WE'LL FOCUS ON THE DIVIDENDS SO YOU CAN FOCUS ON LIFE

The Merchants Trust PLC

Annual Report, 31 January 2022

Allianz Global Investors

Why invest in The Merchants Trust?

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

High income returns
Merchants aims to provide an above average level of income and income growth together with long-term growth of capital through a policy of investing mainly in higher yielding large UK equities. This year 5% of the portfolio has been in international stocks.

Income growth
The trust has paid increasingly higher dividends to its shareholders year-on-year for the last 40 years – from 2.1p per share in 1982 to 27.3p in 2022.

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

Cost-effective
Buying shares in an investment trust can be less costly than purchasing the underlying stocks individually. With an annual management fee of 0.35% (included in the ongoing charges of 0.55%*, one of the lowest in the peer group – see page 13), Merchants provides a cost-effective way to access an active and expertly managed portfolio.

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

Liquidity and gearing
With a market capitalisation of £732m and 128 million shares in issue, Merchants provides good liquidity to investors. Merchants is also able to employ gearing. This enhances the earnings per share, and potentially increases long term returns. However, losses are also amplified when markets fall.

* At 31 January 2022. See glossary on page 113.

Contents

Financial Highlights

As at 31 January 2022

Net Asset Value
Total Return *#

+35.7%

2021 **-12.4%**

Share Price
Total Return *

+36.9%

2021 **-12.5%**

Benchmark
Total Return *~

+18.9%

2021 **-7.5%**

Dividend yield *

4.8%

2021 **6.2%**

Dividend growth

+0.4%

2022 **27.3p**
2021 **27.2p**

Revenue earnings
per ordinary share

+38.4%

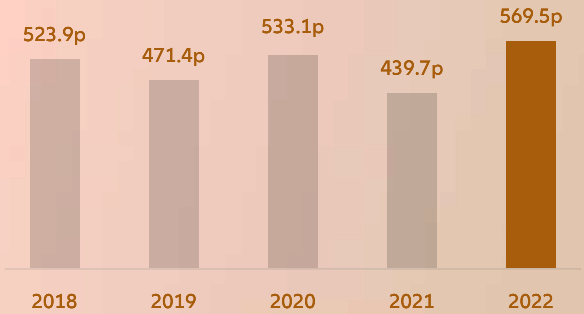
2022 **25.6p**
2021 **18.5p**

The best performing large sector in the period under review was oil & gas, with a total return of 48%.

Net Asset Value per ordinary share *#

569.5p

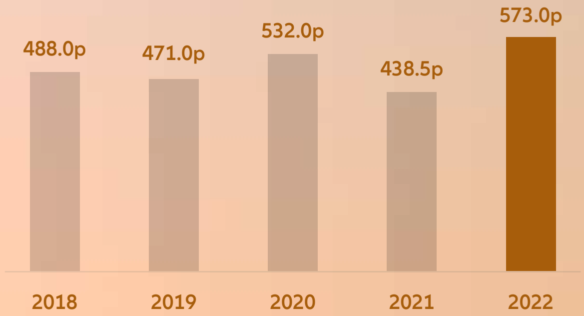
+29.5%



Share price

573.0p

+30.7%



* Alternative Performance Measure (APM). APMs are the board's preferred measures for the most meaningful information for shareholders. Total return figures include dividends paid.
# Debt at market value.
~ Benchmark is the FTSE All-Share Index.
See Glossary on page 113.

Chairman's Statement

Dear Shareholder

A positive report but dark days in Europe

I am pleased to be reporting on a positive year for the company ending 31 January 2022. Whilst that is gratifying, as I write Ukraine is in the middle of a terrible conflict and we should reflect upon the human cost, the damage it has already done and the long-term harm to peaceful life and prosperity that it has brought. The dreadful scenes we see each day on our televisions are a reminder of the costs of war, human and otherwise, and it is still somewhat shocking that it is happening in Europe in 2022. The board's thoughts are with the men, women and children caught up in this conflict and we hope for a peaceful outcome as soon as possible. In terms of our duty towards our shareholders though, I will focus on the business of reporting on the 2022 financial year, with some cautious consideration of what we might be facing in the future.

The company has enjoyed an extremely strong year. The company's NAV total return for the period was 35.7% which was comfortably ahead of the benchmark index, the FTSE All-Share Index return of 18.9%.

Performance has also been strong over the longer term – a testament to Merchants' consistent strategy and excellent portfolio management. Merchants is first in its peer group over 1 year and 3 years (as at 31 January 2022) and second over 5 years. This is a great record, as we demonstrate in the reporting on page 13, and it means that we have been able to meet our shareholders' objectives of providing a high level of income and income growth together with long term capital growth.

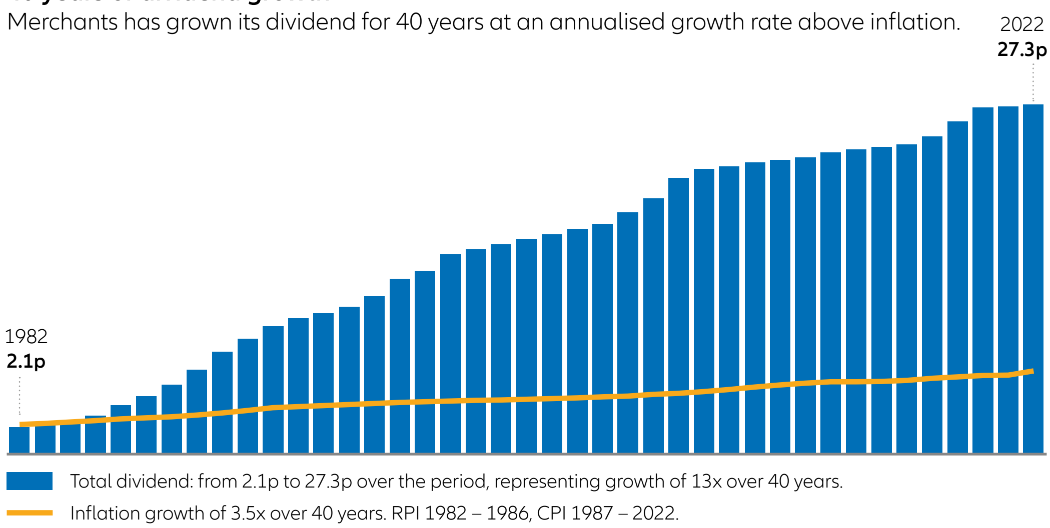
With the declared final dividend for the financial year, we are also hitting a landmark 40th consecutive year of dividend increases.

Portfolio income

After a very difficult year in 2020 when many dividends were cut, 2021 saw a welcome return to dividends being paid by the majority of UK companies. Many companies have returned their distributions to pre-pandemic levels, or near to, although some have taken the opportunity to rebase their dividend payments at lower levels. This return to 'near normal' has been welcomed by the Merchants board and the manager, and it has enabled us during this financial year to have more visibility of our dividend receipts and greater confidence in planning our dividend policy. Further details are given in the Investment Manager's Review which begins on page 15. The portfolio revenue earnings per share (EPS) for the year were up 38.4% over the corresponding period last year to 25.6p (2021: 18.5p).

40 years of dividend growth

Merchants has grown its dividend for 40 years at an annualised growth rate above inflation.



Source: AllianzGI.

40 years of dividend growth

The board recognises the importance to shareholders of a growing dividend and this is particularly important in the current inflationary environment. We propose a final dividend for shareholder approval of 6.85p which means for 2022 an increased full-year dividend of 27.3p (2021 27.2p). The proposed 2022 dividend would include a contribution from capital reserves of 2.3p, leaving 16.0p in capital reserves at the year end. The contribution from capital reserves is much less than was applied in 2021 (9.9p) with dividend cover being steadily rebuilt. In the medium term we hope to see a return to the dividend being fully covered and where reserves can once again be accumulated. Recent years have been a reminder of one of the attractive features of investment trusts to long term shareholders which is the ability of the board to smooth returns through the cautious use of reserves.

Merchants has now grown its dividend for 40 consecutive years at an annualised growth rate of just under 6.6%, well above the rate of inflation over that period which stands at 3.5% annually as measured by the Consumer Prices Index (CPI). We are very pleased to retain our AIC Dividend Hero status with a landmark four decades of dividend increases. 2022 has seen us continue to provide one of the highest yields in our peer group as part of an attractive total return for investors. We focus on the dividends so that shareholders can focus on what really matters to them in their lives.

The declared final dividend will be payable, subject to a shareholder vote at the AGM, on 24 May 2022 to shareholders on the register at close of business on 19 April 2022. A Dividend Reinvestment Plan ('DRIP') is available for this dividend for which the relevant Election Date is 29 April 2022 and the ex-dividend date is 14 April 2022.

Consistent investment strategy

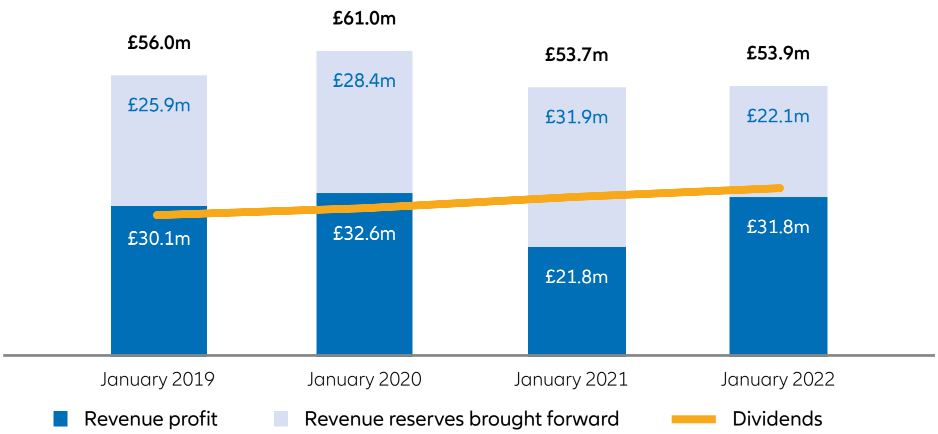
Merchants' aim continues to be to identify and invest in sound companies with good characteristics and to form a portfolio of those companies to meet our overall objectives. We are mindful that long term performance will be improved if we do not overpay for those investments.

Opportunities abound when markets are volatile. Over the course of the past year for example, when we have emerged from the pandemic and economic recovery looked possible, the market has seemed to hang on the coattails of earnings momentum – sending prices rocketing when earnings surged forward or retreating when earnings didn't match expectations. This environment has helped our manager to be somewhat contrarian – buying companies which they believe have good long-term prospects but where the market has overreacted to an intermediate drop in earnings. Conversely, our manager has sold companies where market exuberance has driven the stock price past the team's assessment of fundamental value.

Ultimately, holding a balanced portfolio of solid companies with different characteristics, but all viewed with a strong discipline around valuation, has seen the manager able to generate positive long-term performance at both the portfolio level and at NAV level.

Dividend Capacity

Dividends can be funded from revenue profits in the year and from brought forward reserves.



Source: AllianzGI.

Whilst the recent market rotation from 'growth' to 'value' has been helpful from time to time, this style bias isn't required for the Merchants portfolio to perform, as can be seen from our long-term track record.

A UK renaissance

For many years the UK market has been out of favour and traded at a discount to global peers. However, the UK has been more resilient than global peers over recent months – a trend that could well continue. Indeed investor interest – including from overseas – has started to rise and the UK equity market has the potential to see increased demand. With many growth-oriented stocks (e.g. tech stocks in the US) falling out of favour in an environment of rising interest rates, investors are being attracted to companies on lower valuations with visible and secure cashflow that characterise the UK market.

In addition, a key attraction of the UK market remains strong governance standards. Shareholders may be interested to learn that our investment manager (AllianzGI), reported that at an aggregate company level they voted against 4% of resolutions proposed by UK companies last year, compared with between 10-40% of resolutions proposed by companies listed in the rest of the world. Furthermore, Merchants predominantly (although not solely) invests in the shares of some of the larger companies listed on the UK market. These companies' businesses are not solely UK but rather are on the whole multinationals which derive the bulk of their profits from overseas. They are therefore more exposed to the global economy and less so to the domestic UK economy. The opportunity to invest in UK companies with UK governance standards, but international business exposure is attractive for some investors.

Environmental, Social & Governance (ESG)

The board is aware that one of the biggest changes in investing over the past 5 years is the increasing importance of environmental, social and governance (ESG) factors. ESG issues are today on the agenda of most shareholders, investors, regulators and companies. As a consequence the Merchants board continues to develop its understanding and evaluate its position on sustainability and ESG more broadly. We work with the manager to understand how AllianzGI engages with its investee companies on sustainability issues and how the manager's approach as an active investor can lead to behavioural, structural and organisational change in those companies.

The board is also aware, however, that in this relatively new area of investor activity, ESG taxonomy, standards, and even definitions are emerging only now. There is certainly no shortage of research material, data and analysis on ESG, however a consensus or commonality of approach across the

Merchants Trust – Our ESG and Sustainable Investing Approach

The Merchants board continues to develop its understanding and evaluate its position on sustainability and ESG. We work with the manager to understand how AllianzGI engages with holdings on sustainability issues and how the manager's active investing approach can lead to behavioural and structural change within those companies.

Highlights within this report include:

Case study: ESG Focus
Page 28

industry is yet to emerge. There is also a wide dispersion in how measurements and ratings are applied by various ratings agencies and other organisations.

In the light of the interest shown by many of our shareholders, we have several featured or highlighted sections in this report which explain our approach to this important emerging theme. There is also a page on the Merchants website which describes the manager's Integrated ESG process in more detail. We remain confident that the right actions are being taken by our manager to ensure that ESG factors are appropriately and properly considered in the investment process. We believe that this has been part of the process for AllianzGI, the investment manager, for many years and certainly pre-dates the current investor focus.

Demand

During the past year we have seen encouraging demand for Merchants' shares largely as a result of the company's positive near- and longer-term performance, its high yield when compared to the peer group, the ongoing Dividend Hero status and concerted shareholder communication efforts. This demand has seen us often trading at a premium to NAV and as a result we have been able to issue shares to the value of £35.6m over the financial year under review, (representing 5.6% of share capital). In addition we have issued a further £11.9m of shares issued since 31 January up to publication of this report.

Issuing new shares is only done at a premium to NAV in order that it is accretive to the NAV per share and does not disadvantage existing shareholders. Increasing the size of Merchants' shareholder base is beneficial for shareholders because fixed costs are spread over a wider shareholder base and general trading liquidity of the company's shares is improved. This can become a virtuous circle since good liquidity is often a prerequisite for some wealth managers to trade in investment trust shares.

A large number of the company's shares are held by private individuals, many investing via investment platforms, and we welcome all the new shareholders who may have joined the register this year.

Strategy

As part of an annual process, the board once again met this year to discuss the strategic direction of the company. ESG was an area of focus as noted in the earlier section. The board has also spent time meeting not only with our portfolio managers, but also with senior representatives from the AllianzGI ESG team in order to understand the style and approach of AllianzGI's ESG research and the ways in which Merchants' portfolio management benefits from it. Your board believes that the strategy adopted by the manager remains

Integrated ESG
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Risk Analysis and Carbon Emissions
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Company Engagement
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Proxy Voting
Page 61

effective and appropriate at this time. We also reviewed our exposure to international investing, our gearing and aspects of our digital communications with shareholders.

Allianz Global Investors continues to pursue an FCA authorisation for AllianzGI UK as a UK entity – we communicated this process to the market in 2021. The investment manager is currently regulated by the German regulator BaFin and has a UK branch which operates under the FCA's Temporary Permissions Regime in a post-Brexit environment. We believe the authorisation of a UK entity and it becoming the company's AIFM (Alternative Investment Fund Manager) will be in the best interests of Merchants' shareholders.

We also noted during the year the adoption of a policy of investing up to 10% of the company's assets in overseas-listed investments. This was not in response to any negative view on the UK market, but rather to allow greater flexibility and diversification for the investment manager, together with the ability to invest in certain sectors which are difficult to access in the UK market. The board believes that whilst relatively recent, this has been a successful development.

Gearing continues to be utilised. We remain comfortable with the current level of gearing (12.6% as at 31 January 2022) with the level falling over the year due to performance gains in the portfolio as well as share issuance which has grown the size of the company.

Board

There are no changes to the board to report over the period.

The board was pleased to be able to return to face-to-face meetings – whilst it was effective to hold meetings virtually over the height of pandemic, it remains a positive experience to meet with colleagues in-person as well as with various representatives of the investment manager and our advisors.

As noted in the half-yearly report, the period witnessed the sad and untimely passing of the previous Merchants chairman, Simon Fraser. This was a sad time not only for the board, and his family but also for the industry at large on which Simon had such a huge impact. We were heartened by the recognition of Simon's influence from the industry and press at the time and by the very high attendance at his memorial service.

International Investing

Following board approval, selective new investments were made in non-UK listed for the first time in many years (although Merchants was originally founded to invest overseas). The aim is to broaden the opportunity set of potential income investment opportunities and to diversify the portfolio, at a time when the universe of higher yielding UK stocks has become more concentrated. International diversification provides access to industries that are not well represented in the UK, such as reinsurance, where we have introduced SCOR and Swiss Re. It also allows diversification of risk into additional companies, in existing sectors, that may have different end market or product exposures, for example, Sanofi in pharmaceuticals and consumer health, and TotalEnergies in energy. The total investment in non-UK listed companies is limited to 10% of assets, maintaining Merchants' focus on the UK equity market, although many UK-listed companies, clearly, have substantial international operations.

SCOR

Sector Non-life insurance

% of portfolio 1.7%

Awards

Over the year Merchants received two industry awards. In the first half of the year we received, for the second year in a row, the AIC's best Report & Accounts (Generalist) in their Shareholder Communications Awards. A large amount of work goes into producing this document from the board and the manager's perspective. We aim to ensure that reporting is considered, appropriate and informative for shareholders and we were pleased therefore to receive this award once again.

In the latter part of the year Merchants was recognised as Shares Magazine's 'Best Investment Trust for Income' in the annual Shares Awards. These awards are voted for entirely by the magazine's readership without guidance from any industry panel. As such it represents a focused 'consumer' award and one which we were proud to receive. We acknowledge this as recognition of Merchants' strategy and performance.

Annual General Meeting

With most COVID restrictions having been lifted we are pleased to be able to return to holding a physical AGM and to be able to welcome shareholders back in person. The AGM will be held at Grocers' Hall at 12.00 pm on Wednesday 18 May and full details can be found in the notice of meeting on page 109.

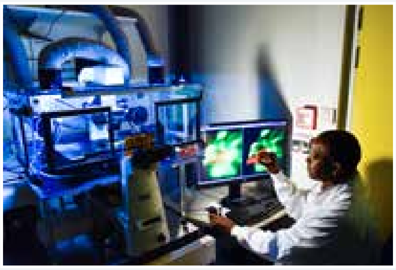
I would like to take the opportunity to remind shareholders that you have the right to vote on important matters that affect Merchants, such as the proposed renewal of share issuance authorities. It is an important feature of an investment company that shareholders can and are encouraged to make their voices heard by voting on all business matters, as detailed in this report.

Where traditionally many shareholders would have held Merchants shares 'directly', being individually named on the company's main share register, in recent years a growing number of shareholders have held shares through a platform. A potential disadvantage for the board of this arrangement is that the investor is a client of the platform and Merchants has no sight of the identity of those shareholders. In the past this has sometimes prevented some shareholders from receiving information on shareholder voting or having the option to participate. We are encouraged by moves in the industry this year to democratise shareholder

TotalEnergies

Sector Oil, Gas & Coal

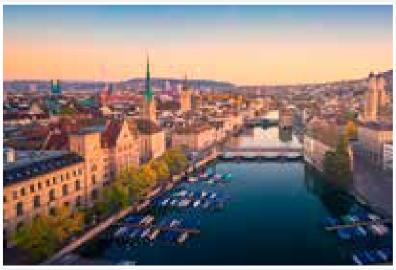
% of portfolio 1.7%



Sanofi

Sector Pharmaceuticals & Biotechnology

% of portfolio 1.3%



Swiss Re

Sector Non-life insurance

% of portfolio 1.3%

access with information being made more readily available by platforms when companies have votes open and giving the ability to participate in those votes.

If a shareholder of this or any other company is not aware if they have access to this service through their investment platform we would encourage you to contact them to ask what they provide. The AIC as the industry body for investment companies is taking definitive steps to engage with the investment platforms to encourage shareholder participation in voting and the provision to shareholders of company reporting. On page 11 we show how we communicate with shareholders and other investors through a number of different channels.

Outlook

As I write this statement the situation in Ukraine continues to develop. We are all aware of the potential consequences for the global economy, and in particular for energy supply and prices. It seems that for more than a decade the world has been moving from one set of uncertainties to another. Just as the signs of an end to the pandemic had investors grappling with the idea of rising inflation, the spectre of military conflict in Europe has become a focus for markets. Beyond the humanitarian cost, which in itself is still difficult to digest, where this might drive the global economy and markets is open for debate – certainly markets are currently volatile as a result of daily news flow. Against such a backdrop we support our investment manager's philosophy of looking beyond current events as much as possible. The manager is striving to understand as far as possible the impacts of the conflict on individual companies, as this is how the portfolio is constructed: stock-by-stock rather than at a macro level attempting to call the direction of markets or economies. That said, the current situation has the potential to have far-reaching implications that could affect many industries and the manager continues to monitor macro events closely.

Merchants will continue to strive to provide growth in capital together with a high and rising income for our shareholders, irrespective of the market or economic backdrop. The board once again thanks our investment manager for their excellent performance on behalf of our shareholders and we look forward to the future with confidence.

Colin Clark
Chairman
6 April 2022

A Distinct Take on Value Investing

Growth and value are not opposites

Merchants' investment manager, Simon Gergel, when asked "growth or value?", says: "We would categorise ourselves as value investors, meaning that the price we pay for an asset is a critical part of our investment process. However, value is not the opposite of growth. Ideally, we like to own companies that can grow fast, provided we can buy them at a sensible price."

AllianzGI applies a value investment strategy

Seeking to buy sound companies, trading below their fundamental worth

A low headline valuation, alone, does not indicate value

Growth and value are not opposites, many of the best opportunities offer both

It is critical to avoid 'value traps' – companies that appear cheap, but face structural challenges

Detailed analysis, including consideration of ESG factors, is key to identifying genuine value

How We Communicate

We use a variety of channels to communicate information about Merchants and our philosophy to shareholder groups. Some of these are set out below, along with QR codes and URLs to take you to the web pages.

Our Website

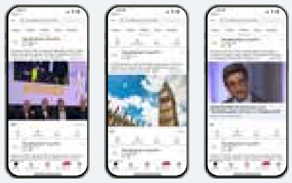
https://tinyurl.com/2t7yy7tz

Emailing List

https://tinyurl.com/2rjvmm74

Social Media

https://tinyurl.com/yc29sp79



Events

Webinars

Podcasts

https://tinyurl.com/2p8kmt68

Through the Press

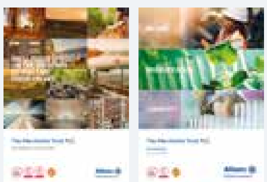
Magazine Articles

Advertising

Videos

https://tinyurl.com/ydx3j756

Annual and Interim Reports



Annual General Meeting

Key Performance Indicators (KPIs)

The board uses certain financial and non-financial Key Performance Indicators (KPIs) to monitor and assess the performance of the company in achieving its strategic aims:

Increasing and sustainable dividends

1. Provide a high and progressively growing income stream

After steady growth in recent years, earnings fell significantly during the pandemic but have recovered strongly this year. With earnings not fully covering dividends, it has been necessary to draw on 2.3p per share (2021: 9.9p) from revenue reserves in the year under review, leaving 16.0p per share in reserves at 31 January 2022.

