together to identify potential hazards and think about the safety of operations in a holistic manner.

On the social side, we discussed how employee engagement programmes enable BHP to have a more systematic approach to labour policy, and we discussed employee diversity. One specific example is the company's aspirational target to have 50% female workforce participation by 2025. Technology is allowing the company to have a greater number of remote planning and operational centres, in town and cities some distance from the mines, which is creating jobs for employees who need a more flexible work life balance. Another initiative is to try to retain older, skilled train drivers, by offering more flexible working arrangements, such as shorter working weeks, when they might otherwise retire.

On Governance, we had detailed discussions on potential changes to the company's remuneration policy. This included discussions around alignment of incentives with shareholder experience, the size of the Long Term Incentive Plan, deferral periods for awards, incorporation of climate change incentives and alignment of pension contributions for executives and employees.

However, in this particular situation, the financial position of companies is even more critical. Even strong businesses will be affected by COVID-19, and those with weak balance sheets may not survive in their current form. We are assessing the direct and indirect impacts of this pandemic on every business in the portfolio, and that has led us to make a number of changes.

We entered the year expecting a recovery in economic growth, especially in the UK, as the political and Brexit uncertainty had largely subsided, although there remains a risk of leaving without a deal. This meant we had a modestly pro-cyclical portfolio positioning, which we have moderated recently. Now, with the stock market down significantly, valuations are once again very attractive, with the UK being one of the cheapest world markets. Furthermore, with many shares falling considerably more than the overall market, there are a large number of compelling investment opportunities.

The selling pressure has been somewhat indiscriminate. Share prices have not been driven primarily by investors taking calculated and rational views about the prospects for individual businesses, and this has created many anomalies. The stock market has once again polarised, with a very substantial, and often unjustified, premium being placed on certain companies that are perceived to be of high quality and offering higher than average growth.

However, there are many fundamentally sound companies, where even though they will have a very difficult year, possibly two, they are priced for a significant drop in their long-term profitability and cash flows. If these businesses are financially strong enough to get through this period without the need for rescue financing, then the current valuation represents exceptional value. There are also certain businesses, with fundamentally resilient operations, which should not be that affected by the pandemic, where share prices have over-reacted. We have been allocating more money to both of these types of companies, and reducing exposure, either to companies with particularly high risk in the current environment, or to more defensive companies that do not offer such good value.

An event like this pandemic can alter consumer and business behaviour and can accelerate structural trends. We are assessing the long term impact on industries like telecommunications, travel and exhibitions, as people may get used to working in different ways.

With the rapid shock to the economy, there will be companies in the portfolio that need to reduce dividend payments in the short and medium term. In fact we have already seen numerous businesses, across the stock market, postpone or cancel dividend payments. We would expect boards to take a more conservative view on payouts, given the impact of this pandemic on cash flows, and the uncertain duration of the crisis. However, Merchants started the year in a strong position. The dividend was comfortably covered by earnings last year. Much of the dividend income in the portfolio comes from sectors like utilities, tobacco, defence and pharmaceuticals, which are relatively resilient industries. Another large part comes from oil & gas producers, which have managed to maintain dividends through periods of low oil prices previously. We are closely assessing dividend risks at individual stocks and across sectors, to manage the overall income delivery. On top of this, the company had dividend reserves of more than a full year's dividend at the year end, which could be used if necessary to support future dividends.

In summary, whilst the economic outlook has deteriorated in recent weeks, , and there has been considerable volatility in the stock market, this has created opportunities for investors with a longer term horizon. We hold a diversified collection of fundamentally sound companies, with exposure to many different industries and geographies, that are trading on attractive, or in some cases exceptional valuations. We believe this portfolio can deliver a high income and attractive total returns for investors, in line with Merchants objectives.

Simon Gergel
Investment Manager
23 April 2020

Investment Philosophy and Stock Selection Process

Inefficient markets

At the heart of our investment philosophy is a belief that stock markets are inefficient. By focusing on the fundamental qualities of businesses and identifying situations where those qualities are under-priced in the stock market, it is possible to deliver a high and rising income stream and superior long term returns for investors.

Income bias

There is compelling historical evidence that, on average, companies paying high dividend yields have delivered above average total returns, as well as a higher income stream. We therefore, principally, buy companies which have an above average yield, either today or within the near future. However, the dividend yield is never a sufficient reason for buying a share. We only buy companies where we believe shareholders can make an attractive total return. The buy and sell decisions are both driven by total return considerations. Furthermore, we do not have a rigid policy to sell shares at a particular yield.

Income Bias

- Target stocks yielding at least in line with the market within 18 months.
  (In exceptional cases we may buy a share with a yield below average if the share/sector represents both: a) a large part of the benchmark, and b) we believe the share/sector could perform well.)
- Yield alone is never a sufficient reason for buying a share
- Purchase/sale driven by total return considerations
- No automatic sale if yield drops below market level

Research intensive, focus on cash flow

Allianz Global Investors' research platform combines a large global team of equity and credit research analysts, environmental, social and governance specialists and our own Grassroots* market research organisation to provide our fund managers with in-depth analysis of businesses and industries as well as insights into structural and cyclical trends. Our research particularly focuses on the analysis of sustainable company cash flows, which typically provide the truest measure of corporate performance. (*Grassroots[SM] is a division of Allianz Global Investors)

Stock Selection blends fundamentals, valuation and themes

Our stock selection process blends together a view on company fundamentals, valuation and external themes. Essentially we are trying to answer three critical questions; How good is this business? Are the shares undervalued? How supportive is the environment?

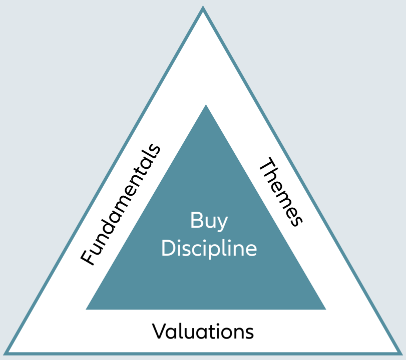
Buy and Sell Discipline

Fundamentals

Industry structure & competitive position

Financials

ESG factors



Themes

Industry/secular themes

Macroeconomic outlook

Business cycle

Valuation

Absolute – cash generation or asset value

Relative to history, peers, market

Dividend yield

Sell Discipline

Achieves full valuation

Change of investment case

Better opportunities elsewhere

The fundamentals can be thought of as a full understanding of the strength of a company. We need to understand the prospects for the business area or industry that the company operates within. We analyse the company's competitive position, its products, brands, assets and technology to help understand the barriers to competition and the sustainability of returns.

Companies do not exist in isolation. The environmental footprint of a business, and the impact of its operations on the wider community need to be analysed and taken into account. Also we need to understand social risks in a company, how it interacts with workers, suppliers and society generally. Equally important is the corporate governance framework, management track record and incentive structure.

The focus in company valuation is to compare a wide range of valuation metrics in absolute terms and relative to the company's history and the wider sector and market, to understand what expectations are being priced into a stock and what return an investor is likely to achieve from this point forward.

Understanding valuation also helps towards understanding risk, not primarily in terms of tracking error or volatility of returns, but in terms of the risk of loss of capital value.

The third aspect of the buy discipline is themes, which are critical due to the dynamic nature of businesses and industries. Themes describe the environment in which a business operates. Themes can be broad, across the whole economy, or specific to a particular industry or sector, and they can be structural or cyclical. Themes can be positive or negative factors. They help us to understand the likelihood of various scenarios happening in the future and they can provide insight into the timing and pace of change. Perhaps most importantly for a value investment discipline, themes can help us to identify and avoid "value traps", or shares that appear cheap, but where a low valuation is deserved due to structural challenges or disruptive threats to an industry.

Bringing these three criteria together we are able to understand the fundamental strengths of a business, what return and risk is reflected or discounted in its valuation and how supportive the thematic environment is for the business and how this might be expected to change in the future.

Sell Discipline:

Stocks will be sold from the portfolio for one or more of the following reasons:

A stock reaches its target price. Target prices are regularly reviewed in the context of the company's fundamentals and the wider market. We adopt a gradualist approach in most circumstances, reducing positions as shares approach fair value.

A change to the investment thesis on a stock. We carefully reassess our investment thesis in response to relevant news flow.

We can identify better alternative investment opportunities, or similar opportunities with a more attractive risk profile.

Sell Discipline

1. Achieves target price
2. Change of investment case
3. Better opportunities elsewhere

Portfolio Construction

The portfolio consists of a concentrated selection of typically between 40 – 60 shares, chosen on individual merits, but taking account of the overall exposure to different industries and cyclical and structural themes. The size of each holding will reflect the level of conviction in the investment view, the potential valuation upside and the specific risk profile of the shares. At the portfolio level, the aim is to provide a diversified income stream and attractively priced exposure to a broad range of sectors and geographic regions.

See the table on pages 34 and 35 for the specific attributions of each stock.

Top 20 Holdings

1 GlaxoSmithKline

Pharmaceuticals & Biotechnology
40,161,408
5.8

From humble origins as a London apothecary shop in 1715, GlaxoSmithKline has grown into a global science-led healthcare company, with revenues in 2019 of over £33bn and a stable of important treatments for a broad range of conditions, from hay fever to HIV.

The business is organised into three divisions: Pharmaceuticals, Vaccines, and Consumer Health. Leading Pharmaceuticals products include Advair for Asthma, and GSK's range of transformative treatments for HIV. The investment case is firstly based around improving the performance of the Pharmaceuticals division, for example by targeted investments via acquisitions and internal research into the promising oncology field. And secondly, by demonstrating the value of the other two major divisions.

GSK's Vaccines division researches, manufactures and markets vaccines for 40% of the world's children. The business is growing fast, helped by a novel Shingles vaccine. The Consumer Health division has a world leading portfolio of brands helping consumers to stay healthy and fit across a broad spectrum of categories from toothpaste ('Sensodyne'), vitamins ('Centrum'), and pain relief ('Panadol').

2 Royal Dutch Shell

Oil & Gas Producers
37,666,000
5.3

Royal Dutch Shell is one of the leading global integrated oil and gas companies, with activities throughout the petroleum value chain, from exploration and production to refining and retailing. The company has natural resources that should enable it to maintain production of energy at today's levels for many years. Shell's assets are some of the most efficient in the industry allowing for good cash returns even during periods of low commodity prices. The business is roughly evenly split three ways, between oil, gas and other activities, such as power and chemicals.

Shell is well-positioned among major peers for an energy transition, with a high weighting towards gas in the asset portfolio that is likely to benefit from higher demand in the future. Liquid Natural Gas, where Shell is world leader, plays an increasingly important role in Asia, as countries try to reduce their dependence on more environmentally damaging fuels such as coal.

In recent years, Shell has aggressively tackled its cost base, and invested in efficient production, so that shareholders are now able to reap the benefits, with a healthy dividend yield and share buybacks, funded by strong underlying cash flow in a normal environment.

Sector Value of holding Percentage of portfolio

3 BAE Systems

Aerospace & Defence
28,877,009
4.1

BAE Systems is the UK's biggest defence and aerospace company, involved in the development and manufacturing of military aircraft, surface ships, submarines, electronics, communications equipment and cyber-security services. BAE's largest region is the USA, the world's biggest and most sophisticated defence market, benefiting from increasing defence budgets, and it has recently raised its exposure there, through high technology acquisitions. It also has strong market positions in the UK and Saudi Arabia, as well as other export markets, providing diversity to the business and spreading risk.

The company has a strong order backlog with good forward visibility of earnings and earnings growth for several years into the future. The company is conservatively managed, with a strong balance sheet and capacity to make further targeted acquisitions. Our investment case has been built around a company that offers a steady growth profile, which should prove resilient in the event of broader economic weakness. The shares are attractively valued, especially given these characteristics.

4 Imperial Brands

Tobacco
27,503,460
3.9

Imperial Brands is a major global producer of cigarettes, tobacco, and nicotine products. We avoided the tobacco sector whilst valuations were high and challenges surrounding new product categories and tightening regulation were underappreciated. Now those concerns are more than fully reflected in the valuations of the shares. Imperial Brand's stock price has halved in less than 3 years, despite operating cash flow and profits growing over this period.

The sector's very significant de-rating is based on an extremely negative view in the stock market that tobacco company cash flows will decline at a rapid rate in the near future, when in such decline is likely many years in the future, if at all. New product areas, such as electronic cigarettes and heated-tobacco, are hard to value at this early stage, but offer the opportunity of materially lower health risks with a strong economic return potential for large tobacco companies, particularly as regulation begins to favour bigger established players. Imperial is positioned with such 'next-generation' products, and regardless, should be able to keep growing traditional tobacco cash flows, even as volumes decline, thanks to strong pricing power.

5 Barclays

Banks
27,044,780
3.8

Barclays is a diversified financial services provider, spanning retail banking, wealth management, credit cards and investment banking. The company has been extensively restructured following the financial crisis. Asset sales have strengthened the balance sheet, and Barclays has a clear plan to improve returns, which should lead to a re-rating from a depressed valuation. Barclays has been improving its capital generation and growing its dividend in recent years.

6 British American Tobacco

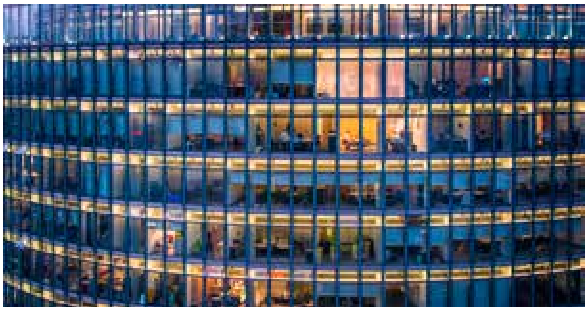
Tobacco
26,856,000
3.8

British American Tobacco is one of the world's largest global tobacco companies. The company generates the majority of profits from traditional cigarettes, but has a well-rounded and fast-growing portfolio of next-generation-products which offer a potentially reduced risk to consumers with good prospects of preserving favourable economics for tobacco companies. The shares trade at an attractive valuation for an economically defensive business with a strong record of growth.

7 Legal & General

Life Insurance
22,446,900
3.2

Legal & General is one of the UK's largest life insurance companies and a market-leading asset manager and provider of pension solutions. The company is also a major investor in UK infrastructure, and urban regeneration projects. L&G has achieved significant growth in areas such as individual and bulk annuities, and the expansion of its asset management division, which has driven a rising dividend in recent years.



8 Land Securities

Real Estate Investment Trusts
21,648,393
3.1

Land Securities is a diversified UK real estate company, with a portfolio largely comprised of London offices, retail and leisure property. Long lease terms and high occupancy provide a good degree of visibility over cash flows, and the business runs a conservative balance sheet. An improving outlook for City offices, and a low valuation should more than compensate for the challenging retail sector exposure.

 Sector Value of holding Percentage of portfolio

9 SSE

Electricity
21,413,600
3.0

SSE is a high yielding integrated energy firm, with a balance of regulated distribution assets and electricity generation assets , including a large and growing exposure to renewable generation, through wind farms and hydro-electric power stations. SSE's diversified structure, and ownership of key infrastructure assets, offers some earnings protection through the cycle, with a high and increasing proportion of profits coming from regulated or semi-regulated activities.

10 St. James's Place

Life Insurance
21,164,000
3.0

St. James's Place is a major UK wealth manager with over £110bn in client assets. It has a very strong track record of asset gathering through a large network of partners, financial advisors, who invest client assets in the St. James's Place platform and product suite. Although the company is sensitive to stock market levels, the business model has proven resilient through varying market and macroeconomic conditions through a focus on full-service advice.

11 Standard Life Aberdeen

Financial Services
19,872,275
2.8

Standard Life Aberdeen is large asset manager, formed by a merger of two complementary businesses in 2017. The company is well-positioned to grow assets from individual savings and personal pensions, and has valuable stakes in high growth asset management and insurance businesses in India. The shares were lowly priced after a difficult period of performance and fund flows, but asset sales and cost saving synergies have started to improve investor sentiment.

12 WPP

Media
19,372,500
2.8

WPP is one of the world's largest advertising and media agency groups with a broad span of businesses covering creative work for leading global brands, market research, media services, and digital development. Under new management, the company has been restructured into a smaller number of more integrated businesses, to address the evolving market place. A modest valuation does not reflect the potential benefits of this repositioning.

13 National Grid

Gas, Water & Multiutilities
19,110,200
2.7

National Grid is a major owner and operator of gas and electricity infrastructure in the UK and USA. Political risks to the UK business have materially reduced following the general election of December 2019, and the US business has strong and secure growth prospects as the US seeks to upgrade ageing infrastructure. National Grid is well placed to play a key role in the transition towards less carbon-intensive energy.

14 Pennon Group

Gas, Water & Multiutilities
17,586,297
2.6

Pennon Group is a UK environmental infrastructure group, focusing on water, recycling and energy from waste services. Pennon's South West Water division generates best-in-sector returns on regulatory equity, whilst its Viridor business, which includes well-invested energy-from-waste assets, delivers differentiated earnings growth and diversification. The company should benefit from intensifying trends towards sustainability and the circular economy.

15 National Express

Travel & Leisure
17,539,849
2.5

National Express is an international owner and operator of bus and rail services in the US, Europe, and North Africa. The company has a strong track record of growth and earns high returns on capital in its bus and coach operations, which make up the vast majority of the value of the business. The company is well-exposed to structural trends towards more sustainable transport, although it will be impacted by the effects of COVID-19 on transportation in the near term.

16 BP

Oil & Gas Producers
16,519,163
2.3

BP is another major global integrated oil and petrochemical company. Operating in 70 countries, BP finds and extracts oil and gas on land and offshore, refines products and distributes and sells fuel and energy around the world. With the end of extraordinary litigation costs finally in sight, the extensive operating improvements and restructuring the company has undertaken since 2011 can be more fully reflected in the valuation of the shares.

17 BHP

Mining
16,455,339
2.3

BHP is a world leading mineral exploration and production company, with a focus on iron ore, oil, copper and other natural resources. The investment case in BHP is based on a positive view of the copper and oil & gas fundamentals, in particular. BHP has a strong balance sheet and is reasonably priced, reflecting a generally nervous investor view of commodity shares.

18 IG Group

Financial Services
16,103,801
2.3

IG Group is a leading global provider of financial derivatives contracts to the retail market, serving client demand for leveraged trading on a broad selection of assets. The leveraged trading industry is going through a period of regulatory change across key markets. IG's high quality customer base, scale advantage and conservative risk management should stand the company in good stead to outperform competitors and grow profits in the medium term.

19 Tyman

Construction & Materials
15,851,278
2.3

Tyman is a leading manufacturer and distributor of fittings and fixtures for doors and windows, with operations in the UK, Europe, and the USA. A majority of profits is generated in the US, where Tyman enjoys strong market positions in its product niche, and the company is rationalising its operations for greater efficiency. Tyman is well-exposed to expected long-term growth in US housing demand.

20 RBS

Banks
15,281,000
2.2

RBS is a UK banking group with leading positions in commercial lending and mortgages. The bank has significantly de-risked and restructured its operations in the years following the financial crisis, and is now a materially simpler business with more efficient operations, a stronger balance sheet, and is rebranding as NatWest Group.

Portfolio Holdings

at 31 January 2020

Listed Equity Holdings

Merchants Trust Portfolio Breakdown by Category

				Investment Attributes			
Name	**Principal Activities**	**Value (£)**	**% of listed holdings**	**High Yield**	**Cyclical Growth**	**Defensive Growth**	**Special Situations**
GlaxoSmithKline	Pharmaceuticals & Biotechnology	40,161,408	5.8			●	
Royal Dutch Shell B	Oil & Gas Producers	37,666,000	5.3	●			
BAE Systems	Aerospace & Defence	28,877,009	4.1			●	
Imperial Brands	Tobacco	27,503,460	3.9	●			
Barclays	Banks	27,044,780	3.8				●
British American Tobacco	Tobacco	26,856,000	3.8	●			
Legal & General	Life Insurance	22,446,900	3.2		●		
Land Securities Group	Real Estate Investment Trusts	21,648,393	3.1	●			
SSE	Electricity	21,413,600	3.0			●	
St. James's Place	Life Insurance	21,164,000	3.0		●		
Standard Life Aberdeen	Financial Services	19,872,275	2.8	●			
WPP	Media	19,372,500	2.8	●			
National Grid	Gas, Water & Multiutilities	19,110,200	2.7			●	
Pennon Group	Gas, Water & Multiutilities	17,586,297	2.6			●	
National Express Group	Travel & Leisure	17,539,849	2.5			●	
BP	Oil & Gas Producers	16,519,163	2.3	●			
BHP	Mining	16,455,339	2.3	●			
IG Group Holdings	Financial Services	16,103,801	2.3		●		
Tyman	Construction & Materials	15,851,278	2.3		●		
Royal Bank of Scotland Group	Banks	15,281,000	2.2	●			
Meggitt	Aerospace & Defence	14,951,250	2.1		●		
Balfour Beatty	Construction & Materials	13,880,947	2.0				●
Morgan Advanced	Electronic & Electrical Equipment	13,810,933	2.0				●
Keller	Construction & Materials	13,777,500	2.0		●		
CRH	Construction & Materials	13,708,800	1.9		●		
Prudential	Life Insurance	13,587,600	1.9		●		
SThree	Support Services	12,913,305	1.8		●		
Stock Spirits Group	Beverages	12,790,800	1.8			●	
PZ Cussons	Personal Goods	12,685,200	1.8			●	
Antofagasta	Mining	11,960,100	1.7		●		
Vistry Group	Household Goods & Home Construction	11,897,708	1.7		●		

Name	Principal Activities	Value (£)	% of listed holdings	Investment Attributes: High Yield	Cyclical Growth	Defensive Growth	Special Situations
GVC Holdings	Travel & Leisure	11,841,893	1.7		●		
ITV	Media	11,820,420	1.7		●		
Inchcape	General Retailers	10,774,800	1.5		●		
Tate & Lyle	Food Producers	9,989,280	1.4			●	
Redrow	Household Goods & Home Construction	9,925,000	1.4		●		
Senior	Aerospace & Defence	9,763,965	1.4		●		
Man Group	Financial Services	9,155,049	1.3		●		
Hammerson	Real Estate Investment Trusts	8,402,400	1.2	●			
Kin and Carta	Support Services	6,907,648	1.0				●
Informa	Media	5,973,026	0.8		●		
DFS Furniture	General Retailers	5,719,500	0.8		●		
Norcros	Construction & Materials	3,660,246	0.5		●		
Sirius Real Estate	Real Estate Investment & Services	3,657,150	0.5		●		
M&G	Financial Services	2,414,010	0.3	●			
	% of Total Invested Funds	**704,441,782**	**100.0**				

The portfolio has been broken down into four categories to provide shareholders with a greater insight into the investment rationale for different shareholdings. These are:

High Yield: Companies which we believe to be undervalued, with a high dividend yield. The return is expected to come from dividends and a revaluation.

