The Merchants Trust PLC

Annual Report, 31 January 2023

Allianz Global Investors

Why invest in The Merchants Trust?

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

High income returns from a high quality portfolio
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 5.0% of the portfolio has been in international stocks.

Stability with income growth
AIC dividend heroes are the investment companies that have consistently increased their dividends for 20 or more years in a row. Merchants has paid increasingly higher dividends to its shareholders year-on-year for the last 41 years – from 2.1p per share in 1982 to 27.6p in 2023.

Spread the risk with 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 0.56%*, one of the lowest in the peer group – see page 15), Merchants provides a cost-effective way to access an active and expertly managed portfolio.

Reliability with 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.

Liquidity and gearing
With a market capitalisation of £828m and 140.1 million shares in issue, and regular new issuances, 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 2023. See glossary on page 123.

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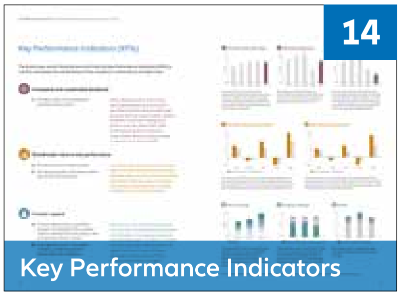

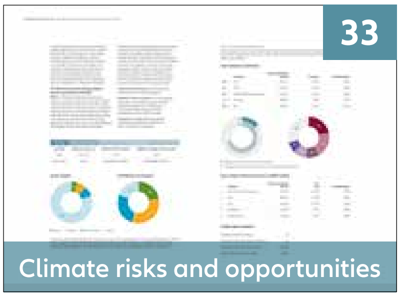

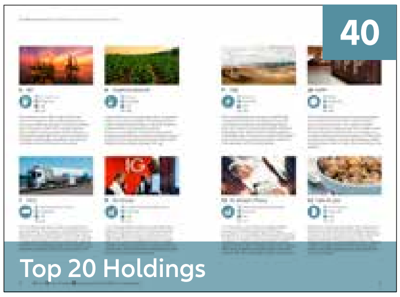

Overview

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Investor Information

Financial Highlights

As at 31 January 2023

Net Asset Value
Total Return *#

+7.6%

2022 **+35.7%**

Share Price
Total Return *

+7.9%

2022 **+36.9%**

Benchmark
Total Return *~

+5.2%

2022 **+18.9%**

Dividend yield *

4.7%

2022 **4.8%**

Dividend growth

+1.1%

2023 **27.6p**
2022 **27.3p**

Revenue earnings
per ordinary share

+12.1%

2023 **28.7p**
2022 **25.6p**

During the year under review, the UK was the standout among the major stock markets, with a positive total return of around 5%.

Net Asset Value per ordinary share *#

585.1p

+2.7%

Share price

591.0p

+3.1%

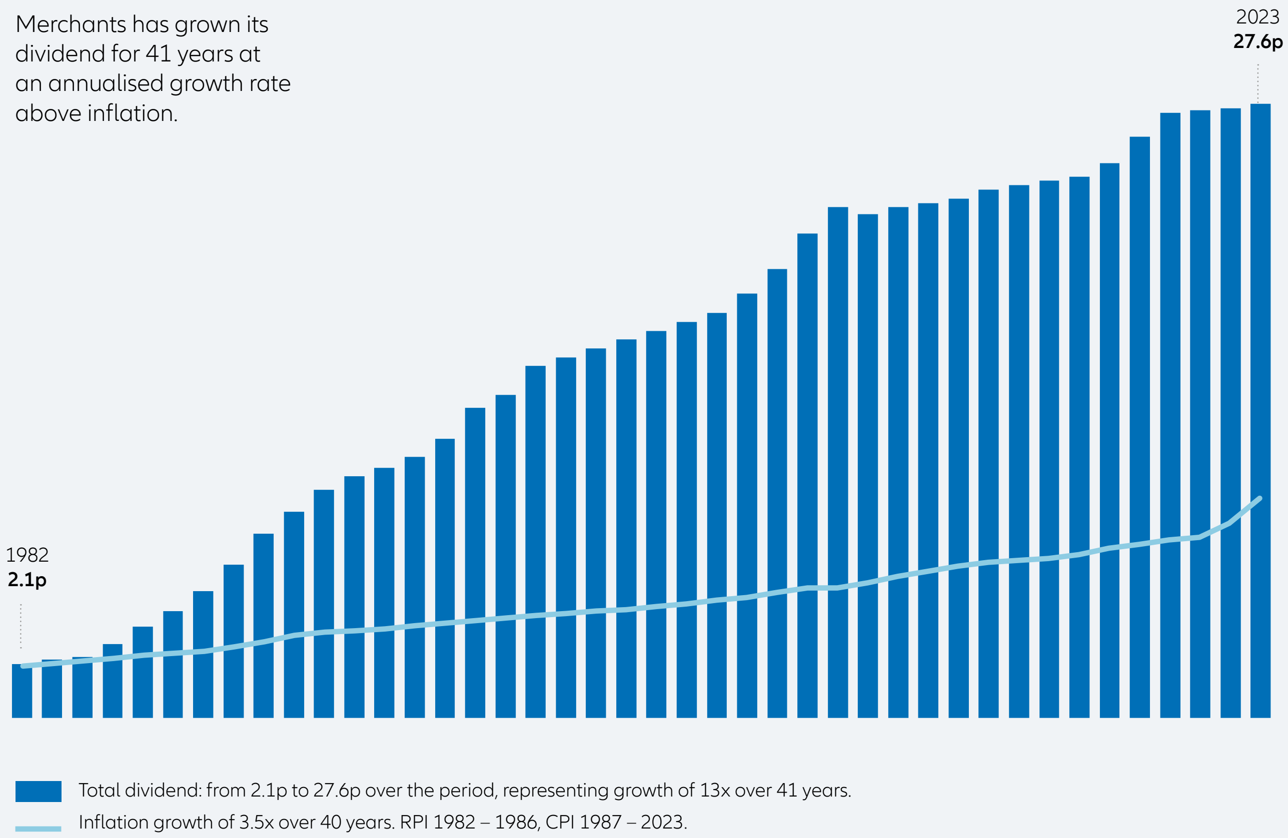
* Alternative Performance Measure (APM). APMs are the board's preferred measures for the most meaningful information for shareholders. Total return figures include dividends paid at 31 January.

\# Debt at market value.

~ Benchmark is the FTSE All-Share Index.
See Glossary on page 123.

41 years of dividend growth

Merchants has grown its dividend for 41 years at an annualised growth rate above inflation.

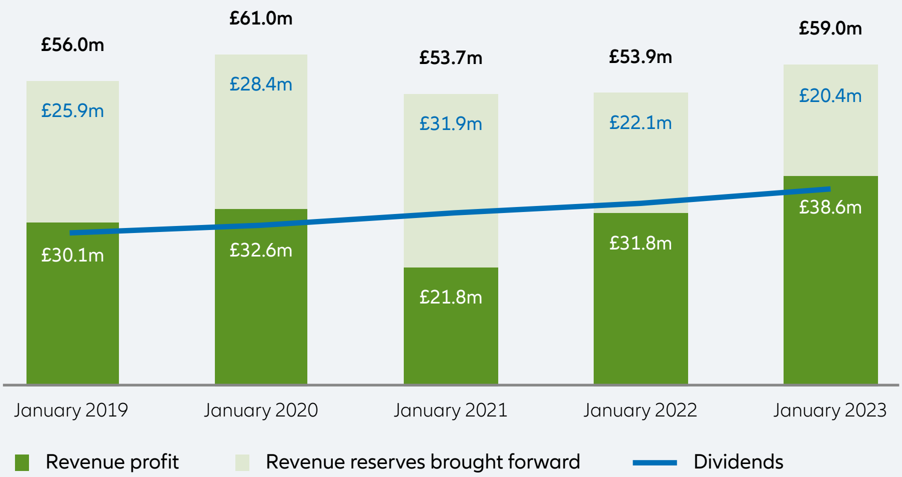


Source: AllianzGI.

Dividend Capacity

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

Cover from revenue profits is building.



Source: AllianzGI.

Chairman's Statement

Colin Clark
Chairman

Dear Shareholder

Another positive year against a difficult backdrop

In a year when the macro-economic and geopolitical landscapes have been very challenging it is comforting to be able to write to shareholders with positive news of Merchants. We are therefore pleased to report that the Merchants has continued to deliver for our shareholders, both in terms of a rising dividend and also capital return.

Merchants' NAV total return for the period was 7.6% which was well ahead of our benchmark index (the FTSE All-Share Index) return of 5.2%. Merchants was also second in its peer group (a group of twenty one Investment Trusts with similar objectives) over the year to 31 January 2023, reflecting a strong comparative year for the underlying investment strategy.

Merchants also traded close to NAV or at a small premium for much of the period under review, reflecting investor demand as a result of resilient portfolio performance and strong NAV performance against the benchmark.

2022 in general was a year where positive returns for investors were difficult to achieve as most equity and bond indices were down. Many listed closed-end funds found their discounts widening considerably as investor's risk appetite dropped overall. Indeed during 2022 collective investment vehicles under the umbrella of UK Equity Income have continued to be out of favour with investors, with some £1.5bn outflows from open-ended funds in the Investment Association UK Equity Income sector over the 12 months to 31 January 2023.

Merchants' performance also remains strong over the longer term, reflecting our consistent strategy and Merchants was also number two in the peer group over three and five years (as at 31 January 2023).

With the proposed final dividend for the financial year, we will achieve our 41st consecutive year of dividend increases, continuing our focus on striving to provide a high and rising income for shareholders.

Portfolio income

Shareholders will recall there was a sharp fall in dividends paid by companies during 2020 because of the difficult economic environment caused by the Covid pandemic. 2021 showed some signs of recovery and 2022 has continued this improving trend. While levels have not necessarily recovered to pre-pandemic levels across the board due to some companies permanently rebasing their dividend payments to lower levels, we are pleased to report that the recovery in Merchants earnings from dividends is such that in the 2023 financial year we have returned to fully covering our own dividend payment. We will therefore not need to utilise any revenue reserve this year to pay our own dividend to Merchants' shareholders.

Further details are given in the Investment Management Report on page 31. The portfolio revenue earnings per share (EPS) for the year were up 12% over the corresponding period last year to 28.7p (2022: 25.6p). Revenue reserves per share at the end of the period stood at 16.3p (2022: 16.0p).

Dividend to shareholders

The board recognises the importance of a growing dividend to shareholders in line with our objectives. Inflation also remains high which makes a reliable income stream a priority for many. As noted above, the board proposes a 41st year of consecutive dividend increases and this track record of providing a reliable and rising income is, we believe, one of the major attractions of our shares to investors.

Merchants Trust: ESG research and stewardship

The portfolio managers of the Merchants Trust integrate the analysis of Environmental, Social and Governance (ESG) issues into their investment process. This follows AllianzGI's proprietary methodology, and is designed to enhance risk management by adding another dimension to existing investment processes, across all asset classes. This approach does not require additional exclusions.

The main objective of integrating ESG analysis is to develop an assessment of the financially material ESG risks and opportunities within a broader investment case. AllianzGI's approach also fosters active engagement with company management.

Highlights within this report include:

DCC Case Study
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Active Engagement
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Climate risks and opportunities
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Carbon Disclosures
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Integration of ESG in the investment process
Page 38

Proxy Voting
Page 68

We propose a final quarterly dividend for shareholder approval of 7.0p which means for the full year to January 2023 an increased dividend of 27.6p (2022: 27.3p). The annualised growth rate of the dividend paid by the trust over 41 years stands at 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 and continue to provide one of the highest dividend yields in our peer group as part of an attractive overall total return for investors.

Subject to a shareholder vote at our AGM on 18 May a final dividend will be payable on 26 May 2023 to shareholders on the register at close of business on 21 April 2023. A Dividend Reinvestment Plan ('DRIP') is available for this dividend for which the relevant Election Date is 5 May 2023 and the ex-dividend date is 20 April 2023.

Issuance of new shares

Merchants' shares traded at a premium for much of the year and during that time we were able to issue 12.4m new shares, worth £69.3m. The table on page 8 gives details of the benefits to shareholders and shows how Merchants has issued new shares over the past four years.

Fundamentals return (somewhat) to the fore

In some senses 2022 was a turning point for the global economy and for markets. Since the Global Financial Crisis in 2008 interest rates had remained exceptionally low, central banks had maintained an easing stance and since prior to that time, inflation remained low. Much of this changed in 2022 as inflation returned, partly due to the sharp recovery in economic activity post pandemic and partly as a consequence of Russia's invasion of Ukraine. As inflation rose, central banks responded by unwinding decade-long quantitative easing programmes and raised interest rates to calm heated economies.

Rising interest rates had an immediate mathematical effect on the discount rate used to value future cash flows of companies. Consequently, many Growth stocks with lower near-term earnings but high valuations fell and, in some cases, fell dramatically. Having had a stellar decade, Growth stocks had the furthest to fall and strategies focused solely on high growth stocks struggled to contain losses. By contrast companies with visible near-term cash flows and lower valuations (Value stocks) were back in fashion and there was a welcome boost to some stocks which had been languishing, in many cases in spite of strong business models and robust cash flows.

A feature of this type of change in sentiment was that markets were extremely sensitive to news flow and reacted sometimes more on emotion than on rigorous analysis. A by-product of this environment is that on occasion markets misprice stocks and that can provide an opportunity for a fundamental research-based investor such as AllianzGI, the managers of the Merchants portfolio. Indeed, the fall from grace of some Growth stocks has meant they have come onto our manager's radar as their valuations become more reasonable. As he often states, our manager largely eschews the simplistic notion of Growth vs Value, but rather concentrates on aiming to own the best companies whilst not overpaying for them.

The UK performs better

The UK itself has had a slightly tumultuous year full of changes with a new monarch and three prime ministers in close succession, an emerging cost of living crisis and a winter characterised by strike action across many sectors. The stock market however fared slightly better.

Against largely lacklustre global stock market returns, the UK was for once a relative bright spot, with the FTSE All-Share outperforming major global indices such as the NASDAQ, the S&P500, the MSCI World Index and the FTSE World ex UK Index. It is perhaps surprising therefore that investors in collective investment vehicles have in aggregate reduced their exposure to the UK. The fact that Merchants' shares have remained in demand and at a modest premium to net asset value is a strong endorsement of our strategy and performance. Taking advantage of this demand from investors, we have issued 12.4m shares in the year to 31 January 2023 (2022: 6.7m) 9.7% of our share capital. This issuance was amongst the largest in peer group over the calendar year and is to the benefit of all shareholders because the fixed costs of managing and administering the trust is now spread over a wider base, NAV is enhanced due to shares only being issued at a premium to NAV and the liquidity in the company's shares is improved. More details are provided in the chart on page 8 of the shares issued over the past financial years.

Demand for Merchants' shares and issuance of new shares

Merchants' shares have been popular for the past four years and during that time they have often been priced by the market at a premium to their net asset value. The board can help address the demand for shares from existing and new investors in the market by issuing new shares.

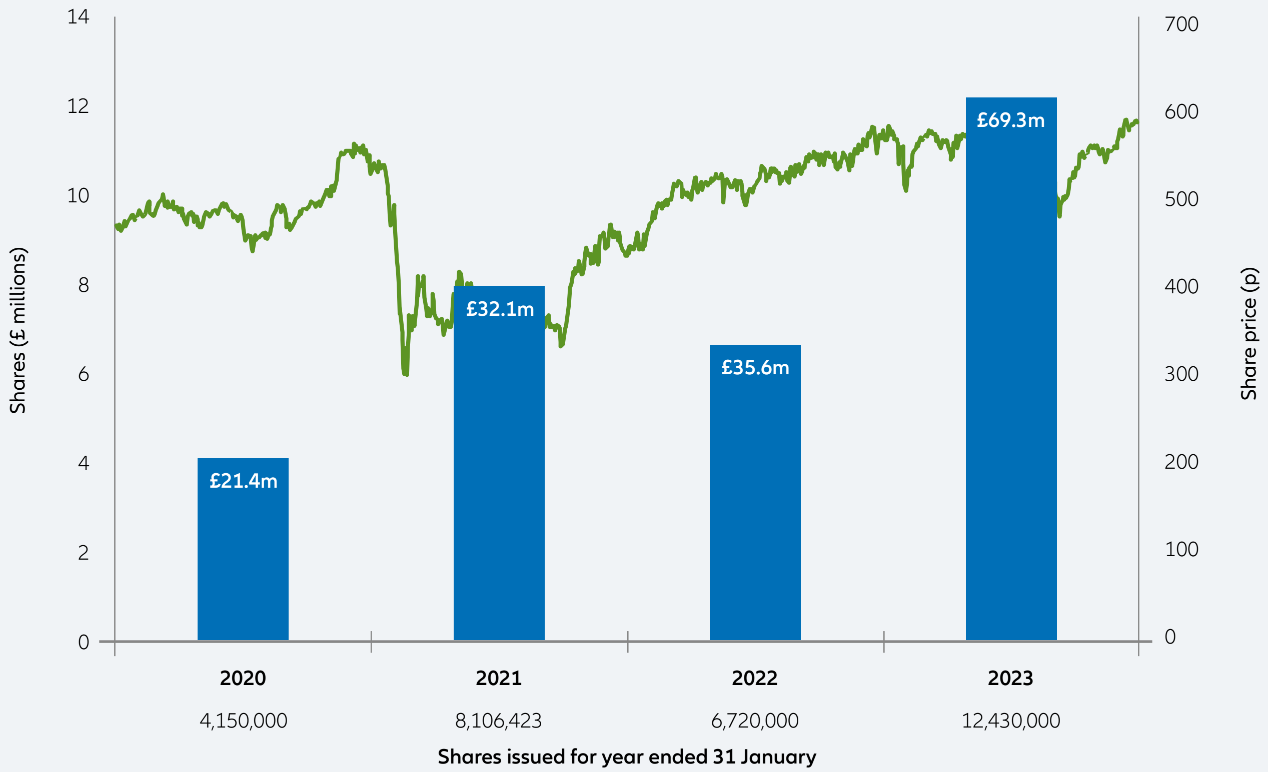
There can be benefits to all shareholders:

- More liquidity is provided for investors
- NAV is enhanced by issuing shares at a premium to the NAV
- Raising more capital to invest in the portfolio
- Spreading the cost of running the company over a wider base
- And, although the company's earnings are also stretched across a larger shareholder base, the new investments made by the portfolio manager can raise more income available for distribution

The chart below shows the issuance of shares in the past four years, the new capital raised and also the share price movement over the period.

There is more information in the Glossary on page 123 and in the Directors' report on page 65.

Share Issuances and share price



Source: AllianzGI. Share price (right axis).

Environmental, Social & Governance

Consideration of ESG factors by investors continues to be a rapidly developing field, which is to be welcomed. As we have mentioned in previous shareholder letters it is still a relatively new area for investors and it can be an incredibly complex landscape with its own language and metrics and sometimes conflicting narratives. Your board continues a robust dialogue with the manager AllianzGI about its approach and the part ESG factors play in research, portfolio construction and voting. We remain confident that our manager is at the forefront of this important area of investing.