Shareholder returns and performance

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

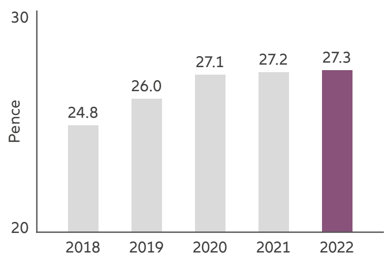
In a strong year for the trust, the portfolio return was well ahead of the benchmark. The NAV return was also well ahead of the benchmark after the impact of gearing (borrowings). Gearing tends to amplify portfolio returns in both directions.

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

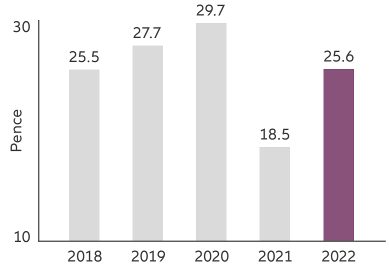
Performance was top of the peer group over one year and three years and second over five years. The ongoing charge has reduced significantly to 0.55% from 0.61% last year, partly due to the growth in net assets. Merchants' costs are below average in the peer group and the dividend yield is above average.

Dividend record per share



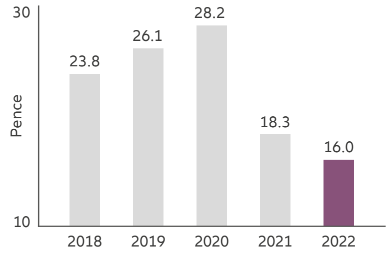
The board has a policy of paying a progressive dividend each year, taking into account inflation and subject to general earnings growth and dividends received in the portfolio. Ordinary dividends have risen in every year since 1982.

Earnings progression



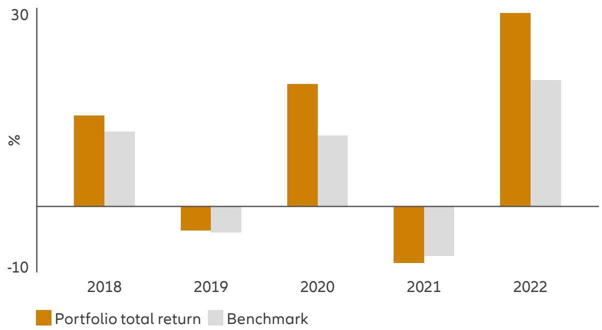
Earnings per share (EPS) shows the income that the company generates each year which can be used to fund dividend payments to shareholders, over time.

Revenue reserves per share[1]



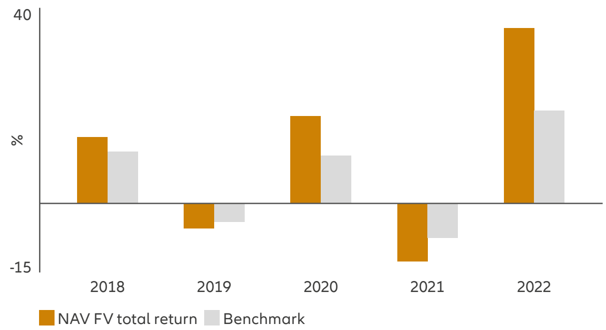
Revenue reserves can be used to ensure that dividend payments can be maintained through difficult market conditions. Income is put aside in good years and can be used to maintain a steady increase in dividends when income is less readily available.

Portfolio return vs benchmark



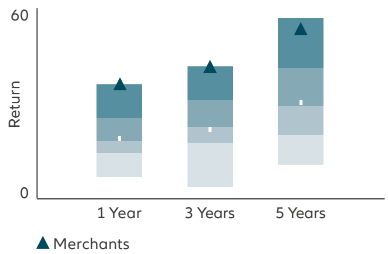
The board uses this KPI to monitor investment performance. As the company's policy is to invest mainly in higher yielding large UK companies, the FTSE All-Share Index has been chosen as the benchmark index against which we measure our performance.

NAV return vs benchmark



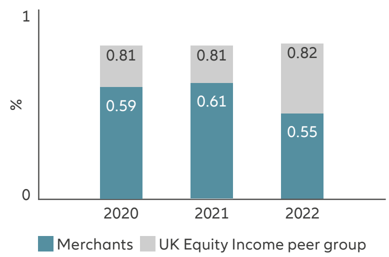
The board seeks a return that is better than the benchmark over various time periods. The benchmark was the FTSE 100 Index until 31 January 2017, but was revised to better reflect the changing structure of the portfolio over the preceding decade.

Peer rankings[2]



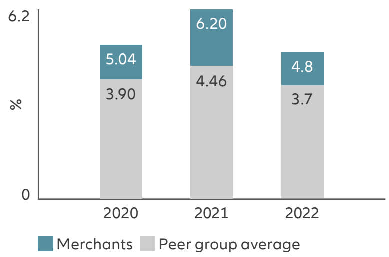
The board also monitors the performance relative to a broad range of competitor investment trusts. The chart shows Merchants' position in UK Equity Income peer group quartiles over a range of time periods.

Ongoing charges[3]



The board has a policy of ensuring that the company's running costs are reasonable and competitive. The ongoing charge is calculated using the AIC's recommended methodology (See Glossary on page 113).

Yields[3]

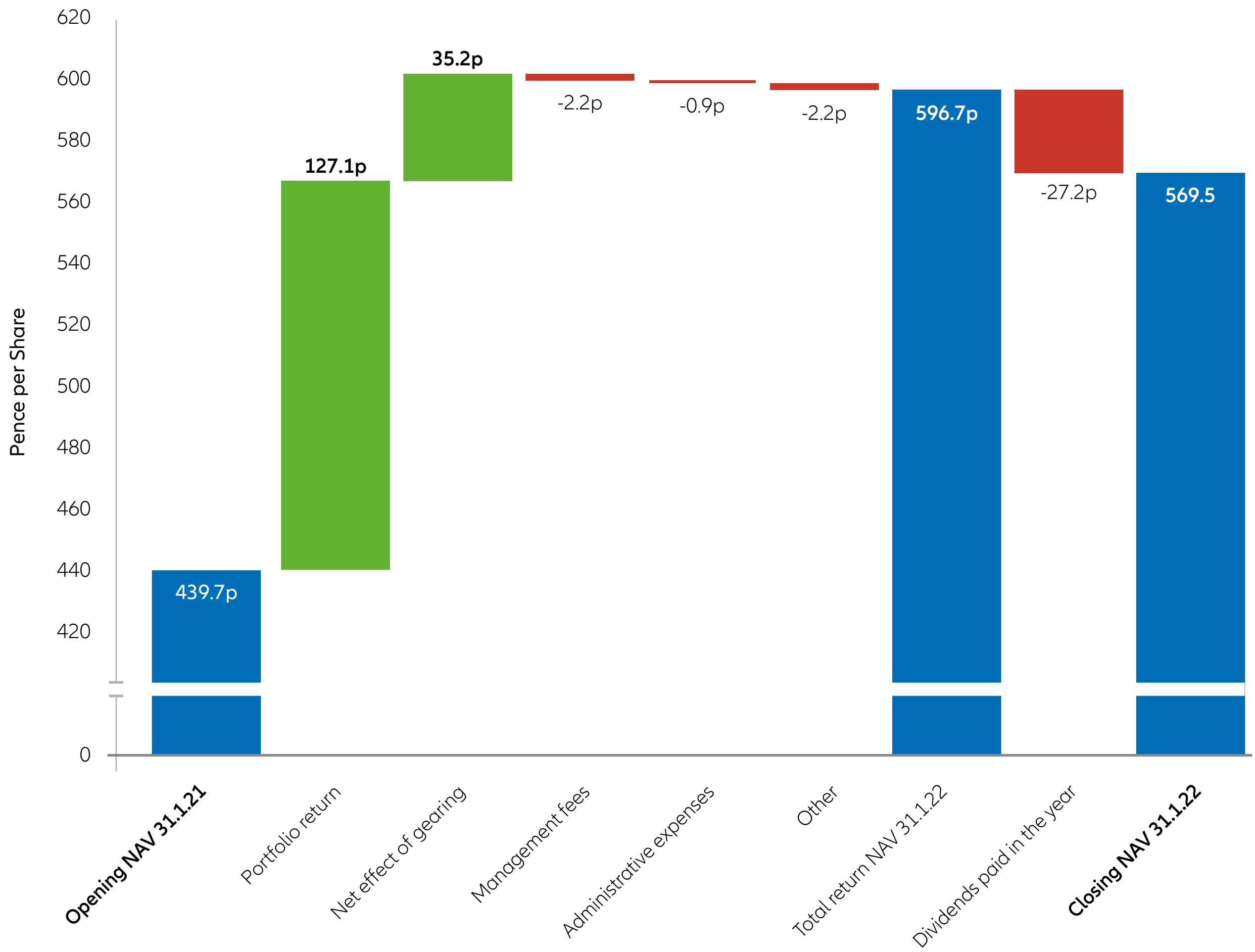


Merchants' yield is consistently higher than the UK Equity Income peer group average.

[1] At the year end before payment of the third and final quarterly dividends. [2] Source: JP Morgan Cazenove. [3] Source: Morningstar/AllianzGI.

Attribution Analysis

Movement in Capital Return with Debt at Market Value for Year Ended 31 January 2022



The total return reflects both the change in net asset value, from 439.7p to 569.7p and the ordinary dividends paid in the year. The total return NAV of 596.7p as at 31 January 2022 is derived from the NAV with debt at market value of 569.5p plus dividends paid in the year of 27.2p.

A Glossary of Alternative Performance Measures (APMs) is on page 113.

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

The largest individual contributor to performance was engineering specialist Meggitt, whose strong technology and attractive market position led to a takeover approach well above the prevailing share price.

Investment Manager's Review

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

Economic and Market Background

For the second year running, the COVID-19 pandemic dominated the social, economic and financial market background. There was an ongoing battle between variants and vaccines. Successive waves of infections, hospitalisations, and sadly, deaths, were countered by various forms of lockdowns and social restrictions, improved medical treatments, acquired resistance and the highly successful vaccine roll-out programmes.

Although the rate of infection was high in the UK, the impact on both the health system and the economy, from the Delta and Omicron mutations, was more limited than during the first wave in 2020. Most industries were able to function more normally, with notable exceptions including travel, leisure and physical retail. However, as demand recovered quickly from the earlier shock, there were strains on supply chains, caused by a combination of travel restrictions and labour shortages due to COVID-19 infections and isolation. There were high profile logistical problems. In the UK and the US there were shortages of HGV drivers, there was a global shortage of semiconductors, which impacted industries from car manufacturing to mobile phone production, and transport disruption led to the price of container shipping rocketing.

These factors caused prices of goods to increase, and inflation was further boosted by wage inflation, as unemployment declined, as well as sharply higher commodity and energy prices. Oil and gas prices increased, as recovering demand encountered an industry that had been slashing investment in new capacity, even before the pandemic, due to environmental concerns and a desire to transition business models towards renewable energy. Then, in the Autumn, we saw a particularly sharp spike in UK gas and electricity prices as low wind speeds limited wind powered generation, at a time of low gas storage levels and restricted supply of Russian gas in Europe.

Together, these factors boosted UK consumer price inflation to 5.4% in December, the highest level for many years. The US and other countries experienced similar pressures. Initially Central

New purchase Rio Tinto's main commodity exposures include aluminium and copper, both essential elements in facilitating the energy transition. The company benefits from a structural environmental and cost advantage in aluminium smelting as 80% of its production uses renewable hydro-electric power in Canada.

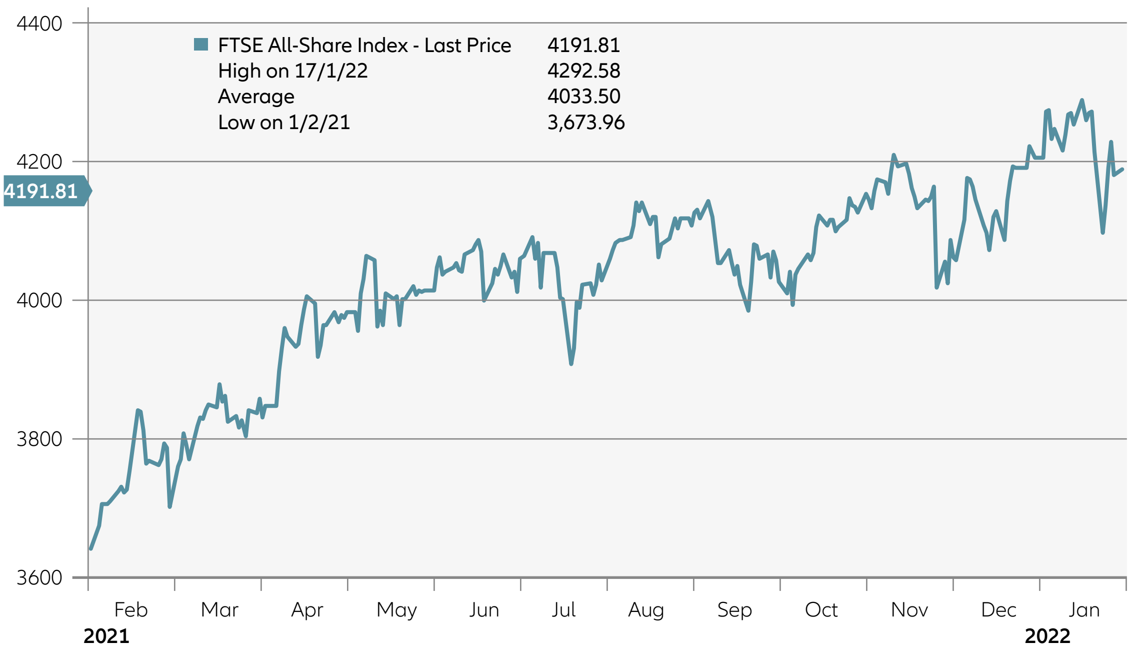
banks dismissed inflationary pressures as transitory, but this dismissal proved only too transitory. By the end of the year, central banks were clear that they needed to respond to rising inflation. the Bank of England raised interest rates in December from 0.1% to 0.25%. Government bond yields moved up sharply, particularly towards the year end, in response to rising rate expectations. This caused government bond prices to fall.

Although bond prices were subdued, many asset prices including equities had a strong year, as confidence in the economic recovery from the pandemic gradually improved, boosted by cheap money and supportive fiscal policy. Economic growth reached its highest level in many years, with UK gross domestic product estimated at an annualised growth rate of 6.5% in the fourth quarter of 2021. There were several signs that cheap money might be fuelling speculation, with huge trading volumes in certain high risk US shares in the spring, and large flows into other assets that have uncertain value, such as cryptocurrencies and non-fungible tokens. The UK stock market did not generally see such excesses and was trading at a significant discount to most other major markets during the year. However, as we have previously reported, there was a sharp polarisation in valuations, with higher growth companies often commanding a significant premium rating to the rest. The modest valuation of many UK companies and cheap availability of money, led to a number of takeover offers for UK businesses, including some within the Merchants portfolio.

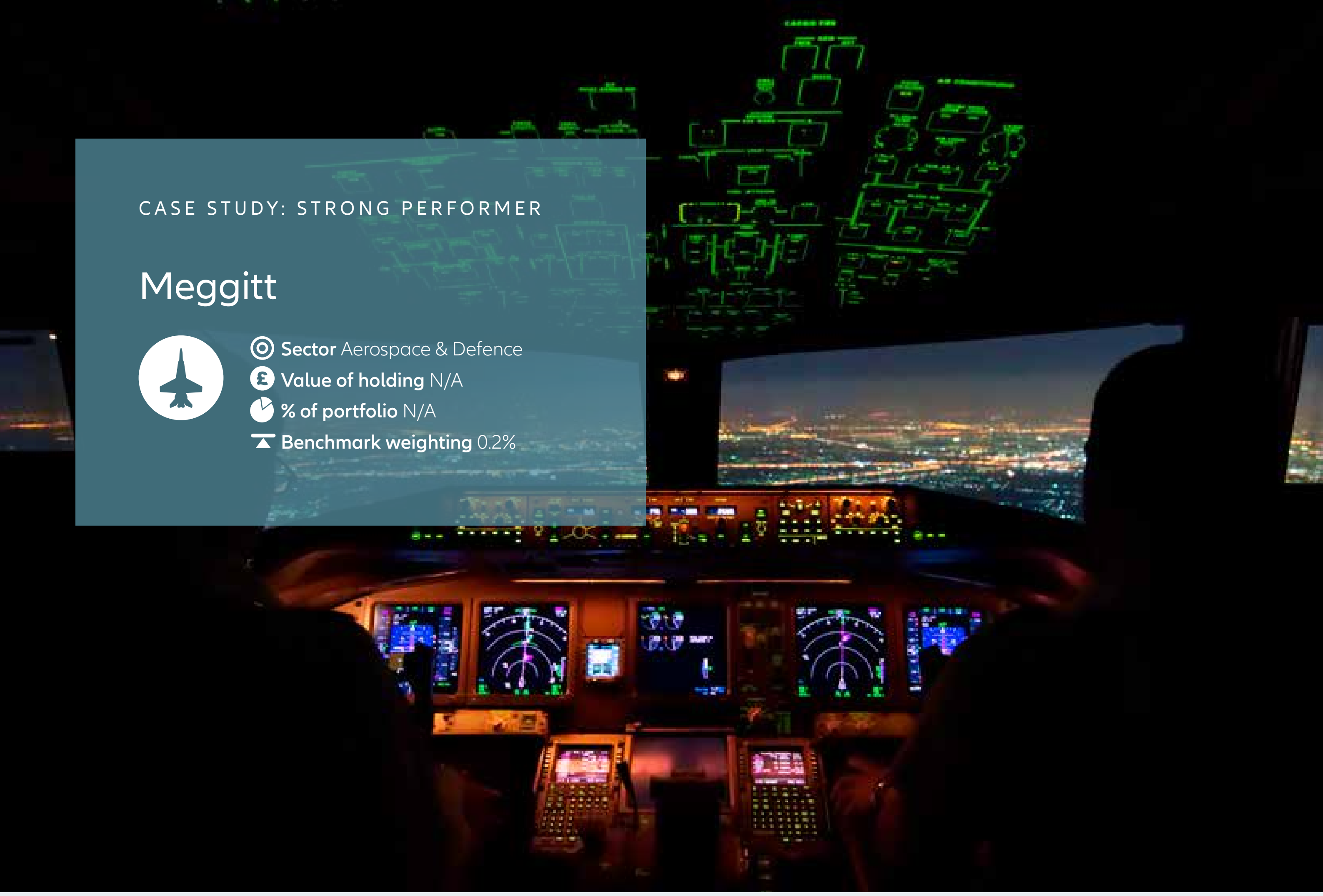
The UK stock market gave a total return of 18.9% on the benchmark FTSE All-Share Index. There was a wide range of sector performances. The market was led by cyclical commodity sectors and banks, responding to rising commodity prices and rising interest rate expectations, respectively. Towards the year end, there was also a sharp rally in many of the more modestly priced sectors, in a "value" rally. Higher interest rate expectations weighed on the prices of higher growth businesses, where the future cash generation needed to be discounted at a higher rate. Medium sized companies lagged the largest stocks considerably, especially towards the year end, largely due to sector composition.

The best performing large sector was oil & gas, with a total return of 48%, while banks were up 46%. But the more defensive, gas, water & multi-utilities, aerospace & defence and tobacco sectors all returned between 29% and 31%. Only a few sectors showed negative total returns for the year. The larger ones were finance & credit

FTSE All-Share Index for the year to 31 January 2022



FTSE All-Share 31.1.21 - 31.1.22. Source: AllianzGI/Datastream.



CASE STUDY: STRONG PERFORMER

Meggitt

Sector Aerospace & Defence
Value of holding N/A
% of portfolio N/A
Benchmark weighting 0.2%

Meggitt is an engineering group, specialising in aerospace, defence and energy markets. It has a strong proprietary technology base, which gives it leading positions in markets like aircraft wheels and brakes, engine components, sensors and fire suppressant systems. Over 70% of products are sole-sourced for the life of the programme, which provides an extremely valuable and long-term aftermarket revenue stream. In aviation, the business has products on an installed base of around 73,000 aircraft.

Meggitt was the strongest individual contributor to investment performance last year, adding about 1.5% to the portfolio's outperformance of the benchmark. We had been invested in Meggitt for some time, as we believed the business had excellent market positions and a great opportunity to improve operational performance through a substantial operational restructuring, called the Meggitt Production System.

The business was hit hard by the collapse in air travel during the pandemic, with much of their profitability dependent on servicing and maintenance of aircraft. The share price fell heavily in 2020 and we took advantage of the lower price to increase the investment in the company, including switching some money out of their sector peer, Senior Engineering, where we had lower conviction. Although the company stopped paying dividends during the pandemic, our investment process allows us to look through temporary disruptions to dividends and remain invested where we see good value.

On 2nd August 2021, Meggitt announced that Parker Hannifin, a US industrial business, had made a recommended offer for the company at 800p per share, 70% above the previous day's price. Parker had recognised the intrinsic worth of Meggitt and was prepared to pay a fair price to buy the business. We sold part of the shareholding at that point, for risk control reasons, but retained a large stake, as the shares were trading below the bid level.

On 11th August, Meggitt announced that it had been approached by a second company, TransDigm, with a non-binding proposal with respect to a possible cash offer of 900p a share. The shares moved up further, and traded for some time above the recommended Parker offer price, in the hope of potential further offers or counter-offers. We assessed the situation and thought there was a risk that TransDigm might not actually bid, or that one or other bids might be blocked by the UK authorities. We therefore sold the remaining position at over 800p, twice the price at the start of the year. In the end, TransDigm decided not to bid, and the shares pulled back again, ending the year at round 745p.

Whilst Meggitt was the biggest performance contributor last year, it was not the only portfolio company to be bid for. The large gap between Parker's offer and the prevailing share price was an extreme example of the gap we were seeing between the stock market valuation of many UK listed businesses and their overseas listed competitors. This pricing gap, and the availability of cheap finance, as well as clear takeover rules in the UK, prompted a number of takeover bids. Within our portfolio Stock Spirits was taken over, and Entain received an offer from Draftkings, although this was later withdrawn.

services, personal care, drug and grocery stores, software & computer services, and travel & leisure.