Cyclical Growth: Companies that should grow over the economic cycle but which may have economic or market sensitivity. The return is expected to come from a revaluation of the shares and a compounding of growth, in addition to the dividend yield.

Defensive Growth: Companies that should grow over time, with limited economic sensitivity. The return is expected to come from dividends, compounding growth and potentially, a revaluation of the shares.

Special Situations: Companies where the investment case is typically based around a turnaround or restructuring of the business. These may have a low initial yield, if significant dividend growth is expected. The return will principally come from capital appreciation as shares are revalued.

Unlisted Equity Holdings

Name	Value (£)	% of unlisted holdings	Principal activities
Fintrust Debenture*	4,486	100.0	Financial Services
	4,486	**100.0**	**% of Total Invested Funds**

Written Call Options

As at 31 January 2020, the market value of the open option positions was £(28,300) (2019: £(10,490)), resulting in an underlying exposure to 1.11% of the portfolio (valued at strike price).

*The company was the lender of the company's Fixed Rate Interest Loan 2023 which was repaid during the year. More details are available in Note 9 on page 85.

Distribution of Total Assets

at 31 January 2020

	Percentage of total assets* at 31 January 2020	Percentage of total assets* at 31 January 2019
Financials		
Banks	6.1	6.7
Financial Services	6.9	8.9
Life Insurance	8.4	8.2
Real Estate Investment & Services	0.5	0.8
Real Estate Investment Trusts	4.3	4.6
	26.2	**29.2**
Industrials		
Aerospace & Defence	7.8	7.3
Construction & Materials	8.8	6.6
Electronic & Electrical Equipment	2.0	1.5
Support Services	2.9	2.4
	21.5	**17.8**
Consumer Goods		
Beverages	1.9	-
Food Producers	1.4	2.3
Household Goods & Home Construction	3.1	1.5
Personal Goods	1.8	-
Tobacco	7.9	6.7
	16.1	**10.5**
Consumer Services		
General Retailers	2.4	1.5
Media	5.4	3.7
Travel & Leisure	4.2	5.7
	12.0	**10.9**
Utilities		
Electricity	3.1	2.8
Gas, Water & Multiutilities	5.4	4.3
	8.5	**7.1**

	Percentage of total assets* at 31 January 2020	Percentage of total assets* at 31 January 2019
Oil & Gas		
Oil & Gas Producers	7.9	8.7
	7.9	**8.7**
Health Care		
Pharmaceuticals & Biotechnology	5.8	5.4
	5.8	**5.4**
Basic Materials		
Mining	4.1	5.7
	4.1	**5.7**
Telecommunications		
Mobile Telecommunications	-	1.3
	-	**1.3**
Total Investments	**102.1**	**96.6**
Net Current (Liabilities) Assets	**(2.1)**	**3.4**
Total Assets	**100.0**	**100.0**

*Total Assets (less creditors due within one year) £689,185,949 (2019: £644,132,030).

Performance – Review of the Year

Revenue	2020	2019	% change
Income	£36,236,313	£34,104,274	+6.3
Revenue earnings attributable to ordinary shareholders	£32,643,236	£30,095,750	+8.5
Revenue earnings per ordinary share	29.7p	27.7p	+7.2
Dividends per ordinary share in respect of the year	27.1p	26.0p	+4.2

Assets	2020	2019	Capital return % change	Total return % change[1]
Net asset value per ordinary share with debt at par	551.5p	491.1p	+12.3	+17.7
Net asset value per ordinary share with debt at market value (capital)	533.1p	471.4p	+13.1	+18.7
Ordinary share price	532.0p	471.0p	+13.0	+18.6
FTSE All-Share	4,057.5	3,825.6	+6.1	+10.7
Discount of ordinary share price to net asset value (debt at par)	-3.5%	-4.1%	n/a	n/a
Discount of ordinary share price to net asset value (debt at market value)	-0.2%	-0.1%	n/a	n/a
Ongoing charges[2]	0.59%	0.58%	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.
[2] The ongoing charges percentage is calculated in accordance with the explanation given on page 9.

A Glossary of Alternative Performance Measures (APMs) is on page 101.

Strategic Report

As with the utilities sector, defence company BAE Systems, a long-term holding, benefited from a reduction in political risk.

Introduction

Purpose

Our purpose is to provide the company's shareholders with a single investment that will give a high level of income and income growth together with long term capital growth through a policy of investing mainly in higher yielding large UK companies.

We measure our success in attaining our purpose by comparing the performance of the portfolio against the performance of the FTSE All-Share Index. We also note how the yield on the company's shares compares with the yields in our peer group, in the UK Equity Income sector, and the growth of the dividend itself against the consumer price index in the UK. The formal Investment Policy, approved by shareholders, is set out below.

A review of the company's business, activities and prospects is given in the Chairman's Statement starting on page 4, and in the Investment Manager's Review on pages 10 to 25.

Strategy Review

Every year we hold a Strategy Meeting outside the regular timetable of board meetings. At the most recent meeting the topics covered included:

- The continuing relevance of our investment philosophy and the value style of stock selection
- Long term performance
- Detailed peer group analysis
- Distribution strategy in a changing retail market
- Merchants' differentiation from its competitors
- Review of the gearing strategy
- Review of the KPIs

Following our strategic review it was agreed that the company's objectives and KPIs were correctly identified. and that Merchants' high yield continues to be the key differentiator, providing a substantial part of its appeal to investors. We agreed that our new gearing strategy would provide us with the tools to be flexible in changing market conditions and we agreed to keep this under regular review.

We also noted that Merchants can be regarded as a core income vehicle for investors in UK equities, being able to provide investors with real returns on their savings and we agreed to amplify this message through a continuation of our cost-effective marketing and advertising programme.

Investment Policy

Objective

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.

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

Gearing

The company's policy is to remain substantially fully invested. The company has the facility to gear – borrow money – with the objective of enhancing future returns. Gearing is in the form of a short term revolving credit facility and fixed rate longer term borrowings. The board monitors the level of gearing and makes decisions on the appropriate action based on the advice of the manager and the future prospects of the company's portfolio.

The company's authorised borrowing powers set out in the Articles state that the company's borrowings may not exceed its called up share capital and reserves. The board's policy is to maintain gearing (borrowings as a percentage of net assets) in the range of 10 - 25%, (measured at the time that any increase in total borrowing facilities is agreed). Gearing averaged 18.9% in the year to 31 January 2020 (2019: 19.8%).

Depending on equity market conditions, gearing may be outside this range from time to time but it is not the board's intention to increase total borrowing facilities if gearing is outside the range.

Risk Diversification

The company aims to achieve a spread of investments, with no single investment representing more than 15% of assets. The company seeks to diversify its portfolio into at least five market sectors, with no one sector comprising more than 35% of the portfolio.

Strategic Aims

The company's aims continue to be to:

Dividends

– Provide a high and progressively growing income stream

Shareholder return

– Provide long term capital growth
– Provide a long term total return above the benchmark and peers

Investor appeal

– Position Merchants to outperform peers, ensuring that the company remains relevant and attractive to new and existing investor groups
– Manage the costs of running the company so that they remain reasonable and competitive

Investment Strategy

We aim to achieve our objective through a strategy of investing in a portfolio of mainly higher yielding large UK companies and by using appropriate gearing to enhance returns. This strategy is designed for those investors who require a single investment in a diversified and professionally managed portfolio.

More detail on the investment philosophy and stock selection process is set out in the investment manager's review on pages 26 and 27 which will help shareholders understand how and why the manager invests the way he does, and sets the background for individual investment decisions.

Marketing

The company's marketing activity promotes The Merchants Trust to investors looking for exposure to capital growth in large UK equities and an above average level of dividend. The policy is to reach out to private investors managing their own investments as well as wealth managers and institutional fund managers. This is undertaken through regional roadshows, marketing and public relations campaigns. The work with our partners to do this is discussed in the table of stakeholder engagement on page 42.

The company undertakes joint marketing initiatives with a number of market-leading investment platforms and this has proved to be a highly successful strategy. The portfolio manager, Simon Gergel, speaks at investor conferences and events and records interviews and podcasts available through our website.

Dividend

Income is distributed to provide an above market average yield on an annual basis. Investors receive a dividend each quarter. The board seeks to increase the company's total dividend each year whilst keeping back a modest amount for reserves in years of strong income growth. The chart in the Chairman's Statement on page 4 shows dividend increases every year since 1982 and the KPI chart on page 8 shows the contribution to dividend reserves in the past five years.

Discount/premium

The discount/premium of the share price to net asset value is closely monitored. When shares are trading at a premium, the policy is to be prepared to issue shares to meet natural demand in the market. Conversely, when shares are trading at a discount shares may be bought back and cancelled or held in treasury. The board may buy back shares when it considers the discount to be significant and a buyback will be good relative value, taking gearing into account.

During the year the company was able to issue 4,150,000 shares to meet new demand in the market and since the year end, a further 1,746,423 new shares were issued.

Business Model

The Merchants Trust carries on business as an investment company and follows the investment policy described above.

Merchants is governed by an independent board of non-executive directors and has no employees or premises of its own. Like other investment companies, it outsources investment management, accounting, company secretarial and other administration services to an investment management company – Allianz Global Investors GmbH, UK Branch (AllianzGI) – and other third parties to provide shareholders with an efficient, competitive, cost-effective way to gain wide investment exposure through a single investment vehicle.

The company has a premium listing on the London Stock Exchange. In addition to annual and half-yearly financial reports, the company announces net asset values per share daily and provides more detailed information monthly to the Association of Investment Companies (AIC), of which the company is a member, in order for brokers and investors to compare its performance with its peer group.

Engagement with Key Stakeholders

The company's key stakeholders are its investors, its service providers and the companies in which it invests. The board's strategy is facilitated by interacting with a wide range of stakeholders through direct meetings, seminars, presentations and publications and through contacts made through our suppliers and intermediaries. Engagement with the company's stakeholders enables the company to fulfil its strategies and to promote the success of the company for the benefit of the shareholders as a whole. Set out below are examples of the ways in which Merchants has interacted with key stakeholders in line with section 172 of the Companies Act.

This illustrates how these engagements have promoted the success of Merchants.

Stakeholder	Stakeholder interaction	Outcome on strategy
Main Service Provider	The board met with senior executives from our investment management service provider, Allianz Global Investors (AllianzGI) at the annual Strategy Day, to discuss the business plan for 2019/20.	We concluded that issuing new shares in Merchants would be an important objective to increase efficiency and visibility of the trust. A successful promotional campaign across multiple channels helped the company issue £21.4m of fresh equity at a premium to NAV in the financial year.
Credit Providers	Merchants relies on around £100m of debt to amplify returns for its shareholders and the board constantly considers ways to improve the debt capital structure. Early in the year we met with several banks who offered cheaper debt facilities.	After many months of negotiations and documentation we announced the repayment of an expensive debenture and a new flexible revolving credit facility from Scotiabank. This reduced Merchants' average debt cost to 3.5% and will improve future EPS and support higher dividends.
Media	Many of our shareholders are influenced by the media and therefore we regularly engage with journalists which results in press articles and online media coverage. The company's 130th anniversary in 2019 was a key topic.	A podcast featuring Mary Ann Sieghart and related media events as part of the anniversary celebrations elevated the profile of Merchants and emphasised the long-term features of its high income returns.
Shareholders	The board met with many retail shareholders at the AGM in 2019 and debated various investment themes. The AllianzGI fund management team visited wealth managers across the UK.	Feedback from shareholders helps us understand their views on issues such as gearing, Environmental, Social and Governance (ESG) risks and the company's strategy. These views influenced the decisions on debt restructuring.
Distribution Partners	Several board members attended an AllianzGI seminar in November 2019 where platform providers AJ Bell, Interactive Investor and Shareholder Centre explained their strategy and business model.	Platforms are an important and growing distribution channel for investment trusts like Merchants. The board has been reallocating resources to enhance the impact and relevance of Merchants to the platforms and their clients.

Risk Report

Risk policy

The board operates a risk management policy to ensure that the level of risk taken in pursuit of the board's objectives and in implementing its strategy is understood. The principal risks identified by the board are listed below, together with the actions taken to mitigate them, and set out in the table opposite. The board has carried out a robust assessment of the principal and emerging risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity and emerging risks and how they monitor and manage them and disclose them in the annual report. The process by which the directors monitor risk is described in the Audit Committee Report on page 64.

Risk mapping

The risk map on pages 44 and 45 shows the board's assessment of the principal risks facing the company. These have been grouped into three types: Investment and Portfolio Risks; Business and Strategy Risks; and Operational Risks. Risks are rated as 'red' or 'high' when the risk is of concern and sufficient mitigation measures are not possible or not yet in place; 'amber' or 'moderate' when the risk is of concern but sufficient measures are defined and have been or are being implemented; and 'green' or 'acceptable' when the risk is acceptable and no further measures are needed. The nature of the company's business means that a certain amount of risk must be taken for its objectives to be met therefore it is not surprising that portfolio risk types earn amber ratings.

Principal risks

A more detailed version of the chart is reviewed and updated by the audit committee at least twice yearly. This takes the form of a matrix which sets out risk types, key risks identified and their status, the controls and mitigation in place to address these risks, together with the evidence of controls and gives an assessment of the risk using a traffic-light system, as shown at the bottom of the chart, to confirm the outcome of the assessment of the risk.

The principal risks have changed from the previous year, primarily as a result of COVID-19. Those identified as having the highest impact are Market decline (1.1 below), Emerging risks (3.8 below) and Investment performance (2.3 below). However, Market decline and Emerging risks are shown to have increased in likelihood as shown by the arrows on the risk chart. Some risks have been assessed as being no more likely but with greater impact, such as Currency, Investment performance and Third party risks. Financial crime and cyber risks are now seen as more likely. Some risks: Market decline and Emerging, have moved from amber to red as the board has assessed there are elements to these that cannot be managed or mitigated.

Investment and Portfolio Risks

1.1 Market decline

The board receives regular reporting from the manager on macro-economic intelligence received from its internal and external sources. Macro-economic and political risks are taken into account during portfolio construction, although stock selection is predominantly "bottom up" driven. The portfolio is diversified across industries and stocks to mitigate the impact of individual share price volatility. Whilst the portfolio is only invested in UK listed companies, the end market exposures of these businesses are spread around the world. The portfolio is stress tested at least monthly.

1.2 Market liquidity and pricing

Board policies restrict the size of investments in individual companies and sectors. Liquidity reports including stock disposal times are evaluated by the manager at least monthly.

1.3 Counterparty

The manager operates on a delivery versus payment system, therefore reducing the risk of counterparty default.

1.4 Currency

The board monitors currency movement and determines hedging policy as appropriate. The portfolio is only invested in UK listed companies, with shares predominantly priced in sterling. Currency exposure is therefore primarily indirect, reflecting the market positions and trading exposures of these companies, but exposures are well diversified. Several companies pay dividends in non-sterling currencies, and the board monitors the income split by currency to assess risks to the revenue account.

Business and Strategy Risks

2.1 Shareholder relations

A review of shareholder lists takes place at each board meeting. Reports on shareholder sentiment are received from the manager and brokers and reviewed by the board. Significant movements in shareholder accounts are reported to the board. The AGM is the core interface between the company and shareholders in demonstrating accountable and transparent management of the company.

2.2 Investment strategy

Board policies restrict the size of investments in individual companies and sectors. The board reviews the suitability of the investment strategy and the stock selection process regularly, in particular at the annual strategy review. The board closely monitors the income projections for the portfolio, and the level of risk and diversification of this income, to ensure the company can meet its income objectives.

2.3 Investment performance
The investment manager attends all board meetings to discuss performance with the directors. The board manages these risks by giving investment guidelines which are monitored at each meeting. The board reviews the investment performance of the company against the benchmark and peer group. The board regularly discusses composition and succession planning to ensure that sufficient board members have the appropriate background and knowledge to evaluate performance.

2.4 Financial
The rolling income forecast (including special dividends), balance sheet and expenses are reviewed at every board meeting. Reporting from the custodian covering internal controls in place over custody of investments and over appointment and monitoring of sub-custodians is produced and reviewed at least annually. The board's investment restrictions are input in trading systems to impose a pre-trade check. The manager discusses derivative activity during a monthly risk call. Any overdue dividend debtors are monitored by the manager and variance analyses of income from meeting to meeting are provided to the board. The board annually reviews and approves the accounting policy for the income/capital split.

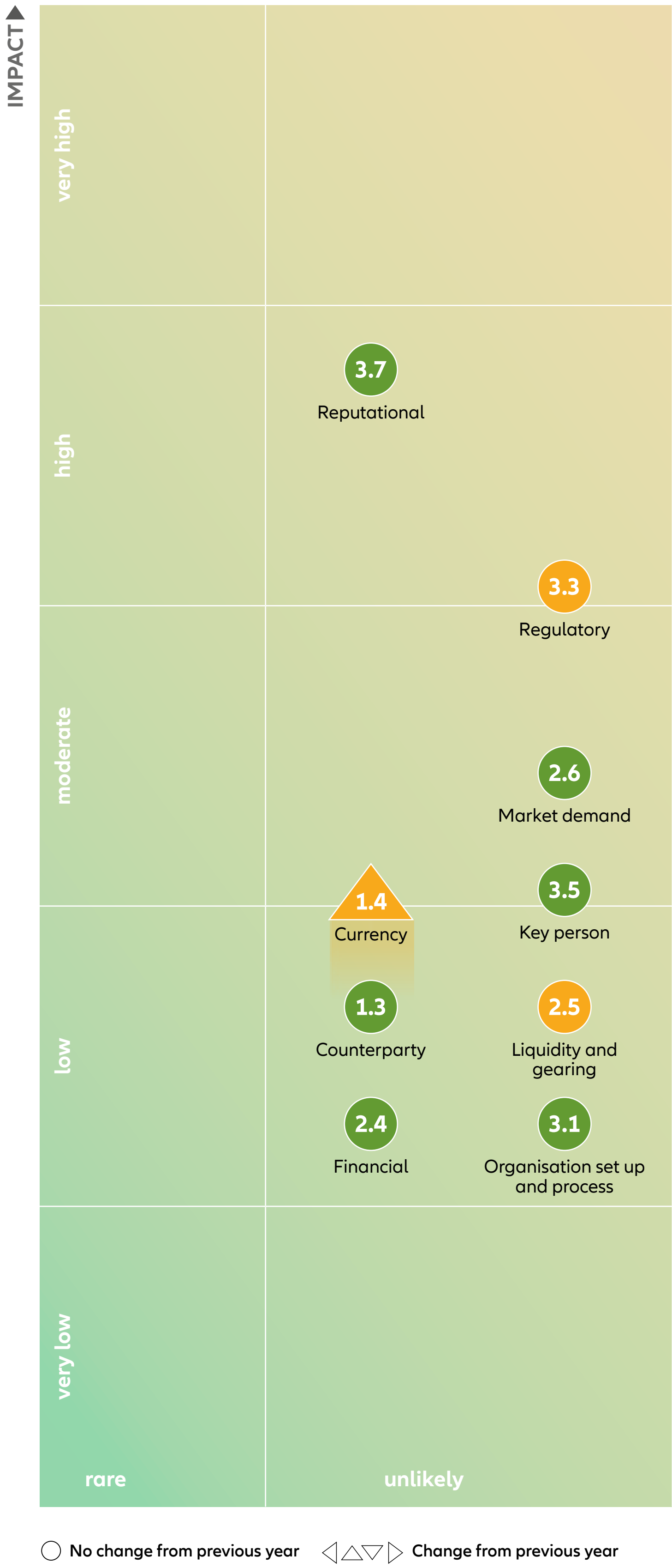
2.5 Liquidity and gearing
The board meets with the portfolio managers and considers asset allocation, stock selection and levels of gearing on a regular basis and has set investment restrictions and guidelines that are monitored and reported on by AllianzGI. Regular compliance information is prepared by the manager and submitted to lenders in accordance with the covenant requirements.