As we have outlined before, Merchants does not exclude sectors on sustainability grounds, however consideration of ESG risks is an inherent part of the investment process as is engagement and proxy voting. This year we have addressed climate risks and opportunities in a discussion between AllianzGI's Head of Sustainability Research and Stewardship in the UK, Mark Wade, and Audit Committee Chair, Timon Drakesmith. This narrative follows the framework of the Taskforce on Climate-related Financial Disclosures (TCFD) reporting and can be found on page 33.

Strategy

As part of an annual process, your board once again met this year to discuss the strategic direction of the company. In addition to a review of our manager's long term philosophy and style of investing, our long-term performance and our ESG approach, a key focus was on our relationship with our shareholders and the fact that an increasingly large portion of our shareholders are now investing through platforms rather than direct or through discretionary third party managers. Your board continues to believe that clear and informative communications with our shareholders is of paramount importance, and we will continue to give it the highest priority.

Gearing continues to be utilised. In November the board drew down the remainder of Merchants' revolving credit facility (RCF) to take gearing back up to 15%. This was as a result of the manager's view on current opportunities and general valuation level of the market. We remain comfortable with the current level of gearing (13.5% as at 31 January 2023) with the level still falling well within the bounds of our stated policy range of 10 - 25%.

Board

Whereas there have been no changes to the board to report over the period, the board has been discussing industry guidelines regarding board membership, diversity and inclusion and the range of the board's skills and experiences when considering succession planning for the next few years.

Awards

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

In the latter part of the year Merchants received the Winner's award in the UK Equity Income category of Citywire's 2022 Investment Trust Awards. We were also nominated in Investment Week's Investment Company of the Year Awards in the UK Equity Income category. Although we did not win that award, the judges awarded a 'Highly Commended' recognition which we were also proud to receive.

Alternative Investment Fund Manager

We noted last year that Allianz Global Investors was pursuing an FCA authorisation for AllianzGI UK as a UK entity and we are pleased to report on their behalf that the authorisation was granted during the period. The company's Alternative Investment Fund Manager (AIFM) will therefore become AllianzGI UK Limited in May 2023 and we continue to view this as being in the best interests of Merchants shareholders. There will be no change to the investment process, strategy or the teams involved with managing Merchants.

Annual General Meeting

Last year we were pleased to be able to return to holding a physical AGM and to welcome shareholders back in person. 2023 will once again be a physical event with the AGM being held at Grocers' Hall on Thursday 18 May and full details can be found in the notice of meeting on page 119.

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 and the appointment of directors. It is an important aspect of an investment trust that shareholders can and are encouraged to make their voices heard by voting on all business matters, as detailed in this report. We continue to be pleased to see moves in the investment platform industry to democratise shareholder access for nominee holders with information being made more readily available by platforms to shareholders when companies have votes open and giving the ability for shareholders to participate in those votes. This past year in December, one of the largest platforms, Hargreaves Lansdown, joined Interactive Investor in offering an online voting service for its clients.

Should you be a Merchants shareholder through a platform which offers the opportunity to vote then we encourage you to take advantage of those arrangements for casting your votes and thus having your say in the running of your company.

Outlook

At the time I wrote to shareholders last year, the situation in Ukraine was rapidly unfolding and the world was coming to terms with the implications, though collectively we all hoped there would be a rapid end on the horizon. Unfortunately, over a year on, that hasn't proved to be the case and the conflict continues. Closer to home we also continue to grapple with the effects of inflation and associated strain on the cost of living. The world certainly continues to be unsettled and as investors, our task is to try to find an effective way to navigate this backdrop.

It is not easy to give any robust predictions on what direction the economy might take or for that matter what short term challenges may arise, or what geopolitical issues the coming year may have in store. Whilst the issue appears to be contained, shareholders will be aware that during the first quarter of the current financial year the banking sector has come under pressure due to the collapse of Silicon Valley Bank in the USA and the takeover of Credit Suisse by UBS. Our investment manager gives a timely reminder in his investment review, though, that concentration on this type of issue is not the key focus in the investment process. Rather the concentration is on finding sound companies with attractive business models and to understand how those business models might react under different macroeconomic scenarios. As noted, sentiment-driven market volatility can be a good source of opportunity for the dedicated stock picker and a genuinely long-term investor needs to have the (not easy) skill of looking through short term pain to the potential of the mid- to long-term, whilst understanding where the risks lie to that potential for each individual business model.

Valuations in the UK market ultimately remain low compared to their own history and relative to other markets, giving our investment manager added confidence in the potential for generating long-term returns for Merchants shareholders. While Merchants' investment strategy is not dependent on any outperformance of the 'value' investment style, should we see structurally higher interest rates persisting over the coming year, that should provide a welcome tailwind for the portfolio as investors will continue to favour nearer-term tangible cash flows from companies over future potential cash flows from higher growth companies.

The board thanks our investment manager for presiding over another positive year for shareholders, while having a firm view out to the future and a staunch focus on maintaining Merchants' tried and tested investment approach.

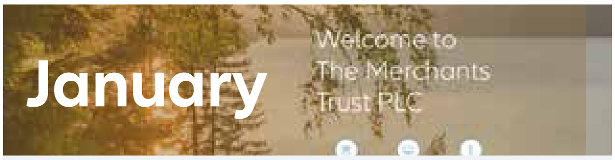
Colin Clark
Chairman
4 April 2023

We added to our existing holding in commercial property development and investment specialist Landsec during the year.

Photo courtesy of Landsec

Communicating with shareholders

Merchants prides itself on communicating well with shareholders, winning awards for this over the past three years. This calendar shows how we explain our processes and objectives to our shareholders and new investors and shows some of the activities over a year in the life of communications by Merchants.



January

- **Investors Chronicle** webinar
- **Separating the Wheat from the Chaff** podcast and **Earnings Momentum** Side Notes video
- New website
- LinkedIn
- Emails

February

- Media breakfast
- **What Investment** coverage
- Emails

March

- **A UK Renaissance?** podcast and **Consumer Spending** Side Notes video
- **ShareSoc** webinar
- **Edison** note + **Citywire** Funds Fanatic podcast + **ii** Funds Fan podcast
- LinkedIn
- Emails

April

- **40 and Counting** Side Notes video
- **Telegraph** coverage
- Emails

May

- **AGM**
- **Times Tempus** coverage
- **Hargreaves Lansdown** research coverage
- LinkedIn
- Emails

June

- **Reigning Supreme** podcast and **Cyclical Opportunity?** Side Notes video
- **Investors Chronicle** event
- **Asset TV** Equity Income panel + **Steps to Investing** podcast + **Investment Week**
- LinkedIn
- Emails

Email	Events	LinkedIn	Podcasts	Press	Videos	Webinars	Website
tinyurl.com/2rjvmm74		tinyurl.com/yc29sp79	tinyurl.com/2p8kmt68		tinyurl.com/ydx3j756		tinyurl.com/2t7yy7tz

July

- Promotion piece from **Investors Chronicle** event
- **Investors Chronicle** coverage
- LinkedIn
- Emails

August

- Banking on a Downturn: a viewpoint on the Bank of England's latest rate rise (written piece)
- LinkedIn
- Emails

September

- Half-Yearly report + various media coverage
- Emails

October

- **Citywire** event/webinar
- **Press dinner**
- **DIY Investor** and **Shares** magazines, **Daily Mail**
- Emails

November

- **Challenging Times** podcast and **Markets and Political Risk** Side Notes video
- **Citywire** articles
- LinkedIn
- Emails

December

- **IT** Handbook
- **AIC** review of the year webinar
- **Edison** note
- Emails

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. Earnings per share of 28.7p fully cover the dividends, with a surplus of 0.3p being transferred to revenue reserves (2022: 2.3p drawn from revenue reserve), increasing the reserves to 16.3p at 31 January 2023.

Shareholder returns and performance

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

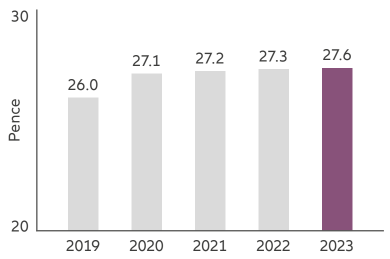
After a very strong 2022, portfolio performance was in line with the benchmark return. The NAV return was ahead of the benchmark after the impact of gearing (borrowings). Gearing tends to amplify portfolio returns in both directions.

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

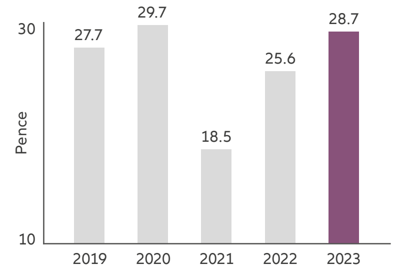
Performance was second out of 21 in the peer group over one year, three years and five years. The ongoing charge is stable at 0.56% compared to 0.55% last year. The board remains focused on reducing fixed costs. Merchants' costs are below average in the peer group and the dividend yield is above average.

Dividend record per share



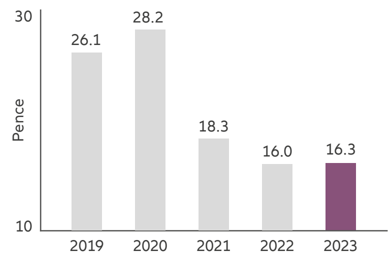
The board has a policy of paying a progressive dividend each year, taking into account inflation and subject to general earnings growth and dividends received in the portfolio. Ordinary dividends have risen in every year since 1982.

Earnings progression



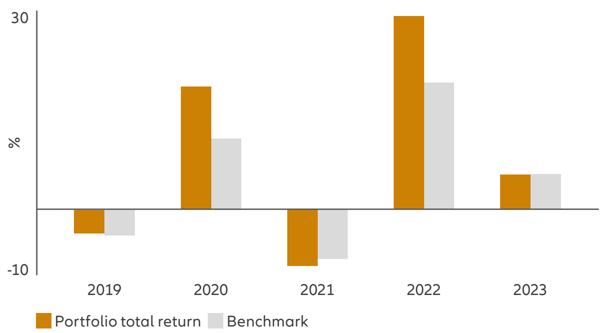
Earnings per share (EPS) shows the income that the company generates each year which can be used to fund dividend payments to shareholders, over time.

Revenue reserves per share[1]

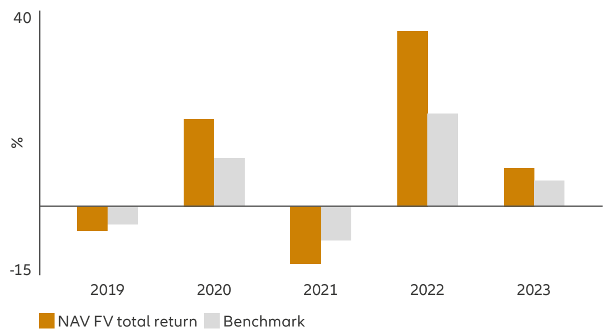


Revenue reserves can be used to ensure that dividend payments can be maintained through difficult market conditions. Income is put aside in good years and can be used to maintain a steady increase in dividends when income is less readily available.

Portfolio return vs benchmark

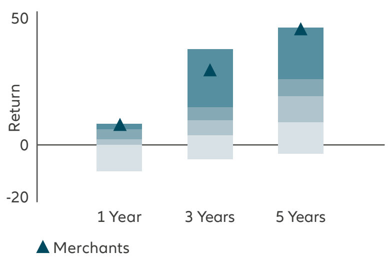


NAV return vs benchmark



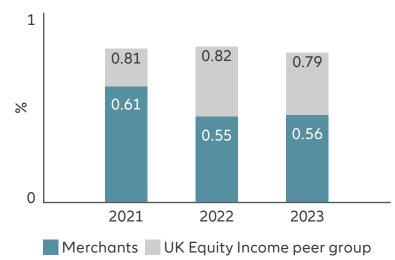
The board uses this KPI to monitor investment performance. As the company's policy is to invest mainly in higher yielding large UK companies, the FTSE All-Share Index has been chosen as the benchmark index against which we measure our performance. The board seeks a return that is better than the benchmark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



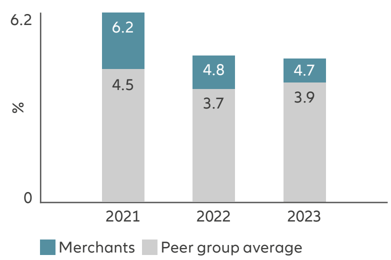
The board also monitors the performance relative to a broad range of competitor investment trusts. The chart shows Merchants' position in UK Equity Income peer group quartiles over a range of time periods. At 31 January, Merchants was second out of 21 in its peer group over 1, 3 and 5 years.

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 123).

Yields[3]



Merchants' yield has consistently been 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.

Investment Manager's Review

We added European copper producer Atalaya Mining to the portfolio in the first half of the year.

Investment Manager's Review

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

Economic and Market Background

Russia's invasion of Ukraine cast a long shadow over the year. This is a humanitarian tragedy, and our thoughts are with the millions of people involved in this and other conflicts. It has also been a major economic event, exacerbating inflationary pressures that were already building, and prompting a rapid change in interest rate policy. The knock-on effect on markets was significant, with 2022 one of the worst ever years for a typical 60% equity, 40% bond portfolio. UK equities stood out as one of the most resilient asset classes.

Whilst it is easy to ascribe the cause of the inflation spike in 2022 to the Ukraine conflict, the truth is more complex. Over a period of years, Europe has become more and more dependent upon Russian gas, with insufficient attention paid to security or diversification of supply. Germany has been shutting its nuclear power stations, France's nuclear output has been constrained by maintenance issues and the UK has closed much of its gas storage. On top of this, the oil & gas industry has been discouraged from investing in new hydrocarbon resources, due to environmental concerns from investors or divestors. Capital spending in the industry has been running well below previous trends, even as oil prices recovered, limiting supply of energy to the market. When Russia invaded Ukraine and cut off much of Europe's gas supply, an energy price spike was inevitable, putting a huge strain on consumer spending power and forcing governments to borrow even more money to support consumers. 2022 was a year in which investors had to think about how society balances the need to reduce fossil fuel production, to protect the environment, with the need to secure reliable and affordable energy for people. This dynamic effectively puts the "E" of ESG in conflict with the "S". There is now a much greater understanding of the issue of a "Just Transition", which balances the urgent need to decarbonise, with the necessary mitigation of its costs and impacts to consumers.

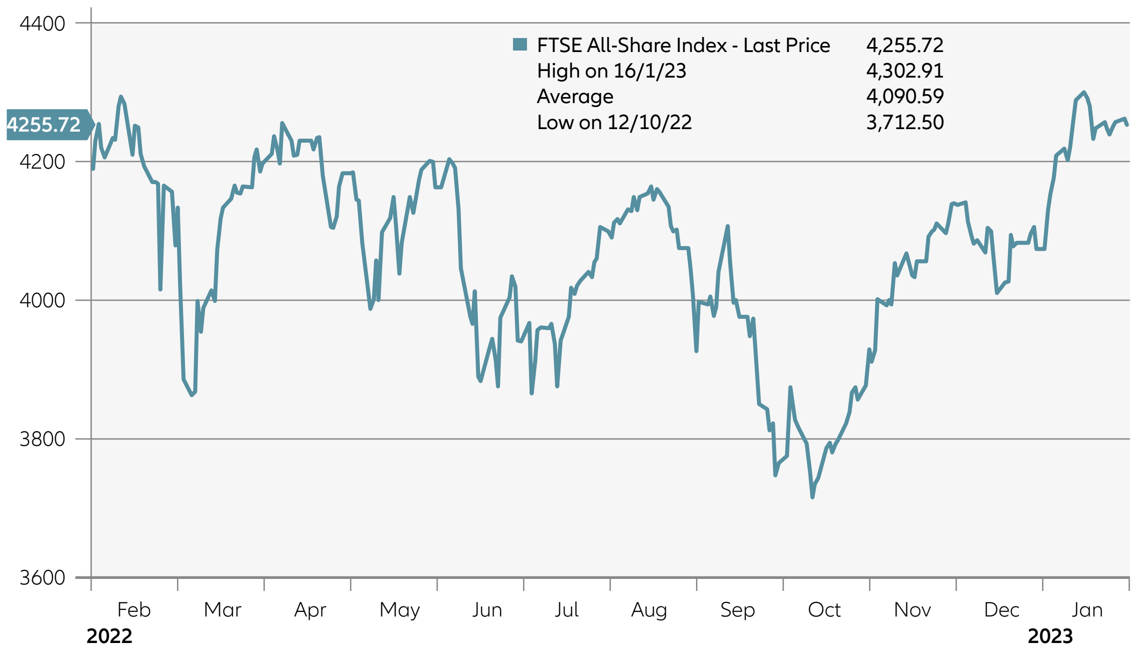
Home emergency repairs and improvements business Homeserve was the portfolio's largest contributor to performance.

Inflation was also impacted by Covid-19 related disruptions to supply chains, most notably in China, and in industries such as semiconductors, whilst international freight costs also surged higher. The rate of consumer price inflation peaked at over 11% in the UK, in October, despite having been at the Bank of England's target rate of 2% as recently as July 2021. There was a similar picture in the USA and Europe. Central banks found themselves well behind the curve, having previously hoped that inflationary pressures were transitory. Interest rate policy changed dramatically with multiple rate increases from the Bank of England, ECB and the US Federal Reserve. In the UK, base rates moved from a record low of 0.25% at the start of the year, to 4% just after the year end.

This rise in policy rates pushed government bond yields up dramatically, forcing bond prices down significantly. In the UK the pressures on bond markets were amplified by political developments and government policy. We saw three prime ministers and four chancellors of the Exchequer in the year. Boris Johnson was forced to resign and Liz Truss won the Conservative leadership contest to become the new prime minister. However, her chancellor Kwasi Kwarteng's unfunded tax cut proposals led to panic in the bond markets, with the Bank of England having to step in to protect pension funds that had liquidity problems in their liability driven investment strategies. This led to the resignation of the chancellor and subsequently the prime minister, as her parliamentary colleagues lost confidence in her. Rishi Sunak stepped in to become the third prime minister.

The damage to markets was severe. UK 10-year gilt (government bond) yields rose from around 1.3% at the start of the year to a peak of 4.5% in September, during the Truss premiership, before gradually declining to around 3.3% by year end. Bond yields in other countries saw similar, though generally not such extreme movements. Bond prices, which move inversely to yields, fell heavily. The US dollar, often seen as a safe haven, appreciated for much of the year, but fell

FTSE All-Share Index for the year to 31 January 2023



FTSE All-Share 31.1.22 - 31.1.23. Source: AllianzGI/Datastream.

CASE STUDY: NEW INVESTMENT

Pets at Home

Sector Retailers

Value of holding 14,792,000

% of portfolio 1.6

Benchmark weighting 0.1%

Pets At Home is probably best known for its UK leading chain of pet and pet-product stores, with 457 stores as at March 2022. This is a strong and growing business on its own. However, much of the value in the group comes from the vet services business, Vets4Pets, which has one of the largest chains of first response vets in the country. With 443 practices, often co-located within the stores, Vets4Pets operates primarily under a unique joint venture model. Together, these two businesses give the Pets at Home group an estimated 24% share of the £6.7bn UK Pet care market.