Investment Performance

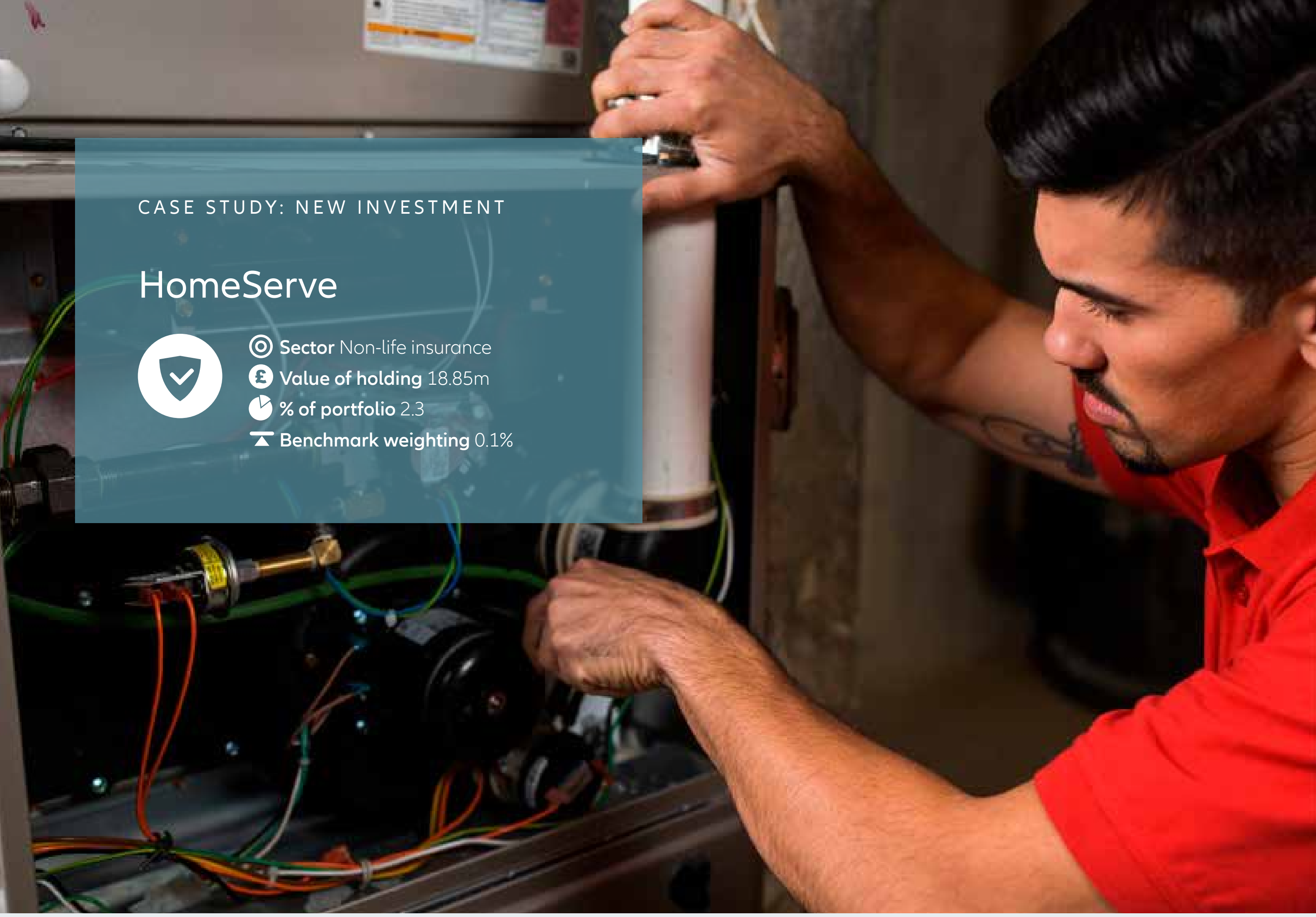
A full attribution of performance is shown on page 14. In this section we concentrate on the performance of the investment portfolio and compare it to the benchmark, the FTSE All-Share Index. The portfolio return of 28.9% was materially ahead of the benchmark return of 18.9%, with strong gains in both the first and second half. Most of the outperformance was driven by individual stock selection, although there was some benefit from industry selection, with a low exposure to the weak personal care sector providing the most significant benefit.

The main theme to stand out when looking at the biggest 10 individual contributors to performance is exposure to economic recovery, with several cyclical and market sensitive stocks performing well. There are also some idiosyncratic factors, including the largest individual contributor, Meggitt, which received a takeover approach, well above the prevailing share price, as the acquirer recognised Meggitt's strong technology and attractive market position. Stock Spirits was also taken over at a large premium, reflecting its leading market positions and track record. Cyclical stocks included the media agency WPP, Barclays bank and recruitment company SThree, whilst market sensitive stocks included the asset and wealth managers Man Group and St James's Place. The generator Drax also performed very well, on the back of higher power prices and increasing confidence in the viability of the company's bioenergy carbon capture and storage strategy. In addition, relative performance benefited from not owning two large companies which underperformed and held back the index return: Unilever and London Stock Exchange.

There were fewer significant negative stock contributors, but the top ten detractors typically reflected the flip-side of the same theme. In particular, performance was impacted by not owning (or having less than an index weight in) cyclical financial and commodity stocks that rose sharply and lifted the index

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

	Positive contribution		Negative contribution	
Overweight (holding larger than index weight)	Meggitt	1.5	HomeServe	-0.6
	Drax	1.0	PZ Cussons	-0.5
	WPP	0.9	Conduit	-0.5
	Barclays	0.7	Close Brothers	-0.4
	SThree	0.7		
	Man Group	0.7		
	Stock Spirits	0.5		
	St James's Place	0.5		
Underweight (zero holding or weight lower than index weight)	Unilever	1.4	HSBC	-0.9
	London Stock Exchange	0.5	Glencore	-0.6
			Lloyds	-0.4
			Anglo American	-0.4
			Shell	-0.3
			Diageo	-0.3



CASE STUDY: NEW INVESTMENT

HomeServe

- **Sector** Non-life insurance
- **Value of holding** 18.85m
- **% of portfolio** 2.3
- **Benchmark weighting** 0.1%

HomeServe is a UK-listed multinational which provides homeowners with heating, plumbing and electrical insurance, as well as repair services. In addition, the company runs several online platforms designed to match consumers with tradespeople. Its operations are predominantly in the UK and US, as well as certain European countries.

Established in 1993, HomeServe's insurance business has built up a market-leading position thanks to its long-term partnerships with utility companies. These include the likes of Severn Trent, Veolia and Dominion Energy. Customers who sign up to become HomeServe members can take out policies covering them for a range of domestic maintenance issues including plumbing; heating, ventilation and air conditioning (HVAC); electrics; and even pest control and locksmithing.

The insurance side has a strong track record of growth, delivered over many years. The US in particular represents a meaningful opportunity: sales in North America have grown by more than 20% every year since it started, and management believes this is sustainable for at least the next decade. While the majority of this expansion is organic, acquisitions in areas like HVAC have also boosted topline numbers. What's more, once secured, membership retention is typically over 80%, making for a resilient income stream and high returns.

The company's online platforms allow homeowners to search for trusted tradespeople online. Formally grouped under the 'Home Experts' division, these consist of Checkatrade in the UK, Habitissimo in Spain and eLocal.com in the US. Across developed economies, demand for skilled labour is high and growing, with younger homeowners in particular given to outsourcing domestic tasks and using the internet to do so. Home Experts now has over 200,000 tradespeople listed on its platforms, and accounts for over 10% of total revenue, up from 2% four years ago. While this area of the business has only just turned profitable, the company expects it to be delivering high margins in the future.

At the time of purchase, shares in HomeServe had weakened substantially. This was partially due to the pandemic, with social distancing measures disrupting in-home maintenance. However, the company had also cancelled and written off a costly IT system. While the latter represented an operational misstep on the part of management, the ensuing valuation overly discounted both the consistency of HomeServe's earnings, and its medium-term prospects.

The shares offered a yield of over 3% and traded at a modest multiple given the potential for double digit growth in the US. Moreover, the valuation assumed no contribution from Home Experts, despite its positive trajectory. Indeed, since the pandemic forced people to spend more time at home, spending on home improvements has risen to higher and sustained levels. As a result, our investment case could stand on the strength of HomeServe's 5% free cash flow yield alone, but any success in online platforms will serve as an additional driver of value.

performance. These included the banks HSBC and Lloyds and commodity producers Glencore, Anglo American and Shell. Elsewhere, two new investments, HomeServe and Conduit Reinsurance, underperformed after purchase, although we retain conviction in these. PZ Cussons was weak, along with many other defensive stocks. Close Brothers underperformed after a period of strong gains in the prior year. Finally, Diageo, which was not owned in the portfolio, performed well on the back of a strong recovery in trading.

Portfolio Changes

Volatility within the stock market, in response to rapid changes of investor sentiment, created fertile conditions for stock picking. Activity was relatively high, as we found opportunities to make new investments at attractive prices, and to reduce or exit other positions when they approached a full valuation. Overall, there were twelve new companies added to the portfolio and nine sold completely.

There was one notable change to the investment policy. The Merchants Trust was originally established in the nineteenth century to invest in overseas securities, such as railroad bonds in the USA. However, in recent years the portfolio has been exclusively invested in equities listed in the UK. Whilst UK listed companies provide a high degree of geographic diversification of their underlying activities, the universe of higher yielding UK companies has become more concentrated, especially during the pandemic. As explained in the last annual report, the directors have now allowed an allocation of up to 10% of the portfolio into overseas listed shares, in order to provide greater diversification of investments and particularly income.

We added four European listed shares, as explained in the interim report, Swiss Re, SCOR, Sanofi and TotalEnergies, with European shares accounting for approximately 6% of the portfolio at the end of the year. Overseas investment allowed us to invest more into the reinsurance industry, where we saw a favourable combination of an industry benefiting from a cyclical improvement in pricing, with shares at modest valuations.

The other new investments were driven by stock specific considerations. As explained at the interim stage there were opportunities to buy strong businesses at attractive valuations, after periods of recent underperformance, such as Relx and Tesco. We also initiated holdings in Drax and Duke Royalty, which have idiosyncratic investment cases.

In the second half, we bought HomeServe, which offers heating, plumbing and electrical insurance and repair services to homeowners in the UK, US and certain European countries. It has a strong growth track record, over many years, with a particularly successful and market leading US business. The shares had fallen, due to trading disruption during the pandemic and some other specific issues, such as the decision to cancel and write-off a new IT system. This brought the valuation down to a level which, in

Largest Net Purchases and Sales within the Portfolio

Large Net Purchases	£m	Largest Net Sales	£m
HomeServe	22.9	Meggitt	-24.4
Rio Tinto	18.5	BHP	-17.4
Drax	16.1	Stock Spirits	-17.3
SCOR	13.6	Inchcape	-14.1
Tesco	12.1	Barclays	-12.5
Ashmore	11.8	BT Group	-11.9
TotalEnergies	11.1	Kin + Carta	- 8.6
Sanofi	10.1	St James's Place	-7.0
Vodafone	10.0	abrdn	-6.5
Next	9.9	Entain	-6.2

CASE STUDY: DISPOSAL

Stock Spirits Group

Sector Beverages
Value of holding N/A
% of portfolio N/A
Benchmark weighting N/A

Stock Spirits Group (SSG) is an Eastern European producer of branded spirits, such as Vodka, Fernet and Limoncello. Although originally listed in London, the company has market leading positions in Poland and the Czech Republic, as well as smaller operations in Italy. SSG has since been acquired by the private equity company CVC Advisers.

We first bought a position in SSG in 2019. The company was highly profitable, generating margins of over 20%, with a low level of debt on the balance sheet and dividend yield of around 4%. In the Czech Republic, SSG was (and continues to be) the market leader with nearly 40% market share and excellent financial performance. In Poland, where SSG was the second largest player, profitability levels were lower but improving.

Yet the shares traded at roughly 13x forward earnings, a meaningful discount to competitors like Diageo. This was primarily due to weak volume performance since the company's IPO in 2013 and a series of ensuing profit warnings. Additionally, despite SSG's operational scale and London listing, its presence in Eastern Europe and sub £500 million market capitalisation made the investment case less compelling for more conservative investors.

However, new management had made a series of changes in the Polish market to focus more on premiumisation, whilst investing behind the brands. Improved marketing repositioned SSG's products towards more aspirational consumers, at the same time as boosting margins. In Italy, where SSG were subscale, management was able to implement clear growth plans both through organic means and acquisitions. Even during the pandemic, SSG proved resilient as consumers purchased greater quantities through retail channels.

In August of 2021 SSG announced that it had received a takeover offer from the private equity house CVC Advisers. The bid came in at a 40% premium to the share price, with management indicating they would be minded to accept. On top of the value recognised by our own investment case, CVC likely saw the meaningful potential to invest and grow SSG's footprint in both existing and surrounding markets. As shareholders, we voted to accept the offer and gradually reallocated our position to new ideas. This has been a successful investment over the past three years through a combination of capital gains and sizeable dividend payments. The takeover price was a fair one, with the premium reflecting the undervaluation of the business that we had identified, in our value-driven investment approach.

More generally, this type of deal demonstrates the continued value on offer in the UK market. Over the past five years, a combination of Brexit overhang, political uncertainty and COVID-19 have weighed down on UK equities. While some of this was merited, in many cases, particularly in companies with large international operations, the discounts proved excessive. We have thus seen several substantial takeovers of UK companies from overseas competitors.

our view, did not reflect the growth prospects or quality of the business. We also bought into the emerging market fund manager, Ashmore. The share price had fallen back significantly, since we sold out of the company in 2019, on the back of more challenging performance in their funds and weaker investment flows. However, we believe Ashmore remains a strong company, with a solid balance sheet and with exposure to an attractive asset class. We expect structural growth in emerging market allocations among investors, which should benefit Ashmore, and the valuation had retreated to a more attractive level, with a 5% dividend yield.

We added two new companies in the natural resources sector in January. In mining, we switched out of BHP, which had performed well, into Rio Tinto, which had lagged behind significantly. BHP had benefited from a re-rating of its oil & gas operations and was more fully valued ahead of its planned share class unification. The mining industry is currently benefiting from the rally in commodity prices, and we believe that Rio Tinto offers good value, even assuming a normalisation of prices in the future, and pays a high dividend yield. When investing in mining companies it is essential to understand the environmental drivers of the business. Rio Tinto's main commodity exposures are iron ore, aluminium and copper. Aluminium and copper are both essential elements in facilitating the energy transition: aluminium for its light weight, strength and, like copper, its electrical conductivity properties. However, smelting aluminium requires a large amount of electricity, with much of the world's supply powered by coal in China. Rio Tinto has a structural environmental and cost advantage, with 80% of its production using renewable hydro-electric power in Canada.

We also made a new investment in Energean, a Mediterranean, predominantly natural gas, exploration and development company. The company is soon to commission two large gas fields off the coast of Israel, which should quadruple production and lead to strong cash generation well into the future. Israel has a stated objective to reduce greenhouse gas emissions by phasing out its coal generation by 2025. Energean's gas fields are key projects to facilitate this process.

Apart from new holdings, the biggest addition to the portfolio was Vodafone, where the valuation was very low, and we saw the opportunity for improved operational performance, as well the realisation of value from structural changes, such as listing its telecommunications towers business. We also made a large addition to retailer Next, where the online operations were growing rapidly, both within the UK and internationally, and across their own brands and third party labels.

Sales from the portfolio generally reflected situations where share prices had moved up to our assessment of fair value, but there were also a few companies where our views on the investment case had changed. As reported in the first half, we sold CRH, BT and Kin & Carta after strong performance. We also sold Hammerson, where our level of conviction had declined due to structural pressures on shopping centres, and the remaining modest position in Standard Life Aberdeen, as the business turnaround was proving challenging.

In the second half we sold Meggitt and Stock Spirits, which were both subject to takeover bids at large premiums to their prevailing share prices. We also sold car distributor Inchcape, which had significantly appreciated and reached fair value, and BHP as noted above. Other than these complete disposals, the biggest sales in the year, included reducing Barclays after a strong rally in bank shares, and profit taking in St. James's Place and Entain.

ESG and sustainability

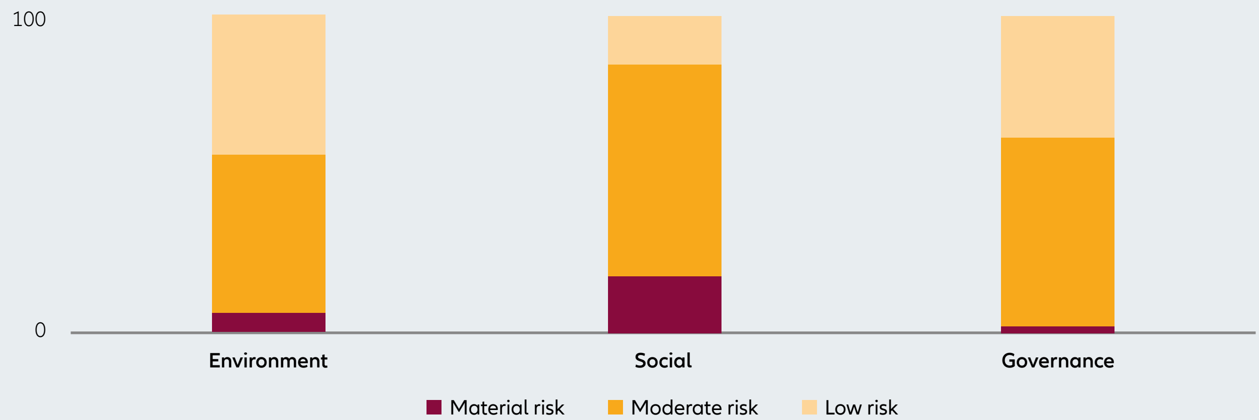
The Merchants Trust takes an integrated approach to sustainability. This means that when we look at companies, we incorporate the analysis of environmental, social and governance (ESG) factors alongside more traditional financial metrics. Doing so is vital for understanding the extent to which a business is exposed to reputational issues and the extent to which they are reflected in the share price.

Many of these ESG issues have the potential to become structural challenges if not addressed. Conversely, if harnessed to the company's advantage, they can become long-term opportunities that act as meaningful tailwinds for the business. Understanding how a company manages ESG issues therefore, as well as how external stakeholders like regulators and customers perceive them, is an essential part of the valuation discipline.

Our investment in Drax aptly illustrates how we integrate ESG into our investment process. Today, Drax is a leader in the supply of energy from biomass, with the potential to become a global leader in Biomass Energy Carbon Capture & Storage (BECCS), a means of producing power with the potential to extract more carbon dioxide (CO2) from the atmosphere than it emits.

Portfolio ESG Risk Assessment

ESG Risk Scores are not targeted as part of the investment objective. Instead, we use ESG scores as a means of monitoring underlying risk exposure, and providing transparency to clients. Ultimately, it is down to the discretion of individual portfolio managers to calculate the risk/reward trade-offs for each individual holding.



This chart displays the portfolio's exposure to ESG risk. The underlying data are risk scores for corporate issuers according to the ratings company MSCI. These scores aim to assess the potential financial risks arising from exposure and management of ESG issues.

The risk scale spans from 0 (material risk) to 10 (low risk). We have built three risk scoring clusters:

- Low: >7-10
- Moderate: >3.1-6.9
- Material: 0-3

AllianzGI has chosen MSCI risk scores as research information input since they aim to measure financially material ESG risks. Issuer specific risk scores may be subject to adjustments by AllianzGI's Sustainability Team after a transparent review in collaboration with inhouse investment professionals.

Carbon Emissions Reporting

Number of portfolio holdings	47
Number of issuers with CO2 information	42
Percentage of portfolio NAV covered	88.90%
Total Carbon Emissions (tCO2e Scope 1&2)	106,401.40
Relative Carbon Footprint (tCO2e /GBP m invested)	127.8
Weighted Average Carbon Intensity (tCO2e /GBP m revenue)	285.6

This report analyses the Merchants Trust portfolio of securities in terms of carbon dioxide (CO2) emissions. At present, there is insufficient data on the CO2 emissions of the benchmark FTSE All Share Index to provide a meaningful comparison. There are similar limitations for portfolio companies, with much of this data being backward looking (i.e. not reflective of more recent strategic decisions) released with a substantial lag (for example, several datapoints are for the financial year 2019) and there may even be some inaccuracies that have yet to be ironed out.

However, operating within these admittedly significant limitations, these statistics aim to provide an answer to the tricky question of "What is the carbon footprint of my investment?"

The metrics provided in the table include absolute and relative figures for portfolio carbon emissions as well as carbon intensity measures. The total carbon emission aims to answer "What is my portfolio's absolute level of carbon footprint?" The relative carbon footprint is a normalized measure of a portfolio's carbon dioxide emissions investment contribution. It is defined as the total carbon emissions of the portfolio per million GBP invested. This metric enables comparisons with a benchmark, between multiple portfolios, over time and regardless of portfolio size.

The Weighted Average Carbon Intensity is disconnected from ownership and thus does not capture the investor's contribution to climate change, but rather measures the portfolio's exposure to carbon-intensive companies. Therefore it is applicable for comparison across different asset classes.

All carbon emissions are computed based on Scope 1 and Scope 2 emissions data. Scope 1 aims to measure all direct emissions from the activities of a corporate or under their control. Scope 2 aims to measure all indirect emissions from energy purchased and used by the corporate. Cash, derivatives and mutual funds holdings are not considered in the ESG report.

However, until recently, the company was one of the UK's biggest polluters, running the UK's largest coal-fired power station. In our view, this turnaround is as yet underappreciated, with the resulting disconnect between the market's perception of – in this case – environmental risk and reality making for a sizeable investment opportunity.

At the time of purchase, shares in Drax were effectively priced in line with those of a non-renewable power generator, whose lifespan was fixed and relatively short. Yet biomass, when properly sourced, is a sustainable supply with a low carbon impact relative to fossil fuels. Drax uses waste wood from the construction industry to create pellets which are then burned in modified coal power stations. With the potential for carbon capture and storage to remove substantial emissions from an already low-carbon source of energy, Drax has an exciting opportunity to become a net negative carbon emitter. We believe this will create value both financially and for the environment.

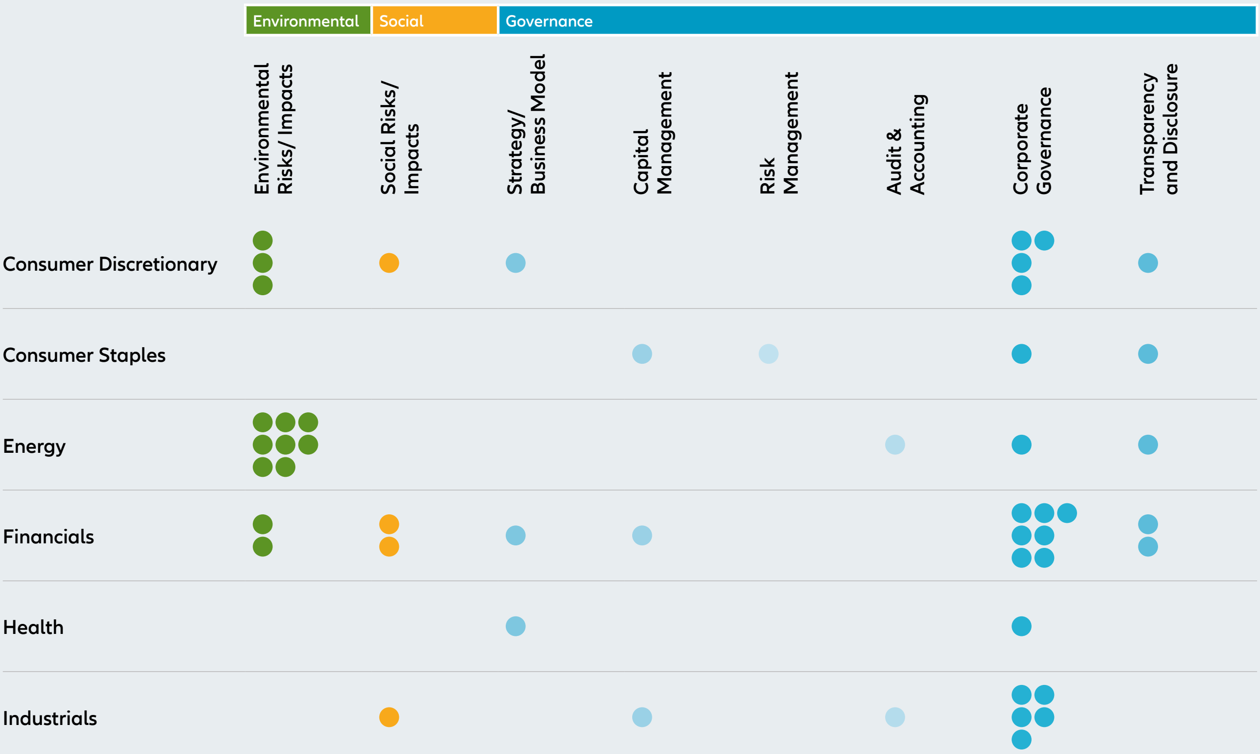
Biomass energy and BECCS thus has several positive environmental outcomes: First, many nations continue to operate, and indeed build, coal power stations. BECCS means existing fossil fuel infrastructure can continue to be utilised, but with a significantly lower carbon footprint. Second, BECCS has the potential to deliver a stable baseload supply of electricity, regardless of meteorological conditions. Even as we make the transition to net zero, the intermittency of many weather-dependent renewable energy solutions and lack of adequate battery storage, makes alternative power sources a necessity.