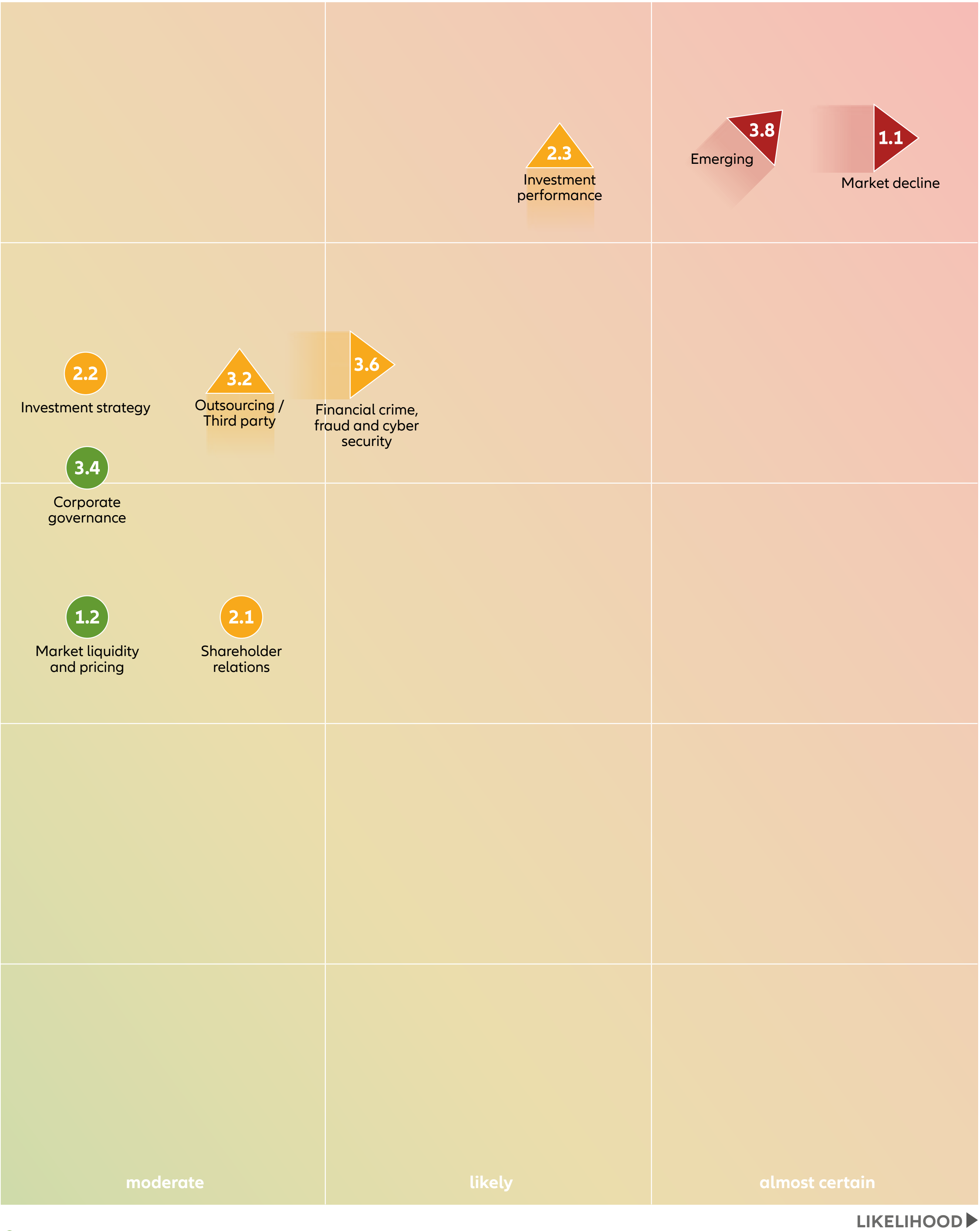
2.6 Market demand
The board regularly reviews the level of premium and discount and new shares can be issued or existing shares can be bought back by the company at discounts greater than an agreed level when there is demand to do so.

Operational Risks

3.1 Organisation set up and process
Business continuity plans are in place and are reviewed and tested on an annual basis by the manager. The manager engages an external party to audit its control environment, submitting the annual results to the board.

In the current COVID-19 environment the board's and the manager's plans have been tested to an extreme level and have been found to meet requirements for business continuity.





- Risk is acceptable, no more measures needed
- Risk is of concern but sufficient measures are defined and being implemented
- Risk is of concern, sufficient mitigation measures not possible or not yet in place

3.2 Outsourcing and third party
The board receives formal assurance reports from all of its direct service providers and the manager carries out regular monitoring of outsourced administration functions, this includes compliance visits and risk reviews where necessary. Results of these reviews are supplied to the board.

Service Level Agreements (SLAs) and Key Performance Indicators (KPIs) are in place with each service provider and the board receives reports outlining performance against these.

The company secretary reports to the board that the contracts with service providers are reasonable and competitive.

3.3 Regulatory
The board maintains close relations with its advisers and makes preparations for mitigation of these risks as and when they are known or can be anticipated.

3.4 Corporate governance
The board takes regular advice on best practice. The board is highly experienced and knowledgeable about corporate governance best practice, and the board includes directors who are board members of other large UK Plcs and other investment companies.

3.5 Key person
Manager and board succession plans are in place. Cover is available for core members of the relevant teams of the manager, and work can be carried out by other team members should the need arise.

3.6 Financial crime, fraud and cyber security
AllianzGI has anti-fraud, anti-bribery policies and robust procedures in place. The board is alert to the risks of financial crime and threat of cyber attacks and reviews how third party service providers handle these threats. These reports confirm that all systems are secure and are updated in response to any new threats as they arise.

3.7 Reputational
The Investment Manager works closely with AllianzGI's Environmental, Social and Governance (ESG) and Stewardship function and actively engages with investee companies on ESG issues and makes investments incorporating ESG factors in the decision process.

The Investment Manager provides a statement on Stewardship on page 22.

3.8 Emerging - including COVID-19
The Board carries out horizon scanning by keeping informed through its auditors, lawyers and manager on the political, economic and legal landscape, and reviews updates received on regulatory changes that affect the company. Examples include:

– Keeping informed on the Brexit preparations (soft or hard exit) by the manager and providers.
– Reviewing industry and manager thematic outlook and insights research publications
– Since the company's year end the threat of a pandemic has moved from a likely event to a global event with an immediate impact on economies and societies. COVID-19 is causing changes across the company's investment universe and some adaptations to its engagements with its suppliers and other stakeholders. The board is fully engaged with its management company, AllianzGI, and its other advisers to keep informed about the emerging changes and is ready to adapt its strategies in order to achieve its objectives.

Risk appetite
The board identifies risks, considers controls and mitigation, the probability of the event, and assesses residual risk. It then evaluates whether its risk appetite is satisfied. The board confirms for the year ended 31 January 2020 that its assessment of risk is in line with its risk appetite for all key risks.

Movements in the year
Movements in the positioning of the risks in the risk map during the year are shown using arrows. The board has assessed the risks and determined that there have been increases to the following risks: 1.1 Market decline; 1.4 Currency; 2.3 Investment performance; 3.6 Financial crime, fraud and cyber security; and 3.8 Emerging.

In addition to the principal risks described above, the board has identified more general risks, for example, relating to compliance with accounting, tax, legal and regulatory requirements and to the provision of services from third parties. As in all companies, the board is alert to the risks of financial crime and threat of cyber attacks and monitors reports provided by third party service providers on how these threats are being handled. After ensuring that there are appropriate measures in place, the board considers that these risks are effectively mitigated.

Cyber Security Risks – review

Cyber attack is now viewed as more likely than before and this is reflected in the risk matrix. In the year under review the board has received the results of a review of the cyber security frameworks in place, including firewall security, and site visits, at each of the company's key suppliers, and it has concluded that there are sufficient safeguards in place.

Brexit – Risks and Implications

The board has considered the likely impact of the changes to the UK's relationship with The European Union and identified the areas where it believes there will be adjustments in how the company operates.

Portfolio management: While the UK is expected to put in place a temporary permissions regime, there has been no clarity from the EU on how it will treat UK institutions. The board has also reviewed the impact on the portfolio of investments in detail with the portfolio manager.

Regulations: The UK government has indicated that it will enshrine all existing EU law into UK law at the date of withdrawal. The German regulator, BaFin, and the FCA in the UK have reached a formal understanding that AllianzGI GmbH can continue to operate as the AIFM after Brexit and apply to be regulated.

Banking and finance: The UK government will allow EEA firms (such as its lending bank, ING Bank NV) to continue to operate in the UK for up to three years while they apply for full authorisation.

The board has concluded that although there may be some changes to the way the company operates after Brexit comes into force, that it is well prepared for what is foreseeable, and that there is likely to be no fundamental change to its business model.

Going Concern

The directors have considered the company's investment objective and capital structure and, having noted that the portfolio consists mainly of securities which are readily realisable, have concluded that the company has adequate resources to continue in operational existence for the next twelve months from the date of approval of the financial statements. The directors have also considered the risks and consequences of the COVID-19 pandemic on the company and have concluded that the company has the ability to continue in operation and meet its objectives in the year ahead. For this reason the directors continue to adopt the going concern basis in preparing the financial statements. The board's actions in response to COVID-19 are developed further in the Viability Statement which follows below.

Viability Statement

The Merchants Trust is an investment company and has operated as an investment vehicle since 1889 with the aim of offering a return to investors over the long term. The board has confidence in the future of the company. Over its 131 year history, the company has survived numerous external crises and economic events; it has a solid portfolio of blue chip stocks and has built up substantial revenue reserves. The directors have formally assessed the company's prospects for a period longer than the one year required by the Going Concern principle, as set out above. The directors believe that five years is an appropriate outlook period for this review as this is broadly equivalent to the portfolio's investment cycle. Whilst acknowledging the difficulty of forecasting prospects for markets beyond a relatively short horizon, the board believes that this should give investors assurance that there is a realistic prospect that the company will continue to be viable and continue to seek to achieve its aim to provide an above average level of income and income growth together with long term capital growth.

The board has assessed the long-term viability of the company against the principal risks faced by the company, outlined in the reporting under Risk in the Strategic Report. The chief risks that could pose a threat to the future prospects of the company are Investment Performance and Market Decline, as described in the Risk reporting on pages 43 and 44.

A number of factors supported the board in its review and enabled the directors to make the formal statement, including:

- The company's investment strategy which, in the board's view, will continue to provide long term returns to shareholders as well as an attractive income as it has done in the past;
- As an investment company Merchants is able to put aside revenue reserves in years of good income to cover a smooth payment of growing dividends in years when there are challenges to portfolio revenues;
- The financial position of the company, including the impact of foreseeable market movements on future earnings and cash flows - the board monitors the financial position in detail at each board meeting and at least twice each year it stress-tests the portfolio against significant market falls.
- In the current environment the board is reviewing earnings prospects, gearing and debt covenants on a continuous basis with the managers;
- The company's ability to meet interest payments and debt redemptions as they fall due; and
- The liquidity of the portfolio, and the company's ability to pay dividends and to meet the budgeted expenses of running the company which is examined at each board meeting. This is being reviewed with greater frequency in the current economic environment.

The directors have evaluated the risks and consequences of the global COVID-19 pandemic and have considered the company's ability to maintain its objectives and provide shareholder returns in the five year horizon for viability and believe that the company is well placed to be able to achieve this.

Based on the results of this assessment and on the assumption that the risks above are managed or mitigated effectively, the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the five year period of their review.

Social, Community and Human Rights Issues

As an investment trust, the company has no direct social or community responsibilities. However, the board shares the manager's view that it is in shareholders' interests to be aware of and consider human rights issues, together with environmental, social and governance factors when selecting and retaining investments. Details of the company's policy on socially responsible investment are set out above.

Current events - COVID-19

At the time of writing the once a century global pandemic is still in its developing stages and we are already seeing fundamental changes to the way we live and operate and beginning to consider what life will be like once a vaccine is found which would allow freedom of movement again and global economies and societies to heal. However, Merchants Trust's reasons to exist remains unchanged.

As we set out on the first page of this annual report there are many reasons to invest and stay invested in The Merchants Trust. Merchants has experience of providing active investment management through many difficult environments and provides long-term capital growth and an above average income and income growth to investors.

The board has considered the headwinds raised by a global epidemic with its human tragedies and its economic and social consequences and having evaluated the risks and consequences believes that Merchants is equipped to survive and continue to be viable for the five year period here under review.

The Future

Some of the trends likely to affect the company in the future are common to many investment companies, such as the future attractiveness of investment companies as investment vehicles. The outlook for economic growth, interest rates, inflation and asset returns will also be important factors. In particular for Merchants, the availability of attractive income producing UK equities and their future returns are central to the investment proposition. The board continues to believe that the pension freedoms and the continuing evolution of the investment platforms market offer many opportunities for the self-directed investor.

I give my view of the outlook in my Chairman's Statement on page 7 and the investment manager discusses his view of the outlook for the company's portfolio in his review on page 25.

On behalf of the board.

Colin Clark
Chairman
23 April 2020

Governance

Construction and materials company Keller was a notable contributor to performance. The portfolio benefited from a recovery in medium-sized and smaller companies.

Directors

Colin Clark

Chairman

Joined the board in June 2019 and became Chairman in September 2019. Colin is Chairman of the boards of AXA Investment Managers UK Ltd and AXA Investment Managers GS Ltd, a non-executive director of AXA IM SA global board and a non-executive director of Rathbone Brothers Plc. Colin has had a 35 year career in asset and wealth management. His most recent executive roles were from 2010 at Standard Life Investments and as an executive director of Standard Life Plc where he was responsible for the Global Client Group. Prior to this he was with Mercury Asset Management, Merrill Lynch Investment Managers and S.G.Warburg & Co.

Experience:
Senior leadership roles in the asset management industry and an experienced Chairman.

Reasons for the recommendation for election:
Colin's senior expertise and asset management knowledge are valued for their input into the board's governance and the response by the board to challenging external events.

Timon Drakesmith

Chairman of the Audit Committee

Joined the board in November 2016. Timon was, until recently the Chief Financial Officer of Hammerson plc. Timon was formerly Finance Director of Great Portland Estates plc and Group Director of Financial Operations of Novar plc. He is a Chartered Accountant and has held previous financial roles at Credit Suisse, Barclays and Deloitte Haskins and Sells.

Experience:
Finance Director of large UK corporates and a chartered accountant.

Reasons for the recommendation for re-election:
Timon has professional skills as a financial expert and brings understanding and in depth knowledge of company financing, leading the board's exploration of refinancing.

Mary Ann Sieghart

Joined the board in November 2014. Mary Ann is Chair of the Social Market Foundation and a non-executive director of Pantheon International Plc. She is a trustee of the Kennedy Memorial Trust and a trustee and Investment Committee Chair of The Scott Trust, the owner of the Guardian and the Observer newspapers. Mary Ann also holds various other voluntary posts. She was previously senior independent director of The Henderson Smaller Companies Investment Trust plc. Mary Ann is a political journalist and broadcaster and was formerly Assistant Editor of The Times, a Lex Columnist at the Financial Times and City Editor of Today. She was a Visiting Fellow of All Souls College, Oxford for the academic year 2018-2019.

Experience:
Communications background with experience as a journalist and broadcaster and investment trust board experience.

Reasons for the recommendation for re-election:
In addition to knowledge and understanding of investment trusts Mary Ann has insight into marketing and promotion, providing guidance on media engagement to raise the profile of the company.

Sybella Stanley

Senior Independent Director

Joined the board in November 2014. She is Director of Corporate Finance at RELX Group plc, where she manages RELX Group's global mergers and acquisitions programmes, and is a non-executive director of Tate & Lyle PLC. Sybella is also a Member of the Department of Business, Energy and Industrial Strategy's Industrial Development Advisory Board and Co-chair of the Development Board of Somerville College, Oxford. Before joining RELX Group in 1997, Sybella was a member of the M&A advisory teams at, successively, Citi and Barings. Sybella is a barrister.

Experience:
A lawyer with wide corporate finance experience at a senior level in industry and FTSE 100 non-executive director experience.

Reasons for the recommendation for re-election:
Sybella's legal knowledge and expertise at a high level across industries invested in by the portfolio are valuable to the board.

Karen McKellar

Will join the board on 1 May 2020 to replace Paul Yates. Karen has had a long career as an investment manager at Standard Life, managing the Standard Life Equity Income Investment Trust as well as several large UK equity open-ended funds.

Experience:
An asset management professional with senior management and money management experience.

Reasons for the recommendation for election:
Karen will bring to the board a deep understanding of portfolio management.

Paul Yates

Joined the board in March 2011. He is Chairman of the Advisory Board of 33 St James's Limited and is a non-executive director of Fidelity European Values PLC, Witan PLC and Capital Gearing Trust Plc. Paul has had a long career in investment management beginning at Samuel Montagu & Co in 1980. He joined Phillips and Drew in 1985 – the year that it was acquired by UBS. He held a number of positions at UBS, covering management, portfolio management, pensions, strategy and client service. He was CEO of UBS Global Asset Management (UK) Limited between 2001 and 2005. After undertaking a number of global roles at UBS he retired in 2007.

Paul will be retiring from the board on 1 May 2020 and will not therefore be standing for re-election at the AGM.

Committee memberships
All directors are non-executive and independent of the manager. All directors are members of the Management Engagement Committee. All directors, with the exception of the Chairman, Colin Clark, are members of the Audit Committee. Further details are on page 57.

Investment Manager and Advisers

The Manager or Alternative Investment Fund Manager (AIFM)

Allianz Global Investors GmbH is an investment company with limited liability incorporated in Germany and registered in the UK as a branch with establishment number BR009058 and with an establishment address of 199 Bishopsgate, London EC2M 3TY. It is authorised and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and is subject to limited regulation by the Financial Conduct Authority (FCA).

Allianz Global Investors are active asset managers operating across 19 markets with specialised in-house research teams around the globe, managing assets for individuals, families and institutions worldwide.

As at 31 December 2019, Allianz Global Investors had €563 billion of assets under management worldwide.

Through its predecessors, Allianz Global Investors has a heritage of investment trust management expertise in the UK reaching back to the nineteenth century and as at 31 December 2019 had £1.75 billion of assets under management in a range of investment trusts. Website: www.allianzgi.co.uk

Head of Investment Trusts

Stephanie Carbonneil
Email: stephanie.carbonneil@allianzgi.com

Investment Manager

Simon Gergel, representing Allianz Global Investors GmbH, UK Branch, 199 Bishopsgate, London EC2M 3TY.

Company Secretary and Registered Office

Kirsten Salt BA (Hons) ACIS, 199 Bishopsgate, London EC2M 3TY
Telephone: 020 3246 7513
Email: kirsten.salt@allianzgi.com

Registered Number

28276

Independent Auditors

BDO LLP

Bankers

HSBC Bank plc,
Barclays Bank plc

Registrars

Link Asset Services
(full details on page 99)

Solicitors

Dickson Minto W.S.
Herbert Smith Freehills LLP

Stockbrokers

J.P. Morgan Securities Limited

Custodian

HSBC Bank plc

Depositary

HSBC Securities Services

Statement of the Depositary's Responsibilities in Respect of the Company

"The Depositary must ensure that the company is managed in accordance with the Financial Conduct Authority's Investment Funds Sourcebook, ("the Sourcebook"), the Alternative Investment Fund Managers Directive ("AIFMD") (together "the Regulations") and the company's Articles of Association.

The Depositary must in the context of its role act honestly, fairly, professionally, independently and in the interests of the company and its investors.

The Depositary is responsible for the safekeeping of the assets of the company in accordance with the Regulations.

The Depositary must ensure that:
- the company's cash flows are properly monitored and that cash of the company is booked into the cash accounts in accordance with the Regulations;
- the sale, issue, repurchase, redemption and cancellation of shares are carried out in accordance with the Regulations;
- the assets under management and the net asset value per share of the company are calculated in accordance with the Regulations;
- any consideration relating to transactions in the company's assets is remitted to the company within the usual time limits;
- that the company's income is applied in accordance with the Regulations; and
- the instructions of the Alternative Investment Fund Manager ("the AIFM") are carried out (unless they conflict with the Regulations).

The Depositary also has a duty to take reasonable care to ensure that the company is managed in accordance with the Articles of Association in relation to the investment and borrowing powers applicable to the company.

Report of the Depositary to the Shareholders of The Merchants Trust PLC (the company) for the year ended 31 January 2020.