The scale of the retail business provides Pets at Home considerable advantages, such as the ability to develop its own label offering in advanced pet nutrition products, which are significantly cheaper for the consumer than branded alternatives, but also more profitable for the company. There is also scope to cross-sell vet services to retail customers and vice versa. Our research suggests the veterinarians really appreciate the autonomy to run their own practices how they want, within the joint venture framework, whilst being supported by the group's infrastructure. Although the vet business only represents a small proportion of the company's sales it accounts for nearly a third of profits and an even greater share of cash generation.

The company also has over 7m members of its VIP loyalty club and has developed several subscription services, such as flee and worm treatments, which made up £120m of customer revenue last year. There is considerable scope to improve the use of data within the business to target specific products and services that are relevant to different customers. The new Chief Executive, Lyssa McGowan, was formerly Chief Consumer Officer at Sky UK, and brings considerable knowledge and experience of using data and digital capabilities to serve consumers.

There are several positive themes that support the investment case. Humanisation and premiumisation: Pets are increasingly treated as members of the family, being given more advanced nutrition, more complex and sophisticated health care, grooming services and more accessories and toys. As medical treatments become more advanced, pets are living longer and require additional medical spending. Spending on pets tends also to be very resilient, even in an economic downturn.

We believe there is significant growth potential in the business, from maturity and expansion of the vet practices, greater use of customer data, and further development of subscription and other services. Like many retailers, Pets at Home saw its share price fall significantly last year, on the back of concerns about a potential downturn in consumer spending. This gave us the opportunity to invest in the company at an attractive level, which did not reflect the strong fundamentals and growth potential of the business, or the high-quality revenue streams coming from subscription income and the vet joint ventures.

back in the last few months. Equity markets took fright from rising interest rates, which raise the discount rate applied to future cash flows, but also threaten to slow down the economy and impact profits growth. Higher mortgage costs, on the back of interest rate movements, also impacted consumer sentiment, although these rates also started to subside by the year end.

Most major stock markets produced negative total returns, despite a rally in the last couple of months. The UK was the standout among the major stock markets, with a positive total return of around 5%. The UK benefited from large weightings in industries like oil & gas and mining, helped by higher energy and commodity prices, and banks, which were aided by rising interest rates. The UK also has a large exposure to relatively defensive industries, like pharmaceuticals, tobacco and personal goods, which were quite resilient, and low exposure to higher growth technology shares, which suffered heavily as interest rates rose. Smaller and medium sized company shares underperformed the market significantly, with negative total returns on average, as they tend to be more tied to cyclical domestic industries like construction, retail, real estate and travel & leisure.

Investment Performance

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's performance of 5.2% was in line with the benchmark, despite the portfolio having less exposure than the benchmark in larger companies, which generally outperformed. At the sector level, a high exposure to electricity and tobacco was beneficial. But this was more than offset by positions in the housebuilding sector, as well as having a low exposure to the strong metals & mining sector.

In terms of individual stock contributions, the biggest positive contribution to relative performance came from **Homeserve**, one of

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

	Positive contribution		Negative contribution	
Overweight (holding larger than index weight)	Homeserve	1.2	National Express	-0.8
	BAE Systems	1.0	DCC	-0.7
	Imperial Brands	0.8	Tyman	-0.7
	Man Group	0.5	WPP	-0.5
	Drax	0.4	DFS Furniture	-0.5
	CRH	0.4	St James's Place	-0.4
	Grafton	0.3		
	SSE	0.3		
Underweight (zero holding or weight lower than index weight)	Diageo	0.3	AstraZeneca	-1.1
	Segro	0.3	Glencore	-0.9
			Shell	-0.6
			HSBC	-0.6

CASE STUDY: STRONG PERFORMER

BAE Systems

Sector Aerospace & Defence

Value of holding 21,200,000

% of portfolio 2.3

Benchmark weighting 1.1%

BAE Systems is the UK's leading defence equipment and services company, but it is also a prime contractor in the US defence industry, its largest market, which gives it access to world leading technology and insight into future research and development. In addition, BAE has strong positions supplying many other nations, including those in the Five Eyes alliance comprising the US, UK, Canada, Australia and New Zealand, as well as a significant exposure to Saudi Arabia.

With sales of over £21bn in 2021, BAE is involved in some of the most sophisticated electronics systems and equipment, with critical positions on the Typhoon and F-35 Lightning II combat aircraft, and multiple platforms in the maritime, land and cyber security sectors.

Under Dr Charles Woodburn's leadership for the last 5 years, BAE has delivered solid operational and financial performance, as well as improved cash generation, which has not always been the case in the past. The company has also made important strategic developments. In particular, BAE was trusted by the US Department of Defense to buy two attractive US electronics systems businesses in 2020, which had to be divested when Raytheon and United technologies merged.

We have been invested in BAE for many years, believing that its strong technology and market positions, resilient profitability, improving cash generation and consistent dividend growth was undervalued by the stock market. In recent years there were also an increasing number of European investors who did not want to invest in defence companies, for ethical reasons, which had led BAE to trade at an especially large discount to the valuation of its US peers.

BAE's shares rallied strongly on the back of the Russian invasion of Ukraine. This has had at least three major ramifications. First, in the short term, demand for consumable products such as ammunition and spare parts has increased, with many NATO and other European countries supplying equipment to Ukraine. Second, governments have fundamentally reassessed geopolitical risks and their defence equipment needs, leading to a significant increases in budgets, which are likely to continue for the foreseeable future. And third, many investors who had shunned the defence industry have reviewed their investment policies and several have started to invest in the sector again, adding new investor demand on top of improving industry fundamental prospects.

Over the financial year, BAE shares produced a total return of over 50% at a time when the stock market barely moved. This made BAE Systems our second biggest performance contributor.

our case studies from last year, which received a takeover bid at a substantial premium to the share price. Otherwise, a few of the themes described above drove many of the individual gainers. Renewable generators **Drax** and **SSE**, were lifted by electricity price increases. Defence company **BAE Systems** benefited from anticipated and actual orders for defence equipment, on the back of heightened geopolitical tensions. **Imperial Brands** was strong due to its defensive qualities, improved business execution and the introduction of a share buy-back programme.

Other top ten stock contributions were more idiosyncratic. **Man Group** stood out amongst asset managers for the strong performance of many of its trend following funds, which lifted expectations for performance fee income and overall profitability. Well timed purchases of building products manufacturing and distribution companies, **CRH** and **Grafton**, at depressed levels, delivered strong gains in the last few months of the year. The last two of the top ten contributors were stocks that were not owned in the portfolio, but which underperformed and held back the index performance: **Diageo** shares fell modestly after strong gains in the prior year. **Segro**, the logistics property company, fell heavily, as that part of the real estate market was particularly affected by rising interest rates, due to its low yields.

The largest negative stock contribution came from not owning pharmaceutical company AstraZeneca, which benefited from its defensive characteristics and good news in its drug pipeline. Not owning or having underweight positions in Glencore, **Shell** and HSBC also impacted performance as they benefited from the main themes of the year – rising commodity prices and interest rates. **National Express** fell heavily on disappointing trading news, mostly caused by challenges recruiting drivers and high pay inflation. Distribution company **DCC** underperformed on poor investor sentiment, although operational delivery has been solid and we retain strong conviction in the investment case.

Elsewhere, the largest negative contributors were all cyclical or financial companies where macroeconomic concerns or stock market levels weighed on sentiment. These included the housing products company **Tyman**, the advertising giant **WPP** and the wealth management company **St James's Place**. **DFS Furniture** had a profit warning in the autumn as consumer confidence fell, although it reported an improvement in Christmas trading near the year end.

Portfolio Changes

Our investment process places an emphasis on assessing company valuations, as well as understanding the fundamentals of businesses and the themes that can affect them. In volatile conditions, such as we have seen in recent years, valuations can move around considerably.

Largest Net Purchases and Sales within the Portfolio

Large Net Purchases	£m	Largest Net Sales	£m
CRH	18.7	Homeserve	-29.0
Unilever	18.5	Vodafone	-15.6
DCC	16.6	BAE Systems	-14.8
National Express	16.4	Drax	-14.0
Grafton	15.0	Totalenergies	-12.4
NatWest	13.9	Imperial Brands	-12.2
Pets at Home	13.8	RELX	-9.4
CLS	11.4	National Grid	-8.9
Admiral	11.3	BP	-8.0
Rio Tinto	11.0	British American Tobacco	-5.6

CASE STUDY: NOTABLE PURCHASE

DCC

Sector Industrial Support Services

Value of holding 29,926,000

% of portfolio 3.3%

Benchmark weighting 0.2%

DCC is a conglomerate distribution business focused on three main areas: Energy, Technology and Health Care. Originally founded in 1976 as a venture capital business, the company has historically generated the bulk (around two thirds) of its profits from the distribution of energy in the form of liquefied petroleum gas (LPG), oil, propane, and butane. In addition, management has a proven ability to identify good acquisition targets, and to further develop acquired companies.

In its financial year ended 31 March 2022, DCC generated revenue of £17.7 billion and adjusted operating profit of £589.2 million. Despite the company's differing products and end-markets, the strategy is centred around driving up the return on capital employed of its businesses through improved marketing and distribution. DCC has historically made investments with an initial return on investment close to 15%, with group average return on capital employed consistently in the high teens.

Our investment case hinges on the market's inadequate understanding of DCC's preparedness for the energy transition. Moving to a more sustainable economy will require a global shift towards lower carbon energy sources, as well as the electrification of transport, heating and other vital infrastructure. This undoubtedly presents a long-term structural headwind to parts of DCC's Energy distribution business, such as the provision of oil to off-grid households, or petrol station forecourts.

However, these are multi-decade trends for which DCC's management is adequately prepared. First, the company's current operations are both more resilient and adaptable than market participants believe. For example, its fuel delivery business (while substantial) continues to have room to grow. In the UK, the off-grid market is 5% of households, and DCC has a c. 25% market share of that. In petrol forecourts, just over a fifth (22%) of DCC's revenues in the Retail & Oil sector are already derived from non-fuel transactions, such as card services, convenience retail, and motor lubricants. With electric vehicles (EVs) spending more time charging at "the pump", this share of expenditure is likely to grow.

At the same time, DCC can leverage its existing relationships with customers to facilitate the energy transition directly. The company is already doing this through its energy advisory service, as well as the provision of lower carbon alternative energies. These include LPG as a lower-carbon alternative to coal or oil, hydrogenated vegetable oil (HVO) and biofuels for fleet decarbonisation, as well as renewable electricity offers including solar. At a domestic level, DCC also has the necessary expertise to provide installation and maintenance services for heat pumps, as well as the customer relationships to lead that shift. DCC have also outlined plans to reduce their total value chain "scope 3" emissions by 15% by 2030, as well as reducing their own, much less significant, scope 1 and 2 emissions.

Second, DCC is investing rapidly into new areas. The acquisition of Almo, a leading consumer and specialist technology business in the US, moves the company's technology division up from 14% of group revenue to 22%, meaning non-energy now accounts for 40% group. Similarly, DCC is rapidly expanding in Health Care, where the company acts as a contract manufacturer for specialist health and beauty retailers. Future growth of these divisions means management expects at least 70% of profits by 2030 to be generated from Technology, Healthcare and Renewables.

The complexity of these drivers means that shares in DCC continue to be fundamentally undervalued. On an absolute basis the stock offers a high free cash flow yield and trades well below its historic valuation range. The company also has a strong track record of dividend growth, delivering a rate of 9% p.a. over the past 10 years. Ultimately, market participants continue to overestimate DCC's vulnerability to the energy transition while underestimating the ongoing transition within the business.

CASE STUDY: ENGAGEMENT

IG Group

Sector Investment Banking & Brokerage

Value of holding 25,287,000

% of portfolio 2.8%

Benchmark weighting 0.1%

IG Group is a financial trading platform headquartered in London. Its largest business by revenue is the provision of over-the-counter (OTC), leveraged derivatives trading to sophisticated investors. IG Group specialises in spread bets and contracts for difference (CFDs), and is the world's leading provider by volume. In its 2022 financial year, the company generated £812m in revenues from leveraged derivatives, with a further £154m spread across exchange-traded derivatives and stock trading and investments.

As investors, we regularly engage with portfolio companies. Speaking directly with management and non-executive directors enables us to address specific issues at a senior level, as well as advocating for any changes we think would be beneficial to the company. In both cases, our duty as stewards of client capital gives us a responsibility to address strategic and operational concerns, as well as Environmental, Social and Governance (ESG) issues. Throughout this process, we are ably supported by our stewardship team here at AllianzGI.

In February 2022, we wrote to the board of IG Group during a consultation on the company's capital allocation policy. We believed that IG's valuation suffered from volatility of earnings, and that a lack of clarity on capital allocation meant that periods of strong cash generation were not leading to a sustained benefit in terms of shareholder returns. We provided detailed feedback as to how cash generation could be used to fund a core growing dividend, supplemented by either special dividends or share buybacks. The latter would increase future earnings per share, while a growing dividend would also underline the board's confidence in IG Group's growth prospects.

In its July results, we were pleased to see IG Group announce a new capital allocation framework which had adopted the key features that we had advocated. Management announced a progressive, well-covered ordinary dividend equivalent to approximately 50% annual earnings, as well as returning surplus capital through share buybacks or special dividends as appropriate. This included a £150m buyback announced on the day, equivalent to 5% of the company's market capitalisation. Whilst it is too soon to judge the long-term benefits of this new policy, the market reaction has initially been positive, and we believe the company's capital allocation is now much clearer and better understood. As a result, we considered the engagement to be a success. Further meetings with management confirmed that our input had been taken on board and helped to shape IG Group's capital allocation policy. We believe the net result will be a clear link between periods of strong trading to shareholder returns and future earnings growth.

"During our discussions on establishing a formal capital allocation framework – the first of its kind at IG - feedback and suggestions from shareholders, such as Allianz Global Investors, were helpful to the board in formulating a framework that we believe is optimal for all stakeholders"

Feedback from IG Group CFO, Charlie Rozes

This creates opportunities to buy shares that become undervalued, and to reduce or sell those that move up to fair value or above. The fundamental attractions of businesses and the external themes also change from time to time, which can prompt further activity.

This year we have responded to market volatility by making several changes to the portfolio. We have added 12 new companies and sold 6 completely, taking the total number of holdings at year end to 53. The increase in the number of stocks reflects the broad range of attractive investment opportunities we were able to identify. We would normally expect to hold between 40-60 stocks, but for several years we have been in the lower half of that range.

New investments in the early months of the year were broadly spread between companies in both economically resilient or defensive sectors and more economically sensitive or cyclical sectors. However, as the year progressed, economic concerns caused many cyclical shares to underperform, and many of our later purchases were in those areas. Whilst the economic outlook has become much more challenging than before the conflict in Ukraine, our assessment was that the difficult short-term outlook was more than discounted in many cyclical shares, which were offering excellent long-term value. Also, there were reasons in the second half of the year to think the stock market might be reaching "peak fear" as future interest rate expectations peaked.

In the interim report, we explained the new purchases of companies we would normally expect to be quite resilient or defensive; **Unilever**, **National Express** and **Haleon**. The latter spun out of pharmaceutical company GSK, but we added significantly to the position. We also explained the investments in five economically cyclical stocks; **Atalaya Mining**, **BMW**, **CRH**, **OSB** (OneSavingsBank) and **CLS**. There were four complete sales in the first half; **Relx**, **TotalEnergies**, **Antofagasta** and **ITV**.

There were four new investments in the second half of the year. **Grafton Group** is a multi-national building materials business which owns the leading Irish DIY and builder's merchants businesses as well as the Selco builders merchants in the UK. The company has a good record of margin expansion and capital allocation. It had a large proportion of its market value in net cash (excluding operating leases) which provided not only financial security, but also the potential to take advantage of acquisition opportunities in the future. The share price had almost halved over the previous year, which gave us the chance to buy a high quality company at a very attractive level, with an above average dividend yield.

We bought a new position in **NatWest**, one of the UK's leading banking groups. The banking industry has been transformed since the global financial crisis, with tighter regulation and much stronger capital requirements reducing the risk profile. NatWest has also considerably restructured its own operations and the business is now performing well and making an attractive return on capital. The shares were very modestly priced, paying a high dividend yield. With a more favourable tailwind from higher interest rates, we decided to increase exposure to the banking industry.

In the retail sector we made a new investment in **Pets At Home**. As described in our separate case study, the company is best known for its UK market leading chain of pet and pet-product stores, but much of the value in the company comes from its vet services business, Vets4Pets.

We also added **Admiral**, which is the market leader in car insurance in the UK, and benefits from a cost advantage over much of the industry. This cost base has allowed Admiral to make superior returns over the cycle, and to gain market share. The whole industry has been hit in the last year by significant inflationary cost increases, which have impacted profitability. However, this has also led to quite sharp price rises for policies, which should benefit future profits. Admiral shares fell sharply in 2022, providing an opportunity to invest at an unusually attractive price for a company of this quality.

As well as introducing new holdings, we added to a number of existing positions where we saw good value opportunities. These tended to be in the more cyclical parts of the market, although the largest investment was into the distribution business DCC. Other notable additions were the natural resources companies **Rio Tinto** and **Energean**, the financial services companies **St James's Place**, **Landsec** and **IG Group** and consumer exposed companies **Next** and **Redrow**.

There were two complete sales in the second half. **Homeserve**, was the subject of a takeover bid as referenced above, and we were able to sell at a full valuation. We also sold the small position in **M&G** which had originally come from its demerger out of Prudential. This was a low conviction holding and we used the proceeds to help fund other purchases. We also reduced several positions. They were mostly defensive businesses, which had generally performed well, such as BAE Systems, Imperial Brands, **Vodafone**, **National Grid** and **British American Tobacco**. But we also reduced Drax, **BP** and SSE, which had benefited from rising energy prices and offered less upside, as well as the financial services companies **Legal & General**, **Ashmore** and Man Group.

AllianzGI's Approach to ESG Analysis

The portfolio managers of the Merchants Investment Trust integrate the analysis of Environmental, Social and Governance (ESG) issues into their investment process. This follows AllianzGI's proprietary methodology, and is designed to enhance risk management by adding another dimension to existing investment processes, across all asset classes. This approach does not require additional exclusions.

The main objective of integrating ESG analysis is to develop an assessment of the financially material ESG risks and opportunities within a broader investment case. AllianzGI's approach also fosters active engagement with company management.