Biomass energy currently enjoys healthy government subsidies, and the market is rightly cautious of these ending in the medium term. Yet there is a reasonable chance that a renewed favourable regulatory framework will see Drax reclassified by investors as a long-life renewable pure play, transforming the valuation of the shares.

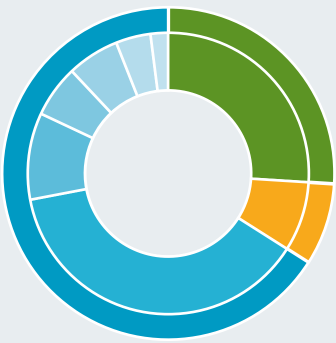
Moreover, through its diverse business lines, Drax enjoys more optionality than the market appreciates. These include the supply of biomass to third parties, a significant hydroelectric division and a role managing and stabilising the UK's electrical grid. Our investment was thus predicated on the calculation that even in a zero-subsidy environment, the cash flows from non-biomass power generating activities were sufficient to protect our downside exposure.

Drax is a leader in the supply of energy from biomass, with the potential to become a global leader in Biomass Energy Carbon Capture & Storage (BECCS), a means of producing power with the potential to extract more carbon dioxide (CO2) from the atmosphere than it emits.

Company Engagements by Sector and Topic

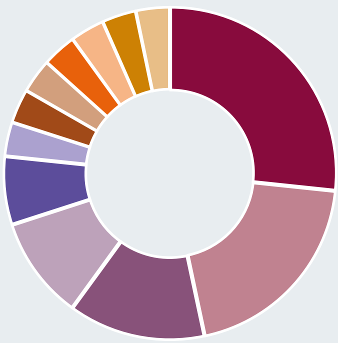


Company Engagements by Topic



Environmental Risks/Impacts	13
Social Risks/Impacts	4
Corporate Governance	19
Transparency and Disclosure	5
Strategy/Business Model	3
Capital Management	3
Audit & Accounting	2
Risk Management	1

Company Engagements by Industry



Oil Gas & Consumable Fuels	8
Insurance	6
Household Durables	4
Commercial Services & Supplies	3
Building Products	2
Automobiles	1
Banks	1
Capital Markets	1
Food Products	1
Pharmaceuticals	1
Professional Services	1
Tobacco	1

The doughnut charts reflect how AllianzGI has engaged with portfolios in the Merchants Trust portfolio over the past financial year. These are correspondingly broken down by sector and topic. AllianzGI's engagement activities include: monitoring strategic developments, providing feedback, challenging corporate practices and seeking change. Engagement can take various forms, including correspondence; face-to-face meetings and conference calls, as well as Proxy Voting and – in rare instances – public interventions through filing shareholder resolutions, speaking at shareholder meetings, and commenting in the media.

In addition, AllianzGI sees value in collaborative engagement initiatives coordinated by investors, trade associations and other organizations, where these seek to address market or industry-wide concerns. As an active investment manager, AllianzGI sees engagement as a way to reduce investment risk, help improve corporate performance and better assure the long-term business prospects of investee companies.

Drax is thus a prime example of a company faced with a structural challenge in the form of the energy transition. Yet through strategic reinvention, the business hopes to harness this trend to its advantage. Indeed, while the Merchants Trust does not have an explicit exclusion list, AllianzGI has a firmwide policy of not investing in companies with significant revenues from coal, as well as those involved in the production of controversial weapons.

This is not to say that as a firm we believe divesting is always the right choice. Indeed, as the urgent need to decarbonise our global economy has become more apparent, so too has the pressure on investors in fossil fuel companies increased. Yet in this area in particular, we believe that divestment may in fact worsen the problem.

The reality is that the entire global listed traditional energy sector accounts for just 12% of global fossil fuel reserves, 15% of production and 10% of estimated emissions. Divestment will simply increase the cost of capital and likely force these companies to divest of their own fossil fuel assets. The new owners will be private companies or national oil companies who may not have the same decarbonisation goals, and in any case will not be subject to the same ESG oversight as the publicly listed companies are. Traditional energy companies have a lot to offer in terms of expertise and technology. It will be harder, perhaps even impossible, to achieve the goals of Paris without their help, as the International Energy Agency (IEA) has recently acknowledged.

It is in this context that the value of active engagement becomes apparent. As investors, we have an important duty to engage with the boards and executive management teams of our investee companies. Over the course of the Trust's financial year, AllianzGI has conducted 30 meetings with portfolio companies dedicated to furthering our understanding of ESG issues and pushing management to take action. These engagements are separate and in addition to both our implementation of proxy votes and our more regular financials-focused meetings.

The combination of these activities not only enables us to hold management to account, but also influence long-term business strategy, promote effective governance and inform their role as corporate citizens. Indeed, while environmental issues have rightly been thrust into the spotlight in recent years, the social and governance aspects of ESG are no less important. As a founder member of the Investor Forum (a body set up to foster collective company engagement), AllianzGI can help engender real change.

It was as part of an Investor Forum coordinated group meeting that we recently spoke to GlaxoSmithKline (GSK) about a range of governance topics. These included current Board accountability, strategic direction and the concerns raised by more activist shareholders. Following the meeting, one such activist (Bluebell, a hedge fund) called for the Chairman to resign. While this was not our position and we do not consider ourselves "activists" in this sense, they can serve as a valuable catalyst for change, providing a contrasting perspective.

Nonetheless, our engagement outcomes typically have much longer time horizons. Interactions can last over many years, spanning in-person meetings, email conversations, proxy voting seasons and even public debate. For example, our call for greater clarity around the capital allocation and ESG strategy at Imperial Brands has spanned two CEOs, with transparency of earnings recently improving markedly.

Equally, as members of "30% Club France" investor group, AllianzGI engaged with the reinsurance company SCOR on gender diversity. 30% Club France is a collaborative engagement initiative aimed at promoting gender equality across top French companies, specifically focused on the executive management level. SCOR has a substantial disconnect between the percentage of women employed (47% of the total workforce) and their representation at management/executive positions (only 19% in senior executive positions).

It is testament to the two-way nature of engagement, that these dialogues are not always initiated by us. Frequently, portfolio companies will ask for our opinions on matters – whether current events, future strategy or decisions that may be put to a vote at the AGM. For example, the domestic insurance and repair company HomeServe, asked our views on increases to remuneration before submitting them to a vote at the AGM. In these instances, both parties benefit from a true exchange of value.

Income

We have seen a strong recovery in the portfolio's income generation, following the sharp fall in income during the early months of the pandemic in the prior year. Many of the portfolio companies that had cut or suspended dividend payments during 2020, saw a recovery

Shell

Sector Oil & Gas
Value of holding 32.04m
% of portfolio 3.9

2021 was an eventful year for Shell. The integrated energy company bounced back from its pandemic lows thanks to an upsurge in energy demand as the global economy reopened. From a governance standpoint, Shell announced its decision to merge its listings into one, London-based listing. And at the same time, the company set out its 'Powering Progress' strategy, an ambitious long-term plan to reach net-zero by 2050.

Citizens, governments and regulators alike are driving a transition towards net zero. What's more, as capital allocators, investors play a key role in determining what that transition looks like. Decarbonising the energy sector is a crucial part of achieving this outcome. Energy companies which effectively position themselves for these changes and lead the charge can thrive, whilst those that do not may find themselves increasingly marginalised.

In 2021, a number of high-profile asset management companies announced their intention to divest entirely from companies producing traditional fossil fuels. AllianzGI set out its full view on this matter in a recent stewardship principles paper. To summarise: we favour active stewardship and engagement over divestment, which may in fact worsen the problem. If all investors with an interest in decarbonisation divest from fossil fuel assets, then ultimately they will end up in the hands of owners who do not share these goals. Whether private or state-owned companies, they will also not be subject to the same level of shareholder oversight.

Shell embarked on its own transition in 2016, with the acquisition of BG Group. In so doing, Shell made a concerted pivot to natural gas - increasingly recognised as an important transition fuel with many years of growth as it displaces coal. Combined with its strength in downstream distribution, and marketing, Shell is well-placed for the changes that are coming.

With the announcement of its 'Powering Progress' strategy will see Shell reach net zero emissions by 2050 across not only its own activities, but also those of its supplier and customers (Scope 1, 2 and 3 emissions). We scrutinised the plan in detail over several meetings with executive management and the Chairman of the Board. The plan was criticised by some commentators for not containing enough firm targets, such as for renewable generation capacity or the pace of decline in oil output.

We believe these criticisms are a misdiagnosis of the problem. Companies such as Shell supply energy to customers, and this is an intensive activity from an emissions perspective. However, through its downstream business, Shell is distributing and marketing three times the amount of energy that it actually produces. It is ultimately the activities of Shell's customers which produce over 90% of Shell's total emissions. This puts the company in a strong position to work with customers to reduce their overall emissions.

Shell is now investing $2-3 billion p.a. in renewables and energy solutions, such as electrical charging platforms, hydrogen fuel and nature-based carbon offsetting. The company believes its own emissions peaked in 2018, and it was the first energy major in Europe to sign up to the Science-Based Targets Initiative (SBTI) for reaching net zero.

But these changes will need to be driven by all stakeholders – the end users, host governments, as well the energy suppliers. The suppliers cannot do it on their own because the demand needs to be there in the first place. We believe Shell's strategy is a genuine and pragmatic approach that will enable the company to utilise its vast resources and technological expertise to make a major positive contribution to the energy transition. For these reasons we supported management at the AGM and we will continue to hold the company to account in the years to come.

"The International Energy Agency (IEA) recognises that oil majors have a key role to play in making the energy transition a reality. They have the global reach, large-scale project management capabilities, government relationships and commercial expertise to manage volatility along integrated energy value chains. Moreover, European oil majors are competing successfully in renewable energy auctions in partnership with specialist infrastructure investors and adopting ambitious medium and long-term capacity targets. The best way for investors to ensure that this continues - such that oil majors become key enablers of the global transition to net zero by 2050 - is through concerted engagement, to monitor their business activities and, most importantly, to hold them to account."

Marie-Sybille Connan,
AllianzGI Senior Stewardship Analyst

in profitability in 2021 and were able to resume dividend payments, although the first half income was still impacted somewhat. This income recovery has come through faster than we originally expected, even though in some cases, dividends have been rebased to a lower level, or they have not yet fully recovered to their previous peak.

In aggregate, revenue earnings per share (income dividend by the number of shares in issue) increased by 38.4% to 25.6p. The directors have declared a dividend of 27.3p per share for the year, so the difference will be covered by revenue reserves, a much smaller drawdown than last year. Revenue reserves will be 16.0p after this drawdown.

We said a year ago that we expected the year ending January 2023 to be the first year that total income recovers to a more normal level. This still seems a realistic expectation. We also noted that with the dividend covered 110% by earnings in the year to January 2020, Merchants does not need income to recover fully, to cover the dividend from earnings.

Derivatives

Over the full year, we generated an additional income of £1.24m (2021: £1.05m) from writing covered call options, on shares that we were willing to sell at specific strike prices. With a strong stock market and some sharp share price rallies, a few of these options were exercised. Overall, there was a small net opportunity cost of -£0.55m (2021: -£0.93m).

Economic & Market Outlook

The Russian invasion of Ukraine has highlighted geopolitical tensions that have perhaps not been a major focus of many investors in recent years. This is primarily a human tragedy and our thoughts are with all those people affected in Ukraine, Russia and elsewhere.

As investors, however, we need to consider the long-term implications for financial markets. It is almost impossible to assess the likely course of events, at this stage of the conflict. Whilst the situation is very concerning, the direct trading impact on most UK listed companies, from events in Russia and Ukraine, is likely to be limited, provided the conflict remains localised.

The year started with strong economic growth, as the economy was recovering from the pandemic. Accelerating inflation was already posing challenges to policymakers. Bond yields had risen, as investors anticipated interest rate increases by central banks. However, even with a contained situation in Ukraine, the task of central banks to control inflation, whilst facilitating economic growth has been further complicated by surging commodity costs, higher inflation and a potential hit to confidence. It will not be easy to get the balance right. Raising rates too quickly could push economies back into slow growth or recession, whilst raising rates by too little risks inflation becoming more ingrained in the system. Another risk, especially in the USA where valuations are higher, would be a major financial market setback, which could hit confidence and consumer spending. On balance, it seems likely that whilst interest rates are likely to rise from exceptionally low levels, there will be even more reticence from central banks to normalising policy quickly. Also, the potential for a policy error, leading to sustained inflation or a recession, has increased.

In recent years we have been through many challenging periods: the Global Financial Crisis, the COVID-19 pandemic, and, to a lesser extent, the uncertainty over Brexit. As investors, it is important at all times to maintain perspective. In all these situations, we have focused on the long-term attractions of individual companies that we could invest in, and how they were valued.

Assessing the situation today, the good news is that corporate profitability, as reported in recent results, has generally recovered well from the worst of the pandemic impact. Dividend announcements have, on the whole, been positive within the portfolio. The UK stock market is reasonably priced compared to long term averages, and remains polarised, with many sound companies trading on very attractive valuations, from which we believe they can deliver strong shareholder returns and a high income stream.

It is also important in periods of uncertainty to maintain a focus on risk. We want to be prepared for a variety of scenarios. The portfolio is diversified into cyclical, defensive, commodity and financial companies, many with uncorrelated or idiosyncratic risks. There is a broad mix of sectors and geographic exposures, within the context of a high conviction, actively managed portfolio.

The average valuation of companies in the portfolio is at a significant discount to the broader stock market. However, we only buy companies that we believe to be sound businesses, priced below their fundamental worth and with supportive end-market or structural themes. Whilst there is considerable uncertainty today, we believe that this portfolio can continue to deliver Merchants' objectives of a high and rising income stream and long term capital growth.

Investment Philosophy and Stock Selection

Investment Philosophy

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.

Research intensive, focus on cash flow

AllianzGI's research platform combines a large global team of investment professionals, including credit research analysts and 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

Income bias

1

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.)

2

Yield alone is never a sufficient reason for buying a share

3

Purchase/sale driven by total return considerations

4

No automatic sale if yield drops below market level

Integrated ESG

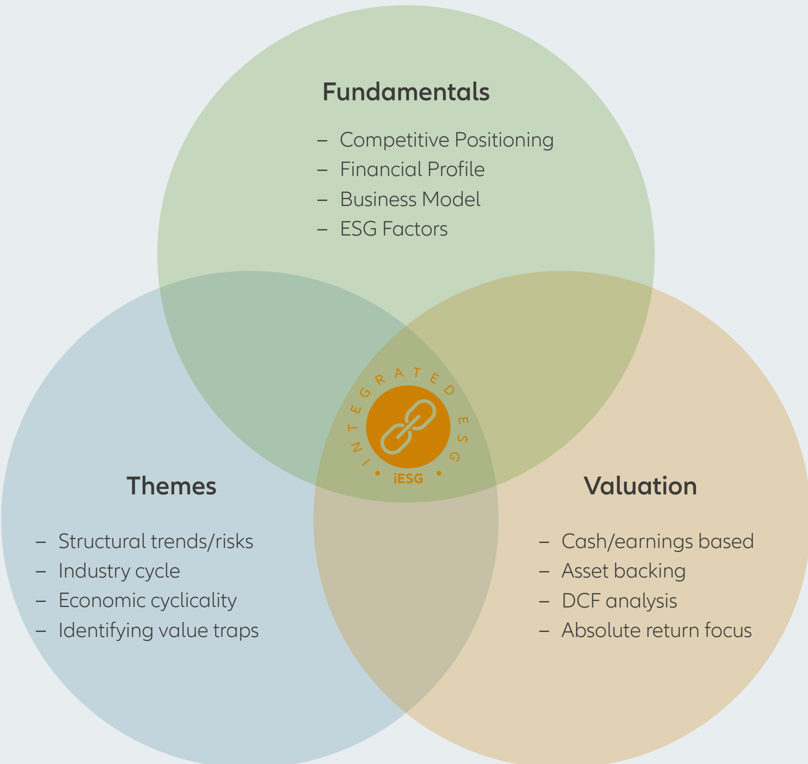
Companies do not exist in isolation. The environmental footprint of a business, and the impact of its operations on the wider community need to be analysed and taken into account. Also we need to understand social risks in a company, how it interacts with workers, suppliers and society generally.

Equally important is the corporate governance framework, management track record and incentive structure. We integrate these ESG factors into our investment decisions. We do not exclude whole industries from the portfolio, but portfolio managers have to formally acknowledge any identified significant tail risks. We actively engage with investee companies on these risk factors to promote best practice.

AllianzGI has integrated the consideration of ESG factors into our company research process.

This process ensures:

- Formal consideration of Environmental, Social and Governance factors for every investment
- Companies with a low score on any ESG factor, are sold or need a documented justification from the portfolio manager
- Process independently monitored with daily exception reporting
- Our long term risk assessment is enhanced.



Stock Selection

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?

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. We also analyse the company's financial profile and consider all the relevant ESG factors.

When considering valuation, our aim is to identify companies that are trading well below their intrinsic value. Whilst we invest in high yielding companies, our primary focus is on companies that are undervalued compared to their sustainable cash generation, but we also consider other measures such as earnings and asset values. We primarily apply an absolute return mindset when valuing companies. 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 40 and 41 for the specific attributions of each stock.

Top 20 Holdings

1 GSK

Pharmaceuticals & Biotechnology
39,600,000
4.9%
3.3%

GlaxoSmithKline (GSK) is a global healthcare company, with revenues in 2021 of £34bn. The company supplies a stable of important treatments for a range of conditions, including HIV, cancer, and asthma. GSK is currently organised into three divisions: pharmaceuticals, vaccines, and consumer health, with the latter set to be demerged and renamed 'Haleon' in July 2022.

Our investment case is based firstly around the improving performance of its pharmaceuticals division. This is partly through research and development, but also through targeted investments. For example, the purchase of Tesaro in 2019 brought in a treatment for ovarian cancer, pipeline assets and oncology capabilities.

The second pillar of our investment case is based on GSK demonstrating the considerable value of its other two divisions. GSK's vaccines business researches, manufactures and markets vaccines for c.40% of the world's children. The business is growing fast, helped by a novel shingles vaccine, and makes consistently high returns.

Haleon has a world leading portfolio of brands that help consumers stay healthy and fit. These range from toothpaste (Sensodyne), to vitamins (Centrum) and pain relief (Panadol). Haleon was valued by Unilever at £50 billion on 17 January 2022 in an ultimately unsuccessful takeover approach. Demerging the business while retaining a stake should enable GSK to crystallise some of this value.

2 British American Tobacco

Tobacco
37,956,000
4.7%
3.0%

British American Tobacco (BAT) is one of the world's largest tobacco companies. The company generates the majority of profits from traditional cigarettes, but also has a well-rounded and fast-growing portfolio of next-generation-products which offer a potentially reduced risk to consumers. These are already generating 12% of sales, and the company aims to quadruple sales by 2025 from 2019 levels.

BAT has an impressive record of profit and dividend growth, and has strong positions in a number of emerging markets, as well as a large position in the attractive US market. The shares trade at an attractive valuation for an economically defensive business, even after a recent period of strong performance.

Four years ago, we had no tobacco investments, as the sector was highly valued and did not allow for the risks of structural decline in smoking, competition from new products and changing investor attitudes to investment in the sector. With share prices still a third lower than they were at their 2017 heights, the sector continues to offer real value, whilst the companies are addressing important social issues in the industry, as well as developing less harmful product categories.

3 Imperial Brands

Tobacco

£ 37,307,000

4.6%

0.7%

Imperial Brands is a major global producer of cigarettes, tobacco, and nicotine products. There are three parts to the investment case.

First, this is a highly cash generative business, trading on a depressed valuation, paying high dividends and with very resilient profits, even during economic downturns. The company should be able to keep growing traditional tobacco cash flows, even as volumes decline, thanks to strong pricing power.

Second, new product areas, such as electronic cigarettes and heated-tobacco, offer the opportunity of materially lower health risks, with a strong economic return. The company has announced a more targeted and disciplined approach to addressing this market. Third, a new management team has set out a new strategy to significantly improve the operational performance of the business and has provided much better disclosure than previously available. Alongside this, management has committed to publishing a detailed Sustainability Strategy, covering KPIs for climate, energy, farmer livelihoods, human rights and waste.

4 Shell

Oil, Gas & Coal

£ 32,023 ,000

3.9%

6.0%

Shell is a leading globally integrated oil and gas company. Its operations are split four ways, between oil, gas, upstream, and chemicals. By reallocating the proceeds of its legacy activities towards lower carbon solutions, Shell is a playing a key role in delivering the energy transition.

Traditional operations still provide the bulk of Shell's free cash flow, and years of efficiency improvements combined with lower investment in new hydrocarbon resources are driving up margins. Management has a stated aim of growing its dividend by around 4% every year combined with an over $8 billion share buyback programme.

At the same time, since its acquisition of BG Group in 2016, Shell has been strategically repositioning its business. Shell now operates the largest portfolio of liquified natural gas (LNG) amongst its peers, and should benefit from rising global demand. Gas is also seen as a key fuel in the energy transition, with lower emissions than oil-based alternatives.

More information about Shell can be found in the ESG Focus case study on page 28.

5 BP

Oil, Gas & Coal
31,839,000
3.9%
3.0%

The investment case in BP is similar to Shell. We increased investment in BP at depressed prices two years ago, to take advantage of an improving outlook, and in recognition of BP's shift in strategy towards clean energy, mobility and other services. BP is targeting a 50% reduction in operational emissions from its 2019 baseline by 2030, one of the most aggressive shifts in the sector.

6 Vodafone

Telecommunications Service Providers
29,608,000
3.6%
1.5%

Vodafone has Europe's largest mobile telecommunications network, a growing fixed broadband offering, and a strong position in Africa. The company pays a high dividend, and is delivering profits growth from an inflection in revenue trends and substantial efficiency improvements. Further upside can come from the value of its mobile towers business and growth in its African mobile data network, with its M-Pesa financial services product.

7 WPP

Media
27,912,000
3.4%
0.5%

WPP is one of the world's largest advertising and media agency groups, with a broad span of businesses, covering creative work and communications. Under new management, the company has been restructured into a smaller number of more integrated businesses, with an increasing focus on higher growth sectors of technology, e-commerce and experiences, to address an evolving marketplace. WPP's modest valuation does not reflect the repositioning of the business.

8 SSE

Electricity
27,298,000
3.3%
0.7%

SSE is a diversified energy company, largely focused on electricity transmission and distribution networks in Scotland and England, and electricity generation assets. The company has built a leading UK portfolio of renewable power assets which has created significant shareholder value. The investment case for SSE is based upon the attractive dividend yield, long term growth opportunities, and the rising valuation of clean power generation assets.

 Sector Value of holding Percentage of portfolio Benchmark weighting

9 BAE Systems

Aerospace & Defence
25,656,000
3.1%
0.7%

BAE Systems is the UK's biggest defence and aerospace company, involved in the development and manufacturing of military aircraft, surface ships, submarines, electronics and communications equipment, as well as providing cyber-security services. BAE's largest region is the USA, the world's largest and most sophisticated defence market. The investment rationale is based upon strong order books, proprietary technology and limited cyclicality, coupled with a low valuation.

10 National Grid

Gas, Water & Multiutilities
25,641,000
3.1%
1.6%

National Grid is a supplier of vital electricity and gas infrastructure in the UK and USA. National Grid's growth is predicated on the substantial need for maintenance investment required by existing infrastructure. At the same time, the structural trend towards a low carbon/electrified economy will require more investment on top. The business is also taking clear steps to reduce its own environmental impact.

11 Legal & General

Life Insurance
23,711,000
3.0%
0.7%

Legal & General is one of the UK's largest life insurance companies, 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 underpins a rising dividend and an attractive yield.