Having carried out such procedures as we consider necessary to discharge our responsibilities as Depositary of the company, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the company, acting through the AIFM has been managed in accordance with the rules in the Sourcebook, the Articles of Association of the company and as required by the AIFMD."

HSBC Bank plc
1 March 2020

Further information about the relationship with the Depositary is on page 98.

Directors' Report

The directors present their report and the audited financial statements of the company for the year ended 31 January 2020.

Revenue

The revenue earnings attributable to ordinary shareholders for the year amounted to £32,643,236 or 29.7p per share (2019: £30,095,750, 27.7p per share).

The first quarterly dividend of £7,371,907, or 6.7p per share, and the second quarterly dividend of £7,515,936, or 6.8p per share, have been paid during the year. Since the year end the third quarterly dividend of £7,675,736, or 6.8p per share, was paid on 11 March. A fourth interim dividend of 6.8p will be paid on 29 May 2020. In accordance with FRS 102 Section 32: 'Events after the end of the reporting period', the third and fourth interim dividends are not recognised as liabilities within the financial statements on the basis that at the year end the third and fourth interim dividends had not been paid.

Invested Funds

Sales of investments during the year resulted in net gains based on historical costs of £17,831,454 (2019: £19,824,923). Provisions contained in the Finance Act 2010 exempt approved investment trusts from corporation tax on their chargeable gains.

Share issuance and buy back

During the year there were share issuances totalling 4,150,000 shares and no share buybacks. Since the year end a further 1,746,423 new shares were issued. Further details are on page 88.

Future Development

The future development of the company is dependent on the success of the company's investment strategy against the economic environment and market developments. The Chairman's Statement on page 7 sets out the outlook for the company and the investment manager also discusses his view of the outlook for the company's portfolio in his report on page 25. The future is also discussed in the Strategic Report on page 48.

Section 992 of the Companies Act 2006

The following information is disclosed in accordance with Section 992 of the Companies Act 2006.

Capital Structure

The company's capital structure is summarised in Note 12 on page 88. The details of the 4% perpetual debenture stock and the 3.65% cumulative preference stock are provided in Notes 11(iii) and 11(iv) respectively on page 87.

Voting Rights in the Company's Shares

The voting rights to 22 April 2020 were:

Share class	Number of shares issued	Voting rights per share	Total voting rights
Ordinary shares of 25p	114,624,887	1	114,624,887
3.65% cumulative preference stock of £1	1,178,000	1	1,178,000
Total	**115,802,887**		**115,802,887**

Every member on a show of hands has one vote. On a poll every member who is present in person or by proxy or representative has one vote for every £1 in nominal amount of preference stock or one vote for every ordinary share of 25p. The perpetual debenture stock and bonds carry no voting rights.

Interests in the Company's Share Capital

As at 23 April 2020 the company has received no declarations of notifiable interests in the company's issued share capital.

Common Reporting Standards (CRS)

CRS is a global standard for the automatic exchange of information commissioned by the Organisation for Economic Cooperation and Development and incorporated into UK law by the International Tax Compliance Regulations 2015. CRS requires the company to provide certain additional details to HMRC in relation to UK resident foreign investment holders. The reporting obligation began in 2016 and will be an annual requirement going forward. The Registrars, Link Asset Services, have been engaged to collate such information and file the reports with HMRC on behalf of the company.

Directors

Biographical details of the current directors at the date of the signing of this report are shown on pages 50 and 51.

All of the directors are retiring at the annual general meeting and each offers themself for re-election. The board considers each director to be independent of the manager and each has the full support of the board in standing for re-election. Simon Fraser, retired from the board on 1 September 2019, and Colin Clark, who joined the board on 30 June 2019, became Chairman on 1 September 2019.

Related Party Transactions

During the financial year no transactions with related parties have taken place which would materially affect the financial position or the performance of the company.

Management Contract and Management Fee
The management contract with Allianz Global Investors GmbH, UK Branch (AllianzGI) provides for a fee of 0.35% per annum (2019: 0.35%) of the value of the assets, calculated quarterly, after deduction of current liabilities, short term loans with an initial duration of less than one year and any funds within the portfolio managed by AllianzGI. The management contract is terminable at one year's notice (2019: one year). Under the contract, other than a year's fees which may be paid in lieu of notice, there are no compensation payments due on termination.

The manager's performance under the contract and the contract terms are reviewed at least annually by the Management Engagement Committee. This committee consists of the directors not employed by the management company in the past five years and therefore includes the entire board. During the year, the committee met the manager to review the current investment framework, including the company's performance, marketing activity and total expense ratio.

The committee also reviewed the terms of the management contract and considered the level of the management fee. The committee was satisfied with its review and believes that the continuing appointment of the manager is in the best interests of shareholders as a whole.

Special Rights Disclosure

There are no restrictions concerning the transfer of securities in the company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the company; no agreements which the company is party to that might affect its control following a takeover bid; and no agreements between the company and its directors concerning compensation for loss of office.

The company is not aware of any agreements between holders of securities with regard to control of the company which may result in restrictions on voting rights.

Financial Reporting

The Statement of Directors' Responsibilities in respect of the financial statements is on page 68. The Independent Auditors' Report can be found on pages 70 to 74.

Auditors' Information

Each of the persons who is a director at the date of approval of this report confirms that:

(a) in so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

(b) the director has taken all the steps he or she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Relations with Shareholders

The board strongly believes that the annual general meeting should be an event which private shareholders are encouraged to attend. The annual general meeting is attended by the Chairman of the board, the Chairmen of the board's committees and the directors, and the investment manager makes a presentation at the meeting. The number of proxy votes cast in respect of each resolution will be made available at the annual general meeting.

The manager meets with institutional shareholders on a regular basis and reports to the board on matters raised at these meetings. The Chairman and, where appropriate, other directors, are available to meet with shareholders to discuss governance and strategy and to understand their issues and concerns. All correspondence with shareholders is reviewed by the board.

Shareholders who wish to communicate directly with the Chairman, the Senior Independent Director or other directors may write care of the Company Secretary, The Merchants Trust PLC, 199 Bishopsgate, London EC2M 3TY.

The notice of meeting sets out the business of the meeting and special resolutions are explained more fully later in the Directors' Report. Separate resolutions are proposed for each substantive issue.

The UK Stewardship Code and Exercise of Voting Powers

The company's investments are held in a nominee name. The board has delegated discretion to discharge its responsibilities in respect of investments, including the exercise of voting powers on its behalf to the manager, AllianzGI. AllianzGI is a signatory to the UK Stewardship Code, which sets out good practice on engagement with investee companies. AllianzGI monitors our portfolio holdings and proactively engages with investee companies in line with the principles set out in the UK Stewardship Code and consistent with our investment objectives. AllianzGI subscribes to the ISS Proxy Voting Services. ISS manages the voting process and recommends actions based upon AllianzGI's Global Proxy Voting Policy Guidelines.

Where directors hold directorships on the boards of companies in which the company is invested, they do not participate in decisions made concerning those investments, such as Sybella Stanley (Tate & Lyle).

An extract from the company's voting record in the previous year will be available for inspection at the annual general meeting each year.

Criminal Finances Act 2017

The company has a commitment to zero tolerance towards the criminal facilitation of tax evasion.

Modern Slavery Act 2015

The company does not provide goods or services in the normal course of business, and as a financial investment vehicle does not have customers. The directors therefore consider that the company is not required to make a statement under the Modern Slavery Act 2015 in relation to slavery or human trafficking.

Bribery Act 2010

The board has a zero tolerance policy in relation to bribery and corruption and has received assurance through internal controls reporting from the company's main third party service providers that adequate safeguards are in place to protect against any such potentially illegal behaviour by employees or agents.

Greenhouse Gas Emissions

The company has an external manager, AllianzGI, part of Allianz Group, and has no physical assets, operations, premises or employees of its own. Consequently it has no greenhouse gas emissions to report. Allianz Group reports on the greenhouse gas emissions for its own operations.

General Meeting

The directors are seeking authority at a General Meeting on 27 April 2020 for an ordinary resolution to be passed to allot relevant securities, in accordance with section 551 of the Companies Act 2006, up to a maximum of 5,731,240 ordinary shares of 25p each. This authority expires at the AGM in 2020 and accordingly a renewed authority will be sought at that time to allot up to one third of the existing ordinary share capital at the date of the AGM.

Annual General Meeting

As noted in the Chairman's Statement, due to the impact of COVID-19 restrictions in place at the time of the publication of this Annual Report, the convening of the company's AGM has been postponed until anticipated legislation by the UK Government to allow meetings to be held under rules that may not be covered in a company's articles comes into force. At the AGM resolutions will be put to shareholders to cover ordinary business including the election and re-election and remuneration of the directors and the re-appointment of the auditors, and special business such as the authority for the allotment and buyback of shares.

The board and the Annual Report

The board reviewed the entire annual report and noted all the supporting information received. It then considered whether the annual report satisfactorily reflected a true picture of the company and its activities and performance in the year, with a clear link between the relevant sections of the report. The directors were then able to confirm that the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

By order of the board

Kirsten Salt
Company Secretary
23 April 2020

Corporate Governance Statement

The directors are responsible for good and effective governance and our approach is to ensure that we abide by the principles of the governance framework for investment companies and check these are embedded in our culture to give our stakeholders and the wider community confidence in our decision making and communications. In particular, the board believes in providing as much transparency for investors as is reasonably possible to ensure investors can clearly understand the prospects of the business

The board has considered the Principles and Provisions of the AIC Code of Corporate Governance (AIC Code) issued in February 2019. The AIC Code addresses the Principles and Provisions set out in the UK Corporate Governance Code (the UK Code), as well as setting out additional Provisions on issues that are of specific relevance to the company.

The board considers that reporting against the AIC Code, which has been endorsed by the Financial Reporting Council (FRC), provides more relevant information to shareholders.

The company has complied with the Principles and Provisions of the AIC Code.

The AIC Code is available on the AIC website (www.theaic.co.uk). It includes an explanation of how the AIC Code adapts the Principles and Provisions set out in the UK Code to make them relevant for investment companies.

The board

The board is responsible for the effective stewardship of the company's affairs and aims to provide effective leadership so that the company has the platform from which it can achieve its investment objective. Its role is to guide the overall business strategy to achieve long term success and value for the benefit of shareholders. A fuller description of the company's strategy can be found on pages 40 and 41. Strategic issues and all operational matters of a material nature are considered at its meetings.

Board Composition

There are five directors on the board. The optimum number of directors is five, but the number could fall to four and go as high as six to cover periods of recruitment and retirement. In the year under review Simon Fraser retired from the board on 1 September 2019 and was replaced by Colin Clark as Chairman; Colin had joined the board on 30 June 2019.

The board has a plan for the retirement of directors to ensure that an orderly process of recruitment can take place and that the board's balance of skills and relevant experience is maintained. The board is currently recruiting a new director in anticipation of the retirement of Paul Yates who attained nine years on the board on 21 March 2020.

The biographies of the directors are set out on pages 50 and 51 together with the skills and experience each director brings to the board for the long-term sustainable success of the company.

No contracts of significance in which directors are deemed to have been interested have subsisted during the year under review. Contracts of employment are not entered into with the directors, who hold office in accordance with the company's Articles.

All directors attended all board and relevant committee meetings during the year, as set out in the table below.

Directors' and Officers' Liability insurance cover is held by the company. As permitted by the company's Articles, the company has granted indemnities to the directors.

Board evaluation

The board was subject to an internal formal performance appraisal after the year end. This was conducted by means of interviews between the Chairman and each of the directors and a report was presented to the board. It was found that the board, its committees and the individual directors were all operating effectively and that each director continues to be effective, has the appropriate skills and has demonstrated commitment and devoted the necessary time to his or her role. With a range of relevant skills and experience, the directors all provide challenge in board meetings and each offers useful guidance from his or her own areas of expertise.

Succession is considered as part of the board evaluation exercise and there is more detail in the Nomination Committee Report on page 60.

The Senior Independent Director conducted an appraisal of the Chairman following a similar method to the board evaluation. This exercise confirmed that the Chairman had assumed his responsibilities well since his appointment in September 2019, after a three month handover period from his predecessor.

Upon receiving the reports, the board's Nomination Committee recommended to the board that each of the directors be nominated for re-election or election, as appropriate, at the forthcoming Annual General Meeting.

Training and development

On joining the board new directors receive a comprehensive programme of induction. During the year, the directors received periodic guidance and training on regulatory and compliance changes, including sessions in a day for investment company directors run by the manager, AllianzGI.

Board Diversity

At the year end three of the directors were male and two were female. Following the retirement of Paul Yates in May 2020 and the appointment of Karen McKellar there will be three women and two men on the board. As the company is an investment trust, all of its activities are outsourced and it does not have any employees. In its brief on board succession the board looks to add to the diversity of approach and thinking as well as taking other factors into account.

Conflicts of Interest

The Companies Act 2006 provides that a director must avoid a situation where he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the company's interests. Directors are able to authorise these conflicts and potential conflicts. The board reports annually to shareholders on the company's procedures for ensuring that its powers of authorisation of conflicts are operated effectively and that the procedures have been followed.

Statements by the directors

Each of the directors provides a statement of all conflicts of interest and potential conflicts of interest relating to the company on appointment and subsequently in the event of any change or potential change to this statement. The statements made by each director are considered and approved by the board. The directors have undertaken to notify the Chairman and Company Secretary of any proposed new appointments and new conflicts or potential conflicts for consideration, if necessary, by the board.

Conflicts of interest

The Merchants board follows good practice by having directors' interests as an agenda item at every scheduled board meeting, and a report of all directors' interests is tabled for consideration by the board. This means that any changes to the directors' interests can be noted and recorded, and any potential conflicts identified and dealt with by the board.

Procedure for assessing conflicts and potential conflicts
A director with a potential conflict might be asked to step out of the room, or be permitted to remain in the room but not participate in the discussion or take part in a vote on a course of action. The Merchants board composition has always included directors who sit on the boards of trading companies in which the portfolio manager may be invested, and also includes from time to time directors who sit on the boards of public bodies.

The board has agreed that only directors who have no interest in the matter being considered will be able to take the relevant decision on approval of any conflicts or potential conflicts, and that in taking the decision the directors will act in a way they consider, in good faith, will be most likely to promote the company's success.

The board is able to impose limits or conditions when giving authorisation if it thinks this is appropriate, such as ensuring that a director who also serves on the board of a company in the portfolio does not participate in any discussions on the investment decision.

Directors' Interests Register

The Merchants directors' interests register covers directors' outside interests (e.g., directorships, significant holdings) and where the directors use the services of suppliers to the company (e.g., accountancy firms) in their own capacity. The register also contains notes of any hospitality and gifts received from service providers, including the management company.

Confirmation to shareholders

The board confirms that the detailed procedures have been followed during the year and that its powers of authorisation are operating effectively.

Board Committees

Audit Committee

The Audit Committee Report is on pages 64 to 67.

Nomination Committee

The nomination committee meets as needed – at least once each year – and makes recommendations on board succession planning and the appointment of new directors and considers the composition and balance of the board. The committee is chaired by Colin Clark, the Chairman of the board, and met once in the last year when it considered the re-election of directors at the annual general meeting and noted the progress on the board's succession plans. All directors serve on the nomination committee and consider nominations made in accordance with an agreed procedure.

It is the board's policy to use external agencies to draw up lists of candidates as part of the recruitment of new directors. The brief to the recruitment consultant includes the request that the shortlist should include a diverse range of candidates.

The Nomination Committee Report is on page 60.

Management Engagement Committee

The management engagement committee met once in the year to review the Management and Administration Agreement and the manager's performance and a report of management fees. It has defined terms of reference and consists of all the directors. It is chaired by Colin Clark the Chairman of the board.

The Management Engagement Committee Report is on page 59.

Remuneration Committee

The remuneration committee was formed during the year and met once in the year. The committee consists of all the directors and is chaired by Sybella Stanley. The committee determines the company's remuneration policy and determines the remuneration of each director within the terms of that policy. The Directors' Remuneration Report is on pages 61 to 63.

The terms of reference for each of the committees may be viewed by shareholders on request and are published on the company's website merchantstrust.co.uk.

Internal Control

The directors have overall responsibility for the company's system of internal control. Whilst acknowledging their responsibility for the system of internal control, the directors are aware that such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable but not absolute assurance against material misstatement or loss.

The board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the company. This process has been fully in place throughout the year under review and up to the date of the signing of this Annual Financial Report.

The key elements of the process are as follows:

- In addition to the review of the key risks (see page 43), the directors regularly review all the risks on the Internal Risk Matrix and every six months the board receives from the manager a formal report which details any known internal controls failures, including those that are not directly the responsibility of the manager.
- Allianz Global Investors GmbH, UK Branch (AllianzGI), as the appointed manager, provides investment management, accounting and company secretarial services to the company. The manager therefore maintains the internal controls associated with the day-to-day operation of the company. These responsibilities are included in the Management and Administration Agreement between the company and the manager. The manager's systems of internal control are regularly evaluated by its management and monitored by the manager's internal audit function.
- There is a regular review by the board of asset allocation and any risk implications. There are also regular and comprehensive reviews by the board of management accounting information, including revenue and expenditure projections, actual revenue against projections and performance comparisons.
- Authorisation and exposure limits are set and maintained by the board.
- The board meets with senior representatives of AllianzGI and also receives an Internal Controls Report from the manager, together with a report on compliance with the manager's anti-bribery policy.
- The audit committee on behalf of the board reviews the Internal Controls Reports of other third party service providers, including those of AllianzGI and all other providers of administrative and custodian services to AllianzGI or directly to the company.

The directors confirm that the audit committee has reviewed the effectiveness of the system of internal control, which it has found to be appropriate. During the course of its review of the system of internal control, the board has not identified nor been advised of any failings or weaknesses which it has determined to be significant.

Board Attendance

Attendance by the directors at formal board and committee meetings during the year was as follows:

Director	Board	Board Strategy Meeting	Audit Committee	Remuneration Committee	Nomination Committee	Management Engagement Committee
No. of meetings	6	1	2	1	1	1
Colin Clark [2]	4	1	1[1]	1	0	1
Simon Fraser [3]	3	0	1[1]	0	1	0
Timon Drakesmith	6	1	2	1	1	1
Mary Ann Sieghart	6	1	2	1	1	1
Sybella Stanley	6	1	2	1	1	1
Paul Yates	6	1	2	1	1	1

[1] Invited to attend meetings, although not a committee member.
[2] Appointed 30 June 2019
[3] Retired 1 September 2019

Management Engagement Committee Report

Role of the Committee

The Management Engagement Committee reviews the investment management agreement and monitors the performance of the Manager for the investment, secretarial, financial, administration, marketing and support services that it provides under that agreement. It also reviews the terms of the agreement including the level and structure of fees payable, the length of notice period and best practice provisions generally.

Composition of the Committee

All the directors are members of the committee. Its terms of reference can be found on the website at merchantstrust.co.uk.

Manager evaluation process

The Committee met once during the year for the purpose of the formal evaluation of the manager's performance. For the purposes of its ongoing monitoring, the board receives detailed reports and views from the portfolio manager on investment policy and strategies, asset allocation, stock selection, attributions, portfolio characteristics, gearing and risk. The board also assesses the manager's performance against the investment controls set by the board.

Portfolio performance information, is set out on page 15.

Manager reappointment

The annual evaluation that took place in January 2020 included a presentation from AllianzGI's Head of Investment Trusts and the portfolio manager. This covered the work done with the board on strategy and the integrated sales and marketing activity, including the work with investment platforms and wealth managers. The evaluation also considered the manager's fee in relation to the peer group. The committee met in a private session following the presentation and concluded that in its opinion the continuing appointment of the manager on the terms agreed was in the interests of shareholders as a whole and recommended this to the board.

Note 2 to the Accounts on page 81 provides detailed information in relation to the management fee.

Committee evaluation

The activities of the Management Engagement Committee were considered as part of the board evaluation process completed in accordance with standard governance arrangements as summarised on page 56. The conclusion from the process was that the committee was operating effectively, with the right balance of membership and skills.

Colin Clark
Management Engagement Committee Chairman
23 April 2020

Nomination Committee Report

Role of the Committee

The Nomination Committee leads the process for board appointments and makes nomination recommendations to the board. The Committee reviews and makes recommendations on board structure, size and composition, the balance of knowledge, experience, skill ranges and diversity and considers succession planning and tenure policy.

Composition of the Committee

All directors are members of the committee and its terms of reference can be found on the website at merchantstrust.co.uk

Activities of the Committee

The committee met during the year and considered, in accordance with its terms of reference the structure, size and composition of the board and satisfied itself with regard to succession planning, making recommendations to the board. The committee also discussed the results of the board and committee evaluation exercise, which covered the structure and size of the board and its composition particularly in terms of succession planning and the experience and skills of the individual directors and the topic of board diversity.

Succession planning

Simon Fraser, who joined the board in August 2009, retired in September 2019 and he was replaced as Chairman by Colin Clark who joined the board on 30 June 2019. Paul Yates, who has completed nine years' service, will retire on 1 May 2020. Paul will therefore not be included in the number of directors standing for re-election at the forthcoming AGM. Karen McKellar will be appointed to the board with effect from 1 May 2020. Karen's biographical details are on page 51. Spencer Stuart was appointed to carry out both board searches.