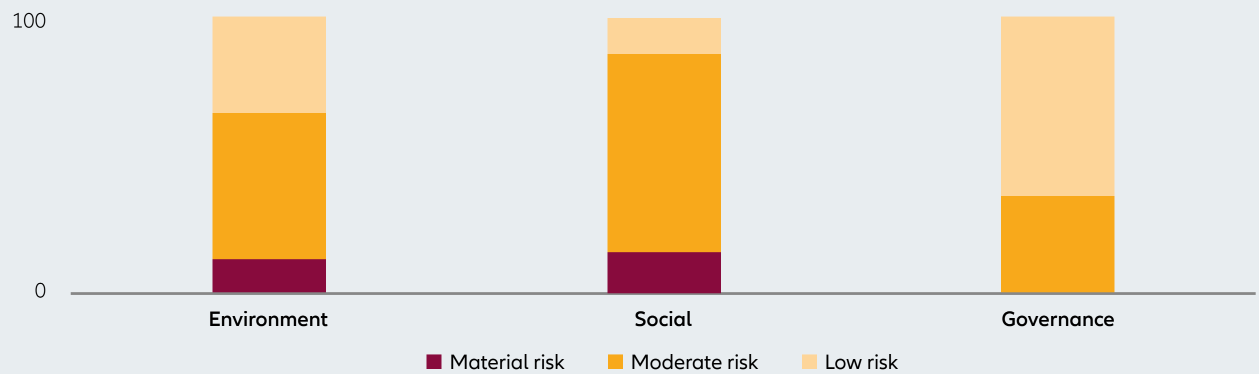
Many ESG issues have the potential to become structural challenges if not addressed. Conversely, if harnessed to the company's advantage, they can become long-term opportunities that act as meaningful tailwinds for the business. Understanding how a company manages ESG issues therefore, as well as how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

Within ESG, environmental issues have historically tended to draw the most attention. The need to decarbonise our global economy has rightly brought focus on to energy companies, the transportation transition sector and – more recently – agriculture. However, the events of 2022 saw these issues become more evenly balanced with social considerations, including the need to provide affordable energy and the extent to which energy companies should profit from exogenous shifts in commodity prices.

From a governance perspective, the topics of Director over-boarding and executive remuneration remain a key focus. At the same time, we continue to demonstrate our

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.

commitment to ensuring boards that are diverse from both a gender and experience perspective. In today's digital world, having directors with a practical knowledge of cybersecurity is an increasingly business critical requirement.

Active Engagement

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 31 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. Over the years, we have engaged extensively with **Shell** around its business model and the shift to renewables. This year, we broadened the conversation to include the issue of plastic pellet loss to the environment and the wider context of Operation Cleansweep, an international program designed to prevent and help keep plastic litter materials out of the marine environment.

Shell highlighted that their single producing site has only recently (Nov 2022) started production and therefore the issue of historic spills is less relevant. The company had signed up to Operation Cleansweep a number of years ago to ensure best practices were rolled out ahead of the site beginning production. As a firm, we explained how increased transparency and disclosure on this issue would be helpful and the company committed to exploring how much additional information could be reported.

As a founder member of the Investor Forum (a body set up to foster collective company engagement), AllianzGI can leverage the collective reputations of industry participants. It was as part of an Investor Forum coordinated group meeting that we spoke to **Unilever's** CEO and Chairman to discuss matters of operational performance and Board oversight. Investors wanted to understand what Unilever is doing to drive consistent strategic execution, as well as how organisational changes will impact the company. There was also particular focus on Unilever's unsuccessful bid for GSK's consumer health division, both as to what drove it and whether management understood the market's reaction. Both the CEO and Chair recognised areas for improvement and are committed to improve going forwards.

Similarly, as part of our membership to the 30% Club France Investor Group, we continued our engagement with **Scor** on gender diversity. While the company has an admirable level of transparency, at Scor there is a meaningful disconnect between the percentage of women in its workforce and their representation at management/executive positions. Management committed to addressing our concerns, specifically with a view to broadening out the strengths of the business brought about by cognitive diversity.

It is also worth noting that some engagements are conducted purely with a view to learning more about ESG policies and disclosures, rather than actively agitating for change. One such example is **Tate & Lyle**, the manufacturer of food ingredients. The company does not publish a relevant policy on food testing on its website which, given the industry, is unusual. As a result, we asked what policies were in place and whether these would be published in future. Tate & Lyle responded that it is not common for the business to publish a policy, and testing would only happen in exceptional circumstances required by external regulators to confirm that a food ingredient is safe for human consumption.

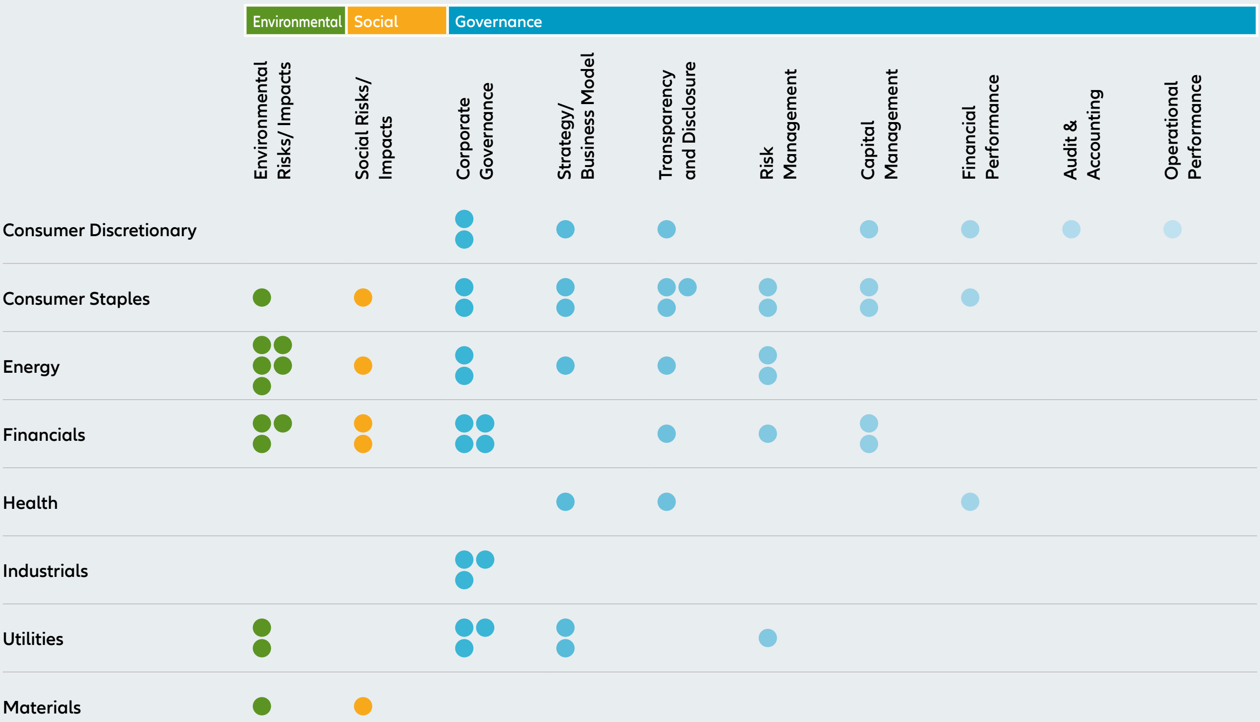
Interactions can last over many years, spanning in-person meetings, email conversations, proxy voting seasons and even public debate. It is also testament to the two-way nature of engagement, that these dialogues are not always initiated by us. Frequently, portfolio companies will ask for our opinions on matters – whether current events, future strategy or decisions that may be put to a vote at the AGM. For example, the wealth management company **St. James' Place** spoke to AllianzGI as part of a broader consultation piece on executive remuneration, before submitting them to a vote at the Annual General Meeting (AGM). In these instances, both parties benefit from a true exchange of value.

Income

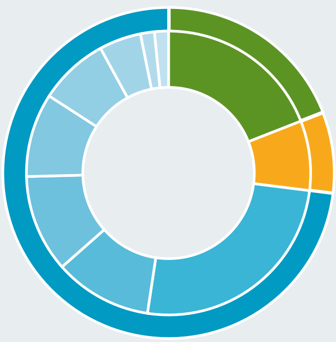
It is pleasing to see that the income stream from the portfolio has now recovered sufficiently

Active Engagement

Company Engagements by Sector and Topic

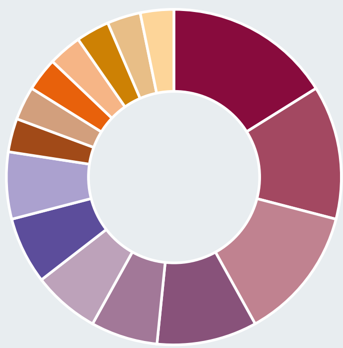


Company Engagements by Topic



Environmental Risks/Impacts	12
Social Risks/Impacts	5
Corporate Governance	16
Strategy/Business Model	7
Transparency and Disclosure	7
Risk Management	6
Capital Management	5
Financial Performance	3
Audit & Accounting	1
Operational Performance	1

Company Engagements by Industry



Oil Gas & Consumable Fuels	5
Capital Markets	4
Independent Power and Renewable Electricity Producers	4
Banks	3
Professional Services	2
Tobacco	2
Specialty Retail	2
Food Products	2
Diversified Financial Services	1
Pharmaceuticals	1
Personal Products	1
Electric Utilities	1
Trading Companies & Distributors	1
Insurance	1
Metals & Mining	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 organisations, 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.

since the pandemic to once again cover the cost of the dividend. In aggregate, revenue earnings per share increased by 12% to 28.7p. The increase in earnings from the trough of 18.5p in 2021 has been dramatic, and faster than might have been expected at the time. The directors have declared a dividend of 27.6p per share for the year, fully covered by earnings. Revenue reserves per share were 16.3p (16.0p), with the addition to reserves largely offset by the increase in the share count.

Even though the recovery in income over the last two years has been dramatic, there are still several portfolio companies yet to attain prior dividend levels, with scope for further income recovery. Most notable are the big energy companies, BP and Shell, which are now increasing dividends at a healthy rate, but with a much reduced pay-out compared to pre-pandemic levels. Other examples include National Express, where the business recovery is taking time, and gambling company Entain, which has been performing well, but investing heavily into its promising US joint venture.

On the other hand, the economy is facing considerable uncertainty and there is a risk of dividend cuts in certain cyclical businesses, especially in the consumer related areas. Our current view is that we will not see the wholesale dividend cuts we saw during the Great Financial Crisis or the pandemic, partly because many high dividend industries like oil & gas or banking are in a far healthier state than they were in those earlier periods.

Derivatives

Over the full year, Merchants generated an additional income of £0.94m (2022: £1.24m) from writing covered call options, on shares that we were willing to sell at specific strike prices. With a volatile but broadly flat stock market for most of the year, very few options were exercised. Taking these into account and any movements in options value, overall there was a net profit from the strategy of £0.97m (last year net opportunity cost of -£0.55m).

Economic & Market Outlook

It is traditional to set out our thoughts on the economic outlook, consider market valuations and then describe how these factors shape our investment policy. This is really not the most accurate way of explaining how we build the portfolio and consider macro-economic risks. We generally start the other way around. We seek to find individual companies with sound business models trading below our assessment of fair value, companies we believe can deliver superior returns and an attractive income stream. We then consider how those companies individually and as a portfolio, might be affected by different economic and market conditions.

At the time of writing, UK companies in aggregate are modestly valued compared to history, with a wide dispersion of valuations. This is a fertile environment for finding investment opportunities. Many cyclical companies in consumer facing industries like construction and retail are trading on large discounts to our assessment of fair value, even after a rally in recent months. Some of that discount is warranted due to current economic risks, but we still like these areas.

In certain other sectors the judgements are more balanced. The large energy companies have re-rated significantly as industry returns have improved, but they still offer sound value. They are supported by a restrained level of investment in new resources across the industry, which is likely to keep commodity prices and profitability well underpinned. In some of the defensive sectors like aerospace & defence, personal care and tobacco, we have taken profits on large exposures but still see decent value.

The banks sector has come under pressure recently, due to the collapse of Silicon Valley Bank in the USA and the takeover of Credit Suisse by UBS. This has echoes of the Great Financial Crisis and has weighed on banks share prices. Whilst we remain vigilant, there have been specific circumstances driving these situations, that limit the read-across to the UK. The capital and liquidity positions of the UK banks have been transformed over the last fifteen years, under much more stringent regulation. Whilst there are risks of rising bad debt charges, we see good value in several of the large and smaller domestic banks.

The part of the stock market where we have least exposure is the higher growth or higher return businesses that tend to trade on significant premium valuations. We are finding few opportunities there.

Turning to the economic outlook, the picture as ever is uncertain. There is a high risk of recession in the UK. The combination of high food and energy costs, and rising mortgage costs is putting a squeeze on consumers, which could impact demand in the economy. Companies are also having to deal with higher costs, especially labour costs, complex inventory cycles, rising interest rates and the challenge of strengthening their supply chains, which in many cases have been exposed as being quite fragile, by the pandemic and rising geopolitical tensions.

Central banks have an almost impossible task of trying to set monetary policy at a level that slows inflation, without crashing the economy. There is a risk of policy error, either if central banks raise interest rates too far, or too little.

Having said that, there are also reasons for some optimism. The worst of the inflationary pressure seem to be behind us, although we need to be mindful about the risk of another energy price spike in Europe next winter. Bond yields, which drive mortgage rates and corporate borrowing costs have started to come down, as financial markets have grown more confident that central banks can control inflation. And the labour market remains resilient, which underpins end demand for goods and services, although this is a double-edged sword as it also fuels wage inflation.

Given the uncertainty over the outlook, where we have bought cyclical companies, we have prioritised those with robust balance sheets and strong competitive advantages, so that they should be able to come through any difficult periods with their business intact. Low valuations also provide some support, though share prices could well go down further in a recession. We have also balanced the portfolio with more defensive companies and those that are less correlated to the economic cycle, such as reinsurance companies. If the economy turns out to be more resilient, and avoids recession, then performance should be stronger.

In summary, given the modest current valuation of the UK equity market and the polarisation within it, we are excited about the investment opportunities we can see. We believe we have constructed a portfolio of strong businesses, that is capable of delivering attractive capital returns over the medium term, and a rising income stream, to meet Merchants' objectives.

The Merchants Trust: climate risks and opportunities

In March 2023, Timon Drakesmith, Chair of the Audit Committee, met with Mark Wade, Head of Sustainability Research and Stewardship at AllianzGI, to learn more about AllianzGI's sustainability strategy, its approach to climate-related topics and application to Merchants.

Context: The Merchants Trust's approach to climate risks and opportunities

While Merchants does not have any specific climate-related targets, we are very mindful of the way climate and reactions to climate risks and opportunities may impact investee companies in the future. Climate data has improved significantly in recent years, but it's evaluation remains a very complex topic, especially relating to investment analysis.

AllianzGI has developed several climate risk reporting platforms and continues to refine how to present the best climate data with the broadest stock coverage. Although Merchants has no current requirement to report climate financial disclosures, we recognise the topic is likely to be one of several significant factors in long-term company and share price performance. The board is keen to provide more transparency to shareholders on climate and some of these metrics are shown below for Merchants' most recent financial year.

TD: How does AllianzGI tackle climate-related considerations in its organisation and how does it deploy this for Merchants?

MW: AllianzGI is a member of the UN's Net Zero Asset Managers Initiative (NZAMI), whereby there is a commitment to support the goal of Net Zero greenhouse gas (GHG) emissions by 2050. Within that framework, AllianzGI works with asset owner clients on climate analytics, decarbonisation goals and has formal decarbonisation commitments for the Assets managed under the Net Zero Asset Owners Alliance (NZAOA). Sustainability is central to AllianzGI's strategy within the whole organisation – more details are available in the firm's Sustainability Stewardship Report.

Since 2021, AllianzGI has been working on a strong proprietary ESG and Sustainability data architecture, which has recently been released to our investment professionals – it is Sustainability Insights Engine ('SusIE'). The platform allows for the centralisation of specific ESG and Sustainability measures, including data, which can then populate front office tools – the platform is well positioned to manage the ongoing evolution in sustainability data.

This allows for more targeted analysis, engagement, and profiling of companies in the portfolio, which will help the asset manager allocate capital to meet the investment goals of its clients, such as Merchants, and other stakeholders.

At each board meeting, the Merchants' directors review climate exposure and other ESG assessment analysis of the portfolio with the investment managers. There are detailed discussions on specific companies and sectors, especially on engagements held with portfolio companies and any progress against improvement targets identified by company management teams.

TD: In your view, what are the impacts of climate-related risks for Merchants?

MW: Climate-related risks and opportunities form part of the overall investment case for a company, where relevant. For example, the portfolio has exposure to some higher emitting sectors, like energy and building materials. In energy, for some of the high-profile majors owned in the portfolio, it is important to understand their strategy and capital allocation to climate, and the extent to which they can effectively transition their businesses. Another example, in building materials, is a company which has been validated as having a Net Zero carbon pathway by SBTI, but which is currently a high carbon emitter and might have to increase its overall portfolio emissions profile in the near term.

Merchants' board has identified climate-related risk as one of the key emerging risks in Merchants' Risk Map on page 57, referencing themes by likelihood and impact. This mapping receives a lot of focus from the board in meetings and there is ongoing dialogue with AllianzGI as to how to identify, measure and consider emerging risks.

For Merchants, the main impact of climate-related risks will be on the net asset value of the portfolio. In the long-term, companies failing to address the direct or indirect consequences of climate change are likely to risk lower valuations versus peers. For industries directly exposed to the impacts of climate change (e.g., food producers, insurers), long-standing business models could be threatened without an adequate climate mitigation or adaptation strategy.

TD: What are the main climate-related metrics managed by AllianzGI?

MW: For AllianzGI, while the current most common climate data points are scope 1 and 2 absolute emissions and carbon intensity, future metrics will likely incorporate scope 3, a Net Zero alignment measure and physical and transition risks. AllianzGI is reviewing possible approaches and engaging with industry bodies, and we expect our climate data suite on SusIE to expand and support future client reporting needs.

The table below analyses Merchants' portfolio in terms of carbon dioxide (CO2) emissions invested. The table includes absolute and relative figures for portfolio carbon emissions as well as carbon intensity measures. All carbon emissions are based on Scope 1 and Scope 2 emissions data. Scope 1 aims to measure all direct emissions from the activities of a corporate entity or under its control. Scope 2 aims to measure all indirect emissions from energy purchased and used by the entity.

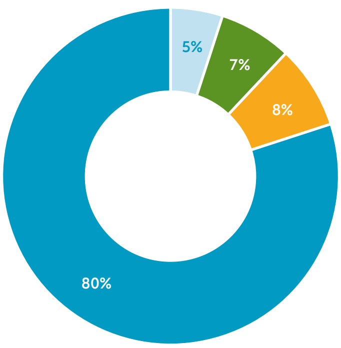
'**Total Carbon Emissions**' is the portfolio's absolute level of carbon footprint.

'**Relative Carbon Footprint**' is a normalised measure of a portfolio's carbon dioxide emissions investment contribution. It is the total carbon emissions of the portfolio per million GBP invested.