12 Drax Group

Electricity
23,199,000
2.8%
0.1%

Drax is a UK-based renewable energy company, engaged in power generation, the production of sustainable biomass and the sale of renewable electricity to businesses. The shares are cheaply valued in the context of current profitability, particularly as demand for clean energy grows. Longer-term, the global uptake of carbon capture and storage technology has the potential to become a meaningful growth driver for the company.

13 Tate & Lyle

- Food Producers
- 21,157,000
- 2.6%
- 0.1%

Tate & Lyle is a business in transition. The company is divesting much of its relatively commoditised operations, focusing instead on the production of higher value-add ingredients. These are designed to reduce calories, add dietary fibre or improve nutritional qualities. Tate's improving returns profile and growth prospects are not recognised in the company's valuation.

14 IG Group

- Investment Banking & Brokerage
- 20,833,000
- 2.6%
- 0.1%

IG is a leading global provider of financial derivatives contracts to the retail market. The company operates as a fast growing and high returning digital business, serving the demands of sophisticated investors for leveraged trading. Offering derivatives across a broad selection of assets, IG benefits from financial market volatility. During the pandemic IG's business performed exceptionally well and attracted a substantial new client base, which supports its future growth prospects.

15 Barclays

- Banks
- 20,018,000
- 2.6%
- 1.3%

Barclays is a diversified provider of financial services, spanning retail banking, wealth management, credit cards and investment banking. Having taken large, precautionary provisions during the pandemic, Barclays is seeing a strong improvement in profits and rising dividend payments as the economy recovers. Investment banking operations provide diversification benefits, and the balance sheet is strong, as banking regulations have been tightened since the financial crisis.

16 Redrow

- Household Goods & Home Construction
- 19,958,000
- 2.5%
- 0.1%

Redrow is a housebuilder operating in the premium end of the market. COVID-19 has accelerated demand in this segment, as homeowners look for more space. With long term structural demand growth, favourable competitive industry dynamics and limited technological risk, housebuilding is an attractive, though cyclical industry. At the time of purchase, the stock's modest valuation made the company particularly attractive.

Sector | Value of holding | Percentage of portfolio | Benchmark weighting

17 St. James's Place

Investment Banking & Brokerage
19,348,000
2.4%
0.3%

St. James's Place is a wealth manager with over 153 billion GBP AUM. Its growth is predicated on an increasingly affluent population who are saving for their retirement. Investments in back-end technology, including an academy through which to educate its advisors, drives internal efficiency gains. The company offers financial planning advice with client assets growing at a steady rate which are highly sticky once invested.

18 DCC

Industrial Support Services
19,177,000
2.4%
0.3%

DCC is a distribution business, with an excellent track-record of growth. The company currently operates across four areas: LPG, healthcare, technology and fuel & oil. Having started in Ireland and the UK, DCC acts as a consolidator in fragmented markets, reducing inefficiencies and boosting margins. The company is now expanding into mainland Europe as well as the USA. Having bought in after a period of share price weakness, the valuation continues to look compelling.

19 HomeServe

Non-Life Insurance
18,846,000
2.3%
0.1%

HomeServe is a British multinational providing insurance for home repairs and maintenance services, as well as an online directory for tradespeople (CheckATrade). The company is a market leader, but with sizeable growth potential in North America. In the financial year 2021, the company's revenues grew by 15% because of their resilient, predictable and cash generative commercial model.

20 Rio Tinto

Industrial Metals & Mining
18,147,000
2.2%
2.3%

Rio Tinto is a leading global metals and mining company. Its products are essential for the global economy, particularly the energy transition, with segments spanning iron ore, aluminium, copper and minerals. At the time of purchase, the shares overly discounted the consistency of global demand, as well as Rio's resulting profitability. Longer-term, the company has announced a low carbon transition strategy, with clear reduction targets for greenhouse gas emissions.

Portfolio Holdings

at 31 January 2022

Listed Equity Holdings

Merchants Trust Portfolio Breakdown by Category

Name	Principal Activities	Value £'000s	% of listed holdings	Benchmark weighting	Investment Attributes: High Yield	Cyclical Growth	Defensive Growth	Special Situations
GSK	Pharmaceuticals & Biotechnology	39,600	4.9	3.3			●	
British American Tobacco	Tobacco	37,956	4.7	3.0	●			
Imperial Brands	Tobacco	37,307	4.6	0.7	●			
Shell	Oil, Gas & Coal	32,023	3.9	6.0	●			
BP	Oil, Gas & Coal	31,839	3.9	3.0	●			
Vodafone Group	Telecommunications Service Providers	29,608	3.6	1.5	●			
WPP	Media	27,912	3.4	0.5	●			
SSE	Electricity	27,298	3.3	0.7			●	
BAE Systems	Aerospace & Defence	25,656	3.1	0.7			●	
National Grid	Gas, Water & Multiutilities	25,641	3.1	1.6			●	
Legal & General	Life Insurance	23,711	3.0	0.7		●		
Drax Group	Electricity	23,199	2.8	0.1				●
Tate & Lyle	Food Producers	21,157	2.6	0.1			●	
IG Group	Investment Banking & Brokerage	20,833	2.6	0.1		●		
Barclays	Banks	20,018	2.6	1.3				●
Redrow	Household Goods & Home Construction	19,958	2.5	0.1		●		
St. James's Place	Investment Banking & Brokerage	19,348	2.4	0.3		●		
DCC	Industrial Support Services	19,177	2.4	0.3			●	
HomeServe	Non-Life Insurance	18,846	2.3	0.1			●	
Rio Tinto	Industrial Metals & Mining	18,147	2.2	2.3		●		
Tyman	Construction & Materials	16,477	2.0	0.0		●		
Next	Retailers	15,746	1.9	0.4		●		
Tesco	Personal Care, Drug & Grocery Stores	15,741	1.9	0.9			●	
Land Securities Group	Real Estate Investment Trusts	15,507	1.9	0.0	●			
Keller	Construction & Materials	15,484	1.9	0.2		●		
Man Group	Investment Banking & Brokerage	14,812	1.8	0.1		●		
SCOR	Non-Life Insurance	14,089	1.7	0.0			●	
TotalEnergies	Oil, Gas & Coal	13,844	1.7	0.0	●			
SThree	Industrial Support Services	13,369	1.6	0.0		●		
Bellway	Household Goods & Home Construction	12,961	1.6	0.1		●		

Name	Principal Activities	Value £'000s	% of listed holdings	Benchmark weighting	Investment Attributes: High Yield	Cyclical Growth	Defensive Growth	Special Situations
DFS Furniture	Retailers	11,795	1.4	0.0		●		
Close Brothers Group	Banks	11,401	1.4	0.1		●		
Conduit Holdings	Non-Life Insurance	10,965	1.3	0.0	●			
Diversified Energy Company	Oil, Gas & Coal	10,939	1.3	0.0	●			
Sanofi	Pharmaceuticals & Biotechnology	10,848	1.3	0.0			●	
Ashmore Group	Investment Banking & Brokerage	10,560	1.3	0.1		●		
Swiss Re	Non-Life Insurance	10,197	1.3	0.0			●	
ITV	Media	10,089	1.2	0.2		●		
RELX	Media	9,979	1.2	1.7			●	
PZ Cussons	Personal Care, Drug & Grocery Stores	9,466	1.2	0.0			●	
Entain	Travel & Leisure	8,909	1.1	0.4		●		
Morgan Advanced	Electronic & Electrical Equipment	8,405	1.0	0.0		●		
Norcros	Construction & Materials	8,339	1.0	0.0		●		
Energean	Oil, Gas And Coal	6,133	0.8	0.0		●		
Duke Royalty	Investment Banking & Brokerage	3,975	0.6	0.0				●
Antofagasta	Industrial Metals & Mining	3,465	0.4	0.2		●		
M&G	Investment Banking & Brokerage	2,166	0.3	0.2	●			
	% of Total Invested Funds	**814,895**	**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.

Written Call Options

As at 31 January 2022, the market value of the open option positions was £(615,050) (2021: £(53,365)), resulting in an underlying exposure to 2.94% of the portfolio (valued at strike price).

Distribution of Total Assets

at 31 January 2022

	Percentage of total assets* at 31 January 2022	Percentage of total assets* at 31 January 2021
Financials		
Banks	3.9	5.0
Investment Banking & Brokerage	8.9	9.9
Life Insurance	2.9	3.0
Non-Life Insurance	6.6	1.6
	22.3	**19.5**
Industrials		
Aerospace & Defence	3.1	5.6
Construction & Materials	6.5	6.5
Electronic & Electrical Equipment	1.0	1.2
Industrial Support Services	4.0	5.7
	14.6	**19.0**
Consumer Staples		
Beverages	-	2.0
Food Producers	2.6	3.2
Personal Care, Drug & Grocery Stores	3.1	1.8
Tobacco	9.3	10.0
	15.0	**17.0**
Consumer Discretionary		
Household Goods & Home Construction	4.0	4.3
Media	5.8	4.9
Retailers	3.3	2.7
Travel & Leisure	1.1	1.9
	14.2	**13.8**
Energy		
Oil, Gas & Coal	10.8	9.1
	10.8	**9.1**

	Percentage of total assets* at 31 January 2022	Percentage of total assets* at 31 January 2021
Utilities		
Electricity	6.1	4.1
Gas, Water & Multi-utilities	3.1	3.4
	9.2	**7.5**
Health Care		
Pharmaceuticals & Biotechnology	6.2	6.1
	6.2	**6.1**
Telecommunications		
Telecommunications Service Providers	3.6	4.6
	3.6	**4.6**
Basic Materials		
Industrial Metals & Mining	2.6	3.0
	2.6	**3.0**
Real Estate		
Real Estate Investment Trusts	1.9	2.0
	1.9	**2.0**
Technology		
Software & Computer Services	-	1.1
	-	**1.1**
Total Investments	**100.4**	**102.7**
Net Current Liabilities	**(0.4)**	**(2.7)**
Total Assets	**100.0**	**100.0**

The classifications and prior year comparatives have been updated, where required, to reflect recent changes in the Industry Classification Benchmark (ICB) standard.

* Total Assets (less creditors due within one year) £805,797,000 (2020: £621,421,000).

Performance – Review of the Year

Revenue	2022	2021	% change
Income	£35,292,000	£24,909,000	+41.7
Revenue earnings attributable to ordinary shareholders	£31,835,000	£21,848,000	+45.7
Revenue earnings per ordinary share	25.6p	18.5p	+38.4
Dividends per ordinary share in respect of the year	27.3p	27.2p	+0.4

Assets	2022	2021	Capital return % change	Total return % change[1]
Net asset value per ordinary share with debt at par	578.7p	458.5p	+26.2	+32.1
Net asset value per ordinary share with debt at market value (capital)	569.5p	439.7p	+29.5	+35.7
Ordinary share price	573.0p	438.5p	+30.7	+36.9
FTSE All-Share	4,191.8	3,641.9	+15.1	+18.9
Discount of ordinary share price to net asset value (debt at par)	-1.0%	-4.4%	n/a	n/a
Premium (discount) of ordinary share price to net asset value (debt at market value)	0.6%	-0.3%	n/a	n/a
Ongoing charges[2]	0.55%	0.61%	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 114.

A Glossary of Alternative Performance Measures (APMs) is on page 113.

Strategic Report

New natural gas, exploration and development investment Energean is soon to commission two large gas fields off the coast of Israel, which should quadruple production and lead to strong cash generation well into the future.

Our Strategy

Business Model

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

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 starting on page 15.

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:

- Review and reflection on the impact of investments from outside the UK and their contribution to income
- The integration of ESG within the investment process at AllianzGI and engagements with the companies in the portfolio
- Marketing opportunities for 2022 and a review of the recent website refresh, use of social media, e.g., LinkedIn. The board also considered distribution activity and the impact and benefits of marketing expenditure and the usage of the budget.

Following our strategic review it was noted that the company was well positioned having experienced two years of difficult markets and a challenging environment for dividend income and distribution to shareholders.

Progress in the year, in which the focus had been both on income and dividend cover, included the addition of overseas stocks, permitting discussions in the year ahead about the rebuilding of reserves. The marketing and sales strategy being followed, using digital platforms and electronic interaction with the market, had been successful

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 12.7% in the year to 31 January 2022 (2021: 18.8%).

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 above 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.

in maintaining awareness of Merchants' attributes as a core income vehicle for investors in UK equities, being able to provide investors with real returns on their savings. We affirmed our commitment to understanding the integration of ESG in the investment process and how this is profiled in the marketplace and have provided more explanation in our communications, including the website and in this Annual Report.

Strategic Aims

The company's aims, as reflected in the KPIs reporting on page 12, continue to be to:

Dividends

- Provide a high and progressively growing income stream. The chart in the Chairman's Statement on page 4 shows dividend increases every year since 1982 and the KPI chart on page 13 shows the contribution to dividend reserves in the past five years.

Shareholder return

- Provide long term capital growth
- Provide a long term total return above the benchmark and peers
- The KPI chart on page 13 shows the returns against the benchmark.

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
- The KPI charts on page 13 include a comparison of ongoing charges against the peer group.

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 31 and 33 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 Merchants 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. The work with our partners to do this is discussed in the table of stakeholder engagement on page 48.

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.

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 significant discount shares may be bought back and cancelled or held in treasury.

Section 172 Report:

Engagement with Key Stakeholders

The company's shareholders are its primary stakeholders. Other stakeholders include 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 meetings, seminars, presentations and publications and through contacts made through our suppliers and intermediaries.

Through the global COVID-19 pandemic our interactions have often been virtual and not in person, but we have taken this as an opportunity to engage in new and efficient ways with many of our stakeholders. 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. Many of the ways we communicate are shown on page 11.

Last year we gave a comprehensive list of the company's stakeholders; in this report we have selected some specific events and activities to illustrate how this engagement has taken place. Below are some examples of the ways that Merchants has interacted with stakeholders to demonstrate how the board an its agents have considered stakeholders in pursuit of the success of the company and the promotion of that success for the long term:

Stakeholders	Why we engage	How we engage and what we do	Actions - examples
Shareholders	Shareholders receive relevant information to enable them to evaluate whether their investment interests are aligned with the strategy of the company. The directors get feedback and views on shareholder priorities such as sustainability of income, ESG risks and gearing levels which inform the board's strategy discussions and decisions.	We communicate through the annual and half- yearly reports, monthly fact sheets, website, press articles and podcasts. Meetings are held with professional shareholder groups. The AGM provides a focus for interaction with shareholders. This year's AGM will be a live event for the first time since 2019, with the opportunity for shareholders to meet the board and managers and for live questions as well as those submitted in advance.	The board discussed and approved a budget for a marketing and communications programme which would address investor concerns about the impact of dividend cuts on the company's revenue and the company's dividend policy, for example, in many podcasts and press interviews throughout the year and published on the website. The website has been enhanced with enhancements to the user experience.
Service providers	The board works with AllianzGI who provide investment management, accounting and secretarial services as well as expertise in sales and marketing for a competitive management fee. The board has appointed HSBC as depositary and custodian and Link Group as registrar to provide specialist services. Another key service provider is State Street who provide middle office and fund accounting services through a contractual arrangement with AllianzGI.	Our manager maintains regular contact and ensures service levels are satisfactory and appropriate controls are in place with Merchants' service providers. In the past year the manager has been reporting how it has continued to adjust the portfolio response to the challenges of the COVID-19 pandemic and also more recently on the impact of inflation and geopolitical activity on the company's investment management.	During the year the board worked with the manager to oversee the introduction of improved processes and controls at AllianzGI's outsourced third-party provider of middle office services. A detailed due diligence exercise is taking place as at the date of publication of this report.
Portfolio companies	The board approves the manager's active, stock picking approach and believes in good stewardship.	On the company's behalf the manager engages with investee companies, including on ESG matters and exercises its votes at company meetings. There are details of engagement on page 26 and also of proxy voting on page 61.	Merchants actively votes at portfolio company meetings. Reports on engagement and case studies are in the Investment Manager's Report which starts on page 15.
Distribution and media partnerships	To reach a wider audience of investors, the company works with firms providing access to platforms and wealth managers, as well as public relations advisers. The board receives detailed feedback to confirm wide and growing interest in the company's shares.	The managers together with our distribution partners arrange presentations about Merchants at virtual events and research publications to reach investors through share trading platforms, wealth managers and through websites.	Our distribution and research partner, Edison, published a recent note: 'Successfully navigating market uncertainty', to reach a growing audience of interested investors. Spikes in website hits and new investment in the company on retail platforms after press articles and media events. 6.7 million shares were added to the holdings across platforms in the year.

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 Risk Map on page 51.

A more detailed version of the chart is reviewed and updated by the audit committee at least twice yearly. This 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 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 73.

Principal risks

The principal risks are now considered to be emerging risks, followed by the risks of market decline. During the year these risks had eased but they have now become the major risks faced and so have held their position in the risk map, with emerging risks now seen as likely to have a higher impact. Those identified as having the highest impact and the greatest likelihood are the following:

3.8 **Emerging** risks, such as significant geopolitical risks and virus variant threats.

1.1 **Market decline** adversely affecting investments and returns.

Some principal risks have been assessed as being as likely to occur as last year.

2.2 **Investment strategy**: for example, asset allocation or the level of gearing may lead to a failure to meet the company's objectives, such as income generation and dividend growth.

2.3 **Investment performance**: for example, poor stock selection for the portfolio leads to decline in the rating and attraction of the company.

Investment and Portfolio Risks

1.1 Market decline

Risk: Macro-economic shocks to the portfolio if the board and manager fail to predict changes to the investment environment; significant market movements may adversely impact the investments held by the company increasing the risk of loss or challenges to the investment strategy; reduction of dividends across the market affecting the portfolio yield and the ability to pay in line with dividend policy.

Response: 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 mainly 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

Risk: Failure of investments, for example, due to poor oversight and monitoring.

Response: Detailed reports on stock selection and other investment management processes are received from the manager by the board. Liquidity is monitored closely by the manager and any concerns are raised with the board for agreed action to be taken.

1.3 Counterparty

Risk: Risk of non-delivery of stock by a counterparty leading to interest claim or buy-in.

Response: The manager operates on a delivery versus payment system, reducing the risk of counterparty default. Any issues or systemic problems would be discussed with the board and remedial actions agreed.

1.4 Currency

Risk: Exposure to exchange rate movements which can affect, for example, dividend income.

Response: The portfolio is mainly invested in UK listed companies, with shares predominantly priced in sterling. Exposure is therefore primarily indirect, but well diversified. Board papers monitor the income split by currency to assess risks to the revenue account.

Business and Strategy Risks

2.1 Shareholder relations

Risk: The investment objectives, or views on decisions such as gearing, discount management , dividend policy, of existing shareholders may not coincide with those of the board leading investors to sell the ordinary shares; communication gaps resulting from a switch from in person meetings to virtual dialogue as a result of

restrictions imposed by local government in response to COVID-19.
Response: Reports on shareholder sentiment are received from the manager and brokers and reviewed by the board. Shareholders are actively encouraged to make their views known.

2.2 Investment strategy
Risk: Inappropriate investment strategy for example asset allocation or the level of gearing may lead to a failure to meet the company's objectives, such as income generation and dividend growth, and capital growth, or lead to underperformance against the company's benchmark index or against peer group companies. This may lead to the company's shares trading on a wider discount.
Response: Board policies restrict the size of investments in individual companies and sectors. 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. The board also reviews the suitability of the investment strategy and the stock selection process regularly, and considers its gearing policy frequently. All of these topics are considered in depth at the annual strategy review.

2.3 Investment performance
Risk: Persistent poor performance against benchmark or peers leads to decline in rating and attraction of the company to investors.
Response: 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
Risk: Various factors might include title to investment holdings may not be good, net asset value calculations are calculated incorrectly, written options are not covered, inaccurate revenue forecasts, incorrectly calculated management fees, incorrectly identified expense payments.
Response: A 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. Financial risk has been moved along the 'likelihood' axis in the Risk Map as this is considered to be a slightly more likely event.

2.5 Liquidity and gearing
Risk: Insufficient income generated by the portfolio and due to stock market falls gearing increases to levels unacceptable to shareholders and the market which in extreme circumstances results in a breach of loan covenants.
Response: The board meets with the portfolio managers and considers asset allocation, stock selection and levels of gearing on a regular basis. Investment restrictions and guidelines are monitored and reported on by AllianzGI. Regular compliance information is prepared on covenant requirements.

2.6 Market demand
Risk: The level of discount of the share price to the NAV moves to unacceptable levels, threatening confidence in the company's shares.
Response: 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.

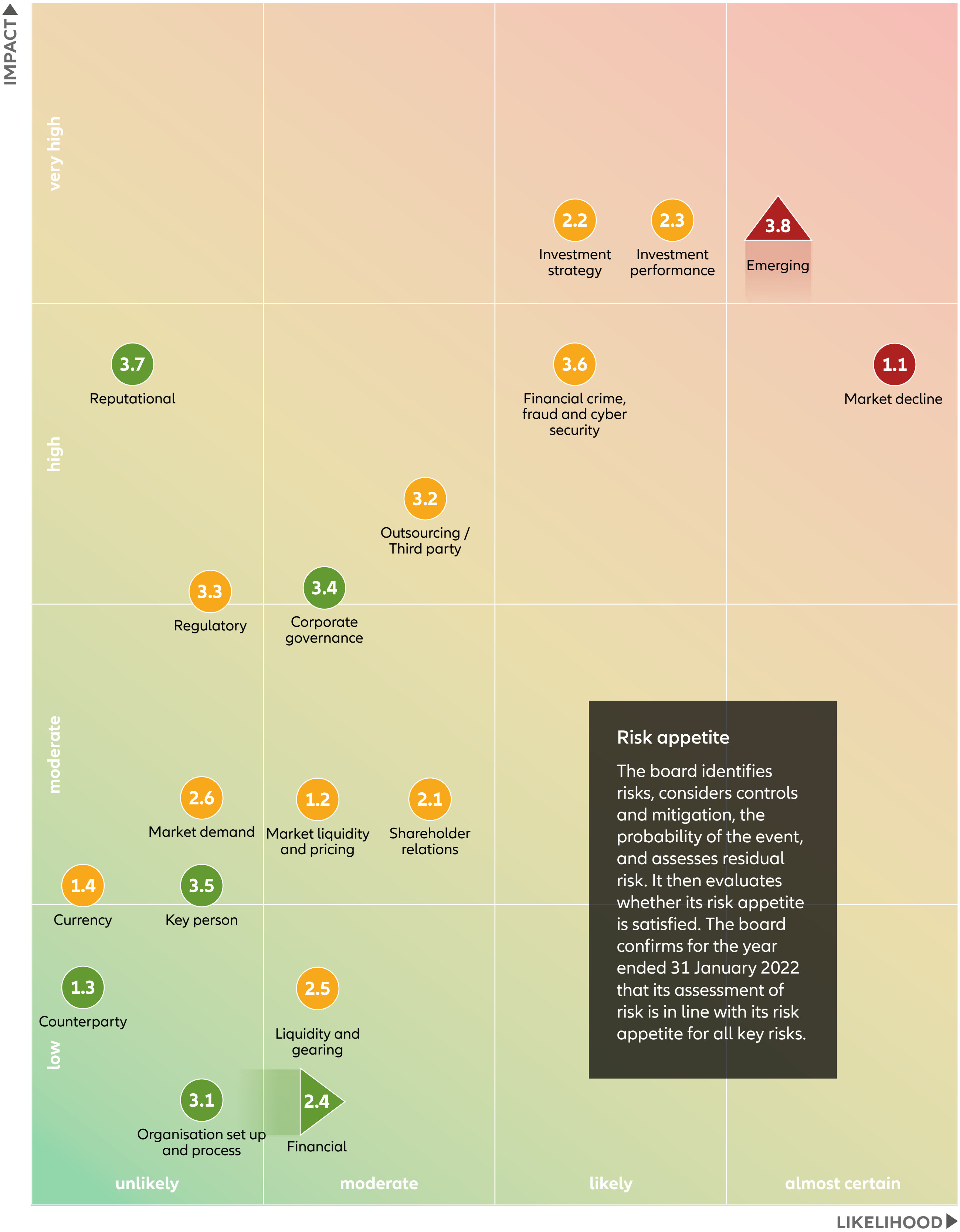
Operational Risks

3.1 Organisation set up and process
Risk: Failure in the operational set up of the company, through people, processes, systems or external events could result in financial loss to the company or its inability to operate.
Response: The manager and the other key service providers report on business continuity plans and the resilience of their response to extreme situations. Third party internal controls reports are also received from these service providers.