Colin Clark
Nomination Committee Chairman
23 April 2020

Remuneration Committee Report

I am pleased to present my first report as Chairman of the Remuneration Committee.

Composition

All the directors are members of the committee and its terms of reference can be found on the website at merchantstrust.co.uk.

Role

The committee leads the process for fixing directors' remuneration and makes recommendations to the board.

Activities

The committee's activities are set out in the report from the committee which follows.

The Remuneration Report

This is the Directors' Remuneration Report for the year. The report is submitted in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 for the year ended 31 January 2020. An ordinary resolution for the approval of the Directors' Remuneration Policy Report was first put to a binding shareholder vote at the annual general meeting in 2014 and was placed before shareholders for approval at the AGM in 2017. It will next be put to shareholders in 2020. The results of the vote at the 2017 AGM for this resolution were as follows: In favour 94.9%, against 5.1% and 693,409 shares were withheld (in aggregate, 31,770,124 votes). The results of the advisory vote at the 2019 AGM for the resolution to approve the Implementation Report were as follows: In favour 97.5%, against 2.5% and 163,582 shares were withheld (in aggregate 15,071,481 votes). The Directors' Remuneration Implementation Report is to be put to the AGM, annually, as an advisory shareholder vote.

The information provided in this part of the Directors' Remuneration Report is not subject to audit unless specified below.

The Board

The board of directors is composed solely of non-executive directors and the determination of the directors' fees is guided by the remuneration policy (see below) and the recommendations of the remuneration committee which is made up of the independent directors and has been chaired by Sybella Stanley since its inception in 2019. The board has not been provided with advice or services by any person to assist it to make its remuneration decisions, although the directors carry out reviews from time to time of the fees paid to the directors of other investment trusts.

Directors' Shareholdings and Share Interests (Audited)

The interest of the directors at the year end in the ordinary share capital of the company are set out below:

	2020	**2019**
Colin Clark (joined the board on 30 June 2019)	5,000	-
Simon Fraser (retired from the board on 1 September 2019)	20,000	20,000
Timon Drakesmith	15,000	15,000
Mary Ann Sieghart	1,000	1,000
Sybella Stanley	3,114	3,114
Paul Yates	20,133	20,133

The company's Articles provide for directors to hold qualifying shares in the nominal amount of £100, i.e., currently 400 shares.

Directors' Remuneration Policy

No director has a service contract with the company. The company's policy is for the directors to be remunerated in the form of fees, payable quarterly in arrears. There are no long term incentive schemes, bonuses, pension benefits, share options or other benefits and fees are not related to the individual director's performance, nor to the performance of the board as a whole.

The company's Articles limit the aggregate fees payable to the board of directors to a total of £200,000 per annum. Subject to this overall limit, it is the board's policy to determine the level of directors' fees having regard to the level of fees payable to non-executive directors in the investment trust industry generally, the role that individual directors fulfil, and the time committed to the company's affairs. The board believes that levels of remuneration should be sufficient to attract and retain non-executive directors to oversee the company.

Directors are entitled to be reimbursed for any reasonable expenses properly incurred by them in connection with the performance of their duties and attendance at meetings. In the year under review no such payments were made. There are no agreements between the company and its directors concerning compensation for loss of office.

The company's Articles also provide that additional discretionary payments can be made for services which in the opinion of the directors are outside the scope of the ordinary duties of a director. In the year under review no such payments were made.

This Directors' Remuneration Policy is the same in all material respects as that currently followed by the board and summarised in the last Directors' Remuneration Report and approved by the shareholders at the annual general meeting held in May 2019.

The company has no employees and consequently has no policy on the remuneration of employees.

The board will consider, where raised, shareholders' views on directors' remuneration. No comments have been received on this subject in the past year.

Annual Statement and Directors' Remuneration Implementation Report

Directors' Emoluments (Audited)

The policy is to review directors' fee rates from time to time, but reviews will not necessarily result in a change to the rates.

In the year under review the directors were paid at a rate of £25,500 per annum with an additional £5,500 for the Chairman of the Audit Committee and the Chairman at a rate of £38,250 per annum. The current fees have applied since 1 February 2019.

The fees were reviewed in January 2020 and it was determined that in order to keep pace with rates in the investment trust industry there would be the following increases to directors' fees with effect from 1 February 2020: Chairman increase of £1,500 to £39,750, Directors increase of £1,000 to £26,500, with an additional £5,750 to the Chairman of the Audit Committee.

The directors' emoluments during the year and in the previous year, all of which were in the form of fees, were as follows:

Directors' fees	2020 £	2019 £
Colin Clark (joined the board on 30 June 2019)	20,258	-
Simon Fraser (retired from the board on 1 September 2019)	22,313	37,500
Timon Drakesmith	31,000	30,500
Mary Ann Sieghart	25,500	25,000
Sybella Stanley	25,500	25,000
Paul Yates	25,500	25,000
Total	**150,071**	**143,000**

There are no other benefits requiring reporting.

Analysis of Pay against Distributions

A table showing actual expenditure by the company on remuneration and distributions to shareholders for the year and the prior year is below:

Expenditure by the company on remuneration and distributions to the shareholders

	2020 £	2019 £
Remuneration paid to all directors	150,071	143,000
Distributions to shareholders	29,160,972	27,617,030

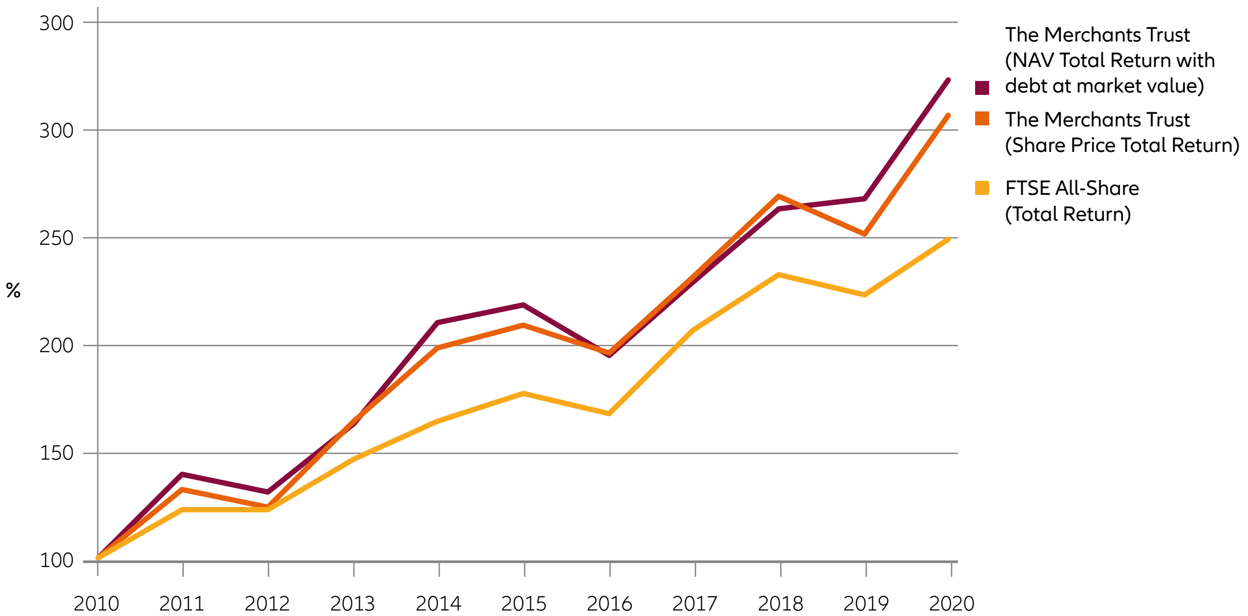
The disclosure is a statutory requirement, however the directors do not consider that the comparison of directors' remuneration with distributions to shareholders is a meaningful measure of the company's overall performance.

Performance Graph

The graph below measures the company's share price and net asset value performance against its benchmark index of the FTSE All-Share Index and is re-based to 100.

The company's performance is measured against the FTSE All-Share Index as this is the most appropriate comparator in respect of its asset allocation. An explanation of the company's performance is given in the Chairman's Statement and the Investment Manager's Review.

Total shareholder return for the ten years to 31 January 2020



Source: AllianzGI / Datastream in GBP
Figures have been rebased to 100 as at January 2010

Signed on behalf of the board

Sybella Stanley
Remuneration Committee Chairman
23 April 2020

Audit Committee Report

I am pleased to present the report of the audit committee for the year ended 31 January 2020.

Composition

The audit committee consists of all of the independent non-executive directors, with the exception of the Chairman of the board. The committee considers that, collectively, its members have sufficient recent and relevant financial experience to discharge their responsibilities fully. I am a chartered accountant and have recent previous experience as Chief Financial Officer of a large public company as well as holding positions of a similar capacity in other large companies.

Role

The principal role of the Audit Committee is to assist the board in relation to the reporting of financial information, the review of financial controls and the management of risk. The committee has defined terms of reference and duties and the terms of reference are published on the company's website. These include:

– responsibility for the review of the Annual Report and the Half-yearly Report;
– consideration of the nature and scope of the external audit and the findings therefrom; and
– consideration of the terms of appointment of the auditors, including their remuneration and the provision of any non-audit services by them.

Activities

During the year the committee had two regular meetings during which the Annual Report and the Half-yearly Report respectively were reviewed in detail. The regular meetings were attended by representatives of the manager, including its compliance and risk departments. At each regular meeting the committee received reports on the operation of financial controls relating to the company and the proper conduct of its business in accordance with the regulatory environment in which both the company and the manager operate. At the meeting following the year end the committee also considered the auditors' report on the annual report, the planning and the process of the audit and the auditor's independence and objectivity. The audit committee reviews the company's accounting policies with the manager and considers their appropriateness. The committee also reviews the terms of appointment of the auditors together with their remuneration.

Risk

Although the board has ultimate responsibility for the management of risk, the audit committee assists by monitoring the formal reports from the manager and third party service providers' reports on internal controls.

The committee reviewed its approach to the risk management process and concluded that existing processes were adequate to ensure that its assessment of risk is robust and of sufficient frequency.

A Risk Map is reviewed at each of the committee's meetings. We consider whether new risks should be added or existing risks removed, assess their likelihood of occurring and potential scale, review the mitigating actions and assess the residual risk against what we regard as acceptable –'risk appetite'.

Assurance over mitigating actions in relation to these risks is provided in a series of reports from all the third party service providers.

Resulting from the work of the audit committee, certain key risks are identified for disclosure and discussion in our annual report. We have also assessed residual risks after controls and mitigating actions have been applied and have evaluated if our risk appetite has been satisfactorily addressed. The principal risks are in relation to Portfolio, Business and Operational Matters. The risks identified together with mitigating actions are set out in the Strategic Report on pages 43 to 47.

Viability Statement

Based on the above review of risk, including the chief risks around Investment Performance and Market Volatility and the arrangements in place to manage and mitigate these risks, the committee reviewed a paper that supported the board's conclusion, set out on page 47 in the strategic report, of their reasonable expectation that the company is viable in the longer term, assessed as the next five years.

Internal audit

The audit committee continues to believe that the company does not require an internal audit function of its own as it delegates its day to day operations to third parties from whom it receives internal controls reports.

Assessment of Fair, Balanced and Understandable

The audit committee and then the whole board reviewed the entire annual report and noted all the supporting information received. It then considered whether the annual report satisfactorily reflected a true picture of the company and its activities and performance in the year, with a clear link between the relevant sections of the report and concluded that it did so. The directors were then able to confirm that the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

Review of Disclosure and Communication

At our meetings the audit committee reviews whether we are following best practice in our disclosure and whether we believe we are communicating clearly. In order to assist us we receive reports on current and future changes to regulatory and accounting reporting from the manager and auditor.

During the year we carried out further reviews of the format and content to refresh and invigorate the annual report to continue to ensure it is appealing and informative to readers.

Whistleblowing

As the company has no employees it does not have a formal policy concerning the raising, in confidence, of any concerns about improprieties, whether in matters of financial reporting or otherwise, for appropriate independent investigation. The audit committee has, however, received and noted the manager's policy on this matter. Any matters concerning the company may be raised with the Chairman or the Senior Independent Director.

Financial Report and Significant Issues

The audit committee met with the auditors at the half-year point to discuss the audit plan for the year and identify the significant issues to be dealt with in the review of the year end results. The committee then met with the auditors following the year end to discuss the results of the audit.

Significant issues considered by the audit committee in the year

Area of focus	Activity
Emerging risks – COVID-19 and cyber	As part of our risk management responsibilities we have worked with AllianzGI and our other key suppliers such as HSBC, State Street and Link to assess contingency plans for their business in light of the COVID-19 pandemic. This involves reviewing their ability to support Merchants' operations when challenged by reduced manpower, liquidity and other resources. This investigation and engagement follows on from similar work focused on the effect of major cyber attacks on business partners which took place during 2019.

Area of focus	Activity
Capital structure assessment	The Audit Committee constantly monitors Merchants equity and debt capital structure to ensure that returns are optimised whilst retaining flexibility and resilience. The 2019/20 financial year saw intense activity with the early repayment of the expensive Fixed Rate Interest Loan due 2023, a new flexible and cheap revolving credit facility being implemented as well as significant new share issuance. As we enter the new 2020/21 financial year we are analysing different capital management scenarios in the context of markets highly impacted by COVID-19.
Risks around the valuation and the ownership of investments and risks of management override	The company's assets are principally invested in large UK listed equities traded on major exchanges. The committee notes that investments are valued using stock exchange prices provided by third party financial data vendors. During the year the committee reviewed internal controls reports from the manager concerning the systems and controls around the pricing and valuation of securities.
The risk that income from the portfolio of investments was not correctly recognised and accounted for	The committee noted that the board receives income forecasts throughout the year and is able to compare these against actual income received. The committee has also received assurances from the manager that the company's stated accounting policies, which are set out on pages 79 and 80, were noted and adhered to, for example, each special dividend received is considered by the board at its meetings and is treated as a capital or revenue item depending on the facts or circumstances of each dividend. The board also receives reports on the impact of currency movements on the portfolio revenue.

These and other matters, identified as posing lesser risk, were considered and discussed with the manager and the auditors as part of the year end process.

We also agreed the degree of materiality that the auditors would apply in their work, which is £6.2 million, or about 1% of Net Assets, although the auditors would bring to the audit committee's attention any significant misstatements below that level.

Auditor Tenure and Auditor Reappointment

This is BDO LLP's second year as the company's independent auditor. The company is subject to mandatory auditor rotation requirements and so will put the external audit out to tender at least every ten years, and change auditor at least every twenty years. The next tender will therefore be required no later than 2028. Peter Smith is the audit partner and the auditor is required to rotate partners every five years.

The audit and its effectiveness

The committee reviewed the terms of appointment of the auditor, monitored the audit process, assessed the auditor's independence, objectivity and the effectiveness of the audit process, including the provision of non-audit services by the firm, and determined that they have had no impact on the auditor's independence and objectivity.

As part of the review of the auditor, the members of the committee and those representatives of the manager involved in the audit process reviewed and considered a number of areas including: the reputation and standing of the audit firm; the audit processes, evidence of partner oversight and external information about the firm; the skills, experience and specialist knowledge of the audit team, particularly relating to investment trusts; audit communication including details of planning, information on relevant accounting and regulatory developments, and recommendations on corporate reporting; the reasonableness of audit fees; and the Financial Reporting Council's Audit Quality Report on BDO LLP for 2018/19.

The committee was satisfied that the audit process was effective for the year under review.

The committee considered the representations made by the auditor and sought comments from representatives of the manager on the provision of services by the auditors and the effectiveness of the external audit. The audit committee believes that the performance of the auditors was satisfactory.

Non-audit services

Non-audit services relate to certificates supplied in connection with the covenants under the debenture trust deeds and the audit committee agreed that it was appropriate that the company's auditors should be asked to provide these services.

Fees for non-audit services were £6,500 in the year (2019: £nil). These fees are considered by the audit committee to be proportionate to the fees for audit services of £23,300 (2019: £22,500). This non-audit work was found not to have a significant impact on the financial statements.

Timon Drakesmith
Audit Committee Chairman
23 April 2020

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK Accounting Standards have been followed, comprising FRS 102, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors each have a duty to make themselves aware of any "relevant audit information" and ensure that the auditors have been made aware of that information. A disclosure stating that each director has complied with that duty is given in the Directors' Report on page 54.

The directors are responsible for ensuring that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

The financial statements are published on merchantstrust.co.uk, which is a website maintained by the company's investment manager, AllianzGI. The directors are responsible for the maintenance and integrity of the company's website. The work undertaken by the auditors does not involve consideration of the maintenance and integrity of the website and, accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement under Disclosure and Transparency Rule 4.1.12

The directors at the date of approval of this report, each confirm to the best of their knowledge that:

- the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the company;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.

For and on behalf of the board

Colin Clark
Chairman
23 April 2020

Financial Statements

We added to our preferred oil & gas company, Royal Dutch Shell, particularly at attractive valuation levels late in the year.

Independent Auditors' Report to the members of The Merchants Trust PLC

Opinion

We have audited the financial statements of The Merchants Trust PLC (the 'Company') for the year ended 31 January 2020 which comprise the Income Statement, Statement of Changes in Equity, Balance Sheet, Cash Flow Statement and Notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 31 January 2020 and of the Company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the directors' confirmation in the annual report that they have carried out a robust assessment of the Company's emerging and principal risks and the disclosures in the annual report that describe the principal risks and the procedures in place to identify emerging risks and explain how they are being managed or mitigated;
- the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation in the annual report as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the matter was addressed in the audit
Valuation and ownership of investments: **(Pages 79 and 80 and Note 8 on page 85):** We considered the valuation and ownership of investments to be the most significant audit areas as investments represent the most significant balance in the financial statements and underpin the principal activity of the entity. We also considered the valuation of investments with respect to realised and unrealised gains/ (losses) to be a significant area as the reported performance of the portfolio is a key area of interest for the users of the financial statements. Furthermore, we considered the disclosures related to investments to be a significant area as they are expected to be a key area of interest for the users of the financial statements.	We responded to this matter by testing the valuation and ownership of 100% of the portfolio of investments. We performed the following procedures: In respect of quoted investment valuations (over 99% of the total portfolio by value) we have: – Confirmed the year-end bid price was used by agreeing to externally quoted prices and for all of the investments, assessed if there were contra indicators, such as liquidity considerations, to suggest bid price is not the most appropriate indication of fair value. – Obtained direct confirmation from the custodian regarding all investments held at the balance sheet date. The gains/ (losses) on investments held at fair value comprise realised and unrealised gains/ (losses). For unrealised gains/ (losses) we tested the valuation of the portfolio at the year-end, together with testing the reconciliation of opening and closing investments. For realised gains/losses, we tested a sample of disposal proceeds by agreeing the proceeds to bank statements and custodian's transaction report and performed the re-calculation of a sample of realised gains/losses. We also considered the completeness, accuracy and clarity of investment-related disclosures against the requirements of the relevant accounting standards. **Key observations:** Based on our procedures performed we did not identify any material exceptions with regards to valuation or ownership of investments or the disclosures.
Revenue recognition: **(Page 80 and Note 1 on page 81)** Dividend income arises from the investment portfolio and a key factor in demonstrating the performance of the portfolio. Revenue recognition is considered significant audit risk as it is the key driver of dividend returns to investors and judgement is required in determining the allocation of income to revenue or capital.	We performed the following procedures: – For listed investments, we derived an independent expectation of total expected income based on the investment holding and records of distributions from independent sources. We also cross checked the portfolio against corporate actions and special dividends and challenged if these had been appropriately accounted for as income or capital. – We analysed the whole population of dividend receipts to identify any unusual items that could indicate a capital distribution, for example where a dividend represented a particularly high yield and investigated the rationale of those distributions. – We traced the sample of dividend income through from the nominal ledger to bank. **Key observations:** Based on our procedures performed we did not identify any material exceptions with regards to the revenue recognition.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could reasonably influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality we use a lower materiality level, performance materiality, to determine the extent of testing needed.

Importantly, misstatements below this level will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The application of these key considerations gives rise to two levels of materiality, the quantum and purpose of which are tabulated below. In setting materiality, we had regard to the nature and disposition of the investment portfolio.

Materiality Measure	Purpose	Key considerations	2020 Quantum (£)	2019 Quantum (£)
Financial Statement Materiality. (1% of the net assets)	Assessing whether the financial statements as a whole present a true and fair view. We consider this to be the key measurement for shareholders.	– The value of gross investments. – The level of judgement inherent in the valuation. – The range of reasonable alternative valuations	6,220,000	5,300,000
Performance Materiality. (75% of materiality)	Lower level of materiality applied in performance of the audit when determining the nature and extent of testing applied to individual balances and classes of transactions.	– Financial statement materiality level – History of errors – Level of judgement involved in the financial reporting	4,665,000	3,700,000
Specific Materiality – classes of transactions and balances which impact on net revenue returns. (10% of revenue return before tax)	Assessing those classes of transactions, balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.	– Net revenue returns to the ordinary shareholders	3,260,000	3,000,000

We agreed with the Audit Committee that we would report to the committee all individual audit differences in excess of £124,000 (2019: £80,000) as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our audit approach was developed by obtaining an understanding of the Company's activities, the key functions undertaken by the Board and the overall control environment. Based on this understanding we assessed those aspects of the Company's transactions and balances which were most likely to give rise to a material misstatement.