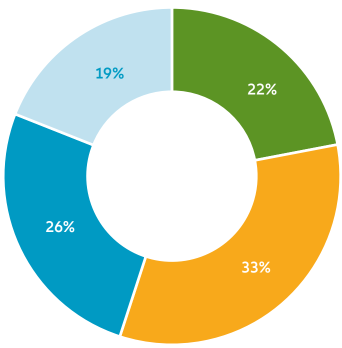
'**Weighted average carbon intensity**' measures the portfolio's exposure to carbon-intensive companies.

Coverage	Total Carbon Emissions	Carbon intensity	
by weight	**Emissions scope 1+2**	**Relative Carbon Footprint**	**Weighted average carbon intensity**
86.6%	114,237.2	123.8	504.8
Market value	tCO2e	tCO2e/GBP m invested	tCO2e/GBP m revenue

Sector weight



Contribution to emissions



Energy   Materials   All other sectors   Others

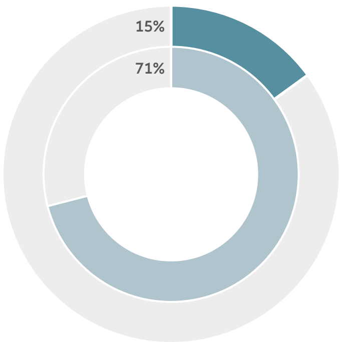
The sectors Energy, Materials, All other sectors (per GICS classification) in the portfolio make up 95.1% of the weight vs. 80.5% of the contribution to emissions. Each holding's contribution to the carbon footprint is calculated on an enterprise value ownership basis. Analysis is based on Scope 1+2.

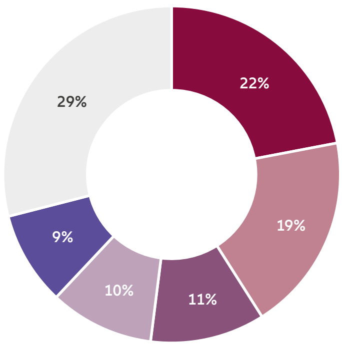
Top 5 absolute contributors

The list below shows the 5 individual companies contributing most to the greenhouse gas emissions of the Merchants Trust. The chart on the right contrasts this with the value of those 5 companies within the portfolio.

Top 5 absolute contributors

	Company	Financed emissions (tCO2e)	% of total	Portfolio weight
1	CRH	24,612.1	21.54%	2.50%
2	Shell	22,236.6	19.47%	4.28%
3	Diversified Energy Company	12,670.0	11.09%	1.09%
4	Rio Tinto	10,854.1	9.50%	3.77%
5	BP	10,180.3	8.91%	3.35%





Weighting of the top 5 contributors in the portfolio

Percentage of the top 5 contributor emissions of the total portfolio emissions

Top 5 carbon intensive firms per m GBP invested

	Company	Financed emissions (tCO2e)	% of total	Portfolio weight
1	Diversified Energy Company	12,670.0	11.09%	1.09%
2	CRH	24,612.1	21.54%	2.50%
3	Shell	22,236.6	19.47%	4.28%
4	Drax Group	6,015.8	5.27%	1.35%
5	Atalaya Mining	1,910.8	1.67%	0.58%

Carbon report statistics

Number of portfolio holdings	53
Number of issuers with carbon information	46
Percentage of portfolio NAV covered	86.55%
Portfolio NAV covered (in m GBP)	798.81

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 sustainability 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

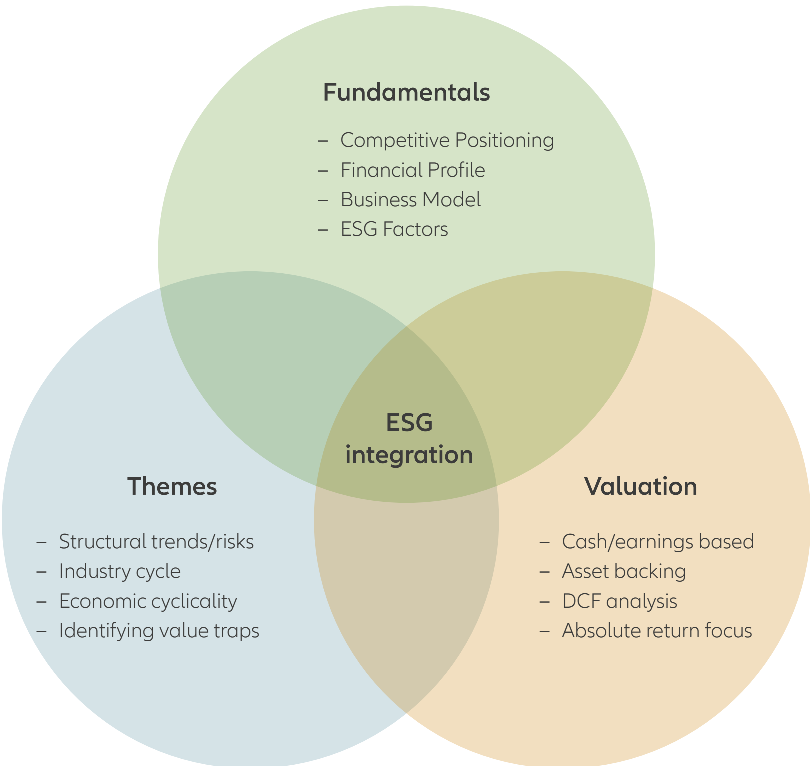
Stock Selection

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 46 and 47 for the specific attributions of each stock.

Integration of ESG in the investment process.

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.

Energy giant Shell was the portfolio's largest holding at year end.

Photo courtesy of Photographic Services, Shell International Ltd.

Top 20 Holdings

1 Shell

Oil, Gas & Coal
39,487,000
4.3%
7.0%

Shell is a globally integrated energy company. By reallocating part of the profits from its legacy oil & gas activities towards lower carbon solutions, Shell is playing a key role in delivering the energy transition. Shell has a leading position in gas and liquid natural gas, which has lower emissions than oil or coal-based energy alternatives.

Under its "Powering Progress" strategy, Shell is committing a third or more of its capital expenditure into renewables and energy solutions. These include electrical charging platforms, wind power generation 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.

Our investment case has been based upon Shell's improving efficiency and profitability, a sound capital allocation strategy and modest valuation. 2022 was a strong year for the industry and Shell's profitability, and the company announced a 15% increase in the fourth quarter dividend, along with significant share buy-backs.

2 Rio Tinto

Industrial Metals & Mining
34,755,000
3.8%
2.9%

Rio Tinto is a leading global metals and mining company, with activities spanning Iron Ore, Aluminium, Copper and Minerals. Rio has world-class, low-cost assets capable of generating strong financial returns

As well as Rio's industry leading base in iron ore, we see particular attractions in Rio's aluminium and copper operations. Aluminium's light weight, and both metals' electrical conductivity properties make them vital to the energy transition, with copper extensively used in electric vehicles and renewable power generation. These properties should underpin demand growth well into the future, whilst industry capacity is constrained. Aluminium production requires a large amount of electricity, and Rio has a structural advantage here, with most of its smelting utilising low cost and low emission hydro-electric power generation in Canada. In contrast, much of the industry still uses high emission coal powered generation.

Our investment case is based on attractive long term industry fundamentals, strong financial returns and high dividends, which we did not believe were fully reflected in the shares at the time of purchase.

Sector Value of holding Percentage of portfolio Benchmark weighting

3 GSK

Pharmaceuticals & Biotechnology
33,598,000
3.7%
2.4%

GSK (formerly GlaxoSmithKline) is a global bio-pharmaceutical company. Following the demerger of its consumer health business last year, the company is focused around speciality medicines, in areas such as HIV, respiratory illnesses and oncology, as well as vaccines and general medicines.

Our investment case is based upon the underappreciated improvement in the operational performance of the business, after a period of rationalisation, and some promising new product developments. For example, the company is developing new treatments and prevention therapies in its key HIV franchise, which are securing its long-term future. GSK has also had considerable success in its vaccine business with its relatively new shingles vaccine, reaching sales of £3bn in 2022, and with several other important vaccines in development.

The vaccines business has particular attractions, compared to traditional pharmaceutical activities, as it is less vulnerable to patent expiries and generic drug competition, due to the complexities in the manufacturing and distribution processes and long-term safety data.

4 British American Tobacco

Tobacco
32,038,000
3.5%
2.9%

British American Tobacco (BAT) is one of the world's largest tobacco companies. BAT generates the majority of its profits from traditional cigarettes, but also has a fast-growing portfolio of next-generation and non-combustible products which offer potentially reduced risk to consumers. These generated 15% of sales in 2022 and have been growing rapidly, as the company prioritises investment in this area.

BAT has an impressive record of profit and dividend growth, with strong positions in a number of emerging markets, as well as a large share of the attractive US market.

In 2017, we sold out of tobacco investments completely, 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 the sector. With share prices still considerably lower than they were at their 2017 heights, despite some strong performance in the last two years, the sector continues to offer value, especially given its economically defensive characteristics. We are encouraged by how the companies are addressing important social issues in their supply chain, as well as the development of less harmful products.

5 BP

Oil, Gas & Coal
30,883,000
3.4%
3.7%

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 plans to have approximately 50% of its capital investment in its "Transition Growth Engines" by 2030, in activities like renewable power, EV charging and bioenergy.

6 Imperial Brands

Tobacco
30,668,000
3.4%
0.8%

Imperial Brands is a major global producer of cigarettes, tobacco, and nicotine products. The investment case is similar to British American Tobacco, although Imperial is further behind in next generation products. Under new management, the business has delivered improved operational performance, and having reduced its debt, has now also started to buy back shares, which helped the shares deliver solid gains last year.

7 DCC

Industrial Support Services
29,926,000
3.3%
0.2%

DCC is a distribution business, with an excellent track-record of growth. The company currently operates across three areas; energy, healthcare and technology. Having started in Ireland and the UK, DCC acts as a consolidator in fragmented markets in Europe and the USA, reducing inefficiencies and boosting margins. The valuation is very modest for a company with such a strong track record.

8 IG Group

Investment Banking & Brokerage
25,287,000
2.8%
0.1%

IG is a leading global provider of financial derivatives contracts to the retail market. It is a fast growing and high return digital business, serving the demands of sophisticated investors. Offering exposure to 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.

9 SSE

Electricity
24,905,000
2.7%
0.8%

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 long-term growth opportunities in both of its main businesses and a modest valuation.

10 WPP

Media
24,052,000
2.6%
0.4%

WPP is a leading advertising and media agency group, with a broad span of businesses, covering creative work and communications. The company has been restructured from a conglomerate 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.

11 St James's Place

Investment Banking & Brokerage
23,636,000
2.6%
0.3%

St. James's Place is one of the UK's leading wealth managers. Its excellent growth record has been supported by an increasingly affluent population, saving for retirement. Investment in technology and capabilities, including an academy to educate its advisors, drives internal efficiency gains and future growth. The company offers financial planning advice through a partnership network. With client assets highly resilient, once invested.

12 Tate & Lyle

Food Producers
23,611,000
2.6%
0.1%

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

13 CRH

Construction & Materials
23,084,000
2.5%
0.0%

CRH is the largest supplier of building materials and products in North America and Europe. In its 2021 financial year, the company had sales of US$30 bn and delivered a sector-leading return on capital employed. CRH also has a strong track-record of adding value through acquisitions. The company is moving towards a more integrated business model, providing high value-add solutions with a focus on sustainability.

14 Unilever

Personal Care, Drug & Grocery Stores
21,816,000
2.4%
4.4%

Unilever is one of the world's largest consumer goods companies. With 2022 revenues of over €60bn, the business is currently split across three main divisions: Food and Refreshments, Home Care and Beauty & Personal Care. Unilever's products span over 400 brands in over 190 countries, including Dove, Cif and Magnum. At the time of purchase, the shares overly discounted recent challenging performance, despite the longer-term growth potential in emerging markets.

15 Redrow

Household Goods & Home Construction
21,611,000
2.4%
0.1%

Redrow is a housebuilder operating at the premium end of the market. With long term structural demand growth for housing, a shortage of supply and favourable competitive industry dynamics, as well as limited technological risk, this is an attractive, though cyclical industry. Despite short term economic risks, we see good value in the company, backed by a large and valuable land bank, and strong balance sheet.

16 BAE Systems

Aerospace & Defence
21,200,000
2.3%
1.1%

BAE Systems is the UK's biggest defence and aerospace company, involved in the development and manufacturing of military aircraft, surface ships, submarines, electronics 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, growing demand, proprietary technology and limited cyclicality.

Sector Value of holding Percentage of portfolio Benchmark weighting

17 Barclays

Banks
20,535,000
2.3%
1.2%

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.

18 Next

Retailers
19,523,000
2.1%
0.3%

Next is a well-managed retailer, providing clothing, homeware and beauty products which are responsibly sourced and accessibly priced. The company strategy has steadily shifted such that over 60% of revenues are generated from its growing online business. The latter consists not only of its own products but also "LABEL", an online aggregation business selling over 1,000 third party brands.

19 Landsec

Real Estate Investment Trusts
18,923,000
2.1%
0.2%

Landsec (formerly Land Securities) is one of the largest commercial property development and investment companies in the UK. As of September 2022, the company has a £10.9 billion portfolio. Historically Landsec was predominantly invested in London offices and large shopping centres, but it is now also seeking opportunities for mixed-use urban developments. The investment case is based upon an improving income and income growth profile and an attractive valuation.

20 Grafton Group

Industrial Support Services
18,554,000
2.0%
0.1%

Grafton Group is an international builder's merchant, with a smaller retail and manufacturing segment. The company operates several brands across its businesses and geographies, including Selco in UK merchanting, Leyland in decorating and Woodie's in Irish DIY retail. Increasing investment in the renovation, maintenance and improvement of housing stock is a structural trend, and Grafton's strong management team have delivered meaningful growth beyond this.

Portfolio Holdings

at 31 January 2023

Listed Equity Holdings

Merchants Trust Portfolio Breakdown by Category

Name	Principal Activities	Value £'000s	% of listed holdings	Benchmark weighting	Investment Attributes: Classic Value	Investment Attributes: Franchise	Investment Attributes: Special Situations
Shell	Oil, Gas & Coal	39,487	4.3	7.0	●		
Rio Tinto	Industrial Metals & Mining	34,755	3.8	2.9		●	
GSK	Pharmaceuticals And Biotechnology	33,598	3.7	2.4		●	
British American Tobacco	Tobacco	32,038	3.5	2.9	●		
BP	Oil, Gas & Coal	30,883	3.4	3.7	●		
Imperial Brands	Tobacco	30,668	3.4	0.8	●		
DCC	Industrial Support Services	29,926	3.3	0.2		●	
IG Group	Investment Banking & Brokerage	25,287	2.8	0.1		●	
SSE	Electricity	24,905	2.7	0.8		●	
WPP	Media	24,052	2.6	0.4		●	
St. James's Place	Investment Banking & Brokerage	23,636	2.6	0.3		●	
Tate & Lyle	Food Producers	23,611	2.6	0.1		●	
CRH	Construction & Materials	23,084	2.5	0.0	●		
Unilever	Personal Care, Drug And Grocer	21,816	2.4	4.4		●	
Redrow	Household Goods & Home Construction	21,611	2.4	0.1		●	
BAE Systems	Aerospace & Defence	21,200	2.3	1.1		●	
Barclays	Banks	20,535	2.3	1.2			●
Next	Retailers	19,523	2.1	0.3		●	
Landsec	Real Estate Investment Trusts	18,923	2.1	0.2	●		
Grafton Group	Industrial Support Services	18,554	2.0	0.1	●		
Tesco	Personal Care, Drug & Grocery Stores	17,705	1.9	0.8	●		
NatWest	Banks	16,473	1.8	1.6	●		
National Grid	Gas, Water & Multiutilities	16,144	1.8	0.7		●	
Energean	Oil, Gas And Coal	16,063	1.8	0.1	●		
Man Group	Investment Banking & Brokerage	16,031	1.8	0.1		●	
Legal & General	Life Insurance	15,240	1.7	0.6		●	
Pets At Home Group	Retailers	14,792	1.6	0.1		●	
PZ Cussons	Personal Care, Drug & Grocery Stores	13,888	1.5	0.0		●	
Bellway	Household Goods & Home Construction	13,809	1.5	0.1		●	
SThree	Industrial Support Services	13,707	1.5	0.0		●	
Haleon	Pharmaceuticals And Biotechnology	13,294	1.5	0.7		●	
Close Brothers Group	Banks	13,130	1.4	0.0		●	

Name	Principal Activities	Value £'000s	% of listed holdings	Benchmark weighting	Investment Attributes: Classic Value	Franchise	Special Situations
Morgan Advanced	Electronic & Electrical Equipment	13,094	1.4	0.0		●	
Keller	Construction & Materials	12,935	1.4	0.1	●		
Swiss Re	Non-Life Insurance	12,837	1.4	0.0			●
Tyman	Construction & Materials	12,815	1.4	0.0		●	
Drax Group	Electricity	12,469	1.4	0.1			●
Conduit Holdings	Non-Life Insurance	11,883	1.3	0.0			●
Bayerische Motoren Werke	Automobiles And Parts	11,756	1.3	0.4	●		
Entain	Travel & Leisure	11,680	1.3	0.0	●		
Admiral Group	Non-Life Insurance	11,453	1.3	0.3		●	
OSB Group	Finance And Credit Services	11,319	1.2	0.0		●	
Sanofi	Pharmaceuticals & Biotechnology	11,075	1.2	0.1		●	
National Express Group	Travel & Leisure	10,322	1.1	0.0		●	
Diversified Energy Company	Oil, Gas & Coal	10,074	1.1	0.0	●		
Vodafone Group	Telecommunications Service Providers	9,721	1.1	1.0	●		
SCOR	Non-Life Insurance	9,578	1.1	0.0			●
CLS Holdings	Real Estate Investment And Services	8,645	1.0	0.0	●		
DFS Furniture	Retailers	8,436	0.9	0.0		●	
Norcros	Construction & Materials	6,262	0.7	0.0		●	
Ashmore Group	Investment Banking & Brokerage	5,683	0.6	0.1		●	
Atalaya Mining	Precious Metals And Mining	5,305	0.8	0.0	●		
Duke Royalty	Investment Banking & Brokerage	3,928	0.4	0.0		●	
	% of Total Invested Funds	**909,638**	**100.0**				

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

Classic Value: These are valuation-driven investments. Typically, the shares of a company will trade at a substantial discount to their intrinsic value because the business is misunderstood or out of favour with the market. While there need not be long-term growth, the business model is structurally sound and financial risk is limited.

Franchise: These are business model driven investments. Our investment cases are always premised on attractive absolute valuations. However, a franchise investment has the added advantage of delivering long-term growth with the potential to compound value. These are quality companies with sustainable advantages where either the market has lost sight of the fact or has yet to recognise it.

Special Situations: These are catalyst driven investments. Each business within this category will face a unique set of circumstances that has caused the value of the shares to weaken significantly. These can include business turnarounds, spin-offs or balance sheet restructurings. For us to invest in such an event, the market's perception of this weakness needs to be overstated in the share price. Conversely, the market is also likely to be slow in recognising any ensuing recovery.