3.2 Outsourcing and third party
Risk: Inadequate procedures for the identification, evaluation and management of risks at outsourced providers and roles of the third party are not clear and gaps in the service appear.
Response: 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.

3.3 Regulatory
Risk: Failure to be aware of or comply with legal, accounting and regulatory requirements which could result in censure, financial penalty or loss of investment company status.
Response: 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.

Risk Analysis



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 2022 that its assessment of risk is in line with its risk appetite for all key risks.

○ No change from previous year ◁△▽▷ Change from previous year

- ● 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

3.4 Corporate governance
Risk: Weak adherence to best practice in corporate governance can result in shareholder discontent and potential reputational damage to the company.
Response: 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
Risk: Departure of the portfolio manager, certain professional individuals, and/or board members, may impact the management of the portfolio, the achievement of the company's investment objective and/or disruption to its operations.
Response: 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
Risk: That the company and the manager's firm, its employees, or clients are subject to financial crime or breach elements of the Bribery Act. Risk of increased cyber attacks continue after COVID-19, and the changed working arrangements that have remained in place.
Response: 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 and more frequent assurances have been sought and received through the COVID-19 pandemic.

3.7 Reputational
Risk: Examples include association with poor governance in portfolio companies and operational issues in service providers which can affect the reputation of the company.
Response: The portfolio management team is in constant interaction 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. Service providers are monitored and the manager provides oversight.

3.8 Emerging
Risk: Unpredictable consequences of political and macro-economic shocks such as the attack on Ukraine by Russian armed forces, inflation, and the risks of further virus variants causing for example significant market falls, threat to income, increase in gearing.
Response: The board carries out horizon scanning by keeping informed through its manager and advisers on the political, economic and legal landscape, and reviews updates received on regulatory changes that affect the company. Examples include:

– Reviewing industry and manager thematic outlook and insights research publications;
– COVID-19 continues to cause 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 ongoing changes and is ready to adapt its strategies in order to achieve its objectives;

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 132 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 strategy, Investment performance, Emerging risks and Market Decline, as described in the Risk reporting from page 49.

The board considered the following in its assessment:

1. The company's investment strategy and the long term performance of the company, together with the board's view that it will continue to provide long term returns to shareholders as well as an attractive income as it has done in the past.

   i. The board examines performance with the investment managers at each board meeting and strategy meeting. Performance is reviewed against the company's stated strategy and the continuing relevance of the company as a provider of a vehicle for investors looking for a portfolio invested in leading companies with strong balance sheets and the ability to pay attractive dividends.
   ii. The board receives reports at every board meeting of the transactions in the company's shares. The company is a member of the FTSE All -Share and there is liquidity in its shares.

2. The financial position of the company, including the impact of foreseeable market movements on 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. The methods used are:

   i. Loan and RCF covenants stress testing
   ii. Stress testing the portfolio
   iii. The assessment of future portfolio income and the impact of the payment of dividends on reserves.

3. The company's ability to meet interest payments and debt redemptions as they fall due. The RCF runs until 2025 with the option of an extension. The next scheduled repayment of debt is in 2029 and the board will monitor how and when is best to fund this repayment.

   The board continues to consider its gearing strategy on an ongoing basis, having partly refinanced the company's debt in 2017 and 2019, and lowered the cost of debt in that time, and partially repaid the RCF in 2021.

4. The liquidity of the portfolio, and the company's ability to pay growing dividends and to meet the budgeted expenses of running the company, which is examined at each board meeting.

   i. Liquidity testing is carried out on Merchants' portfolio by AllianzGI on an ongoing basis. Stocks are listed on major exchanges. There are no unlisted investments in the portfolio (other than the shareholding in the former loan vehicle, Fintrust Debenture PLC, in voluntary liquidation).
   ii. Portfolio income is reviewed by the board at each meeting and conservative assumptions are made in estimated revenue accounts in the board meeting papers (based on historic portfolios, assuming no dividend increases).
   iii. Ongoing charges are operating expenses incurred in the running of the company (excluding financing costs). The ongoing charges figure is calculated by dividing operating expenses, i.e., the management fee and all administration expenses, by the company's net asset value. This calculation is carried out formally each year and published in the annual report (in accordance with the AIC's recommendations). The expenses of running the company have been calculated at 0.55% of net assets in the latest year (2021: 0.61%). These charges are low and should be met by the company without difficulty in each of the five years under review.

5. The company's resilience in facing the risks and consequences of an unanticipated global pandemic and grave geopolitical events and its ability to continue to maintain its objectives and provide the required shareholder returns.

   The board has received detailed reports and periodic updates from AllianzGI and its other key service providers on their response to the COVID-19 pandemic. These reports include the resilience of their controls environment and ability to continue to deliver their services when necessary with usage of remote access capabilities, including for portfolio management activities. The board has received assurances that AllianzGI operates to standards for business continuity management and resilience which reflect market standards, such as ISO22301. This has resulted in minimum disruption.

   The portfolio manager has reported to the board frequently during the pandemic on the impact on the economic environment, the company's markets and forecasts, and has reported on mitigating actions taken, such as repositioning the portfolio to achieve the required returns. The portfolio manager has provided forecasts to demonstrate the reasonable prospect of, having utilised revenue reserves in the proposed dividend for the year ending 31 January 2022, returning to a covered dividend. This supports the continuation of the company's objectives to provide a high level of income and income growth together with long term capital growth for its shareholders and which supports the viability of the company for the five year period contemplated.

The directors have evaluated the risks and consequences of global events 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.

Going Concern

Following all the investigations made in the Viability review above, the directors have concluded that the company has adequate resources to continue in operational existence for the foreseeable future. The directors have also considered the risks and consequences of the ongoing pandemic and other unanticipated shocks on the company and have concluded that the company has the ability to continue in operation and meet its objectives in the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

The Future

As we set out on the inside of the front cover 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 over time provides long-term capital growth and an above average income and income growth to investors.

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. The longevity of the trust and its importance to investors continues to be a key concern of the board. I give my view of the outlook in my Chairman's Statement on page 10 and the investment manager discusses his view of the outlook for the company's portfolio in his review on page 30.

On behalf of the board.

Colin Clark
Chairman
6 April 2022

Governance

Global healthcare company GlaxoSmithKline (GSK) was once again the portfolio's largest holding at year end. 2021 saw group revenues rise to £34.1 billion, with its pharmaceuticals division reporting a 10% growth in sales.

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 Senior Independent Director of Rathbone Brothers Plc. Colin has had a 40 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. 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.

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 and Chair of the Renumeration Committee at Tate & Lyle PLC. Sybella is 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.

Timon Drakesmith

Chairman of the Audit Committee

Joined the board in November 2016. Timon is Chief Financial Officer of Carbon Trust. Timon was formerly the Chief Financial Officer of Hammerson plc, and prior to that the 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 knowledge of company financing. He also has insight into environmental sustainability.

Karen McKellar

Joined the board in May 2020. Karen is a non-executive director of JPMorgan European Investment Trust PLC. 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, money management and investment trust board experience.

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

Mary Ann Sieghart

Joined the board in November 2014. Mary Ann is Senior Independent Director of Pantheon International plc and a Non-Executive Director of the Guardian Media Group. She is also Investment Committee Chair of The Scott Trust, the owner of the Guardian and the Observer newspapers, in charge of its £1bn endowment. She was previously Senior Independent Director of The Henderson Smaller Companies Investment Trust plc. Mary Ann is an author, political journalist and broadcaster and was formerly Assistant Editor of The Times, a Lex Columnist at the Financial Times and City Editor of Today.

Mary Ann was a Visiting Fellow of All Souls College, Oxford for the academic year 2018-19 and is currently a Visiting Professor at King's College London.

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.

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 can be found from page 67.

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 (AllianzGI) are active asset managers operating across 19 markets with investment professionals around the globe, managing assets for individuals, families and institutions worldwide.

As at 31 December 2021, AllianzGI had €673 billion of assets under management worldwide.

Through its predecessors, AllianzGI has a heritage of investment trust management expertise in the UK reaching back to the nineteenth century and as at 31 December 2021 had £2.8 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 ACG, 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 Group
(full details on page 107)

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 2022.

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
14 February 2022

Further information about the relationship with the Depositary is on page 106.

Directors' Report

The directors present their report and the audited financial statements of the company for the year ended 31 January 2022.

Revenue

The revenue earnings attributable to ordinary shareholders for the year amounted to £31,835,000 or 25.6p per share (2021: £21,848,000, 18.5p per share).

The first quarterly dividend of £8,451,000, or 6.8p per share, and the second quarterly dividend of £8,482,000, or 6.8p per share, have been paid during the year. Since the year end the third quarterly dividend of £8,748,000, or 6.85p per share, was paid on 15 March 2022. A proposed final dividend of 6.85p will be paid on 24 May 2022. In accordance with FRS 102 Section 32: 'Events after the end of the reporting period', the third and final quarterly dividends are not recognised as liabilities within the financial statements on the basis that at the year end the third and final quarterly dividends had not been paid.

Invested Funds

Sales of investments during the year resulted in net gains based on historical costs of £44,052,000 (2021: loss of £18,016,000). 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 6,720,000 shares and no share buybacks. Since the year end a further 2,120,000 new shares were issued. Further details are on page 95.

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 10 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 30. The future is also discussed in the Strategic Report on page 54.

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 11 on page 95. The details of the 4% Perpetual Debenture Stock and the 3.65% Cumulative Preference Stock are provided in Notes 10(ii) and 10(iii) respectively on page 95.

Voting Rights in the Company's Shares

The voting rights to 6 April 2022 were:

Share class	Number of shares issued	Voting rights per share	Total voting rights
Ordinary shares of 25p	129,824,887	1	129,824,887
3.65% Cumulative Preference Stock of £1	1,178,000	1	1,178,000
Total	**131,002,887**		**131,002,887**

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 6 April 2022 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 Group, 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 56 and 57.

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.

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 (2021: 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 (2021: 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 ongoing charge.

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 76. The Independent Auditors' Report begins on page 78.

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.

Stewardship and Exercise of Voting Powers

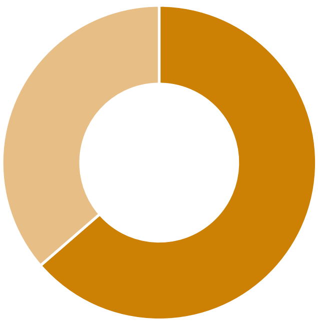
The company's investments are held in a nominee name. The board has delegated discretion to discharge its responsibilities in respect of investments, including the exercise of voting powers on its behalf to the manager, AllianzGI. AllianzGI monitors our portfolio holdings and proactively engages with 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).

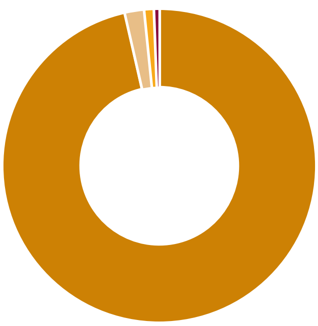
An extract from the company's voting record in the previous year will be available for inspection at the annual general meeting each year.

Proxy voting 1 February 2021 to 31 January 2022

Company meeting voting record



Vote distribution



In the year there were 56 shareholder meetings for companies in the portfolio and the manager voted on the company's behalf at 55 of these. This represents a total of 1,044 resolutions and the company voted on 98% of these. Source: AllianzGI.

Streamlined energy and carbon reporting

The integration of ESG into the portfolio management process is covered in the Investment Manager's review in detail. As an investment company with all of its activities outsourced to third parties, the company's own direct environmental impact is minimal. The company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. For the same reasons, the company considers itself to be a low energy user under the Streamlined Energy & Carbon Reporting regulations and therefore is not required to disclose energy and carbon information.

Climate Change Reporting

As a listed investment company and a user rather than an issuer of climate change data, Merchants is not required to report this year, but following the FCA's recommendation will consider next year whether it is appropriate to report in line with the new climate-related disclosure rules for asset managers being introduced in 2022.

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.

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 potentially illegal behaviour by employees or agents.

Annual General Meeting

As the Chairman explains in his Statement on page 9, the Annual General Meeting (AGM) of the Company will be held at 12.00 pm on Wednesday 18 May 2022 at Grocers' Hall, Princes Street, London, EC2R 8AD.

Given the uncertainties of risks posed by any further variants of COVID-19, the directors may need to impose entry restrictions on attendance at the Annual General Meeting in order to ensure the health, wellbeing and safety of the company's shareholders and officers as well as compliance with the venue's security requirements. Any further information on access to the AGM will be posted on the company's website in the week before the meeting.

Shareholders may and are strongly encouraged to participate in the business of the Annual General Meeting by exercising their votes in advance of the meeting by completing and returning the form of proxy. The deadline for you to submit your proxy votes to the registrars is 12.00 pm on Monday 16 May 2022.

Shareholders are invited to send any questions for the board and manager care of the company secretary at investment-trusts@allianzgi.com or in writing to the registered office, 199 Bishopsgate, London EC2M 3TY. Questions and answers will be published on the website.

At the AGM resolutions will be put to shareholders to cover ordinary business including the 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.

AGM special business

1. Increase in Articles Limit on Directors' Fees

Resolution 11 will be proposed as an ordinary resolution to increase the current cap on the aggregate amount of fees payable to directors in any year, contained in the Articles of Association, to £250,000. The board believes that to enable flexibility in respect of succession planning, and in particular to recruit new directors from time to time, it is prudent to keep remuneration at or around market levels. The board is therefore proposing to increase the Articles cap from £200,000 to £250,000. The cap was last increased, from £150,000 to the present limit, in 2013. The increase will allow new directors to overlap with retiring directors and ensure that any overlap of directors' service does not breach the aggregate fees the company is permitted to pay. The Directors' Remuneration Report starting on page 69 contains further details of the directors' fee policy and remuneration.

2. Allotment of New Shares

Approval is sought in Resolution 12 for the renewal of the directors' authority to allot relevant securities, in accordance with section 551 of the Companies Act 2006, up to a maximum number of 43,274,962 ordinary shares, representing approximately one third of the existing ordinary share capital. This authority is renewable annually and will expire at the conclusion of the annual general meeting in 2023.

3. Disapplication of Pre-emption Rights

A resolution was passed at the annual general meeting held on 13 May 2021 in accordance with section 570 of the Companies Act 2006, to authorise the directors to allot ordinary shares for cash other than pro rata to existing shareholders. The authority is renewable annually and expires at the conclusion of the annual general meeting in 2022. Special Resolution 13 is therefore proposed under special business at the forthcoming annual general meeting to renew this authority until the conclusion of the annual general meeting in 2023 or 17 August 2023 if earlier. This power is limited to a maximum number of 12,982,488 ordinary shares, being approximately 10% of the issued ordinary share capital of the company as at the date of this report, provided that there is no change in the issued share capital between the date of this report and the annual general meeting to be held on 18 May 2022.

Authority will also be sought in Resolution 13, which will be proposed as a Special Resolution, to disapply pre-emption rights in respect of the allotment of shares by the sale and reissue of shares held by the company as treasury shares. The directors may allot shares under these authorities to take advantage of opportunities in the market as they arise but only if they believe it would be advantageous to the company's existing shareholders to do so. The directors confirm that no allotment of new shares will be made unless the lowest market offer price of the ordinary shares is at least at a premium to net asset value, valuing debt at market value.

4. Purchase of Own Shares

The board is proposing that the company should be given renewed authority to purchase ordinary shares in the market to hold in treasury or for cancellation. The board believes that such purchases in the market at appropriate times and prices are a suitable method of enhancing shareholder value. The company would make either a single purchase or a series of purchases, when market conditions are suitable, with the aim of maximising the benefits to shareholders and within guidelines set from time to time by the board.

Under the Companies Act 2006, the company is allowed to hold its own shares in treasury following a buy back, instead of having to cancel them. This gives the company the ability to reissue treasury shares quickly and cost effectively (including pursuant to the authority under Resolution 13, see above) and provides the company with additional flexibility in the management of its capital base. Such shares may be resold for cash but all rights attaching to them, including voting rights and any right to receive dividends are suspended whilst they are in the treasury. If the board exercises the authority conferred by Resolution 14, which will be proposed as a Special Resolution, the company will have the option of either holding in treasury or of cancelling any of its shares purchased pursuant to this authority and will decide at the time of purchase which option to pursue.

Where purchases are made at prices below the prevailing net asset value of the ordinary shares, this will enhance net asset value for the remaining shareholders. It is therefore intended that purchases would only be made at prices below net asset value, with the purchases to be funded from the capital reserves of the company (which are currently in excess of £568 million). The rules of the UK Listing Authority (Listing Rules) limit the price which may be paid by the company to 105% of the average middle-market quotation for an ordinary share on the five business days immediately preceding the date of the relevant purchase. The minimum price to be paid will be 25p per ordinary share (being the nominal value). Overall, this proposed share buy back authority, if used, could help to reduce the discount to net asset value when the company's shares trade at a discount.

The board considers that it will be most advantageous to shareholders for the company to be able to continue to make such purchases as and when it considers the timing to be most favourable and therefore does not propose to set a timetable for making any such purchases.

Under the Listing Rules, the maximum number of its own shares which a listed company may purchase through the market pursuant to a general authority such as this is equivalent to 14.99% of its issued share capital. For this reason, the company is limiting its renewed authority to make such purchases to 19,460,750 ordinary shares, representing 14.99% of the issued share capital, provided that there is no change in the issued share capital between the date of this report and the annual general meeting to be held on 18 May 2022.

In addition to renewing its powers to buy back and cancel shares, the board will seek shareholder authority to reissue shares from treasury.

The authority in accordance with section 701 of the Companies Act 2006, will last until the annual general meeting of the company to be held in 2023 or the expiry of 15 months from the date of the passing of this resolution, whichever is the earlier. The authority will be subject to renewal by shareholders at subsequent annual general meetings.

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
6 April 2022

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 46 and 47. 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.

The board's policy is for the Chairman to serve on the board for up to nine years, and if beyond then the company will explain why this continued appointment is in the best interests of shareholders. The chairman is to be independent and the other directors, led by the Senior Independent Director, discuss and report back on the performance and continuing independence of the chairman on an annual basis.

The board has a plan for the tenure and 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 biographies of the directors are set out on pages 56 and 57 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 on page 66.

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 effectiveness review

The board was subject to an internally facilitated formal board effectiveness review after the year end. This was conducted by means of a series of questionnaires completed by each director. The results of these surveys in a report produced by the company secretary were reviewed by the nomination committee and the outcome of the exercise was discussed by the board. The review did not identify any concerns but did identify some areas to work on in 2022. These included some additional work on communication with shareholders investing through platforms and access to the broader organisation at AllianzGI.

Succession is considered as part of the board evaluation exercise and there is more detail in the Nomination Committee Report on page 68.

The Senior Independent Director received the results of the survey relating to the evaluation of the effectiveness of the Chairman and reported this to the nomination committee.

Upon receiving the reports, the board's Nomination Committee recommended to the board that each of the directors be nominated for re-election 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 on relevant issues in an event for investment company directors run by the manager, AllianzGI.

Board Diversity

At the year end two of the directors were male and three were female. 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.

The board has noted the Parker review which looked at how to improve the ethnic and cultural diversity of UK boards and will give consideration of how to address this in its future succession plans.

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 meeting 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 starts on page 73.

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 contribution and effectiveness of the board and formally considered the proposal for re-election of each director 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 68.

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 67.

Remuneration Committee
The remuneration committee 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 starts on page 69.

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 49), 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	6	1	2[1]	1	1	1
Timon Drakesmith	6	1	2	1	1	1
Karen McKellar	6	1	2	1	1	1
Mary Ann Sieghart	6	1	2	1	1	1
Sybella Stanley	6	1	2	1	1	1

[1] Invited to attend meetings, although not a committee member.

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. The 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 19.

Manager reappointment

The annual evaluation that took place in March 2022 included the noting of 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 result of a detailed questionnaire evaluating the manager completed by the directors was also reviewed by the board. The board concluded that the manager was performing well against the requirements set by the board and that it was satisfied with the performance of the investment manager, the support from the management company and the interaction of the management company with the board. The outcome of the review included plans to have more contact with senior management and AllianzGI now that in person meetings were now the norm and to look at ways to connect with the retail shareholder base in the future now that many shareholders held their shares through platforms.

The board then met 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 89 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 64. 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
6 April 2022

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. Individual directors are not involved in decisions connected with their own appointments.

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.

The committee notes that all the directors are independent of the manager. In the opinion of the board, each of the directors is independent in character and judgement and there are no relationships or circumstances relating to the company that are likely to affect their judgement.

Recruitment of new directors follows procedures for board succession including the appointment of external consultants and a specification to draw as wide a shortlist as possible taking account of the wish to retain a diverse and balanced board. New directors follow a detailed induction programme.

The latest board evaluation exercise took place in March 2022 and was internally facilitated by the Chairman and Company Secretary. Detailed questionnaires covering a wide number of topics of the board, its directors and the board committees were completed by each of the directors and were collated for a report to the committee. The results of this survey were that the board, its directors and its committees are effective. It noted the development of relevant skills and training opportunities of the directors in the year under review, including on ESG, climate and sustainability matters, and in increased involvement with the investment trust industry. These topics had also been extensively covered in the board's consideration of its strategy both throughout the year and in its strategy meeting in November 2021. The board evaluation also included a separate review of the Chairman conducted by the Senior Independent Director, involving questionnaires completed by the individual directors. The results of the review were reported to the committee and this concluded that the Chairman continued to be highly effective.

Succession planning

The committee has noted the planned retirement dates of the directors over future years and plans to conduct timely searches for suitable successors, making use of external search consultants.

Colin Clark
Nomination Committee Chairman
6 April 2022

Remuneration Committee Report

I am pleased to present the report of the Remuneration Committee.

Composition

All the independent directors are members of the committee and its terms of reference can be found on the website at www.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 2022.

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 AGMs in 2017 and 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 were withheld (in aggregate, 31,770,124 votes) and the results of the vote at the 2020 AGM for this resolution were as follows: In favour 98.51%, against 1.49% and 184,371 shares were withheld (in aggregate, 15,100,700 votes).

The results of the advisory vote at the 2021 AGM for the resolution to approve the Implementation Report were as follows: In favour 98.84%, against 1.16% and 108,110 shares were noted as votes withheld (in aggregate 15,084,241 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 companies in the peer group and review annual data on non-executive directors' pay in the investment trust industry.

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:

	2022	2021
Colin Clark	10,000	10,000
Timon Drakesmith	15,000	15,000
Karen McKellar	8,000	5,000
Mary Ann Sieghart	1,000	1,000
Sybella Stanley	3,114	3,114

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 currently limit the aggregate fees payable to the board of directors to a total of £200,000 per annum. The directors are proposing an ordinary resolution at the forthcoming AGM (resolution 11) to increase the current limit on the aggregate amount of fees payable to directors in any year to £250,000. A further explanation of resolution 11 appears in the Directors' Report on page 62. 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 on 23 June 2021.

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 £26,500 per annum, with an additional £5,750 for the Chairman of the Audit Committee, and the Chairman was paid at a rate of £39,750 per annum. The current fees have applied since 1 February 2020.