How the audit was considered capable of detecting irregularities, including fraud

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with section 1158 of the Corporation Tax Act 2010, the Companies Act 2006, the FCA listing and DTR rules, the principles of the UK Corporate Governance Code, industry practice represented by the SORP, VAT, Employers NI and other taxes. We also considered the Company's compliance with section 1158 of the Corporation tax Act 2010 as any breach of this would lead to the Company losing various deductions and exemptions from corporation tax.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion.

We focused on laws and regulations that could give rise to a material misstatement in the Company financial statements. Our tests included, but were not limited to:

- obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- review of minutes of board meetings throughout the period;
- review of legal correspondence;
- review of Investment trust status compliance workings and reports;
- enquiries and representations of management and the Board of Directors;

There are inherent limitations in an audit of financial statements and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting** the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by The Board of Directors on 16 May 2018 to audit the financial statements for the year ending 31 January 2019 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ending 31 January 2019 to 31 January 2020.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Peter Smith (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom
23 April 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Income Statement

for the year ended 31 January 2020

	Note	2020 Revenue £	2020 Capital £	2020 Total Return £	2019 Revenue £	2019 Capital £	2019 Total Return £
Gains (losses) on investments held at fair value through profit or loss	8	-	80,844,082	80,844,082	-	(56,214,287)	(56,214,287)
Gains on foreign currencies		-	21,069	21,069	-	414	414
Income	1	36,236,313	-	36,236,313	34,104,274	-	34,104,274
Investment management fee	2	(829,367)	(1,540,251)	(2,369,618)	(842,584)	(1,564,801)	(2,407,385)
Administration expenses	3	(855,489)	(1,495)	(856,984)	(834,705)	(1,586)	(836,291)
Profit (loss) before finance costs and taxation		**34,551,457**	**79,323,405**	**113,874,862**	**32,426,985**	**(57,780,260)**	**(25,353,275)**
Finance costs: interest payable and similar charges	4	(1,884,565)	(15,610,679)	(17,495,244)	(2,331,235)	(4,249,587)	(6,580,822)
Profit (loss) on ordinary activities before taxation		**32,666,892**	**63,712,726**	**96,379,618**	**30,095,750**	**(62,029,847)**	**(31,934,097)**
Taxation	5	(23,656)	-	(23,656)	-	-	-
Profit (loss) after taxation attributable to ordinary shareholders		**32,643,236**	**63,712,726**	**96,355,962**	**30,095,750**	**(62,029,847)**	**(31,934,097)**
Earnings (loss) per ordinary share (basic and diluted)	7	**29.67p**	**57.90p**	**87.57p**	**27.68p**	**(57.05p)**	**(29.37p)**

Dividends in respect of the financial year ended 31 January 2020 total 27.10p (2019: 26.00p), amounting to £30,239,315 (2019: £28,269,401). Details are set out in Note 6 on page 84.

The total return column of this statement is the profit and loss account of the company. The supplementary revenue return and capital return columns are both prepared under the guidance published by the Association of Investment Companies.

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

The net profit for the year disclosed above represents the company's total comprehensive income.

The Statement of Accounting Policies and Notes on pages 79 to 96 form an integral part of these Financial Statements.

Statement of Changes in Equity

for the year ended 31 January 2020

	Notes	Called up Share Capital £	Share Premium Account £	Capital Redemption Reserve £	Capital Reserve £	Revenue Reserve £	Total £
Net assets at 1 February 2019		27,182,116	33,717,572	292,853	444,396,499	28,337,693	533,926,733
Revenue profit		-	-	-	-	32,643,236	32,643,236
Dividends on ordinary shares	6	-	-	-	-	(29,160,972)	(29,160,972)
Capital profit		-	-	-	63,712,726	-	63,712,726
Shares issued during the year		1,037,500	20,375,013	-	-	-	21,412,513
Net assets at 31 January 2020		**28,219,616**	**54,092,585**	**292,853**	**508,109,225**	**31,819,957**	**622,534,236**
Net assets at 1 February 2018		27,182,116	33,717,572	292,853	506,426,346	25,858,973	593,477,860
Revenue profit		-	-	-	-	30,095,750	30,095,750
Dividends on ordinary shares	6	-	-	-	-	(27,617,030)	(27,617,030)
Capital loss		-	-	-	(62,029,847)	-	(62,029,847)
Net assets at 31 January 2019		**27,182,116**	**33,717,572**	**292,853**	**444,396,499**	**28,337,693**	**533,926,733**

The Statement of Accounting Policies and Notes on pages 79 to 96 form an integral part of these Financial Statements.

Balance Sheet

at 31 January 2020

Fixed Assets	Notes	2020 £	2020 £	2019 £
Investments held at fair value through profit or loss	8		704,446,268	622,073,420
Current Assets				
Other receivables	10	4,307,985		1,133,804
Cash and cash equivalents		10,546,075		22,951,619
		14,854,060		24,085,423
Current Liabilities				
Other payables	10	(30,086,079)		(2,016,323)
Derivative financial instruments	8	(28,300)		(10,490)
		(30,114,379)		**(2,026,813)**
Net current (liabilities) assets			(15,260,319)	22,058,610
Total assets less current liabilities			**689,185,949**	**644,132,030**
Creditors: amounts falling due after more than one year	11		(66,651,713)	(110,205,297)
Total net assets			**622,534,236**	**533,926,733**
Capital and Reserves				
Called up share capital	12		28,219,616	27,182,116
Share premium account	13		54,092,585	33,717,572
Capital redemption reserve	13		292,853	292,853
Capital reserve	13		508,109,225	444,396,499
Revenue reserve	13		31,819,957	28,337,693
Equity shareholders' funds	14		**622,534,236**	**533,926,733**
Net asset value per ordinary share	14		**551.5p**	**491.1p**

The financial statements of the Merchants Trust PLC on pages 75 to 78 were approved and authorised for issue by the Board of Directors on 23 April 2020 and signed on its behalf by:

Colin Clark
Chairman

The Statement of Accounting Policies and Notes on pages 79 to 96 form an integral part of these Financial Statements.

Cash Flow Statement

for the year ended 31 January 2020

	Notes	2020 £	2019 £
Operating activities			
Profit (loss) before finance costs and taxation*		113,874,862	(25,353,275)
Less: (Gains) losses on investments held at fair value		(80,844,082)	56,214,287
Less: Gains on foreign currency		(21,069)	(414)
Purchase of fixed asset investments held at fair value through profit or loss		(183,903,663)	(181,992,796)
Sales of fixed asset investments held at fair value through profit or loss		184,945,332	189,013,652
Increase in other receivables		(1,004,094)	(409,432)
Increase (decrease) in other payables		155,284	(146,648)
Less: Overseas tax suffered		(23,656)	-
Net cash inflow from operating activities		**33,178,914**	**37,325,374**
Financing activities			
Interest paid		(6,040,184)	(6,809,955)
Repayment of Fixed Rate Interest Loan 2023		(42,000,000)	-
Premium paid on Fixed Rate Interest Loan 2023		(13,603,800)	-
Proceeds from Revolving Credit Facility		42,000,000	-
Repayment of Revolving Credit Facility		(16,000,000)	-
Dividend paid on cumulative preference stock		(42,997)	(42,997)
Dividends paid on ordinary shares	6	(29,160,972)	(27,617,030)
Share issue proceeds		21,412,513	-
Share issue proceeds receivable		(2,170,087)	-
Net cash outflow from financing activities		**(45,605,527)**	**(34,469,982)**
(Decrease) increase in cash and cash equivalents		**(12,426,613)**	**2,855,392**
Cash and cash equivalents at the start of the year		22,951,619	20,095,813
Effect of foreign exchange rates		21,069	414
Cash and cash equivalents at the end of the year		10,546,075	22,951,619
Comprising:			
Cash and cash equivalents		10,546,075	22,951,619

* Cash inflow from dividends was £34,785,104 (2019: £33,116,522) and cash inflow from interest was £161,352 (2019: £596).

The Statement of Accounting Policies and Notes on pages 79 to 96 form an integral part of these Financial Statements.

Statement of Accounting Policies

for the year ended 31 January 2020

The company is incorporated in the United Kingdom under the Companies Act 2006.

The company is a public company limited by shares and is registered in England and Wales. The address of the company's registered office is shown on page 52. The company is an investment company as defined in section 833 of the Companies Act 2006.

The principal activity of the company and the nature of its operations are set out in the Strategic Report on pages 40 and 41. The company conducts its business so as to qualify as an investment trust company within the meaning of sub-section 1158 of the Corporation Tax Act 2010.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

1 Basis of preparation – The financial statements have been prepared under the historical cost convention, except for the revaluation of financial instruments held at fair value through profit or loss and in accordance with applicable United Kingdom law and UK Accounting Standards (UK GAAP), including Financial Reporting Standard 102 – the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (FRS 102) and in line with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts "issued by the Association of Investment Companies (AIC SORP) in October 2019.

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.

In order to better reflect the activities of an investment trust company, and in accordance with guidance issued by the AIC, supplementary information which analyses the Income Statement between items of revenue and capital nature has been presented alongside the Income Statement. In accordance with the company's Articles of Association, net capital returns may be distributed by way of dividend.

The directors believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements as the assets of the company consist mainly of securities, which are readily realisable and significantly exceed liabilities. Accordingly, the directors believe that the company has adequate financial resources, to continue in operational existence for the foreseeable future. The company's business, the principal risks and uncertainties it faces, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 43 to 46.

2 Income – Dividends received on equity shares are accounted for on an ex-dividend basis. Foreign dividends are grossed up at the appropriate rate of withholding tax.

Special dividends are recognised on an ex-dividend basis and treated as a capital or revenue item depending on the facts and circumstances of each dividend. The board reviews special dividends and their treatment at each meeting.

Where the company has elected to receive its dividends in the form of additional shares rather than in cash, the equivalent of the cash dividend is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend is recognised in capital reserves.

Deposit interest receivable is accounted for on an accruals basis.

Commissions in respect of underwriting are recognised when the underwritten issue closes and are generally recognised within the Income Statement as revenue. Where, however, the company is required to take up a proportion of the shares underwritten, the same proportion of the shares underwritten is recognised as capital, with the balance recognised as revenue.

3 Investment management fees and administrative expenses – The investment management fee is calculated on the basis set out in Note 2 to the financial statements and is charged to capital and revenue in the ratio 65:35 to reflect the Board's investment policy and prospective split of capital and revenue returns. The split is reviewed annually. Other administration expenses are charged in full to revenue, except custodian handling charges on investment transactions which are charged to capital. All expenses are recognised on an accrual basis.

4 Investments – As the company's business is investing in financial assets with a view to profiting from their total return in the form of increases in fair value, financial assets are designated as held at fair value through profit or loss in accordance with FRS 102 Section 11: 'Basic Financial Instruments' and Section 12: 'Other Financial Instruments'. The company manages and evaluates the performance of these investments on a fair value basis in accordance with its investment strategy, and information about the investments is provided on this basis to the board.

Investments held at fair value through profit or loss are initially recognised at fair value. After initial recognition, these continue to be measured at fair value, which for quoted investments is either the bid price or the last traded price depending on the convention of the exchange on which the investment is listed. Gains or losses on investments are recognised in the capital column of the Income Statement. Purchases and sales of the financial assets are recognised on the trade date, being the date which the company commits to purchase or sell the assets.

Unlisted investments are valued by the Directors based upon the latest dealing prices, stockbrokers' valuations, net asset values, earnings and other known accounting information in accordance with the principles set out by the International Private Equity and Venture Capital Valuation Guidelines issued in December 2018.

After initial recognition unquoted stocks are valued by the board on an annual basis.

5 **Derivatives** – Options may be purchased or written over securities held in the portfolio for generating or protecting capital returns, or for generating or maintaining revenue returns. Where the purpose of the option is the maintenance of capital the premium is treated as a capital item. In accordance with FRS 102 Section 12: 'Other Financial Instruments', options are valued at fair value and are included in current assets or current liabilities in the balance sheet. When an option is closed out or exercised the gain or loss is accounted for as capital.

Where the purpose of the option is the generation of income, the premium is treated as a revenue item. Premiums received on written options are amortised to revenue over the period to expiry. If an option is exercised early unamortised premiums are taken to capital.

6 **Finance costs** – In accordance with the FRS 102 Section 11: 'Basic Financial Instruments' and Section 12 'Other Financial Instruments', long term borrowings are stated at the amortised cost being the amount of net proceeds on issue plus accrued finance costs to date. Finance costs are calculated over the term of the debt on the effective interest rate basis.

Where debt is issued at a premium, the premium is amortised over the term of the debt on the effective interest rate basis.

Finance costs net of amortised premiums are charged to capital and revenue in the ratio 65:35 to reflect the board's investment policy and prospective split of capital and revenue returns.

Dividends payable on the 3.65% cumulative preference stock are classified as an interest expense and are charged in full to revenue.

7 **Taxation** – Where expenses are allocated between capital and revenue, any tax relief obtained in respect of those expenses is allocated between capital and revenue on the marginal basis using the company's effective rate of corporation tax for the accounting period.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax or a right to pay less tax in the future have occurred. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements.

A deferred tax asset is recognised when it is more likely than not that the asset will be recoverable. Deferred tax is measured on a non-discounted basis at the rate of corporation tax that is expected to apply when the timing differences are expected to reverse.

8 **Foreign currency** – In accordance with FRS 102 Section 30: 'Foreign Currency Translation', the company is required to nominate a functional currency, being the currency in which the company predominately operates and in which its expenses are generally paid. The functional and reporting currency is pounds sterling. Transactions in foreign currencies are translated into pounds sterling at the rates of exchange ruling on the date of the transaction. Foreign currency monetary assets and liabilities are translated into sterling at the rates of exchange ruling at the balance sheet date. Profits and losses thereon are recognised in the capital column of the income statement and taken to the capital reserve.

9 **Dividends** – In accordance with FRS 102 Section 32: 'Events After the End of the Reporting Period', any final dividend proposed on ordinary shares is recognised as a liability when approved by shareholders. Interim dividends are recognised only when paid. Dividends are paid from the revenue reserve.

10 **Shares repurchased for cancellation and for holding in treasury** – Share capital is reduced by the nominal value of the shares repurchased, and the capital redemption reserve is correspondingly increased in accordance with section 733 Companies Act 2006. The full cost of the repurchase is charged to the capital reserve within Gains (Losses) on Sales of Investments.

For shares repurchased for holding in treasury, the full cost is charged to the capital reserve.

11 **Shares sold (reissued) from treasury** – Proceeds received from the sale of shares held in treasury are treated as realised profits in accordance with Section 731 of the Companies Act 2006. Proceeds equivalent to the original cost, calculated by applying a weighted average price, are credited to the capital reserve to replenish the profits available for distribution; proceeds in excess of the original cost are credited to the share premium account.

12 **Shares issued** – Share capital is increased by the nominal value of shares issued. The proceeds in excess of the nominal value of shares net of expenses are allocated to the share premium account.

13 **Significant judgements, estimates and assumptions** – In the application of the company's accounting policies, which are described above, the directors are required to make judgements, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. There are no significant judgements, estimates, and assumptions. The investment portfolio currently consists of listed investments and therefore no significant estimates have been made in valuing those securities.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Notes to the Financial Statements

for the year ended 31 January 2020

1. Income

	2020 £	2019 £
Income from Investments*		
Equity dividends from UK investments#	32,765,292	30,621,249
Unfranked dividends from UK investments	1,857,238	1,275,415
Equity dividends from overseas investments~	1,265,958	1,535,787
	35,888,488	**33,432,451**
Other Income		
Deposit interest	75,272	88,036
Premiums on derivative contracts	272,553	551,396
Underwriting commission	-	32,391
	347,825	**671,823**
Total income	**36,236,313**	**34,104,274**

* All equity income is derived from listed investments.
# Includes special dividends of £Nil (2019: £391,500).
~ Includes special dividends of £Nil (2019: £470,706).

During the year, the company received premiums totalling £299,925 (2019: £430,710) for writing covered call options for the purpose of revenue generation. Premium income of £272,553 was amortised to income (2019: £551,396). All derivatives transactions were based on FTSE 100 stocks or the related index. At the year end there was one open position with a net liability value of £28,300 (2019: £10,490).

2. Investment Management Fee

	2020 Revenue £	2020 Capital £	2020 Total £	2019 Revenue £	2019 Capital £	2019 Total £
Investment management fee	**829,367**	**1,540,251**	**2,369,618**	**842,584**	**1,564,801**	**2,407,385**

Under the terms of the Management and Administration Agreement the company's manager is Allianz Global Investors GmbH, UK branch (AllianzGI). The agreement was restated in July 2014, with the appointment of AllianzGI as the Alternative Investment Fund Manager. The terms of the agreement were unchanged in 2020: it provides for a management fee based on 0.35% (2019: 0.35%) per annum of the value of the assets after deduction of current liabilities, short-term loans with an initial duration of less than one year and other funds managed by AllianzGI. Under the contract, AllianzGI provides the company with investment management, accounting, company secretarial and administration services.

3. Administration Expenses

Auditors' remuneration	2020 £	2019 £
For audit services	23,300	22,500
Non-audit services - for certification of loan covenants	6,500	-
VAT on auditor's remuneration	5,960	4,500
	35,760	**27,000**
Directors' fees	150,071	143,000
Directors' NI contributions	13,837	13,921
Marketing costs	264,933	248,355
Registrars' fees	122,898	117,042
Depositary fees	45,520	48,959
Professional and advisory fees	31,880	58,350
Printing and postage	74,369	72,638
Other administration expenses	116,221	105,440
	855,489	**834,705**

(i) The above expenses include value added tax where applicable.
(ii) Directors' fees are set out in the Directors' Remuneration Report on page 62.
(iii) Custody handling charges of £1,495 were charged to capital (2019: £1,586).
(iv) 71% of marketing costs are payable to AllianzGI (2019: 71%).

4. Finance Costs: Interest Payable and Similar Charges

	2020 Revenue £	2020 Capital £	2020 Total £	2019 Revenue £	2019 Capital £	2019 Total £
On Fixed Rate Interest Loan 2023	635,494	1,164,602	1,800,096	1,273,983	2,365,970	3,639,953
Administration fees related to Fixed Rate Interest Loan 2023 repayment	24,822	46,100	70,922	-	-	-
Premium paid on Fixed Rate Interest Loan 2023 repayment	-	12,206,279	12,206,279	-	-	-
On 4% Perpetual Debenture Stock repayable after more than five years	19,250	35,750	55,000	19,250	35,750	55,000
On 5.875% Secured Bonds 2029 repayable after more than five years	630,844	1,171,567	1,802,411	630,415	1,170,771	1,801,186
On 3.65% Preference Stock repayable after more than five years	42,997	-	42,997	42,997	-	42,997
On 2.96% Fixed Rate Notes repayable after more than five years	364,404	676,750	1,041,154	364,590	677,096	1,041,686
On Revolving Credit Facility	166,724	309,631	476,355	-	-	-
On Sterling overdraft	30	-	30	-	-	-
	1,884,565	**15,610,679**	**17,495,244**	**2,331,235**	**4,249,587**	**6,580,822**

The Fixed Rate Interest Loan 2023 was repaid on 7 August 2019. The total cost of redeeming the debt was £55.6m net of expenses and £0.8m of interest already accrued to 7 August 2019. The early repayment premium, as required under the Fintrust legal agreement, of £13.6m over the borrowed amount of £42m, was paid from capital. The early repayment premium above of £12.2m is net of the £1.4m unamortised portion of the premium received in 1998, which was accelerated and offset against the early repayment premium paid.

5. Taxation

	2020 Revenue £	2020 Capital £	2020 Total £	2019 Revenue £	2019 Capital £	2019 Total £
Overseas taxation*	23,656	-	23,656	-	-	-
Total tax	**23,656**	**-**	**23,656**	**-**	**-**	**-**
Reconciliation of tax charge						
Profit before taxation	32,666,892	63,712,726	96,379,618	30,095,750	(62,029,847)	(31,934,097)
Tax on profit at 19.00% (2019: 19.00%)	**6,206,709**	**12,105,418**	**18,312,127**	**5,718,193**	**(11,785,671)**	**(6,067,478)**
Effects of						
Non taxable income	(6,465,938)	-	(6,465,938)	(6,109,837)	-	(6,109,837)
Non taxable capital gains	-	(15,360,376)	(15,360,376)	-	10,680,636	10,680,636
Irrecoverable overseas tax	23,656	-	23,656	-	-	-
Gains on foreign currencies	-	(4,003)	(4,003)	-	-	-
Disallowable expenses	305,425	2,624,648	2,930,073	8,732	1,345	10,077
Excess of allowable expenses over taxable income	(46,196)	634,313	588,117	382,912	1,103,690	1,486,602
Total tax	**23,656**	**-**	**23,656**	**-**	**-**	**-**

* Withholding tax on CRH.