Written Call Options

As at 31 January 2023, the market value of the open option positions was £(20,000) (2022: £(615,000)), resulting in an underlying exposure to 2.5% of the portfolio (valued at strike price).

Distribution of Total Assets

at 31 January 2023

	Percentage of total assets* at 31 January 2023	Percentage of total assets* at 31 January 2022
Financials		
Banks	5.7	3.9
Finance & Credit Services	1.3	-
Investment Banking & Brokerage	8.4	8.9
Life Insurance	1.7	2.9
Non-Life Insurance	5.3	6.6
Real Estate Investment & Services	1.0	-
	23.4	**22.3**
Industrials		
Aerospace & Defence	2.4	3.1
Construction & Materials	6.3	6.5
Electronic & Electrical Equipment	1.5	1.0
Industrial Support Services	7.1	4.0
	17.3	**14.6**
Consumer Staples		
Food Producers	2.7	2.6
Personal Care, Drug & Grocery Stores	6.1	3.1
Tobacco	7.1	9.3
	15.9	**15.0**
Consumer Discretionary		
Automobiles & Parts	1.3	-
Household Goods & Home Construction	4.1	4.0
Media	2.7	5.8
Retailers	4.9	3.3
Travel & Leisure	2.5	1.1
	15.5	**14.2**

	Percentage of total assets* at 31 January 2023	Percentage of total assets* at 31 January 2022
Energy		
Oil, Gas & Coal	10.9	10.8
	10.9	**10.8**
Utilities		
Electricity	4.2	6.1
Gas, Water & Multiutilities	1.8	3.1
	6.0	**9.2**
Health Care		
Pharmaceuticals & Biotechnology	6.6	6.2
	6.6	**6.2**
Telecommunications		
Telecommunications Service Providers	1.1	3.6
	1.1	**3.6**
Basic Materials		
Precious Metals & Mining	0.6	-
Industrial Metals & Mining	4.0	2.6
	4.6	**2.6**
Real Estate		
Real Estate Investment Trusts	2.2	1.9
	2.2	**1.9**
Total Investments	**103.5**	**100.4**
Net Current Liabilities	**(3.5)**	**(0.4)**
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) £879,184,000 (2022: £805,804,000).

Performance – Review of the Year

Revenue	2023	2022	% change
Income (£'000s)	42,821	35,292	+21.3
Revenue earnings attributable to ordinary shareholders (£'000s)	38,626	31,835	+21.3
Revenue earnings per ordinary share	28.7p	25.6p	+12.1
Dividends per ordinary share in respect of the year[1]	27.6p	27.3p	+1.1

Assets	2023	2022	Capital return % change	Total return % change[1 2]
Net asset value per ordinary share with debt at par	579.7p	578.7p	+0.2	+4.9
Net asset value per ordinary share with debt at market value (capital)[1]	585.1p	569.5p	+2.7	+7.6
Ordinary share price	591.0p	573.0p	+3.1	+7.9
FTSE All-Share	4,255.7	4,191.8	+1.5	+5.2
Premium (discount) of ordinary share price to net asset value (debt at par)[1]	1.9%	-1.0%	n/a	n/a
Premium of ordinary share price to net asset value (debt at market value)[1]	1.0%	0.6%	n/a	n/a
Ongoing charges[1 3]	0.56%	0.55%	n/a	n/a

1 Inclusive of third and final dividends.
2 NAV total return reflects both the change in net asset value per ordinary share and the net ordinary dividends paid.
3 The ongoing charges percentage is calculated in accordance with the explanation given on page 124.

A Glossary of Alternative Performance Measures (APMs) is on page 123.

Strategic Report

We added to our holding in housebuilder Redrow.
Photo courtesy of Redrow

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 5, and in the Investment Manager's Review starting on page 16.

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:

- Gearing and the gearing policy and the structure of the company's borrowings and consideration of whether the level was right currently and for the future
- Marketing and the evolution of the trust's digital strategy and the interaction with the investment platforms providing access to Merchants' shares and the continuing growth of the retail platforms as vehicles for retail investors

Following our strategic review it was noted that the gearing level and policy continued to be suitable and support the company's strategic objectives. Deployment of gearing enabled the manager to take advantage of opportunities when market conditions were right. The financing and refinancing of borrowings would be kept under continuous review to ensure the gearing was competitive and to manage debt maturities.

The board would continue to learn what it could about the pipelines of investment, to understand the needs of its retail and wealth management investors and to reaffirm Merchants as a core income vehicle for investors in UK equities.

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 12.1% in the year to 31 January 2023 (2022: 12.7%).

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.

Strategic Aims

The company's aims, as reflected in the KPIs reporting on page 14, continue to be to:

Dividends

- Provide a high and progressively growing income stream. The chart in the Chairman's Statement on page 5 shows dividend increases every year since 1982 and the KPI chart on page 15 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 15 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 15 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 36 and 37 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 54.

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.

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 pages 12 and 13.

Below are some examples of the ways that Merchants has interacted with stakeholders to demonstrate how the board and 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, podcasts and LinkedIn posts. Meetings are held with professional shareholder groups. The AGM provides a focus for interaction with shareholders. This year's AGM will be again be a live event, 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 extend information available to shareholders and potential new investors. The website was regularly updated with new podcasts and interviews with the portfolio manager.
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 post-pandemic environment 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 30 and also of proxy voting on page 68.	Merchants actively votes at portfolio company meetings. Reports on engagement and case studies are in the Investment Manager's Report which starts on page 16.
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: 'Higher gearing to take advantage of opportunities' , to explain Merchants' current thinking to 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 57.

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 81.

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:

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

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

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

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.

ESG risks

ESG risks are covered and described in the Portfolio ESG Risk Assessment on page 28 and in the Climate Risks and Opportunities discussion on page 33.

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.
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

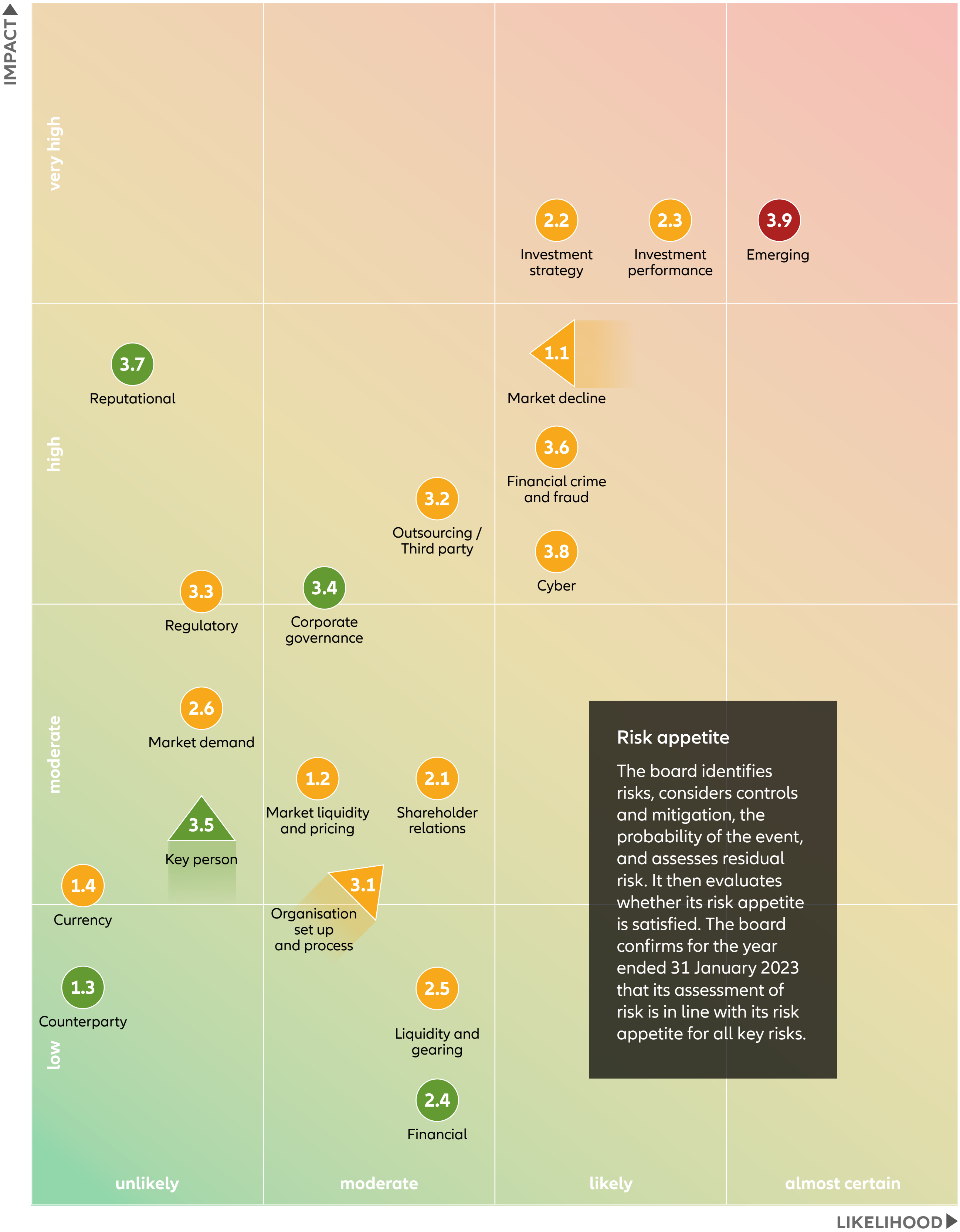
3.1 Organisation set up and process

Risk: Failure or other issues in the operational set up of the company, through people, processes, systems or external events, examples including changes in management company structure, oversight issues, appropriate governance of processes 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.

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 2023 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

3.3 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.

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

3.7 Reputational
Risk: Examples include unforeseen changes, oversight issues, appropriate governance of processes in the management company structure; association with poor governance in portfolio companies; and operational issues in service providers, all of 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 governance and other ESG issues and makes investments incorporating all ESG factors in the decision process. Service providers are monitored and the manager provides oversight.

3.8 Cyber security
Risk: Risk of increased cyber attacks continue post pandemic, and the changed working arrangements that have remained in place.
Response: The board is alert to the threat of and risks from cyber attacks and reviews how third party service providers handle these threats and risks. These reports confirm that all systems are secure and are updated in response to any new threats as they arise.

3.9 Emerging
Risk: Unpredictable consequences of political and macro-economic shocks such as the attack on Ukraine by Russian armed forces, inflation, cost of living increases, threat to income, increase in gearing and climate-related risks.
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;
– 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;
– Climate-related risks are described in the TCFD discussion on page 33.

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 133 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. 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 55.

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 250 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 potential for 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 fully drawn down the RCF in 2022.

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.
   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 0.56% of net assets in the latest year (2022: 0.55%). 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 macroeconomic shocks 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 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 resulted in minimum disruption through the pandemic and in the post-pandemic environment.

   The portfolio manager has provided forecasts to demonstrate the reasonable prospect of, having utilised revenue reserves in the prior year, returning to a covered dividend and building reserves against future requirements. 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. The directors have also considered the risks and consequences of macroeconomic and other unanticipated shocks on the company and have concluded that the company has the ability to continue in operation and meet its objectives for twelve months after the approval of the annual report. 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 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 31.

On behalf of the board.

Colin Clark
Chairman
4 April 2023

Governance

Renewable electricity generator SSE was a notable contributor to performance, lifted by electricity price increases. Its assets include Clyde Wind Farm pictured above.

Photo courtesy of SSE plc

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 and a non-executive director of AXA IM SA global board. 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 Remuneration 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 public company 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

Chair 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 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 75.

Investment Manager and Advisers

The Manager or Alternative Investment Fund Manager (AIFM)

Allianz Global Investors GmbH (AllianzGI) 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).

In April 2021 the board announced that steps are being taken by AllianzGI to establish a UK AIFM and this is expected to take place in 2023.

AllianzGI is an active asset manager operating across 19 markets with investment professionals around the globe, managing assets for individuals, families and institutions worldwide.

As at 31 December 2022, AllianzGI had €506 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 January 2023 had £2.5 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 117)

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 2023.

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 2023

Further information about the relationship with the Depositary is on page 116.

Directors' Report

The directors present their report and the audited financial statements of the company for the year ended 31 January 2023.

Revenue

The revenue earnings attributable to ordinary shareholders for the year amounted to £38,626,000 or 28.7p per share (2022: £31,835,000, 25.6p per share).

The first quarterly dividend of £9,208,000, or 6.85p per share, and the second quarterly dividend of £9,332,000, or 6.85p per share, have been paid during the year. Since the year end the third quarterly dividend of £9,669,000, or 6.90p per share, was paid on 15 March 2023. A proposed final dividend of 7.00p will be paid on 26 May 2023. 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 £20,870,000 (2022: gains of £44,052,000). 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 12,430,000 shares and no share buybacks. Since the year end a further 2,515,000 new shares were issued. Further details are on page 105.

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 5 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 31. The future is also discussed in the Strategic Report on page 60.

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 105. 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 105.

Voting Rights in the Company's Shares

The voting rights to 4 April 2023 were:

Share class	Number of shares issued	Voting rights per share	Total voting rights
Ordinary shares of 25p	142,649,887	1	142,649,887
3.65% Cumulative Preference Stock of £1	1,178,000	1	1,178,000
Total	**143,827,887**		**143,827,887**

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 31 March 2023 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.

The Board and Gender Diversity Reporting

The board is supportive of the FCA's recently updated Listing Rules (LR 9.8.6R(9)) to encourage greater diversity on listed company boards and has implemented the FCA's disclosure requirements. The board recognises the importance of having a range of skilled, experienced individuals with the right knowledge represented on the board. The board will continue to ensure that all appointments are made on the basis of merit against the specification prepared for each appointment. The board has chosen to align its diversity reporting reference date with the company's financial year end and proposes to maintain this alignment for future reporting periods. The company has met one of the targets on board diversity as at its chosen reference date, 31 January 2023 as at least 40% of the individuals on its board of directors are women. The board did not at the reference date and does not at the date of this report have any directors from a minority ethnic background. Further details on the company's appointment process can be found under The Board and Board Composition on page 71. As required under LR 9.8.6R(10), further detail in respect of the targets outlined above as at 31 January 2023 is disclosed in the tables below.

As an externally managed investment company, the company has no executive directors, employees or internal operations. Therefore columns relating to executive management have been removed from the tables below. The roles of chief executive and chief financial officer are not applicable to the company, however, the company considers the roles of the Senior Independent Director and Chair of the Audit Committee to be senior board positions and the following disclosure is made on this basis.

As at 31 January 2023:

	Number of Board members	Percentage of the Board	Number of Senior Positions on the Board (Chair, Audit Chair and SID)
Men	2	40%	2
Women	3	60%	1
Other	-	-	-
Not specified/prefer not to say	-	-	-

	Number of Board members	Percentage of the Board	Number of Senior Positions on the Board (Chair, Audit Chair and SID)
White British or other White (including minority-white groups)	5	100%	3
Mixed/Multiple Ethnic Groups	-	-	-
Asian/Asian British	-	-	-
Black/African/Caribbean/Black British	-	-	-
Other ethnic group, including Arab	-	-	-
Not specified/prefer not to say	-	-	-

Since the reference date and the date that the Annual Report was approved no further changes have occurred.

As at 4 April 2023:

	Number of Board members	Percentage of the Board	Number of Senior Positions on the Board (Chair, Audit Chair and SID)
Men	2	40%	2
Women	3	60%	1
Other	-	-	-
Not specified/prefer not to say	-	-	-

	Number of Board members	Percentage of the Board	Number of Senior Positions on the Board (Chair, Audit Chair and SID)
White British or other White (including minority-white groups)	5	100%	3
Mixed/Multiple Ethnic Groups	-	-	-
Asian/Asian British	-	-	-
Black/African/Caribbean/Black British	-	-	-
Other ethnic group, including Arab	-	-	-
Not specified/prefer not to say	-	-	-

Directors

Biographical details of the current directors at the date of the signing of this report are shown on pages 62 and 63.

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 (2022: 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 (2022: 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 84. The Independent Auditors' Report begins on page 86.

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.

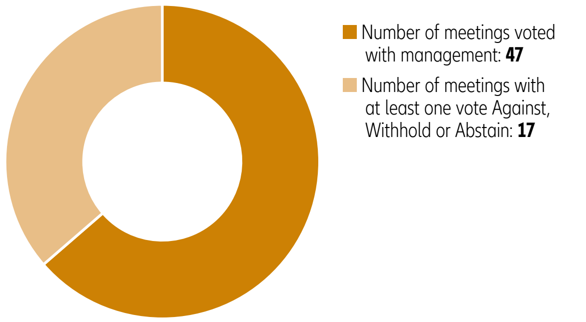
Stewardship and Exercise of Voting Powers

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.

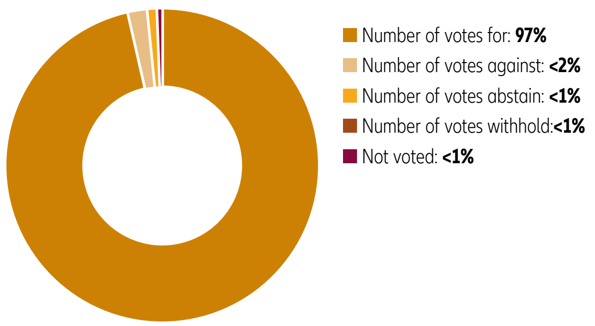
Where directors hold directorships on the boards of companies in which the company is invested, they do not participate in decisions made concerning those investments, such as Sybella Stanley (Tate & Lyle).

Proxy voting 1 February 2022 to 31 January 2023
In the year there were 61 shareholder meetings for companies in the portfolio and the manager voted on the company's behalf at all 61 of these. This represents a total of 1,050 resolutions and the company voted on 100% of these. Source: AllianzGI.

Company meeting voting record



Vote distribution



ESG and Climate-related 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. 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.

As a listed investment company, Merchants is not required to provide a report under the TCFD ("Task Force on Climate-related Financial Disclosures"). However, the company has discussed with the manager, AllianzGI, on its own activities in this area and this is on page 33. The board receives a detailed report on ESG matters at every board meeting and discusses activities in the investment process: interactions with the companies in the portfolio and the outcome of these engagements; proxy voting; and performance against industry data.

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 such 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 Thursday 18 May 2023 at Grocers' Hall, Princes Street, London, EC2R 8AD.

Shareholders may and are strongly encouraged to participate in the business of the AGM by exercising their votes in advance of the meeting by completing and returning the form of proxy. There are also two new ways that shareholders can vote this year. Shareholders may submit their proxy electronically using the Share Portal service at www.signalshares.com or via the registrars' new LinkVote+ shareholder App. Further details on voting via the LinkVote+ App or online through the registrars' Share Portal are contained within the Notice of Meeting Notes on page 121. The deadline for you to submit your proxy votes to the registrars is 12.00 pm on Tuesday 16 May 2023.

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. 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 47,549,962 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 2024.