The fees were reviewed in March 2022 when it had been agreed to increase the fees with effect from 1 February 2022 so that the Chairman will be paid £40,500, the directors will be paid £27,000, and an additional fee of £6,000 will be paid 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 fixed remuneration with no additional variable pay in 2022 or 2021, and were in the form of fees, were as follows:

Directors' fees	**2022 £**	**2021 £**
Colin Clark	39,750	39,750
Timon Drakesmith	32,250	32,250
Karen McKellar*	26,500	19,875
Mary Ann Sieghart	26,500	26,500
Sybella Stanley	26,500	26,500
Paul Yates#	-	6,625
Total	**151,500**	**151,500**

* Appointed to the board on 1 May 2020
# Retired from the board on 1 May 2020

	2022 £	**% change from 2021 to 2022**	**2021 £**	**% change from 2020 to 2021**	**2020 £**
Chairman	39,750	0.0	39,750	3.9	38,250
Audit Chairman	32,250	0.0	32,250	4.0	31,000
Independent Director	26,500	0.0	26,500	3.9	25,500

Any increase in pay was effective from 1 February in any given year.

The requirements to disclose this information came into force for financial years on or after 10 June 2019 and the comparison will be expanded in future annual reports until such time as it covers a five year period.

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

	2022 £	**2021 £**
Remuneration paid to all directors	151,500	151,500
Distributions to shareholders	33,505,000	31,613,000

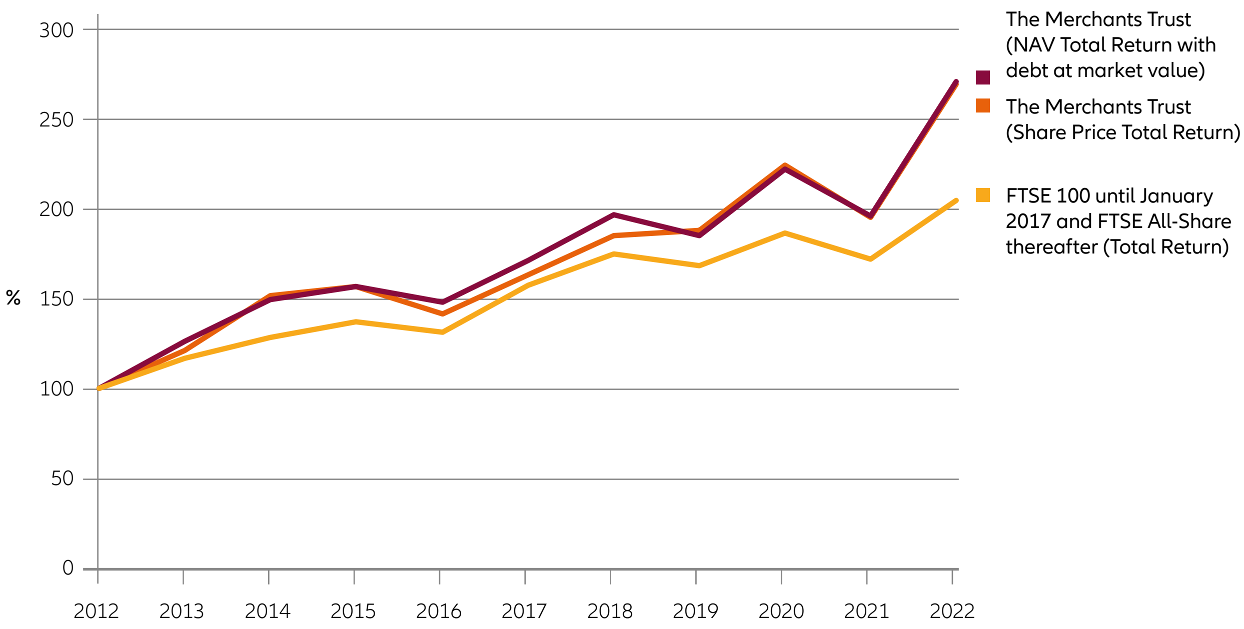
The disclosure is a statutory requirement, however the directors do not consider that the comparison of directors' remuneration with distributions to shareholders is a meaningful measure of the company's overall performance.

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 2022



Source: AllianzGI / Datastream in GBP
Figures have been rebased to 100 as at January 2012

Signed on behalf of the board

Sybella Stanley
Remuneration Committee Chair
6 April 2022

Audit Committee Report

I am pleased to present the report of the audit committee for the year ended 31 January 2022.

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 audit findings, 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.

Significant issues considered by the audit committee in the year

Area of focus	Activity
COVID-19 and cyber risks	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 continuing business resilience in light of the COVID-19 pandemic. This follows on from our activities reported last year to review their ability to support Merchants' operations when challenged by reduced manpower, liquidity and other resources.
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. We to continue to analyse different capital management scenarios in the context of markets highly impacted by COVID-19. During the year we renegotiated the company's Revolving Credit Facility (RCF) and extended it for a further three years.

Area of focus	Activity
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 87 and 88, 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.
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.

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 from page 49.

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 52 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 review with Auditors

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.

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 £7.4 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 fourth 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 2020/21.

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 paid for non-audit services were £ nil in the year (2021: £2,000). These fees are considered by the audit committee to be proportionate to the fees for audit services of £30,000 (2021: £24,000). This non-audit work was found not to have a significant impact on the financial statements.

Timon Drakesmith
Audit Committee Chairman
6 April 2022

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 60.

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 www.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
6 April 2022

Financial Statements

We bought into emerging market fund manager Ashmore during the year. We expect structural growth in emerging market allocations among investors.

Independent Auditor's Report to the members of The Merchants Trust PLC

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 January 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of The Merchants Trust plc (the 'Company') for the year ended 31 January 2022 which comprise the Income statement, Statement of Changes in Equity, the Balance Sheet, the 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 Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

Independence

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 ended 31 January 2019 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 4 years, covering the years ended 31 January 2019 to 31 January 2022. We remain 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. The non-audit services prohibited by that standard were not provided to the Company.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating the appropriateness of the Directors' method of assessing going concern in light of market volatility and the present uncertainties due to the ongoing impact of the COVID-19 pandemic and the current geo-political situation;
- Challenging the Directors' assumptions and judgements made with regards to stress-testing forecasts;
- Obtaining the loan agreements to identify the covenants and assessing the likelihood of the them being breached based on management forecasts and our sensitivity analysis; and
- Assessing the liquidity position available to meet the future obligations and operating expenses for the next twelve months in both the base case and sensitised scenarios.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the Company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

		2022	2021
Key audit matters	Valuation and ownership of investments	✔	✔
	Revenue recognition	✔	✔
Materiality	*Financial statements as a whole* £7,390,000 (2021: £5,540,000) based on 1% (2021: 1%) of Net Assets		

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Company and its environment, including the Company's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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 scope of our audit addressed the key audit matter
Valuation and ownership of investments (Accounting policy note 4, and note 8 Fixed Asset Investments) The investment portfolio at the year-end comprised of investments held at fair value through profit or loss. We consider 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 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 investment valuations 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. Contra indicators examples include considering the realisation period for individual holdings – Obtained direct confirmation from the custodian regarding the ownership of all investments held at the statement of financial position date. **Key observations:** Based on our procedures performed we did not identify any matters to suggest that the valuation and ownership of the investments was not appropriate.
Revenue Recognition (Accounting policy note 2, note 1 Income) Income arises from the dividend and option premium and is a key factor in demonstrating the performance of the portfolio. Revenue recognition is considered a 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 investments, we derived an independent expectation of total expected income based on the investment holding and records of distributions from independent sources and compared to that recognised. 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 by reviewing the underlying reason for issue of the dividend and whether it could be driven by a capital event. – 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 agreed the option premiums to the broker's reports and vouched them to the bank statements. **Key observations:** Based on our procedures performed we did not identify any instances to indicate that revenue recognition was inappropriate.

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 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 these levels 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.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Company financial statements	
	2022 £m	**2021 £m**
Materiality	7.39	5.54
Basis for determining materiality	1% of Net Assets	
Rationale for the benchmark applied	As an investment trust, net asset value is considered to be the key measure of performance.	
Performance materiality	5.54	4.16
Basis for determining performance materiality	Performance materiality was set at 75% of total materiality taking into consideration that this is a recurring audit and there is a low expectation of known and likely misstatements, based on prior year experience.	

Specific materiality

We also determined that for items impacting revenue return, a misstatement of less than materiality for the financial statements as a whole, specific materiality, could influence the economic decisions of users. As a result, we determined materiality for these items to be £1,610,000 (2021: £1,110,000) based on 5% (2021: 5%) of revenue return before tax. We further applied a performance materiality level of 75% (2021: 75%) of specific materiality to ensure that the risk of errors exceeding specific materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £80,000 (2021: £56,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Corporate governance statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Statement specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit.

Going concern and longer-term viability	– The Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified; and – The Directors' explanation as to their assessment of the Company's prospects, the period this assessment covers and why the period is appropriate.
Other Code provisions	– The Directors' statement on fair, balanced and understandable; – The Board's confirmation that it has carried out a robust assessment of the emerging and principal risks; – The section of the annual report that describes the review of effectiveness of risk management and internal control systems; and – The section describing the work of the audit committee.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	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. 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.
Matters on which we are required to report by exception	In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.
Matters on which we are required to report by exception	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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

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 Chapter 3 Part 6 of the Income Tax Act 2007, the Companies Act 2006, the FCA listing and DTR rules, the principles of the UK Corporate Governance Code, industry practice represented by the AIC SORP and FRS 102. We also considered the company's qualification as an Investment Trust under UK tax legislation with the relevant tests as follows:

- The business of the company consists of investing in shares, land or other assets with the aims of spreading investment risk and giving members the benefit of the results of the management of its funds; and
- The company must not retain >15% of its income.

We considered compliance with this framework through discussions with the Audit Committee and performed audit procedures on these areas as considered necessary. Our procedures involved enquiries with Management, review of the reporting to the directors with respect to compliance with laws and regulation, review of board meeting minutes and review of legal correspondence.

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:

- agreement of the financial statement disclosures to underlying supporting documentation;
- enquiries of management;
- testing of journal postings made during the year to identify potential management override of controls
- review of minutes of board meetings throughout the period; and
- obtaining an understanding of the control environment in monitoring compliance with laws and regulations.

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. There are inherent limitations in the audit procedures performed 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 are to become aware of it.

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

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 and 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
6 April 2022

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

Income Statement

for the year ended 31 January 2022

	Note	2022 Revenue £'000s	2022 Capital £'000s	2022 Total Return £'000s	2021 Revenue £'000s	2021 Capital £'000s	2021 Total Return £'000s
Gains (losses) on investments held at fair value through profit or loss	8	-	154,247	154,247	-	(86,684)	(86,684)
(Losses) gains on foreign currencies		-	(2)	(2)	-	2	2
Income	1	35,292	-	35,292	24,909	-	24,909
Investment management fee	2	(931)	(1,728)	(2,659)	(703)	(1,306)	(2,009)
Administration expenses	3	(933)	(2)	(935)	(1,059)	(2)	(1,061)
Profit (loss) before finance costs and taxation		**33,428**	**152,515**	**185,943**	**23,147**	**(87,990)**	**(64,843)**
Finance costs: interest payable and similar charges	4	(1,183)	(2,102)	(3,285)	(1,222)	(2,180)	(3,402)
Profit (loss) on ordinary activities before taxation		**32,245**	**150,413**	**182,658**	**21,925**	**(90,170)**	**(68,245)**
Taxation	5	(410)	-	(410)	(77)	-	(77)
Profit (loss) after taxation attributable to ordinary shareholders		**31,835**	**150,413**	**182,248**	**21,848**	**(90,170)**	**(68,322)**
Earnings (loss) per ordinary share (basic and diluted)	7	**25.64p**	**121.15p**	**146.79p**	**18.51p**	**(76.38p)**	**(57.87p)**

Dividends in respect of the financial year ended 31 January 2022 total 27.30p (2021: 27.20p), amounting to £34,429,000 (2021: £32,624,000). Details are set out in Note 6 on page 92.

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 87 to 104 form an integral part of these Financial Statements.

Statement of Changes in Equity

for the year ended 31 January 2022

	Notes	Called up Share Capital £'000s	Share Premium Account £'000s	Capital Redemption Reserve £'000s	Capital Reserve £'000s	Revenue Reserve £'000s	Total £'000s
Net assets at 1 February 2021		30,246	84,137	293	417,939	22,102	554,717
Revenue profit		-	-	-	-	31,835	31,835
Dividends on ordinary shares	6	-	-	-	-	(33,505)	(33,505)
Capital profit		-	-	-	150,413	-	150,413
Shares issued during the year	11	1,680	33,910	-	-	-	35,590
Net assets at 31 January 2022		**31,926**	**118,047**	**293**	**568,352**	**20,432**	**739,050**
Net assets at 1 February 2020		28,220	54,092	293	508,109	31,820	622,534
Revenue profit		-	-	-	-	21,848	21,848
Dividends on ordinary shares	6	-	-	-	-	(31,613)	(31,613)
Unclaimed Dividends		-	-	-	-	47	47
Capital loss		-	-	-	(90,170)	-	(90,170)
Shares issued during the year	11	2,026	30,045	-	-	-	32,071
Net assets at 31 January 2021		**30,246**	**84,137**	**293**	**417,939**	**22,102**	**554,717**

The Statement of Accounting Policies and Notes on pages 87 to 104 form an integral part of these Financial Statements.

Balance Sheet

at 31 January 2022

Fixed Assets	Notes	2022 £'000s	2022 £'000s	2021 £'000s
Investments held at fair value through profit or loss	8		814,895	638,235
Current Assets				
Other receivables	9	2,993		4,043
Cash and cash equivalents		18,626		6,623
		21,619		**10,666**
Current Liabilities				
Other payables	9	(30,095)		(27,427)
Derivative financial instruments	8	(615)		(53)
		(30,710)		**(27,480)**
Net current liabilities			(9,091)	(16,814)
Total assets less current liabilities			**805,804**	**621,421**
Creditors: amounts falling due after more than one year	10		(66,754)	(66,704)
Total net assets			**739,050**	**554,717**
Capital and Reserves				
Called up share capital	11		31,926	30,246
Share premium account	12		118,047	84,137
Capital redemption reserve	12		293	293
Capital reserve	12		568,352	417,939
Revenue reserve	12		20,432	22,102
Equity shareholders' funds	13		**739,050**	**554,717**
Net asset value per ordinary share	13		**578.7p**	**458.5p**

The financial statements of The Merchants Trust PLC on pages 83 to 86 were approved and authorised for issue by the Board of Directors on 6 April 2022 and signed on its behalf by:

Colin Clark
Chairman

The Statement of Accounting Policies and Notes on pages 87 to 104 form an integral part of these Financial Statements.

Cash Flow Statement

for the year ended 31 January 2022

	Notes	2022 £'000s	2021 £'000s
Operating activities			
Profit (loss) before finance costs and taxation*		185,943	(64,843)
Less: (gains) losses on investments held at fair value		(155,443)	87,838
Less: losses (gains) on foreign currency		2	(2)
Purchase of fixed asset investments held at fair value through profit or loss		(230,959)	(266,727)
Sales of fixed asset investments held at fair value through profit or loss		215,351	242,385
Transaction costs		(1,196)	(1,154)
Decrease (increase) in other receivables		419	(563)
Increase (decrease) in other payables		196	(68)
Less: overseas tax suffered		(410)	(77)
Net cash inflow (outflow) from operating activities		**13,903**	**(3,211)**
Financing activities			
Interest paid		(3,229)	(3,345)
Dividend paid on cumulative preference stock		(43)	(43)
Dividends paid on ordinary shares	6	(33,505)	(31,613)
Unclaimed dividends over 12 years		-	47
Share issue proceeds		34,879	34,241
Net cash outflow from financing activities		**(1,898)**	**(713)**
Increase (decrease) in cash and cash equivalents		**12,005**	**(3,924)**
Cash and cash equivalents at the start of the year		6,623	10,546
Effect of foreign exchange rates		(2)	1
Cash and cash equivalents at the end of the year		18,626	6,623
Comprising:			
Cash and cash equivalents		18,626	6,623

* Cash inflow from dividends was £33,412,000 (2021: £23,100,000) and cash inflow from interest was £ nil (2021: £ nil).

The Statement of Accounting Policies and Notes on pages 87 to 104 form an integral part of these Financial Statements.

Statement of Accounting Policies

for the year ended 31 January 2022

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 58. 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 starting on page 46. 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 April 2021.

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 directors have also considered the risks and consequences of unanticipated shocks on the company, including geo-political events and the ongoing pandemic and have concluded that the company has the ability to continue in operation and meet its objectives in 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 starting on page 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 Cash and cash equivalents – Cash comprises cash in hand and on demand deposits. Cash equivalents include bank overdrafts repayable on demand and short-term, highly liquid investments, that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

11 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.

12 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.

13 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.

14 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 2022

1. Income

	2022 £'000s	2021 £'000s
Income from Investments*		
Equity dividends from UK investments[#]	28,796	22,318
Unfranked dividends from UK investments	482	220
Equity dividends from overseas investments	4,771	1,316
	34,049	**23,854**
Other Income		
Deposit interest	-	6
Premiums on derivative contracts	1,243	1,049
	1,243	**1,055**
Total income	**35,292**	**24,909**

* All equity income is derived from listed investments.
[#] Includes special dividends of £430,000 (2021 : £538,000).

During the year, the company received premiums totalling £1,203,000 (2021: £1,177,000) for writing covered call options for the purpose of revenue generation. Premium income of £1,243,000 was amortised to income (2021: £1,049,000). 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 £615,000 (2021: £53,000).

2. Investment Management Fee

	2022 Revenue £'000s	2022 Capital £'000s	2022 Total £'000s	2021 Revenue £'000s	2021 Capital £'000s	2021 Total £'000s
Investment management fee	**931**	**1,728**	**2,659**	**703**	**1,306**	**2,009**

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 2022: it provides for a management fee based on 0.35% (2021: 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	2022 £'000s	2021 £'000s
For audit services	30	24
Non-audit services - for certification of loan covenants	-	2
VAT on auditor's remuneration	6	5
	36	**31**
Directors' fees	152	152
Directors' NI contributions	13	12
Marketing costs	336	302
Registrars' fees	126	139
Depositary fees	47	41
Professional and advisory fees	37	70
Printing and postage	83	82
Stock exchange fees	18	22
Stock exchange block listing fee	-	155
Other administration expenses	85	53
	933	**1,059**

(i) The above expenses include value added tax where applicable.
(ii) Directors' fees are set out in the Directors' Remuneration Report on page 70.
(iii) Custody handling charges of £2,000 were charged to capital (2021: £2,000).
(iv) 80% of marketing costs are payable to AllianzGI (2021: 76%).
(v) Non-audit services paid in the year were £ nil (2021: £2,000).

4. Finance Costs: Interest Payable and Similar Charges

	2022 Revenue £'000s	2022 Capital £'000s	2022 Total £'000s	2021 Revenue £'000s	2021 Capital £'000s	2021 Total £'000s
Administration fees related to Fixed Rate Interest Loan repayment	-	-	-	2	3	5
On 4% Perpetual Debenture Stock repayable after more than five years	19	36	55	19	36	55
On 5.875% Secured Bonds repayable after more than five years	633	1,176	1,809	637	1,182	1,819
On 3.65% Preference Stock repayable after more than five years	43	-	43	43	-	43
On 2.96% Fixed Rate Notes repayable after more than five years	365	677	1,042	365	678	1,043
On Revolving Credit Facility	115	213	328	151	281	432
Future Debit Interest	8	-	8	5	-	5
	1,183	**2,102**	**3,285**	**1,222**	**2,180**	**3,402**

5. Taxation

	2022 Revenue £'000s	2022 Capital £'000s	2022 Total £'000s	2021 Revenue £'000s	2021 Capital £'000s	2021 Total £'000s
Overseas taxation*	410	-	410	77	-	77
Total tax	**410**	**-**	**410**	**77**	**-**	**77**
Reconciliation of tax charge						
Profit before taxation	32,245	150,413	182,658	21,925	(90,170)	(68,245)
Tax on profit at 19.00% (2021: 19.00%)	**6,127**	**28,578**	**34,705**	**4,166**	**(17,132)**	**(12,966)**
Effects of						
Non taxable income	(6,378)	-	(6,378)	(4,490)	-	(4,490)
Non taxable capital gains (losses)	-	(29,307)	(29,307)	-	16,470	16,470
Irrecoverable overseas tax	410	-	410	77	-	77
Gains on foreign currencies	-	1	1	-	-	-
Disallowable expenses	8	-	8	11	55	66
Excess of allowable expenses over taxable income	243	728	971	313	607	920
Total tax	**410**	**-**	**410**	**77**	**-**	**77**

* Withholding tax on Diversified Energy Company, Sanofi, SCOR, Swiss Re and TotalEnergies.

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 2022, the company had accumulated surplus expenses of £228.2 million (2021: £222.4 million).

The company has not recognised a deferred tax asset of £57.1 million (2021: £42.3 million) in respect of these expenses, based on a prospective corporation tax rate of 25% (2021: 19%) because there is no reasonable prospect of recovery. The increase in the standard rate of corporation tax was substantively enacted on 24 May 2021 and is effective from 1 April 2023. 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

	2022 £'000s	2021 £'000s
Dividends paid on ordinary shares		
Third interim dividend 6.8p paid 16 March 2021 (2020: 6.8p)	8,227	7,649
Fourth interim dividend 6.8p paid 18 May 2021 (2020: 6.8p)	8,345	7,794
First interim dividend 6.8p paid 20 August 2021 (2020: 6.8p)	8,451	8,085
Second interim dividend 6.8p paid 11 November 2021 (2020: 6.8p)	8,482	8,085
	33,505	**31,613**

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 88 - Statement of Accounting Policies). Details of these dividends are set out below.

	2022 £'000s	2021 £'000s
Third interim dividend 6.85p paid 15 March 2022 (2020: 6.8p)	8,748	8,227
Final proposed dividend 6.85p payable 24 May 2022 (2020: 6.8p)	8,748	8,227
	17,496	**16,454**

The declared final 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

	2022 Revenue £'000s	2022 Capital £'000s	2022 Total £'000s	2021 Revenue £'000s	2021 Capital £'000s	2021 Total £'000s
Profit (loss) after taxation attributable to ordinary shareholders	31,835	150,413	182,248	21,848	(90,170)	(68,322)
Earnings (loss) per ordinary share (basic and diluted)	**25.64p**	**121.15p**	**146.79p**	**18.51p**	**(76.38p)**	**(57.87p)**

The earnings per ordinary share is based on a weighted number of shares 124,156,079 (2021: 118,050,092) ordinary shares in issue.

8. Fixed Asset Investments

	2022 £'000s	2021 £'000s
Opening book cost	669,242	666,794
Opening investment holding (losses) gains	(31,131)	37,617
Opening investment holding gains - derivatives	71	7
Opening market value	**638,182**	**704,418**
Additions at cost	234,664	263,021
Disposals proceeds received	(214,098)	(243,711)
Gains (losses) on investments	155,532	(85,546)
Market value of investments held at 31 January	**814,280**	**638,182**
Closing book cost	735,055	669,242
Closing investment holding gains (losses)	79,696	(31,131)
Closing investment holding (losses) gains - derivatives	(471)	71
Closing market value	**814,280**	**638,182**
Gains on investments		
Gains (losses) on investments	155,532	(85,546)
(Losses) gains on derivative financial instruments	(89)	16
Transaction costs	(1,196)	(1,154)
Gains (losses) on investments	**154,247**	**(86,684)**

The company received £213,849,000 (2021: £243,297,000) from investments sold in the year. The book cost of these investments when they were purchased was £169,193,000 (2021: £261,074,000). 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.

* Included within the value of investments is the unlisted holding of £ nil (2021: £4,000).