The company's taxable income is exceeded by its tax allowable expenses, which include both the revenue and capital elements of the management fee and finance costs. As at 31 January 2020, the company had accumulated surplus expenses of £217.9m (2019: £218.7m).

The company has not recognised a deferred tax asset of £37.1m (2019: £37.2m) in respect of these expenses, based on a prospective corporation tax rate of 17% (2019: 17%) because there is no reasonable prospect of recovery. The reduction in the standard rate of corporation tax was substantively enacted on 6 September 2016 and is effective from 1 April 2020. Provided the company continues to maintain its current investment profile, it is unlikely that these expenses will be utilised and that the company will obtain any benefit from this asset.

In May 2013 the company received confirmation from HM Revenue & Customs of its status as an approved investment trust for accounting periods commencing on or after 1 February 2012, subject to the company continuing to meet the eligibility conditions at Section 1158 Corporation Tax Act 2010 and the ongoing requirements for approved companies in Chapter 3 of Part 2 Investment Trust (Approved Company) Tax Regulations 2011 (Statutory Instrument 2011/2999). The company intends to retain this approval and self-assesses compliance with the relevant conditions and requirements and will do so on an annual basis.

6. Dividends on Ordinary Shares

Dividends paid on ordinary shares	2020 £	2019 £
Third interim dividend 6.5p paid 6 March 2019 (2018: 6.2p)	7,067,350	6,741,165
Final dividend 6.6p paid 22 May 2019 (2018: 6.3p)	7,205,779	6,849,893
First interim dividend 6.7p paid 20 August 2019 (2018: 6.4p)	7,371,907	6,958,622
Second interim dividend 6.8p paid 12 November 2019 (2018: 6.5p)	7,515,936	7,067,350
	29,160,972	**27,617,030**

Dividends payable at the year end are not recognised as a liability under FRS 102 Section 32 'Events After the End of the Reporting Period' (see page 80 - Statement of Accounting Policies). Details of these dividends are set out below.

	2020 £	2019 £
Third interim dividend 6.8p paid 11 March 2020 (2019: 6.5p)	7,675,736	7,067,350
Fourth interim dividend 6.8p payable 29 May 2020 (2019: 6.6p)	7,675,736	7,176,079
	15,351,472	**14,243,429**

The declared fourth interim dividend accrued is based on the number of shares in issue at the year end. However, the dividend payable will be based on the numbers of shares in issue on the record date and will reflect any changes in the share capital between the year end and the record date.

All dividends disclosed in the tables above have been paid or are payable from the revenue reserves.

7. Earnings per Ordinary Share

	2020 Revenue £	2020 Capital £	2020 Total £	2019 Revenue £	2019 Capital £	2019 Total £
Profit (loss) after taxation attributable to ordinary shareholders	32,643,236	63,712,726	96,355,962	30,095,750	(62,029,847)	(31,934,097)
Earnings (loss) per ordinary share (basic and diluted)	**29.67p**	**57.90p**	**87.57p**	**27.68p**	**(57.05p)**	**(29.37p)**

The earnings per ordinary share is based on a weighted number of shares 110,037,230 (2019: 108,728,464) ordinary shares in issue.

8. Fixed Asset Investments

	2020 £	2019 £
Opening book cost	647,437,215	629,070,980
Opening investments holding (loss) gain	(25,387,595)	56,185,202
Opening investments holding gains - derivatives	13,310	41,891
Opening market value	**622,062,930**	**685,298,073**
Additions at cost	186,456,288	181,992,796
Disposals proceeds received	(184,930,719)	(183,451,484)
Gains on investments	80,829,469	(61,776,455)
Market value of investments held at 31 January*	**704,417,968**	**622,062,930**
Closing book cost	666,794,237	647,437,215
Closing investment holding gains	37,617,023	(25,387,595)
Closing investment holding gains - derivatives	6,708	13,310
Closing market value	**704,417,968**	**622,062,930**
Gains on investments		
Gains on investment	80,829,469	(61,776,455)
Gains on derivative financial instruments	14,613	(57,822)
Special dividends credited to capital	-	5,619,990
Gains on investments	**80,844,082**	**(56,214,287)**

The company received £184,930,719 (2019: £183,451,484) from investments sold in the year. The book cost of these investments when they were purchased was £166,927,420 (2019: £163,136,510). These investments have been revalued over time and until they were sold any unrealised gains/losses were included in the fair value of the investments.

Transaction costs and stamp duty on purchases amounted to £919,537 (2019: £1,037,451) and transaction costs on sales amounted to £78,717 (2019: £87,200).

* Included within the value of investments is the unlisted holding of £4,486 (2019: £4,486).

9. Investments in Other Companies

The company held more than 3% of the share capital of the following company, which is incorporated in Great Britain and registered in England and Wales:

Company	Class of Shares held	Fair Value £	% Equity
Fintrust Debenture PLC (Fintrust)	Ordinary Shares	4,486	50.0
Total		**4,486**	

In the opinion of the directors, the company is not in a position to exert significant influence over the financial operating policies of Fintrust, either through voting rights or through agreement with the company's other shareholders, due to provisions in Fintrust's Articles of Association and in certain contracts between the company and Fintrust. Accordingly, Fintrust is not considered to be an Associate Undertaking as per FRS 102 Section 14 and is therefore included in the Balance Sheet at the director's valuation. Fintrust was the lender of the company's Fixed Rate Interest Loan 2023. The Fixed Rate Interest Loan 2023 was repaid on 7 August 2019. Fintrust was placed into liquidation on 25 November 2019. The company continues to own share capital in Fintrust and will continue to pay its share of any additional expenses borne out of the liquidation process.

10. Other Receivables and Other Payables

	Notes	2020 £	2019 £
Other receivables			
Share issue proceeds		2,170,087	-
Prepayments		40,220	46,555
Accrued income		2,097,678	1,087,249
		4,307,985	**1,133,804**
Other payables: Amounts falling due within one year			
Purchases for future settlement		2,552,625	-
Other payables		1,037,879	882,595
Interest on borrowings		349,483	1,133,728
Revolving Credit Facility	10(i)	26,146,092	-
		30,086,079	**2,016,323**
Interest on outstanding borrowing consists of:			
Fixed Rate Interest Loan 2023	11(i)	-	783,545
5.875% Secured Bonds 2029		208,243	208,243
4% Perpetual Debenture Stock		13,863	13,863
2.96% Fixed Rate Notes 2052		127,377	128,077
		349,483	**1,133,728**

(i) On 3 July 2019 the company entered into a revolving credit facility agreement of £42m. Under this agreement £21m was drawn down on 1 November 2019 at a rate of 1.89% with a maturity date of 1 May 2020. A further £21m was drawn down on 2 August 2019 at a rate of 1.81% with a maturity date of 3 February 2020; £16m of this drawdown was repaid on 29 January 2020. The rate of interest for the revolving credit facility is set at each roll-over date and is made up of a fixed margin plus LIBOR rate. The repayment date of the revolving facility is the last day of its interest period and the termination date is 2 July 2022.

The Company pays a commitment fee of 0.3% p.a. on any undrawn amounts.

11. Creditors: Amounts falling due after more than one year

	Notes	2020 £	2019 £
Fixed Rate Interest Loan 2023	11(i)	-	43,599,051
5.875% Secured Bonds 2029	11(ii)	29,430,883	29,391,271
4% Perpetual Debenture Stock	11(iii)	1,375,000	1,375,000
3.65% Cumulative Preference Stock	11(iv)	1,178,000	1,178,000
Fixed Rate Notes 2052	11(v)	34,667,830	34,661,975
		66,651,713	**110,205,297**

(i) The Fixed Rate Interest Loan 2023 of £42,000,000, due to Fintrust Debenture PLC, comprised a loan of £30,000,000 taken out in 1993, and a further amount of £12,000,000 assumed in 1998 from another of Fintrust's borrowers. The initial interest rate on the Loan was 9.25125% per annum.

The loan of £30,000,000 was taken out in 1993. At 31 January 2019 it was stated at £29,946,845, being the net proceeds of £29,858,947 plus accrued finance cost of £87,898. The effective interest rate of this portion of the loan was 9.51%.

On assuming the additional loan of £12,000,000 in 1998, the company also received a premium of £5,286,564 to ensure that the finance costs on this additional loan were comparable to existing market interest rates. This premium was being amortised over the remaining life of the loan. At 31 January 2019, the loan was stated at £13,652,206 being the principal amount of £12,000,000 plus the unamortised premium of £1,652,206. The effective interest rate of this portion of the loan was 6.00%.

The loan was originally repayable on 20 May 2023 but was paid to Fintrust Debenture PLC on 7 August 2019 to lower the trust's finance costs. The total cost of redeeming the debt was £56.4m including accrued interest and premium. On 25 November 2019 Fintrust was placed into voluntary liquidation. The company will continue to own share capital in Fintrust and will continue to pay its share of Fintrust's expenses until the liquidation process is completed.

The Fixed Rate Interest Loan 2023 of £30,000,000 was issued in 1993 and was repaid on 7 August 2019, together with a premium of £9,717,000. The additional £12,000,000 loan was issued in 1998 and was repaid on 7 August 2019, together with a premium of £3,886,800.

(ii) The £30,000,000 of 5.875% Secured Bonds is stated at £29,430,883 (2019: £29,391,271), being the net proceeds of £28,942,800 plus accrued finance costs of £488,083 (2019: £448,471). The Bonds are repayable on 20 December 2029 and carry interest at 5.875% per annum on the principal amount. Interest is payable in June and December each year. The effective interest rate of this loan is 6.23% per annum.

As security for this loan, the company has granted a floating charge over its assets ranking pari passu with the floating charges referred to in Note 11(i) above.

(iii) The 4% Perpetual Debenture Stock of £1,375,000 is secured by a floating charge on the assets of the company, which ranks prior to any other floating charge. Interest is payable on 1 May and 1 November each year.

(iv) The 3.65% Cumulative Preference Stock is recognised as a creditor due after more than one year under the provisions of FRS 102 Section 11: 'Basic Financial Instruments' and Section 12: 'Other Financial Instruments'. The right of the preference stock holders to receive payments is not calculated by reference to the company's net return and, in the event of a return of capital is limited to a specific amount, being £1,178,000. Dividends on the preference stock are payable on 1 February and 1 August each year. The preference stock is non-redeemable.

(v) The £35,000,000 of Fixed Rate Notes 2052 is stated at £34,667,830 (2019: £34,661,975), being the net proceeds of £34,655,594 plus finance costs of £12,236 (2019: £6,381). The Notes are repayable on 18 December 2052 and carry interest at 2.96% per annum on the principal amount. Interest is payable in June and December each year. The effective interest rate of this loan is 3.03% per annum.

Analysis of Fixed Rate Interest Loan 2023

	2020 £	2020 £	2019 £	2019 £
Fixed Rate Interest Loan (Original Loan)	-		30,000,000	
Less: Finance costs	-		(141,053)	
Net proceeds	**-**		**29,858,947**	
Add: Accrued Finance costs	-		87,898	
		-		**29,946,845**
Fixed Rate Interest Loan (Additional Loan)		-		12,000,000
Premium	-		5,286,564	
Amortised premium	-		(3,634,358)	
Add: Unamortised premium		**-**		**1,652,206**
Total Fixed Rate Interest Loan		**-**		**43,599,051**

12. Called up Share Capital

Allotted and fully paid	2020 £	2019 £
112,878,464 ordinary shares of 25p (2019 - 108,728,464)	**28,219,616**	**27,182,116**

Allotted 25p ordinary shares	2020 Number	2020 £	2019 Number	2019 £
Brought forward	108,728,464	27,182,116	108,728,464	27,182,116
Shares issued during the year	4,150,000	1,037,500	-	-
Carried forward	**112,878,464**	**28,219,616**	**108,728,464**	**27,182,116**

The directors are seeking authority at a General Meeting on 27 April 2020 for an ordinary resolution to be passed to allot relevant securities, in accordance with section 551 on the Companies Act 2006, up to a maximum of 5,731,240 ordinary shares of 25p each. This authority expires at the AGM in 2020 and accordingly a renewed authority will be sought at the annual general meeting to allot up to 33% of the issued share capital at the date of this report.

13. Reserves

	Share Premium Account £	Capital Redemption Reserve £	Capital Reserve: Gains (losses) on sales of Investments £	Capital Reserve: Investment Holding Gains (losses) £	Revenue Reserve £
Balance at 1 February 2019	33,717,572	292,853	469,767,536	(25,371,037)	28,337,693
Gains on sales of fixed asset investments	-	-	81,238,755	-	-
Gains on derivative financial instruments	-	-	14,613	-	-
Net movement in fixed asset investment holding losses	-	-	-	(402,684)	-
Movement in derivative holding losses	-	-	-	(6,602)	-
Gains (losses) on foreign currencies	-	-	-	21,069	-
Transfer on sale of investments	-	-	(63,407,302)	63,407,302	-
Issue of ordinary shares	20,375,013	-	-	-	-
Investment management fee	-	-	(1,540,251)	-	-
Finance costs of borrowings	-	-	(15,610,679)	-	-
Other capital expenses	-	-	(1,495)	-	-
Dividends appropriated in the year	-	-	-	-	(29,160,972)
Profit retained for the year	-	-	-	-	32,643,236
Balance at 31 January 2020	**54,092,585**	**292,853**	**470,461,177**	**37,648,048**	**31,819,957**

Distributions can be made from both the capital and revenue reserves. All paid or payable dividends for the year are payable from the revenue reserve (2019: same).

14. Net Asset Value per Share

The net asset value total return for the year is the percentage movement from the capital net asset value as at 31 January 2019 to the net asset value, on a total return basis as at 31 January 2020. The net asset value total return with debt at market value is 18.7% (2019: -5.2%) and the net asset value total return with debt at par is 17.7% (2019: -5.4%).

The net asset value per ordinary share is based on 112,878,464 ordinary shares in issue at the year end (2019: 108,728,464). The method of calculation of the net asset value with debt at market value is described in Note 16(c) on page 93.

The net asset value per ordinary share was as follows:

	Debt at market value 2020	Debt at par 2020	Debt at market value 2019	Debt at par 2019
Net asset value per ordinary share attributable	533.1p	551.5p	471.4p	491.1p
Dividends paid in the year	26.6p	26.6p	25.4p	25.4p
Net asset value total return	**559.7p**	**578.1p**	**496.8p**	**516.5p**
Net asset value attributable	**£601,788,076**	**£622,534,236**	**£512,598,040**	**£533,926,733**

15. Contingent Liabilities and Commitments

At 31 January 2020 there were no contingent liabilities (2019: £Nil).

Details of the guarantee provided by the company as part of the terms of the Loans are provided in Notes 11(ii) and 11(iii) Creditors: Amounts falling due after one year on page 87.

16. Financial Risk Management policies and procedures

The company invests in equities and other investments in accordance with its investment objective as stated in the Strategic Report on page 40. In pursuing its investment policy, the company is exposed to certain inherent risks that could result in either a reduction in the company's net assets or a reduction in the profits available for distribution by way of dividends.

The main risks arising from the company's financial instruments are: market risk (comprising market price risk, market yield risk, foreign currency risk, interest rate risk), liquidity risk and credit risk. The directors' approach to the management of these risks, are set out below. The directors determine the objectives and agree policies for managing each of these risks, as set out below. The manager, in close co-operation with the directors, implements the company's risk management policies. The company's policy allows the use of derivative financial instruments to moderate risk exposure and to generate additional revenue. These policies have remained substantially unchanged during the current and preceding period.

(a) Market Risk
The manager assesses the exposure to market risk when making each investment decision, and monitors the risk on the investment portfolio on an ongoing basis. Market risk comprises market price risk (price and yield), foreign currency risk and interest rate risk.

(i) Market Price Risk
Market price risk arises mainly from the uncertainty about future prices of financial instruments held. It represents the potential loss the company might suffer through holding market positions in the face of price movements. An analysis of the company's portfolio is shown on pages 34 and 35.

Changes in stock market valuations lead to changes in gearing ratios. The board's procedure for monitoring the gearing of the company is set out in Note 17 on page 95. This takes into account the investment manager's view on the market, covenant requirements and the future prospects of the company's performance.

Market price risk sensitivity
The value of the company's listed investments (i.e. fixed asset investments, excluding unlisted equities) which were exposed to market price risk as at 31 January 2020 was as follows:

	2020 £	2019 £
Listed investments held at fair value through profit or loss	704,441,782	622,068,934
Derivative financial instruments - written call options	(28,300)	(10,490)
Total listed investments	**704,413,482**	**622,058,444**

The following illustrates the sensitivity of the return and the net assets to an increase or decrease of 20% and 50% (2019: 20% and 50%) in the fair values of the company's listed investments. The 20% level of change is considered to be reasonably possible based on observation of market conditions in the recent years. The 50% level demonstrates the impact in extreme conditions. The sensitivity analysis on the net return after tax is based on the impact of a 20% and 50% increase or decrease in the value of the company's listed equity investments at each balance sheet date and the consequent impact on the investment management fees for the year, with all other variables held constant.

	2020 20% Increase in fair value £	2020 20% Decrease in fair value £	2020 50% Increase in fair value £	2020 50% Decrease in fair value £	2019 20% Increase in fair value £	2019 20% Decrease in fair value £	2019 50% Increase in fair value £	2019 50% Decrease in fair value £
Revenue earnings								
Investment management fees	(172,588)	172,588	(431,471)	431,471	(152,407)	152,407	(381,018)	381,018
Capital earnings								
Gains (losses) on investments at fair value	140,882,696	(140,882,696)	352,206,740	(352,206,740)	124,411,689	(124,411,689)	311,029,223	(311,029,223)
Investment management fees	(320,521)	320,521	(801,303)	801,303	(283,041)	283,041	(707,603)	707,603
Change in net earnings and net assets	**140,389,587**	**(140,389,587)**	**350,973,967**	**(350,973,967)**	**123,976,241**	**(123,976,241)**	**309,940,603**	**(309,940,603)**

Management of market price risk
The directors meet regularly to consider the asset allocation of the portfolio in order to minimise the risk associated with particular industry sectors. A dedicated fund manager has the responsibility for monitoring the existing portfolio selection in accordance with the company's investment objectives and to ensure that individual stocks meet an acceptable risk reward profile. Call options are only written on stock owned within the portfolio with a maximum exposure of 15% of gross assets at the time of writing the call.

(ii) Market Yield Risk
Market yield risk arises from the uncertainty about the company's ability to maintain its income objectives due to systematic decline in corporate dividend levels.

Where call options are sold (written), in all cases a sufficient position is maintained in the underlying equity to cover any potential option exercise. Whilst the option value can be volatile, price movements should to some extent be offset by opposing movements in the value of the underlying equity. If options are retained until expiry they will either expire worthless or be exercised. The effect of any option exercise is to sell the underlying shares at the strike price of the option. A schedule of the company's listed holdings is shown on pages 34 and 35. Where put options are purchased, the market value of such options can be volatile but the maximum loss on any contract is limited to the original investment cost. No put options were purchased in the year (see Note 1 on page 81 for detail of income received).

Further explanation of the derivatives strategy is included in the Glossary on page 101.

Management of market yield risk
The directors regularly review the current and projected yield of the investment portfolio, and discuss with the manager the extent to which it will enable the company to meet its investment income objective.

(iii) Foreign Currency Risk
Foreign currency risk is the risk of the movement in the values of overseas financial instruments as a result of fluctuations in exchange rates.

Management of foreign currency risk
The company invests predominantly in UK listed equities and although there is no direct impact there is implicit exposure as some of the companies in the portfolio generate income and cashflows in foreign currencies. (2019: same).

Any income denominated in foreign currency is converted into sterling on receipt. The company does not hedge against foreign currency exposure.

(iv) Interest Rate Risk
Interest rate risk is the risk of movements in the value of financial instruments as a result of fluctuations in interest rates.

Interest Rate Exposure
The table below summarises in sterling terms the financial assets and financial liabilities whose values are directly affected by changes in interest rates.

	2020 Fixed rate interest £	2020 Floating rate interest £	2020 Nil Interest £	2020 Total £	2019 Fixed rate interest £	2019 Floating rate interest £	2019 Nil Interest £	2019 Total £
Financial assets	-	10,546,075	704,446,268	714,992,343	-	22,951,619	622,073,420	645,025,039
Financial liabilities	(66,651,713)	(26,146,092)	(28,300)	(92,826,105)	(110,205,297)	-	(10,490)	(110,215,787)
Net financial (liabilities) assets	(66,651,713)	(15,600,017)	704,417,968	622,166,238	(110,205,297)	22,951,619	622,062,930	534,809,252
Short term receivables and payables				**367,998**				**(882,519)**
Net assets per balance sheet				**622,534,236**				**533,926,733**

As at 31 January 2020, the interest rates received on cash balances or paid on bank overdrafts, was 0.20% and 1.75% per annum respectively (2019: 0.16% and 0.27% per annum).

The fixed rate interest bearing liabilities bear the following coupon and effective rates as at 31 January 2020 and 31 January 2019.