2. Disapplication of Pre-emption Rights

A resolution was passed at the annual general meeting held on 18 May 2022 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 2023. 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 2024 or 17 August 2024 if earlier. This power is limited to a maximum number of 14,264,988 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 2023.

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.

3. 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 £569 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 21,383,218 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 2023.

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 2024 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
4 April 2023

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 52 and 53. 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 62 and 63 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 73.

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 2023. These included discussion at board meetings of how technology or innovation might impact Merchants' portfolio companies and exploration of marketing tools, including the use of social media.

Succession is considered on an ongoing basis but was also identified as a particular item in the board evaluation exercise which took place in March 2023 and there is more information on this in the Nomination Committee Report on page 76. 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 updates on regulatory and compliance changes.

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. As a FTSE-250 company, Merchants responded to the request for voluntary information on its current board membership from BEIS (Department for Business, Energy, and Industrial Strategy) in 2022. The board will consider how to address this in its future succession plans. The board will report more fully with numerical disclosures and targets in the next annual report. The board agreed that in the report for the year to 31 January 2023 the company would show that it had identified the chairman, the senior independent director and the chair of the audit committee as the senior positions. Currently the board is composed of three female and two male directors but does not include a director from a minority ethnic group. As an investment company Merchants does not have any employees, therefore it has nothing further to report in respect of gender and ethnic representation within the company.

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.

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 meets at least twice each year and is chaired by Timon Drakesmith. The committee assists the board in relation to the reporting of financial information, the review of financial controls and the management of risk. The Audit Committee Report starts on page 81.

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 76.

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 75.

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 77.

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.

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.

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 Report.

The key elements of the process are as follows:

- In addition to the review of the key risks (see page 55), 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.

Management Engagement Committee Report

Colin Clark
Chair of the Management Engagement Committee

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 21.

AIFM

Details of the current AIFM are on page 116. As the board announced in April 2021, as a result of the UK leaving the EU, AllianzGI has formed a UK management company so that it can continue as a licensed AIFM in the UK. A temporary permission regime is currently in place and AllianzGI is in the process of applying for the licence to operate as an AIFM in the UK. This is expected to take effect during 2023. There will be no increase in the management or administrative expenses of the company with this change.

Manager reappointment

The annual evaluation that took place in March 2023 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. Actions agreed for 2023 included meeting with the other investment trust clients of AllianzGI, and consideration of succession plans for the AllianzGI team.

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 99 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 71. The conclusion from the process was that the committee was operating effectively, with the right balance of membership and skills.

Colin Clark
Chair of the Management Engagement Committee
4 April 2023

Nomination Committee Report

Colin Clark
Chair of the Nomination Committee

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 regarding 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 effectiveness review exercise took place in March 2023 and was internally facilitated by the Chairman and Company Secretary. An effectiveness review was conducted through an external service provider in 2021. Detailed questionnaires covering a wide number of topics relating to 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 Chairman also conducted interviews with the individual directors. The results of this review were that the board, its directors and its committees are effective. The review identified the continuing importance of discussion by the board of macroeconomic topics, discussion of how technology or innovation might impact investee companies, and developing an understanding of how marketing could be used most effectively. The board evaluation also included a separate review of the Chairman conducted by the Senior Independent Director, involving questionnaires completed by the individual directors and interviews. 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 the next two years and has commenced the process to conduct searches for suitable successors, making use of external search consultants.

Colin Clark
Chair of the Nomination Committee
4 April 2023

Remuneration Committee Report

Sybella Stanley
Chair of the Remuneration Committee

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 2023.

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. It will next be put to shareholders at the AGM in 2023.

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 2022 AGM for the resolution to approve the Implementation Report were as follows: In favour 98.21%, against 1.79% and 88,821 shares were noted as votes withheld (in aggregate 13,909,276 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:

	2023	2022
Colin Clark	10,000	10,000
Timon Drakesmith	15,000	15,000
Karen McKellar	8,000	8,000
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 limit the aggregate fees payable to the board of directors to a total of £250,000 per annum. Subject to this overall limit, it is the board's policy to determine the level of directors' fees having regard to the level of fees payable to non-executive directors in the investment trust industry generally, the role that individual directors fulfil, and the time committed to the company's affairs. The board believes that levels of remuneration should be sufficient to attract and retain non-executive directors to oversee the company.

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

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

This Directors' Remuneration Policy is the same in all material respects as that currently followed by the board and summarised in the last Directors' Remuneration Report and approved by the shareholders at the annual general meeting held on 23 June 2020.

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 £27,000 per annum, with an additional £6,000 for the Chair of the Audit Committee, and the Chairman was paid at a rate of £40,500 per annum. The current fees have applied since 1 February 2022.

The fees were reviewed in March 2023. In the context of industry data reviewed, the committee considered the current level of directors' fees and the work undertaken during the year by the directors. They also considered that within the next financial year two directors were due to retire having attained nine years' service, and that the company would be looking to recruit new directors. Having considered these factors, the committee agreed that a modest increase would be appropriate and it has been agreed to increase the fees with effect from 1 February 2023. The Chairman will be paid £42,000 p.a., the directors will be paid £28,000 p.a., and an unchanged additional fee of £6,000 p.a. will be paid to the Chair 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 2023 or 2022, and were in the form of fees, were as follows:

Directors' fees	2023 £	2022 £
Colin Clark	40,500	39,750
Timon Drakesmith	33,000	32,250
Karen McKellar	27,000	26,500
Mary Ann Sieghart	27,000	26,500
Sybella Stanley	27,000	26,500
Total	**154,500**	**151,500**

	2023 £	% change from 2022 to 2023	2022 £	% change from 2021 to 2022	2021 £	% change from 2020 to 2021	2020 £
Chairman	40,500	1.9	39,750	0.0	39,750	3.9	38,250
Audit Chair	33,000	2.3	32,250	0.0	32,250	4.0	31,000
Independent Director	27,000	1.9	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

	2023 £	2022 £
Remuneration paid to all directors	154,500	151,500
Distributions to shareholders	36,248,000	33,505,000

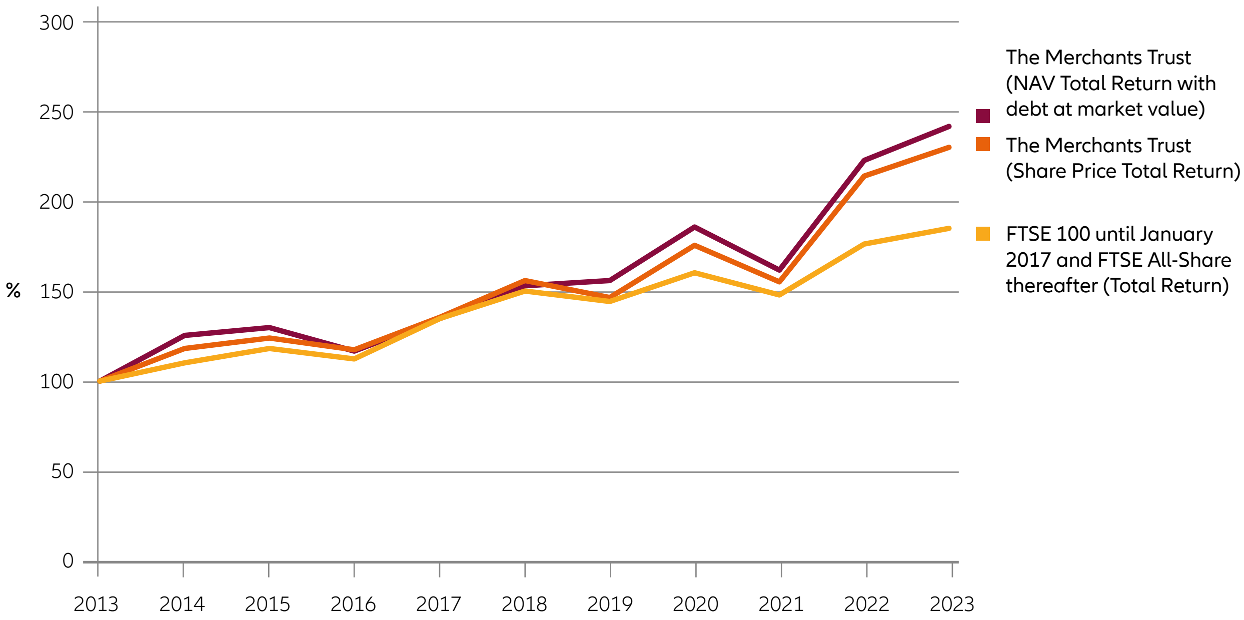
The disclosure is a statutory requirement, however the directors do not consider that the comparison of directors' remuneration with distributions to shareholders is a meaningful measure of the company's overall performance.

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 2023



Source: AllianzGI / Datastream in GBP
Figures have been rebased to 100 as at January 2013

Signed on behalf of the board

Sybella Stanley
Chair of the Remuneration Committee
4 April 2023

Audit Committee Report

Timon Drakesmith
Chair of the Audit Committee

I am pleased to present the report of the audit committee for the year ended 31 January 2023.

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
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 from cyber attacks and data breaches. This follows on from our activities reported last year to review their ability to support Merchants' operations when challenged by the ongoing pandemic.

Area of focus	Activity
Capital structure assessment	The Audit Committee constantly monitors Merchants equity and debt capital structure to ensure that returns are optimised whilst retaining flexibility and resilience. We to continue to analyse different capital management scenarios in the context market movements and the company's appetite for gearing. During the year we drew down more from the company's Revolving Credit Facility (RCF) and reviewed the potential for refinancing the company's 2029 bonds prior to their maturity date.
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 97 and 98, 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 55.

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 58 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 £8.1 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 fifth 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. The auditor is required to rotate partners every five years and following the audit of these accounts, Peter Smith will retire. His successor has been identified and on behalf of the Audit Committee I am satisfied that he has the appropriate knowledge and experience to take on the role.

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 2021/22.

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 accrued in the year that related to non-audit services were £5,000 (2022: £nil).

Timon Drakesmith
Chair of the Audit Committee
4 April 2023

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 68.

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
4 April 2023

Financial Statements

Construction materials specialist CRH was the largest net purchase during the period under review, delivering strong gains in the last few months of the year.

Photo courtesy of CRH plc

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 2023 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 2023 which comprise the statement of comprehensive income, statement of changes in equity, statement of financial position, Statement of cashflows 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 shareholders on 16 May 2018 to audit the financial statements for the year ending 31 January 2019 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 5 years, covering the year ended 31 January 2019 to 31 January 2023. 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 the going concern in light of market volatility and the present economic outlook by reviewing the information used by the Directors in completing their assessment;
- Assessing the liquidity of the investment portfolio, which underpins the ability to meet the future obligations and operating expenses for a period of 12 months from the date of approval of these financial statements; and
- Obtaining the loan agreements to identify the covenants and assessing the likelihood of them being breach based on management forecast and sensitivity analysis.

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

		2023	2022
Key audit matters	Valuation and ownership of investments	✔	✔
	Revenue recognition	✔	✔
Materiality	*Company financial statements as a whole* £8.12m (2022: £7.39m) based on 1% (2022: 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 quoted investments (Note 8 on Page 103)	The investment portfolio at the year-end comprised of listed equity investments held at fair value through profit or loss. We consider the valuation and ownership of listed investments to be the most significant audit area as the listed investments represent the most significant balance in the financial statements and underpin the principal activity of the entity. There is a risk that the prices used for the listed investments held by the Company are not reflective of fair value. There is also a risk of error in the recording of investment holdings such that those recording do not appropriately reflect the investments owned by the Company. For these reasons and the materiality of the balance in relation to the financial statements as a whole, we considered this to be a key audit matter	We responded to this matter by testing the valuation and ownership of the whole portfolio of quoted investments. We performed the following procedures: – Confirmed the year-end bid price was used by agreeing to externally quoted prices: – Assessed if there were contra indicators, such as liquidity considerations, to suggest bid price was not the most appropriate indication of fair value by considering the realisation period for individual holdings; – Obtained direct confirmation of the number of shares held per equity investment from the custodian regarding all investments held at the balance sheet date. – Recalculated the valuation by multiplying the number of shares held per the statement obtained from the custodian by the valuation per share; **Key observations:** Based on our procedures performed we did not identify any matters to suggest that the valuation and ownership of the quoted investments was not appropriate.

Key audit matter		How the scope of our audit addressed the key audit matter
Revenue Recognition (page 97 and Note 1 on Page 99)	Income arises from the dividend and option premium which can be volatile but is a key factor in demonstrating the performance of the portfolio. There is a risk that the special dividends are not correctly classified in the income statement which is a significant audit risk. Judgement is required in the allocation of income to revenue or capital. For this reason we considered revenue recognition to be a key audit matter.	We performed the following procedures: – We derived an independent expectation of total expected income based on the investment holdings and records of distributions from independent sources and compared it to the revenue 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 option premiums received to broker's reports and vouched them to bank statements. **Key observations:** Based on our procedures performed we found the judgements made by management in recognising revenue and determining the allocation of income to revenue or capital to be appropriate.

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	
	2023 £m	**2022 £m**
Materiality	8.12	7.39
Basis for determining materiality	1% of Net Assets	1% of Net Assets
Rationale for the benchmark applied	As an investment trust, the net asset value is the key measure of performance for users of the financial statements.	As an investment trust, the net asset value is the key measure of performance for users of the financial statements.
Performance materiality	6.09	5.54
Basis for determining performance materiality	75% of materiality The level of performance materiality applied was set after having considered a number of factors including the expected total value of known and likely misstatements and the level of transactions in the year.	75% of materiality The level of performance materiality applied was set after having considered a number of factors including the expected total value of known and likely misstatements and the level of transactions in the year.

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 £1,960,000 (2022: £1,610,000) based on 5% (2022: 5%) of revenue return before tax. We further applied a performance materiality level of 75% (2022: 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 £98,000 (2022: £80,000). 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 Code 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 set out on page 59; and – The Directors' explanation as to their assessment of the Company's prospects, the period this assessment covers and why the period is appropriate set out on page 58.
Other Code provisions	– Directors' statement on fair, balanced and understandable set out on page 55; – Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 83; – The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 74; and – The section describing the work of the audit committee set out on page 81.

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.
Directors' remuneration	In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.
Corporate governance statement	In our opinion, based on the work undertaken in the course of the audit the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Guidance and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has 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 this information. In our opinion, based on the work undertaken in the course of the audit information about the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules. We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the Company.

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 Directors' responsibilities statement, 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. We considered the significant laws and regulations to be the Companies Act 2006, the FCA listing and DTR rules, the principles of the AIC Code of Corporate Governance, industry practice represented by the AIC SORP, the applicable accounting framework, and qualification as an Investment Trust under UK tax legislation as any non-compliance of this would lead to the Company losing various deductions and exemptions from corporation tax.

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 and those charged with governance relating to any instances of non-compliance with laws and regulations;
- review of minutes of board meetings throughout the period for instances of non-compliance with laws and regulations;
- obtaining an understanding of the control environment in monitoring compliance with laws and regulations; and
- reviewing the calculation in relation to Investment Trust compliance to check that the Company was meeting its requirements to retain their Investment Trust Status.

We assessed the susceptibility of the financial statement to material misstatement including fraud and considered the fraud risk areas to be the management override of controls.

Our tests included, but were not limited to:

- The procedures set out in the Key Audit Matters section above;
- Recalculating investment management fees in total;
- Obtaining independent confirmation of bank balances; and

- Testing journals which met a defined risk criteria by agreeing to supporting documentation and evaluating whether there was evidence of bias by the Investment Manager and Directors that represented a risk of material misstatement due to fraud.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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
4 April 2023

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

Income Statement

for the year ended 31 January 2023

	Note	2023 Revenue £'000s	2023 Capital £'000s	2023 Total Return £'000s	2022 Revenue £'000s	2022 Capital £'000s	2022 Total Return £'000s
Gains on investments held at fair value through profit or loss	8	-	6,037	6,037	-	154,247	154,247
Losses on foreign currencies		-	(64)	(64)	-	(2)	(2)
Income	1	42,821	-	42,821	35,292	-	35,292
Investment management fee	2	(1,031)	(1,915)	(2,946)	(931)	(1,728)	(2,659)
Administration expenses	3	(1,171)	(3)	(1,174)	(933)	(2)	(935)
Profit before finance costs and taxation		**40,619**	**4,055**	**44,674**	**33,428**	**152,515**	**185,943**
Finance costs: interest payable and similar charges	4	(1,388)	(2,495)	(3,883)	(1,183)	(2,102)	(3,285)
Profit on ordinary activities before taxation		**39,231**	**1,560**	**40,791**	**32,245**	**150,413**	**182,658**
Taxation	5	(605)	-	(605)	(410)	-	(410)
Profit after taxation attributable to ordinary shareholders		**38,626**	**1,560**	**40,186**	**31,835**	**150,413**	**182,248**
Earnings per ordinary share (basic and diluted)	7	**28.70p**	**1.16p**	**29.86p**	**25.64p**	**121.15p**	**146.79p**

Dividends in respect of the financial year ended 31 January 2023 total 27.60p (2022: 27.30p), amounting to £38,018,000 (2022: £34,429,000). Details are set out in Note 6 on page 102.

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 97 to 114 form an integral part of these Financial Statements.

Statement of Changes in Equity

for the year ended 31 January 2023

	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 2022		31,926	118,047	293	568,352	20,432	739,050
Revenue profit		-	-	-	-	38,626	38,626
Dividends on ordinary shares	6	-	-	-	-	(36,248)	(36,248)
Unclaimed Dividends		-	-	-	-	87	87
Capital profit		-	-	-	1,560	-	1,560
Shares issued during the year	11	3,108	66,192	-	-	-	69,300
Net assets at 31 January 2023		**35,034**	**184,239**	**293**	**569,912**	**22,897**	**812,375**
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**

The Statement of Accounting Policies and Notes on pages 97 to 114 form an integral part of these Financial Statements.

Balance Sheet

at 31 January 2023

Fixed Assets	Notes	2023 £'000s	2023 £'000s	2022 £'000s
Investments held at fair value through profit or loss	8		909,638	814,895
Current Assets				
Other receivables	9	1,899		2,993
Cash and cash equivalents		11,465		18,626
		13,364		**21,619**
Current Liabilities				
Other payables	9	(43,798)		(30,095)
Derivative financial instruments	8	(20)		(615)
		(43,818)		**(30,710)**
Net current liabilities			(30,454)	(9,091)
Total assets less current liabilities			**879,184**	**805,804**
Creditors: amounts falling due after more than one year	10		(66,809)	(66,754)
Total net assets			**812,375**	**739,050**
Capital and Reserves				
Called up share capital	11		35,034	31,926
Share premium account	12		184,239	118,047
Capital redemption reserve	12		293	293
Capital reserve	12		569,912	568,352
Revenue reserve	12		22,897	20,432
Equity shareholders' funds	13		**812,375**	**739,050**
Net asset value per ordinary share	13		**579.7p**	**578.7p**

The financial statements of The Merchants Trust PLC on pages 93 to 96 were approved and authorised for issue by the Board of Directors on 4 April 2023 and signed on its behalf by:

Colin Clark
Chairman

The Statement of Accounting Policies and Notes on pages 97 to 114 form an integral part of these Financial Statements.