9. Other Receivables and Other Payables

	Notes	2022 £'000s	2021 £'000s
Other receivables			
Sales for future settlement		-	1,342
Share issue		711	-
Prepayments		21	30
Accrued income		2,261	2,671
		2,993	**4,043**
Other payables: Amounts falling due within one year			
Purchases for future settlement		2,509	-
Other payables		1,166	970
Interest on borrowings		350	349
Revolving Credit Facility	9(i)	26,070	26,108
		30,095	**27,427**
Interest on outstanding borrowing consists of:			
5.875% Secured Bonds 2029	10(i)	208	207
4% Perpetual Debenture Stock		14	14
2.96% Fixed Rate Notes 2052		128	128
		350	**349**

(i) On 31 January 2022 the company renegotiated the revolving credit facility agreement of £42m, to extend it for another three years. Under this agreement £26m was drawn down on 31 January 2022 with a maturity date of 25 April 2022. The rate of interest for the revolving credit facility is set each month and is made up of a fixed margin plus SONIA rate. The repayment date of the revolving facility is the last day of its interest period and the termination date is 31 January 2025.

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

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

	Notes	2022 £'000s	2021 £'000s
5.875% Secured Bonds 2029	10(i)	29,521	29,477
4% Perpetual Debenture Stock	10(ii)	1,375	1,375
3.65% Cumulative Preference Stock	10(iii)	1,178	1,178
Fixed Rate Notes 2052	10(iv)	34,680	34,674
		66,754	**66,704**

(i) The £30,000,000 of 5.875% Secured Bonds is stated at £29,521,000 (2021: £29,476,000), being the net proceeds of £28,943,000 plus accrued finance costs of £578,000 (2021: £534,000). 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 the loan, the Company has granted a floating charge over its assets.

(ii) 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.

(iii) 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.

(iv) The £35,000,000 of Fixed Rate Notes is stated at £34,680,000 (2021: £34,674,000), being the net proceeds of £34,656,000 plus finance costs of £24,000 (2021: £18,000). The Bonds 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.

11. Called up Share Capital

Allotted and fully paid	2022 £'000s	2021 £'000s
127,704,887 ordinary shares of 25p (2021: 120,984,887)	**31,926**	**30,246**

Allotted 25p ordinary shares	2022 Number	2022 £'000s	2021 Number	2021 £'000s
Brought forward	120,984,887	30,246	112,878,464	28,220
Shares issued during the year	6,720,000	1,680	8,106,423	2,026
Carried forward	**127,704,887**	**31,926**	**120,984,887**	**30,246**

During the year 6,720,000 shares were issued (2021: 8,106,423) for a total consideration of £35,590,000, (2021: £32,071,000), net of issues costs of £64,000 (2021: £58,000). The directors are seeking authority at the Annual General Meeting on 18 May 2022 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 19,460,750 ordinary shares of 25p each.

Since the year end a further 2,120,000 shares have been issued, as at 6 April 2022.

12. Reserves

	Share Premium Account £'000s	Capital Redemption Reserve £'000s	Capital Reserve: Gains (losses) on sales of Investments £'000s	Capital Reserve: Investment Holding Gains (losses) £'000s	Revenue Reserve £'000s
Balance at 1 February 2021	84,137	293	448,973	(31,034)	22,102
Gains on sales of fixed asset investments	-	-	182,440	-	-
Losses on derivative financial instruments	-	-	(89)	-	-
Net movement in fixed asset investment holding losses	-	-	-	(26,366)	-
Movement in derivative holding losses	-	-	-	(542)	-
Transaction costs	-	-	(1,196)	-	-
Losses on foreign currencies	-	-	-	(2)	-
Transfer on sale of investments	-	-	(137,193)	137,193	-
Issue of ordinary shares	33,910	-	-	-	-
Investment management fee	-	-	(1,728)	-	-
Finance costs of borrowings	-	-	(2,102)	-	-
Other capital expenses	-	-	(2)	-	-
Dividends appropriated in the year	-	-	-	-	(33,505)
Profit retained for the year	-	-	-	-	31,835
Balance at 31 January 2022	**118,047**	**293**	**489,103**	**79,249**	**20,432**

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 (2021: same).

13. 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 2021 to the net asset value, on a total return basis as at 31 January 2022. The net asset value total return with debt at market value is 35.7% (2021: -12.4%) and the net asset value total return with debt at par is 32.1% (2021: -16.9%).

The net asset value per ordinary share is based on 127,704,887 ordinary shares in issue at the year end (2021: 120,984,887). The method of calculation of the net asset value with debt at market value is described in Note 15(c) on page 101.

The net asset value per ordinary share was as follows:

	Debt at market value 2022	Debt at par 2022	Debt at market value 2021	Debt at par 2021
Net asset value per ordinary share attributable	569.5p	578.7p	439.7p	458.5p
Dividends paid in the year	27.2p	27.2p	27.2p	27.2p
Net asset value total return	**596.7p**	**605.9p**	**466.9p**	**485.7p**
Net asset value attributable	**727,281**	**739,050**	**531,921**	**554,717**

14. Contingent Liabilities and Commitments

At 31 January 2022 there were no contingent liabilities (2021: £ nil).

Details of the guarantee provided by the company as part of the terms of the Loans are provided in Notes 10(i) and 10(ii) Creditors: Amounts falling due after one year on page 95.

15. 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 46. 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 40 and 41.

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 16 on page 103. 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 2022 was as follows:

	2022 £'000s	2021 £'000s
Listed investments held at fair value through profit or loss	814,895	638,230
Derivative financial instruments - written call options	(615)	(53)
Total listed investments	**814,280**	**638,177**

The following illustrates the sensitivity of the return and the net assets to an increase or decrease of 20% and 50% (2021: 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.

	2022 20% Increase in fair value £'000s	2022 20% Decrease in fair value £'000s	2022 50% Increase in fair value £'000s	2022 50% Decrease in fair value £'000s	2021 20% Increase in fair value £'000s	2021 20% Decrease in fair value £'000s	2021 50% Increase in fair value £'000s	2021 50% Decrease in fair value £'000s
Revenue earnings								
Investment management fees	(200)	200	(499)	499	(156)	156	(391)	391
Capital earnings								
Gains (losses) on investments at fair value	162,856	(162,856)	407,140	(407,140)	127,635	(127,635)	319,089	(319,089)
Investment management fees	(371)	371	(927)	927	(290)	290	(726)	726
Change in net earnings and net assets	**162,285**	**(162,285)**	**405,714**	**(405,714)**	**127,189**	**(127,189)**	**317,972**	**(317,972)**

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 40 and 41. 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 89 for detail of income received).

Further explanation of the derivatives strategy is included in the Glossary on page 113.

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. (2021: 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.

	2022 Fixed rate interest £'000s	2022 Floating rate interest £'000s	2022 Nil Interest £'000s	2022 Total £'000s	2021 Fixed rate interest £'000s	2021 Floating rate interest £'000s	2021 Nil Interest £'000s	2021 Total £'000s
Financial assets	-	18,626	814,895	833,521	-	6,623	638,235	644,858
Financial liabilities	(66,754)	(26,070)	(615)	(93,439)	(66,703)	(26,109)	(53)	(92,865)
Net financial (liabilities) assets	**(66,754)**	**(7,444)**	**814,280**	**740,082**	**(66,703)**	**(19,486)**	**638,182**	**551,993**
Short term receivables and payables				**(1,032)**				**2,724**
Net assets per balance sheet				**739,050**				**554,717**

As at 31 January 2022, the interest rates received on cash balances or paid on bank overdrafts, was 0.0% and 1.25% per annum respectively (2021: 0.0% and 1.10% per annum).

The fixed rate interest bearing liabilities bear the following coupon and effective rates as at 31 January 2022 and 31 January 2021.

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

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 87.

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% (2021: 4.51%) and the weighted average period to maturity of these liabilities is 20.3 years (2021: 21.3 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 2022, 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 and 5.875% Secured Bonds 2029 reflect the maturity dates as set out in Notes 9 and 10 on pages 94 and 95. 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.

2022	Three months or less £'000s	Between three months and one year £'000s	Between one and five years £'000s	More than five years £'000s	Total £'000s
Other payables					
Finance costs of borrowing	85	2,992	-	-	3,077
Revolving Credit Facility	26,000	-	-	-	26,000
Other payables	3,675	-	-	-	3,675
Derivative financial instruments	615	-	-	-	615
Creditors - Amounts falling due after more than one year					
Amounts payable on maturity of borrowings	-	-	-	67,553	67,553
Finance cost of borrowings	-	-	11,839	33,730	45,317
	30,375	**2,992**	**11,839**	**101,283**	**146,489**

2021	Three months or less £'000s	Between three months and one year £'000s	Between one and five years £'000s	More than five years £'000s	Total £'000s
Other payables					
Finance costs of borrowing	76	3,109	52	-	3,237
Revolving Credit Facility	-	26,000	-	-	26,000
Other payables	970	-	-	-	970
Derivative financial instruments	53	-	-	-	53
Creditors - Amounts falling due after more than one year					
Amounts payable on maturity of borrowings	-	-	-	67,553	67,553
Finance costs of borrowing	-	-	11,587	36,528	48,115
	1,099	**29,109**	**11,640**	**104,081**	**145,928**

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 2022, the company had an undrawn overdraft facility of £10 million (2021: £10 million) and an undrawn committed borrowing facility of £16 million (2021: £16 million).

(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 2022 (2021: £ 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:

	2022 £'000s	2021 £'000s
Other Receivables:		
Accrued income	2,261	2,671
Cash and cash equivalents	18,626	6,623
Total	**20,887**	**9,294**

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*:

	2022 Book Value £'000s	2022 Fair Value £'000s	2021 Book Value £'000s	2021 Fair Value £'000s
Revolving Credit Facility	26,070	26,000	26,109	26,000
5.875% Secured Bonds 2029	29,729	37,434	29,683	41,706
4% Perpetual Debenture Stock	1,389	2,132	1,389	2,991
3.65% Cumulative Preference Stock	1,178	1,678	1,178	2,350
2.96% Fixed Rate Notes 2052	34,808	37,699	34,802	42,910
Total	**93,174**	**104,943**	**93,161**	**115,957**

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

	2022 £'000s	2021 £'000s
Net assets per balance sheet	739,050	554,717
Add: financial liabilities at book value#	93,174	93,161
Less: financial liabilities at fair value*	(104,943)	(115,957)
Net assets (debt at fair value)	**727,281**	**531,921**
Net asset value per ordinary share (debt at fair value)	**569.5p**	**439.7p**

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 2022 and 31 January 2021. Fair value and market value are used interchangeably throughout the Annual Report.

The fair value of the long term debt is calculated with reference to the nearest relevant gilt based on repayment date. A margin is added to the yield of the relevant reference gilt to calculate the fair value. This margin is derived from the excess of UK corporate bond yields over gilt yields.

The net asset value per ordinary share is based on 127,704,887 ordinary shares in issue at 31 January 2022 (2021: 120,984,887).

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 10 and 11 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 10 and 11

FRS 102 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:

2022	**Level 1 £'000s**	**Level 2 £'000s**	**Level 3 £'000s**	**Total £'000s**
Financial assets at fair value through profit or loss				
Equity investments	814,895	-	-	814,895
Financial instruments	-	-	-	-
Derivatives financial instruments - written call options	-	(615)	-	(615)
	814,895	**(615)**	**-**	**814,280**

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

For exchange listed equity investments the quoted price is either the bid price or the last traded price depending on the convention of the relevant exchange. For written options the value of the option is marked to market based on traded prices. Financial instruments valued using valuation techniques level 3 have, in the absence of relevant trading prices or market data, been valued based on the directors' best estimate.

There were no transfers between levels for financial assets and financial liabilities during the year recorded at fair value as at 31 January 2022 and 31 January 2021.

16. 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:

	2022 £'000s	2021 £'000s
Debt		
Creditors: amounts falling due after more than one year	66,754	66,704
	66,754	**66,704**
Equity		
Called up share capital	31,926	30,246
Share premium account and other reserves	707,124	524,471
	739,050	**554,717**
Total capital	**805,804**	**621,421**
Debt as a percentage of total capital	**8.3%**	**10.7%**

	Debt at par		Debt at fair value	
	2022 £'000s	2021 £'000s	2022 £'000s	2021 £'000s
Debt				
Revolving Credit Facility	26,070	26,109	26,000	26,000
Creditors: amounts falling due after more than one year	67,104	67,052	78,943	89,957
Gross debt	**93,174**	**93,161**	**104,943**	**115,957**
Total net assets	739,050	554,717	727,281	531,921
Gross gearing	**12.6%**	**16.8%**	**14.4%**	**21.8%**
Gross debt	93,174	93,161	104,943	115,957
Less: cash	(18,626)	(6,623)	(18,626)	(6,623)
Net debt	**74,548**	**86,538**	**86,317**	**109,334**
Total net assets	739,050	554,717	727,281	531,921
Net gearing	**10.1%**	**15.6%**	**11.9%**	**20.6%**

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 9 and 10.

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.

17. 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 89. 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.

Disclosures of the directors' interests in the ordinary shares of the company and the fees paid to the company's board are set out in the Directors' Remuneration Report on pages 70 and 71.

There are no other identifiable related parties at the year end, and as of 5 April 2022.

18. Post Balance Sheet events

Since the year end a further 2,120,000 shares have been issued, as at 6 April 2022. As described within the report, there is uncertainty surrounding the consequences for global markets from current geo-political events and the macro-economic implications. Merchants does not invest directly in any Russian stocks. Since the year end, Merchants NAV has increased by 0.6%, as at close of business on 5 April 2022. However, the board continues to monitor the geo-political situation closely and its impact on the NAV.

Investor Information

Science and technology recruitment specialist SThree was a notable contributor to performance. As well as seeing operating profits rise 90% year on year, the company was named Company of the Year at the 2021 European Diversity Awards.

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 89).

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 2021 (all values in Euro).

Number of employees: 1,668

	All employees	Risk Taker	Board Member	Other Risk Taker	Employees with Control Function	Employees with Comparable Compensation
Fixed remuneration	155,709,850	6,149,684	853,418	1,430,671	220,480	3,645,115
Variable remuneration	103,775,068	10,383,891	746,730	1,949,415	155,462	7,532,283
Total remuneration	**259,484,918**	**16,533,575**	**1,600,148**	**3,380,086**	**375,942**	**11,177,398**

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.

Merchants' KID is available from the Information/Documents pages at www.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 93 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	March
Final	May

Preference Dividends

Payable half-yearly 1 February and 1 August.

Benchmark

The company's benchmark is the FTSE All-Share 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 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 providers can be found at the company's website: www.merchantstrust.co.uk/about-us/how-to-invest.

Dividend

The board is proposing a final dividend of 6.85p payable on 24 May 2022 to shareholders on the Register of Members at the close of business on 19 April 2022, making a total distribution of 27.3p per share for the year ended 31 January 2022, an increase of 0.4% over last year's distribution. The ex-dividend date is 14 April 2022. A Dividend Reinvestment Plan (DRIP) is available for this dividend and the relevant Election Date is 29 April 2022.

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 Group, 10th Floor, Central Square, 29 Wellington Street, Leeds LS1 4DL. Telephone: 0371 664 0300. Lines are open 9.00 am to 5.30 pm (UK time)
Monday to Friday.
Email: shareholderenquiries@linkgroup.co.uk
Website: www.linkgroup.eu

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 (UK 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 Group 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: www.linksharedeal.com for online dealing or 0371 664 0445 for telephone dealing. Lines are open 8.00 am to 4.30 pm Monday to Friday (UK 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 Group 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 www.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 Group 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, (UK 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 Group, 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.

Notice of Meeting

Notice is hereby given that the annual general meeting of The Merchants Trust PLC will be held at Grocers' Hall, Princes Street, London, EC2R 8AD, on Wednesday 18 May 2022 at 12.00 pm to transact the following business.

Ordinary Business

1. To receive and adopt the Directors' Report and the Financial Statements for the year ended 31 January 2022 together with the Auditors' Report thereon.
2. To declare a final dividend of 6.85p per ordinary share.
3. To re-elect Colin Clark as a director.
4. To re-elect Timon Drakesmith as a director.
5. To re-elect Karen McKellar as a director.
6. To re-elect Mary Ann Sieghart as a director.
7. To re-elect Sybella Stanley as a director.
8. To approve the Directors' Remuneration Implementation Report.
9. To reappoint BDO LLP as Auditors of the company, to hold office until the conclusion of the next general meeting at which financial statements are laid before the company.
10. To authorise the directors to determine the remuneration of the Auditors.

Special Business

To consider and, if thought fit, to pass the following resolutions. Resolutions 11 and 12 will be proposed as ordinary resolutions and Resolutions 13 and 14 as special resolutions:

11. That the limit on aggregate fees payable to the directors be increased from £200,000 to £250,000.

12. That for the purposes of section 551 of the Companies Act 2006 the directors be generally and unconditionally authorised to exercise all the powers of the company to allot relevant securities (within the meaning of the said section) up to a maximum number of 42,274,962 ordinary shares provided that:

    (i) the authority granted shall expire one year from the date upon which this resolution is passed but may be revoked or varied by the company in general meeting and may be renewed by the company in general meeting for a further period not exceeding one year; and

    (ii) the authority shall allow and enable the directors to make an offer or agreement before the expiry of that authority which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of any such offer or agreement as if that authority had not expired.

13. That the directors be empowered in accordance with section 570 of the Companies Act 2006 (the Act) to allot equity securities (within the meaning of section 560 of the Act) either for cash pursuant to the authority conferred by Resolution 12 or by way of a sale of treasury shares as if sub-section (1) of section 561 of the Act did not apply to any such allotment provided that:

    (i) the power granted shall be limited to the allotment of equity securities wholly for cash up to a maximum number of 12,982,488 ordinary shares;

    (ii) the power granted shall (unless previously revoked or renewed) expire at the conclusion of the next annual general meeting of the company after this resolution is passed, or 17 August 2023 if earlier; and

    (iii) the said power shall allow and enable the directors to make an offer or agreement before the expiry of that power which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if that power had not expired.

14. That the company be and is hereby generally and unconditionally authorised in accordance with section 701 of the Companies Act 2006 (the Act) to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 25p each in the capital of the company (ordinary shares), either for retention as treasury shares or for cancellation provided that:

    (i) the maximum number of ordinary shares hereby authorised to be purchased shall be 19,460,750;

    (ii) the minimum price which may be paid for an ordinary share is 25p;

(iii) the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average of the middle-market quotations for an ordinary share taken from the London Stock Exchange Official List for the five business days immediately preceding the day on which the ordinary share is purchased or such other amount as may be specified by the London Stock Exchange from time to time;

(iv) the authority hereby conferred shall expire at the conclusion of the annual general meeting of the company in 2023 or, if earlier, on the expiry of 15 months from the passing of this resolution, unless such authority is renewed prior to such time; and

(v) the company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares pursuant to any such contract.

By order of the board

Kirsten Salt
Company Secretary
199 Bishopsgate, London, EC2M 3TY
6 April 2022

Notes:

1. Members entitled to attend and vote at this meeting may appoint one or more proxies to attend, speak and vote in their stead by completion of a personalised form of proxy. Full details on how to complete the form of proxy are set out on the form of proxy. The proxy need not be a member of the company.
2. A proxy must vote in accordance with any instructions given by the member by whom the proxy is appointed. A proxy has one vote on a show of hands in all cases (including where one member has appointed multiple proxies), except where he/she is appointed by multiple members who instruct him/her to vote in different ways, in which case he/she only has one vote for and one vote against the resolution.
3. A personalised form of proxy is provided with the Annual Report. Any replacement forms must be requested direct from the registrar.
4. Completion of the form of proxy does not exclude a member from attending the meeting and voting in person (although other restrictions on attending the meeting may be in place).
5. Duly completed forms of proxy must reach the office of the registrars at least 48 hours (excluding non-business days) before the meeting.
6. 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 on the Euroclear website (www.euroclear.com/CREST).
7. To be entitled to vote at the meeting (and for the purpose of determination by the company of the number of votes they may cast), members must be entered on the company's Register of Members by 12.00 pm on 16 May 2022 (the record date).
8. If the meeting is adjourned to a time not more than 48 hours after the record date applicable to the original meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If, however, the meeting is adjourned for a longer period then, to be so entitled, members must be entered on the company's Register of Members at the time which is 48 hours before the time fixed for the adjourned meeting or, if the company gives new notice of the adjourned meeting, at the record date specified in that notice.
9. The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the company in accordance with section 146 of the Companies Act 2006 (nominated persons). Nominated persons may have a right under an agreement with the registered shareholder who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights. Nominated persons should contact the registered member by whom they were nominated in respect of these arrangements.
10. Corporate representatives are entitled to vote on behalf of the corporate member in accordance with section 323 of the Companies Act 2006. Pursuant to the Companies (Shareholders' Rights) Regulations 2009 (SI 2009/1632), multiple corporate representatives appointed by the same corporate member can vote in different ways provided they are voting in respect of different shares.
11. Members have a right under section 319A of the Companies Act 2006 to require the company to answer any question raised by a member at the AGM, which relates to the business being dealt with at the meeting, although no answer need be given (a) if to do so would interfere unduly with the preparation of the meeting or involve disclosure of confidential information; (b) if the answer has already been given on the company's website; or (c) it is undesirable in the best interests of the company or the good order of the meeting.
12. Members satisfying the thresholds in section 527 of the Companies Act 2006 can require the company, at its expense, to publish a statement on the company website setting out any matter which relates to the audit of the company's accounts that are to be laid before the meeting. Any such statement must also be sent to the company's auditors no later than the time it is made available on the website and must be included in the business of the meeting.

13. As at 6 April 2022, the latest practicable date before this notice is given, the total number of ordinary shares and preference stock in the company in respect of which members are entitled to exercise voting rights was 129,824,887 ordinary shares of 25p each and 1,178,000 3.65% Cumulative Preference Stock of £1 each. Each carries the right to one vote and therefore, the total number of voting rights in the company is 131,002,887.

14. Further information regarding the meeting which the company is required by section 311A of the Companies Act 2006 to publish on a website in advance of the meeting (including this notice), can be accessed at www.merchantstrust.co.uk.

15. Contracts of service are not entered into with the directors, who hold office in accordance with the company's Articles.

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. As at 31 January 2022, the NAV with debt at par value was £739,050,000 (2021: £554,717,000) and the NAV per share was 578.7p (2021: 458.5p).

Earnings per ordinary share is the profit after taxation, divided by the weighted average number of shares in issue for the period. For the year ended 31 January 2022 earnings per ordinary share was 25.6p (2021: 18.5p), calculated by taking the profit after tax of £31,835,000 (2021: £21,848,000), divided by the weighted average shares in issue of 124,156,079 (2021: 118,050,092).

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 101 and 102). As at 31 January 2022, the NAV with debt at market value was £727,281,000 (2021: £531,921,000) and the NAV per share with debt at market value was 569.5p (439.7p). (Further details can be found in Note 15(c) on page 101).

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 13 on page 96).

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 2). The share price as at 31 January 2022 was 573.0p, an increase of 134.5p from the price of 438.5p as at 31 January 2021. The change in share price of 134.5p plus the dividends paid in the year of 27.2p are divided by the opening share price of 438.5p to arrive at the share price total return for the year ended 31 January 2022 of +36.9% (2021: -12.5%).

Benchmark Total Return is the return on the benchmark, on a closing market price basis, assuming that all dividends received were reinvested into the shares of the underlying companies at the time their shares were quoted ex dividend (see page 2).

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 page 44).

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 13).

	2022 £'000s	2021 £'000s
Management fee	2,659	2,009
Administration expenses	933	1,059
Less - non-recurring expenses*	-	(201)
Total expenses (A)	**3,592**	**2,867**
Average net asset value with debt at market value (B)	648,689	466,878
Ongoing charge (A/B)	**0.55%**	**0.61%**

* Non-recurring expenses in 2021 were stock exchange listing fees and shareholder circular printing and postage costs.

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.

Dividend Yield represents dividends declared in the past year as a percentage of the share price. This is shown as 4.8% at 31 January 2022 in the highlights on page 2.

	2022	2021
Dividends declared for the year	27.3p	27.2p
Share price at year end	573.0p	438.5p
Annual dividend as a percentage of the share price	**4.8%**	**6.2%**

Gearing is the amount of debt as a percentage of the net assets (see Note 16 on page 103).

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