	Maturity date	Amount borrowed £	Coupon rate	Effective rate since inception*
5.875% Secured Bonds 2029	20/12/2029	30,000,000	5.875%	6.23%
Fixed Rate Notes 2052	18/12/2052	35,000,000	2.96%	3.03%
4% Perpetual Debenture Stock	n/a	1,375,000	4.00%	4.00%
3.65% Cumulative Preference Stock	n/a	1,178,000	3.65%	3.65%
		67,553,000		

The details in respect of the above loans have remained unchanged since the previous accounting period.

* The effective rates are calculated in accordance with FRS 102 Section 12: 'Other Financial Instruments' as detailed in the Statement of Accounting Policies on page 79.

The weighted average effective rate of the company's fixed interest bearing liabilities (excluding the 3.65% Cumulative Preference Stock and the 4% Perpetual Debenture Stock) is 4.51% (2019: 6.08%) and the weighted average period to maturity of these liabilities is 22.3 years (2019: 15.8 years).

The above year end amounts are reasonably representative of the exposure to interest rates during the year, as the level of exposure does not change materially. Therefore the company's net return and net assets, are not significantly affected by changes in interest rates.

Management of interest rate risk
The company invests predominantly in equities, the values of which are not directly affected by changes in prevailing market interest rates. In the year to 31 January 2020, the company held no fixed interest securities. The company's policy is to remain substantially fully invested and thus does not expect to hold significant cash balances. The financial assets have minimal exposure to interest rate risk.

The company finances its operations through a mixture of share capital, retained earnings and long term borrowings which are subject to fixed rates. Movement in interest rates will not have a material effect on the finance costs and financial liabilities of the company as all the borrowings of the company are subject to fixed rates of interest.

(b) Liquidity Risk
Liquidity risk relates to the capacity to meet liabilities as they fall due and is dependent on the liquidity of the underlying assets.

Maturity of financial liabilities
The table below presents the future cash flows payable by the company in respect of its financial liabilities.

Cash flows in respect of the principal and interest on the Fixed Rate Notes 2052, Stepped Rate Interest Loan and 5.875% Secured Bonds 2029 reflect the maturity dates as set out in Notes 10 and 11 on pages 86 and 87. The loans are each governed by a trust deed. Only if the covenants are breached would early repayment be enforced. Therefore their repayment is not considered to be a likely short term liquidity issue. Cash flows in respect of the 4% Perpetual Debenture Stock and 3.65% Cumulative Preference Stock, which have no fixed repayment date, assumes maturity of 20 years from the balance sheet date. Cash flows have not been discounted.

2020	Three months or less £	Between three months and one year £	Between one and five years £	More than five years £	Total £
Other payables					
Finance costs of borrowing	49,875	3,220,242	237,962	-	3,508,079
Revolving Credit Facility	-	26,000,000	-	-	26,000,000
Other payables	3,590,504		-	-	3,590,504
Derivative financial instruments	28,300	-	-	-	28,300
Creditors - Amounts falling due after more than one year					
Amounts payable on maturity of borrowings	-	-	-	67,553,000	67,553,000
Finance cost of borrowings	-	-	11,587,188	39,327,204	50,914,392
	3,668,679	**29,220,242**	**11,825,150**	**106,880,204**	**151,594,275**

2019	Three months or less £	Between three months and one year £	Between one and five years £	More than five years £	Total £
Other payables					
Finance costs of borrowing	-	6,760,824	-	-	6,760,824
Other payables	882,595	-	-	-	882,595
Derivative financial instruments	10,490	-	-		10,490
Creditors - Amounts falling due after more than one year					
Amounts payable on maturity of borrowings	-	-	-	109,553,000	109,553,000
Finance costs of borrowing	-	-	25,186,526	42,126,004	67,312,530
	893,085	**6,760,824**	**25,186,526**	**151,679,004**	**184,519,439**

Management of liquidity risk
Liquidity risk is not significant as the company's assets mainly comprise realisable securities, which can be sold to meet funding requirements if necessary. Short term flexibility can be achieved through the use of overdraft facilities, where necessary. As at the 31 January 2020, the company had an undrawn committed borrowing facility of £10m (2019: £10m).

(c) Credit Risk
Credit risk is the risk of default by a counterparty in discharging its obligations under transactions that could result in the company suffering a loss. There were no impaired assets as of 31 January 2020 (2019: nil). The counterparties the company engages with are regulated entities and are of high credit quality.

Management of credit risk
Outstanding settlements are subject to credit risk. Credit risk is mitigated by the company through its decision to transact with counterparties of high credit quality. The company only buys and sells investments through brokers which are approved counterparties, thus minimising the risk of default during settlement. The credit ratings of brokers are reviewed quarterly by the manager.

The company is also exposed to credit risk through the use of banks for its cash position. Bankruptcy or insolvency of banks may cause the company's rights with respect to cash held by banks to be delayed or limited. The company's cash balances are held by HSBC Bank PLC, rated A2 by Moody's rating agency and UBS, rated A1 by Moody's rating agency. The directors believe the counterparties the company has chosen to transact with are of high credit quality, therefore the company has minimal exposure to credit risk.

The table below summarises the credit risk exposure of the company as at 31 January:

	2020 £	2019 £
Other Receivables:		
Accrued income	2,097,678	1,087,249
Cash and cash equivalents	10,546,075	22,951,619
Total	**12,643,753**	**24,038,868**

Fair Values of Financial Assets and Financial Liabilities

With the exception of those financial liabilities measured at amortised cost, the 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. The financial liabilities measured at amortised cost, including interest on outstanding borrowings due within one year, have the following fair values*:

	2020 Book Value £	2020 Fair Value £	2019 Book Value £	2019 Fair Value £
Revolving Credit Facility	26,146,092	26,000,000	-	-
Fixed Rate Interest Loan 2023	-	-	44,382,596	54,545,400
5.875% Secured Bonds 2029	29,639,126	41,427,000	29,599,514	38,790,000
4% Perpetual Debenture Stock	1,388,863	2,524,225	1,388,863	1,724,113
3.65% Cumulative Preference Stock	1,178,000	1,984,223	1,178,000	1,358,705
2.96% Fixed Rate Notes 2052	34,795,207	41,958,000	34,790,052	36,249,500
Total	**93,147,288**	**113,893,448**	**111,339,025**	**132,667,718**

The net asset value per ordinary share, with debt at fair value is calculated as follows:

	2020 £	2019 £
Net assets per balance sheet	622,534,236	533,926,733
Add: financial liabilities at book value#	93,147,288	111,339,025
Less: financial liabilities at fair value*	(113,893,448)	(132,667,718)
Net assets (debt at fair value)	**601,788,076**	**512,598,040**
Net asset value per ordinary share (debt at fair value)	**533.1p**	**471.4p**

Book value, par value and amortised cost are used interchangeably throughout the Annual Report.

* The fair value has been derived from the closing market value as at 31 January 2020 and 31 January 2019. Fair value and market value are used interchangeably throughout the Annual Report.

The net asset value per ordinary share is based on 112,878,464 ordinary shares in issue at 31 January 2020 (2019: 108,728,464).

The company's investments and derivatives financial instruments, as disclosed in the company's Balance Sheet, are valued at fair value.

The company has chosen to adopt sections 11 and 12 from FRS102 to account for its financial instruments.

Investments 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.

Level 2 Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. 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 January the financial assets at fair value through profit and loss are categorised as follows:

2020	Level 1 £	Level 2 £	Level 3 £	Total £
Financial assets at fair value through profit or loss				
Equity investments	704,441,782	-	-	704,441,782
Financial instruments	-	-	4,486	4,486
Derivatives financial instruments - written call options	-	(28,300)	-	(28,300)
	704,441,782	**(28,300)**	**4,486**	**704,417,968**

2019	Level 1 £	Level 2 £	Level 3 £	Total £
Financial assets at fair value through profit or loss				
Equity investments	622,068,934	-	-	622,068,934
Financial instruments	-	-	4,486	4,486
Derivatives financial instruments - written call options	-	(10,490)	-	(10,490)
	622,068,934	**(10,490)**	**4,486**	**622,062,930**

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 were no transfers between levels for financial assets and financial liabilities during the year recorded at fair value as at 31 January 2020 and 31 January 2019.

17. Capital Management Policies and Procedures

The company's objective is to provide an above average level of income and income growth together with long term capital growth. It invests in high yielding stocks and receives premium income from options.

The company's capital at 31 January comprises:

	2020 £	2019 £
Debt		
Creditors: amounts falling due after more than one year	66,651,713	110,205,297
	66,651,713	**110,205,297**
Equity		
Called up share capital	28,219,616	27,182,116
Share premium account and other reserves	594,314,620	506,744,617
	622,534,236	**533,926,733**
Total Capital	**689,185,949**	**644,132,030**
Debt as a percentage of total capital	**9.7%**	**17.1%**

	Debt at par		Debt at fair value	
	2020 £	2019 £	2020 £	2019 £
Debt				
Revolving credit facility	26,146,092	-	26,000,000	-
Creditors: amounts falling due after more than one year	67,001,196	111,339,025	87,893,448	132,667,718
Gross debt	**93,147,288**	**111,339,025**	**113,893,448**	**132,667,718**
Total net assets	622,534,236	533,926,733	601,788,076	512,598,040
Gross gearing	**15.0%**	**20.9%**	**18.9%**	**25.9%**
Gross debt	93,147,288	111,339,025	113,893,448	132,667,718
Less: cash	(10,546,075)	(22,951,619)	(10,546,075)	(22,951,619)
Net debt	**82,601,213**	**88,387,406**	**103,347,373**	**109,716,099**
Total net assets	622,534,236	533,926,733	601,788,076	512,598,040
Net gearing	**13.3%**	**16.6%**	**17.2%**	**21.4%**

The board, with the assistance of the investment manager, monitors and reviews the broad structure of the company's capital on an ongoing basis. The level of gearing is monitored, taking into account the investment manager's view on the market and the future prospects of the company's performance. Capital management also involves reviewing the difference between the net asset value per share and the share price (i.e. the level of share price discount or premium) to assess whether to issue shares or repurchase shares for cancellation or for holding in treasury. Further details on the Revolving Credit Facility and the Fixed Rate Loan Notes 2052 can be found in Notes 10 and 11.

The company is subject to several externally imposed capital requirements; the banks borrowings under the overdraft facility are not to exceed £10m, and as a public company the minimum share capital is £50,000. The company's objective, policies and processes for managing capital are unchanged from the preceding accounting period, and the company has complied with them. The terms of the debenture trust deeds have various covenants which prescribe that moneys borrowed should not exceed the adjusted total value of the capital and reserves. These are measured in accordance with the policies used in the annual report. The company has complied with these.

18. Transactions with the Investment Manager and related parties

The amounts paid to the investment manager together with details of the investment management contract are disclosed in Note 2 on page 81. 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 FRS102 Section 33: Related Party Disclosures, the investment manager is not considered to be a related party.

The company's related parties are its directors. Fees paid to the company's board are disclosed in the Directors' Remuneration Report on page 62.

There are no other identifiable related parties at the year end, and as of 23 April 2020.

19. Post Balance Sheet events

There are no significant events after the end of the reporting period requiring disclosure. As described extensively in this report, global markets have experienced significant fluctuations due to risks associated with COVID-19 virus. Since the year end, Merchants' NAV has fallen by 32.8%, as at close of business on 22 April 2020. However, the full extent of the impact remains uncertain.

Investor Information

Another notable contributor to performance, housebuilder Bovis Homes became Vistry Group late in the year, following the £1.1 billion deal to acquire the Linden Homes business.

Investor Information

AIFM and Depositary

Allianz Global Investors GmbH (AllianzGI), is designated the Alternative Investment Fund Manager (AIFM). AllianzGI is authorised to act as an AIFM and to conduct its activities from its UK Branch by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), in accordance with AIFMD and Financial Conduct Authority requirements. The management fee and the notice period are unchanged in the restated Management and Administration Agreement (details in Note 2 on page 81).

The company appointed HSBC Bank PLC as its depositary and custodian in accordance with AIFMD under an agreement between the company, AllianzGI and HSBC. Depositary fees are charged in addition to custody fees and are calculated on the basis of net assets.

Leverage and Risk Policies under AIFMD

Details of leverage and risk policies required under AIFMD are published on the website www.merchantstrust.co.uk under Literature/Trust Documents/Disclosures to Investors under AIFMD. These policies represent no change to the board's policies in existence prior to AIFMD and are in place to ensure that these limits would not be breached under any foreseeable circumstances.

Remuneration Disclosure of the AIFM

Employee remuneration of Allianz Global Investors GmbH for the financial year ending 31 December 2019 (all values in Euro).

Number of employees: 1,707

	All employees	Risk Taker	Board Member	Other Risk Taker	Employees with Control Function	Employees with Comparable Compensation
Fixed remuneration	163,646,905	8,839,907	1,718,951	1,294,426	488,352	5,338,178
Variable remuneration	122,615,429	22,341,018	3,821,074	4,708,477	420,897	14,390,570
Total remuneration	**286,262,334**	**32,180,925**	**5,540,025**	**6,002,903**	**909,249**	**19,728,748**

Remuneration Policy of the AIFM

The compensation structure at AllianzGI is set up to avoid any kind of excessive risk-taking. Variable compensation awards are delivered via deferral programmes to ensure they are linked to sustainable performance. In addition, any compensation decisions have to be reviewed and approved by the AIFM's Functional, Regional and Global Compensation Committees on both an aggregate and individual basis, to further ensure effective risk mitigation.

Key Information Document (KID)

The Key Information Document (KID) is a standardised pan-European document that contains product, risk, charges and other information. It is a regulatory requirement that you are provided with a KID before you invest, and you will be required to declare that you have seen the latest KID when you make your investment.

The Merchants Trust KID is available from the Literature Library at merchantstrust.co.uk. However, your chosen platform provider or stockbroker should provide you with a copy before accepting your investment instructions. Please note that existing investors do not need to review the KID unless planning to add to an investment. The KID's standardised format is intended to allow potential investors to compare funds easily, on a like-for-like basis. However, there are wider investment industry concerns that disclosures mandated for inclusion may prove to be unhelpful for investors. Investors should be aware that the performance and risk numbers in the KID are based on the last five years' experience and note that past experience is not always a guide to the future. Transaction costs quoted in the KID are based on the difference between the market price of the investment at the time the order is made and the actual price paid/received when the deal was completed. The transaction costs quoted on page 85 are the costs associated with the buying and selling of the underlying investments, such as dealing fees and stamp duty. Both are calculated as a percentage of the net asset value.

Financial Calendar

Year end 31 January.
Full year results announced and Annual Report posted to shareholders in April.
Annual General Meeting held in May.
Half-yearly Report posted to shareholders in September.

Ordinary Dividends

It is anticipated that dividends will be paid as follows:

1st interim	August
2nd interim	November
3rd interim	February/March
4th interim / Final	May

Preference Dividends

Payable half-yearly 1 February and 1 August.

Benchmark

With effect from 1 February 2017 the company's benchmark was changed to the FTSE All-Share Index, from the FTSE 100 Index.

Market and Portfolio Information

The company's ordinary shares are listed on the London Stock Exchange. The market price range, gross yield and net asset value are shown daily in the Financial Times and The Daily Telegraph under the headings 'Investment Companies' and 'Investment Trusts', respectively. The net asset value of the ordinary shares is calculated daily and published on the London Stock Exchange Regulatory News Service. The geographical spread of investments and ten largest holdings are published monthly on the London Stock Exchange Regulatory News Service. They are also available from the manager's Investors Helpline on 0800 389 4696 or via the company's website: merchantstrust.co.uk.

Website

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

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.

A list of other providers can be found at the company's website: merchantstrust.co.uk/howtoinvest.

Dividend

The board has declared a fourth interim dividend of 6.8p payable on 29 May 2020 to shareholders on the Register of Members at the close of business on 24 April 2020, making a total distribution of 27.1p per share for the year ended 31 January 2020, an increase of 4.2% over last year's distribution. The ex-dividend date is 23 April 2020. A Dividend Reinvestment Plan (DRIP) is available for this dividend and the relevant Election Date is 8 May 2020. Cash dividends will be sent by cheque to first-named shareholders at their registered address. Dividends may be paid directly into shareholders' bank accounts. Details of how this may be arranged can be obtained from Link Asset Services. Dividends mandated in this way are paid via Bankers' Automated Clearing Services (BACS).

Registrars

Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Telephone: 0371 664 0300. Lines are open 9.00 am to 5.30 pm (London time) Monday to Friday. Email: enquiries@linkgroup.co.uk. Website: linkassetservices.com

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 am to 5.30 pm (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.

Dividend Reinvestment Plan for Ordinary Shareholders (DRIP)

The registrars offer a DRIP which gives ordinary shareholders the opportunity to use their cash dividend to buy further shares in the company under a low-cost dealing arrangement. Terms and Conditions and an application form are enclosed with each dividend payment. For more information please email shares@linkgroup.co.uk or call 0371 664 0381.

Share Dealing Services

Link Asset Services operate an online and telephone dealing facility for UK resident shareholders with share certificates. Stamp duty and commission may be payable on transactions.

For further information on these services please contact: linksharedeal.com for online dealing or 0371 664 0445 for telephone dealing. Lines are open 8.00am to 4.30 pm Monday to Friday (London time). 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.

Share Portal

Link Asset Services offer shareholders a free online service called Share Portal, enabling shareholders to access a comprehensive range of shareholder related information. Through Share Portal, shareholders can: view their current and historical shareholding details; obtain an indicative share price and valuation; amend address details; view details of dividend payments; and apply for dividends to be paid directly to a bank or change existing bank details.

Shareholders can access these services at signalshares.com. Shareholders will need to register for a Share Portal Account by completing an on-screen registration form. An email address is required.

International Payment Services

Link Asset Services operate an international payment service for shareholders, whereby they can elect either for their dividend to be paid by foreign currency draft or they can request an international bank mandate. This service is only available for dividend payments of £10 or more and a small administration fee per dividend payment applies.

For further information on these services please contact: 0371 664 0300. Lines are open between 9.00 am and 5.30 pm, (London time) Monday to Friday or email IPS@linkgroup.co.uk.

CREST Proxy Voting

Shares held in uncertificated form (i.e., in CREST) may be voted through the CREST Proxy Voting Service in accordance with the procedures set out in the CREST manual.

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.

Warning to Shareholders

We are aware that some shareholders may have received unsolicited telephone calls or correspondence concerning investment matters. These are typically from overseas based organisations who target UK shareholders offering to sell them, what often turn out to be, worthless or high risk shares in US or UK investments or encourage them to dispose of UK shares. They can be extremely persistent and persuasive. Shareholders are therefore advised to be very wary of any unsolicited advice or offers.

Please note that it is most unlikely that either the company or the company's Registrar, Link Asset Services, would make unsolicited telephone calls to shareholders. Any such calls would only ever relate to official documentation already circulated to shareholders and never in respect of investment 'advice'.

If you are in any doubt about the veracity of an unsolicited telephone call, please call the Company Secretary on +44 (0)800 389 4696 or the Registrar on +44 (0) 371 664 0300.

Glossary

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 January 2020, the NAV with debt at par value was £622,534,236 (2019: £533,926,733) and the NAV per share was 551.5p (2019: 491.1p).

Earnings per ordinary share is the profit after taxation, divided by the weighted average number of shares in issue for the period. For the year ended 31 January 2020 earnings per ordinary share was 29.7p (2019: 27.7p), calculated by taking the profit after tax of £32,643,236 (2019: £30,095,750), divided by the weighted average shares in issue of 110,037,230 (2019: 108,728,464).

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 (see pages 93 and 94). As at 31 January 2020, the NAV with debt at market value was £601,788,076 (2019: £512,598,040) and the NAV per share with debt at market value was 533.1p (471.4p). (Further details can be found in Note 16(c) on page 93).

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 (see Note 14 on page 89).

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 (see page 3). The share price as at 31 January 2020 was 532.0p, an increase of 61.0p from the price of 471.0p as at 31 January 2019. The change in share price of 61.0p plus the dividends paid in the year of 26.6p are divided by the opening share price of 471.0p to arrive at the share price total return for the year ended 31 January 2020 of 18.6% (2019: 1.7%).

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 (see page 3).

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 (see pages 2 and 3).

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 (see page 9).

	2020 £	2019 £
Management fee	2,386,058	2,407,385
Administration expenses	855,480	834,705
Less - non-recurring expenses	(12,000)	(52,237)
Total expenses (A)	**3,229,538**	**3,189,853**
Average net asset value with debt at market value (B)	544,002,583	551,574,214
Ongoing charge (A/B)	**0.59%**	**0.58%**

The ongoing charge differs from the ongoing charge in the Company's KID, which is calculated in accordance with the PRIIPs regulations and includes finance costs.

Yield represents dividends declared in the past year as a percentage of share price. This is shown as 5.1% at 31 January 2020 in the highlights on page 2.

	2020	2019
Dividends declared for the year	27.1p	26.0p
Share price at year end	532.0p	471.0p
Annual dividend as a percentage of share price	**5.1%**	**5.5%**

Gearing is the amount of debt as a percentage of the net assets (see Note 17 on page 95).

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