Cash Flow Statement

for the year ended 31 January 2023

	Notes	2023 £'000s	2022 £'000s
Operating activities			
Profit before finance costs and taxation*		44,674	185,943
Less: Gains on investments held at fair value		(7,843)	(155,443)
Add: Special dividends credited to capital**		3,472	-
Add: Losses on foreign currency		64	2
Purchase of fixed asset investments held at fair value through profit or loss		(300,664)	(230,959)
Sales of fixed asset investments held at fair value through profit or loss		208,995	215,351
Transaction costs		(1,806)	(1,196)
Decrease in other receivables		383	419
Increase in other payables		67	196
Less: Overseas tax suffered		(605)	(410)
Net cash (outflow) inflow from operating activities		**(53,263)**	**13,903**
Financing activities			
Interest paid		(3,641)	(3,229)
Drawdown on Revolving Credit Facility		16,000	-
Dividends paid on cumulative preference stock		(43)	(43)
Dividends paid on ordinary shares	6	(36,248)	(33,505)
Unclaimed dividends over 12 years		87	-
Share issue proceeds		70,011	34,879
Net cash inflow (outflow) from financing activities		**46,166**	**(1,898)**
(Decrease) increase in cash and cash equivalents		**(7,097)**	**12,005**
Cash and cash equivalents at the start of the year		18,626	6,623
Effect of foreign exchange rates		(64)	(2)
Cash and cash equivalents at the end of the year		11,465	18,626
Comprising:			
Cash and cash equivalents		11,465	18,626

* Cash inflow from dividends was £40,877,000 (2022: £33,412,000) and cash inflow from interest was £90,240 (2022: £nil).
** Tate and Lyle Special dividend paid following the sale of a subsidiary.

The Statement of Accounting Policies and Notes on pages 97 to 114 form an integral part of these Financial Statements.

Statement of Accounting Policies

for the year ended 31 January 2023

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 64. 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 52. 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 July 2022.

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 geopolitical and macroeconomic events and have concluded that the company has the ability to continue in operation and meet its objectives for twelve months after the approval of the financial statements.

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 2022.

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 2023

1. Income

	2023 £'000s	2022 £'000s
Income from Investments*		
Equity dividends from UK investments#	33,853	28,796
Unfranked dividends from UK investments	990	482
Equity dividends from overseas investments	6,934	4,771
	41,777	**34,049**
Other Income		
Deposit interest	103	-
Premiums on derivative contracts	941	1,243
Total income	**42,821**	**35,292**

* All equity income is derived from listed investments.
# Includes special dividends of £1,302,000 (2022: £430,000).

During the year, the company received premiums totalling £895,000 (2022: £1,203,000) for writing covered call options for the purpose of revenue generation. Premium income of £941,000 was amortised to income (2022: £1,243,000). 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 £20,000 (2022: £615,000).

2. Investment Management Fee

	2023 Revenue £'000s	2023 Capital £'000s	2023 Total £'000s	2022 Revenue £'000s	2022 Capital £'000s	2022 Total £'000s
Investment management fee	**1,031**	**1,915**	**2,946**	**931**	**1,728**	**2,659**

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 2023: it provides for a management fee based on 0.35% (2022: 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	2023 £'000s	2022 £'000s
For audit services	39	30
Non-audit services - for certification of loan covenants	5	-
VAT on auditor's remuneration	9	6
	53	**36**
Directors' fees	155	152
Directors' NI contributions	18	13
Marketing costs	325	336
Registrars' fees	148	126
Depositary fees	49	47
Professional and advisory fees	34	37
Printing and postage	70	83
Stock exchange fees	33	18
Stock exchange block listing fee	170	-
Custody fees	22	29
Other administration expenses	94	56
	1,171	**933**

(i) The above expenses include value added tax where applicable.
(ii) Directors' fees are set out in the Directors' Remuneration Report on page 78.
(iii) Custody handling charges of £3,000 were charged to capital (2022: £2,000).
(iv) 71% of marketing costs are payable to AllianzGI (2022: 80%).
(v) Non-audit services paid in the year were £6,000 (2022: £nil).

4. Finance Costs: Interest Payable and Similar Charges

	2023 Revenue £'000s	2023 Capital £'000s	2023 Total £'000s	2022 Revenue £'000s	2022 Capital £'000s	2022 Total £'000s
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	634	1,178	1,812	633	1,176	1,809
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	678	1,043	365	677	1,042
On Revolving Credit Facility	325	603	928	115	213	328
Future Debit Interest	2	-	2	8	-	8
	1,388	**2,495**	**3,883**	**1,183**	**2,102**	**3,285**

5. Taxation

	2023 Revenue £'000s	2023 Capital £'000s	2023 Total £'000s	2022 Revenue £'000s	2022 Capital £'000s	2022 Total £'000s
Overseas taxation*	605	-	605	410	-	410
Total tax	**605**	**-**	**605**	**410**	**-**	**410**
Reconciliation of tax charge						
Profit before taxation	39,231	1,560	40,791	32,245	150,413	182,658
Tax on profit at 19.00% (2022: 19.00%)	**7,454**	**296**	**7,750**	**6,127**	**28,578**	**34,705**
Effects of						
Non taxable income	(7,744)	-	(7,744)	(6,378)	-	(6,378)
Non taxable capital losses	-	(1,147)	(1,147)	-	(29,307)	(29,307)
Irrecoverable overseas tax	605	-	605	410	-	410
Gains on foreign currencies	-	12	12	-	1	1
Disallowable expenses	23	-	23	8	-	8
Excess of allowable expenses over taxable income	267	839	1,106	243	728	971
Total tax	**605**	**-**	**605**	**410**	**-**	**410**

* Withholding tax on Bayerische Motoren Werke, Diversified Energy Company, Sanofi, SCOR and Swiss Re.

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 2023, the company had accumulated surplus expenses of £233.4 million (2022: £228.2 million).

The company has not recognised a deferred tax asset of £58.3 million (2022: £57.1 million) in respect of these expenses, based on a prospective corporation tax rate of 25% (2022: 25%) 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

	2023 £'000s	2022 £'000s
Dividends paid on ordinary shares		
Third interim dividend 6.85p paid 15 March 2022 (2021 - 6.8p)	8,758	8,227
Final dividend 6.85p paid 24 May 2022 (2021 - 6.8p)	8,950	8,345
First interim dividend 6.85p paid 24 August 2022 (2021 - 6.8p)	9,208	8,451
Second interim dividend 6.85p paid 10 November 2022 (2021 - 6.8p)	9,332	8,482
	36,248	**33,505**

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

	2023 £'000s	2022 £'000s
Third interim dividend 6.9p paid 15 March 2023 (2022 - 6.85p)	9,669	8,748
Final proposed dividend 7.0p payable 26 May 2023 (2022 - 6.85p)	9,809	8,748
	19,478	**17,496**

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

	2023 Revenue £'000s	2023 Capital £'000s	2023 Total £'000s	2022 Revenue £'000s	2022 Capital £'000s	2022 Total £'000s
Profit after taxation attributable to ordinary shareholders	38,626	1,560	40,186	31,835	150,413	182,248
Earnings per ordinary share (basic and diluted)	**28.70p**	**1.16p**	**29.86p**	**25.64p**	**121.15p**	**146.79p**

The earnings per ordinary share is based on a weighted number of shares 134,599,189 (2022: 124,156,079) ordinary shares in issue.

8. Fixed Asset Investments

	2023 £'000s	2022 £'000s
Opening book cost	735,056	669,242
Opening investment holding gains (losses)	79,696	(31,131)
Opening investment holding (losses) gains - derivative	(471)	71
Opening market value	**814,281**	**638,182**
Additions at cost	299,968	234,664
Disposals proceeds received	(209,103)	(214,098)
Gains on investments	4,472	155,532
Market value of investments held at 31 January	**909,618**	**814,280**
Closing book cost	848,554	735,055
Closing investment holding gains	60,883	79,696
Closing investment holding gains (losses) - derivative	181	(471)
Closing market value	**909,618**	**814,280**
Gains on investments		
Gains on investments	4,472	155,532
Losses on derivative financial instruments	(108)	(89)
Transaction costs	(1,806)	(1,196)
Special dividends credited to capital	3,472	-
CSDR settlement receipts	7	-
Gains on investments held at fair value through profit or loss	**6,037**	**154,247**

The company received £208,995,000 (2022: £213,849,000) from investments sold in the year. The book cost of these investments when they were purchased was £188,125,000 (2022: £169,193,000). 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.

Transaction costs and stamp duty on purchases amounted to £1,747,000 (2022: £1,107,000) and transaction costs on sales amounted to £59,000 (2022: £89,000).

9. Other Receivables and Other Payables

	Notes	2023 £'000s	2022 £'000s
Other receivables			
Share issue		-	711
Prepayments		37	21
Accrued income		1,862	2,261
		1,899	**2,993**
Other payables: Amounts falling due within one year			
Purchases for future settlement		-	2,509
Other payables		1,233	1,166
Interest on borrowings		350	350
Revolving Credit Facility	9(i)	42,215	26,070
		43,798	**30,095**
Interest on outstanding borrowing consists of:			
5.875% Secured Bonds 2029	9(i)	208	208
4% Perpetual Debenture Stock		14	14
2.96% Fixed Rate Notes 2052		128	128
		350	**350**

(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 £13m was drawndown on 25 October 2022 with maturity 25 April 2023, £8m was drawndown on 18 November 2022 with maturity 25 April 2023 and £21m was drawndown on 25 January 2023 with maturity 25 July 2023. 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	2023 £'000s	2022 £'000s
5.875% Secured Bonds 2029	10(i)	29,570	29,521
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)	34,686	34,680
		66,809	**66,754**

(i) The £30,000,000 of 5.875% Secured Bonds is stated at £29,570,000 (2022: £29,521,000), being the net proceeds of £28,943,000 plus accrued finance costs of £627,000 (2022: £578,000). 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.

(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 £34,686,000 (2022: £34,680,000), being the net proceeds of £34,656,000 plus finance costs of £30,000 (2022: £24,000). 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	2023 £'000s	2022 £'000s
140,134,887 ordinary shares of 25p (2022 - 127,704,887)	**35,034**	**31,926**

Allotted 25p ordinary shares	2023 Number	2023 £'000s	2022 Number	2022 £'000s
Brought forward	127,704,887	31,926	120,984,887	30,246
Shares issued during the year	12,430,000	3,108	6,720,000	1,680
Carried forward	**140,134,887**	**35,034**	**127,704,887**	**31,926**

During the year 12,430,000 shares were issued (2022: 6,720,000) for a total consideration of £69,299,000, (2022: £35,590,000), net of issues costs of £125,000 (2022: £64,000). The directors are seeking authority at the Annual General Meeting on 18 May 2023 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 47,549,962 ordinary shares of 25p each.

Since the year end a further 2,515,000 shares have been issued, as at 31 March 2023.

12. Reserves

			Capital Reserve		
	Share Premium Account £'000s	Capital Redemption Reserve £'000s	Gains (losses) on sales of Investments £'000s	Investment Holding Gains (losses) £'000s	Revenue Reserve £'000s
Balance at 1 February 2022	118,047	293	489,103	79,249	20,432
Gains on sales of fixed asset investments	-	-	43,330	-	-
Losses on derivative financial instruments	-	-	(108)	-	-
Net movement in fixed asset investment holding losses	-	-	-	(39,503)	-
Movement in derivative holding losses	-	-	-	652	-
Special dividends	-	-	3,472	-	-
Transaction costs	-	-	-	(1,806)	-
Unclaimed dividends	-	-	-	-	87
Losses on foreign currencies	-	-	-	(64)	-
Transfer on sale of investments	-	-	(20,690)	20,690	-
Issue of ordinary shares	66,192	-	-	-	-
Investment management fee	-	-	(1,915)	-	-
Finance costs of borrowings	-	-	(2,495)	-	-
Other capital expenses	-	-	(3)	-	-
Dividends appropriated in the year	-	-	-	-	(36,248)
Profit retained for the year	-	-	-	-	38,626
Balance at 31 January 2023	**184,239**	**293**	**510,694**	**59,218**	**22,897**

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 (2022: 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 2022 to the net asset value, on a total return basis as at 31 January 2023. The net asset value total return with debt at market value is 7.6% (2022: +35.7%) and the net asset value total return with debt at par is 4.9% (2022: 32.1%).

The net asset value per ordinary share is based on 140,134,887 ordinary shares in issue at the year end (2022: 127,704,887). The method of calculation of the net asset value with debt at market value is described in Note 15(c) on page 111.

The net asset value per ordinary share was as follows:

	Debt at market value 2023	Debt at par 2023	Debt at market value 2022	Debt at par 2022
Net asset value per ordinary share attributable	585.1p	579.7p	569.5p	578.7p
Dividends paid in the year	27.4p	27.4p	27.2p	27.2p
Net asset value total return	**612.5p**	**607.1p**	**596.7p**	**605.9p**
Net asset value attributable	**819,960**	**812,375**	**727,281**	**739,050**

14. Contingent Liabilities and Commitments

At 31 January 2023 there were no contingent liabilities (2022: £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 105.

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 52. 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 46 and 47.

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 113. 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 2023 was as follows:

	2023 £'000s	2022 £'000s
Listed investments held at fair value through profit or loss	909,638	814,895
Derivative financial instruments - written call options	(20)	(615)
Total listed investments	**909,618**	**814,280**

The following illustrates the sensitivity of the return and the net assets to an increase or decrease of 20% and 50% (2022: 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.

	2023 20% Increase in fair value £'000s	2023 20% Decrease in fair value £'000s	2023 50% Increase in fair value £'000s	2023 50% Decrease in fair value £'000s	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
Revenue earnings								
Investment management fees	(223)	223	(557)	557	(200)	200	(499)	499
Capital earnings								
Gains (losses) on investments at fair value	181,924	(181,924)	454,809	(454,809)	162,856	(162,856)	407,140	(407,140)
Investment management fees	(414)	414	(1,035)	1,035	(371)	371	(927)	927
Change in net earnings and net assets	**181,287**	**(181,287)**	**453,217**	**(453,217)**	**162,285**	**(162,285)**	**405,714**	**(405,714)**

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 46 and 47. 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 99 for detail of income received).

Further explanation of the derivatives strategy is included in the Glossary on page 123.

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. (2022: 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.

	2023 Fixed rate interest £'000s	2023 Floating rate interest £'000s	2023 Nil Interest £'000s	2023 Total £'000s	2022 Fixed rate interest £'000s	2022 Floating rate interest £'000s	2022 Nil Interest £'000s	2022 Total £'000s
Financial assets	-	11,465	911,537	923,002	-	18,626	817,888	836,514
Financial liabilities	(66,809)	(42,215)	(1,603)	(110,627)	(66,754)	(26,070)	(4,640)	(97,464)
Net financial (liabilities) assets	**(66,809)**	**(30,750)**	**909,934**	**812,375**	**(66,754)**	**(7,444)**	**813,248**	**739,050**

As at 31 January 2023, the interest rates received on cash balances or paid on bank overdrafts, was 1.9% and 4.5% per annum respectively (2022: 0.0% and 1.25% per annum).

The fixed rate interest bearing liabilities bear the following coupon and effective rates as at 31 January 2023 and 31 January 2022.

	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 97.

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% (2022: 4.51%) and the weighted average period to maturity of these liabilities is 19.3 years (2022: 20.3 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 2023, 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 104 and 105. 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.

2023	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	429	3,869	-	-	4,298
Revolving Credit Facility	21,000	21,000	-	-	42,000
Other payables	1,233	-	-	-	1,233
Derivative financial instruments	20	-	-	-	20
Creditors - Amounts falling due after more than one year					
Amounts payable on maturity of borrowings	-	-	-	67,553	67,553
Finance cost of borrowings	-	-	11,713	30,931	42,644
	22,682	**24,869**	**11,713**	**98,484**	**157,748**

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 costs of borrowing	-	-	11,839	33,730	45,569
	30,375	**2,992**	**11,839**	**101,283**	**146,489**

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 2023, the company had an undrawn committed borrowing facility of £nil million (2022: £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 2023 (2022: £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:

	2023 £'000s	2022 £'000s
Other Receivables:		
Accrued income	1,862	2,261
Cash and cash equivalents	11,465	18,626
Total	**13,327**	**20,887**

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*:

	2023 Book Value £'000s	2023 Fair Value £'000s	2022 Book Value £'000s	2022 Fair Value £'000s
Revolving Credit Facility	42,215	42,000	26,070	26,000
5.875% Secured Bonds 2029	29,778	32,976	29,729	37,434
4% Perpetual Debenture Stock	1,389	1,223	1,389	2,132
3.65% Cumulative Preference Stock	1,178	967	1,178	1,678
2.96% Fixed Rate Notes 2052	34,814	24,623	34,808	37,699
Total	**109,374**	**101,789**	**93,174**	**104,943**

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

	2023 £'000s	2022 £'000s
Net assets per balance sheet	812,375	739,050
Add: financial liabilities at book value #	109,374	93,174
Less: financial liabilities at fair value *	(101,789)	(104,943)
Net assets (debt at fair value)	**819,960**	**727,281**
Net asset value per ordinary share (debt at fair value)	**585.1p**	**569.5p**

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 2023 and 31 January 2022. 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 140,134,887 ordinary shares in issue at 31 January 2023 (2022: 127,704,887).

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:

2023	**Level 1 £'000s**	**Level 2 £'000s**	**Level 3 £'000s**	**Total £'000s**
Financial assets at fair value through profit or loss				
Equity investments	909,638	-	-	909,638
Financial instruments	-	-	-	-
Derivatives financial instruments - written call options	-	(20)	-	(20)
	909,638	**(20)**	**-**	**909,618**

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
Derivatives financial instruments - written call options	-	(615)	-	(615)
	814,895	**(615)**	**-**	**814,280**

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 2023 and 31 January 2022.

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:

	2023 £'000s	2022 £'000s
Debt		
Creditors: amounts falling due after more than one year	66,809	66,754
	66,809	**66,754**
Equity		
Called up share capital	35,034	31,926
Share premium account and other reserves	777,341	707,124
	812,375	**739,050**
Total capital	**879,184**	**805,804**
Debt as a percentage of total capital	**7.6%**	**8.3%**

	Debt at par		Debt at fair value	
	2023 £'000s	2022 £'000s	2023 £'000s	2022 £'000s
Debt				
Revolving credit facility	42,215	26,070	42,000	26,000
Creditors: amounts falling due after more than one year	67,159	67,104	59,789	78,943
Gross debt	**109,374**	**93,174**	**101,789**	**104,943**
Total net assets	812,375	739,050	819,960	727,281
Gross gearing	**13.5%**	**12.6%**	**12.4%**	**14.4%**
Gross debt	109,374	93,174	101,789	104,943
Less: cash	(11,465)	(18,626)	(11,465)	(18,626)
Net debt	**97,909**	**74,548**	**90,324**	**86,317**
Total net assets	812,375	739,050	819,960	727,281
Net gearing	**12.1%**	**10.1%**	**11.0%**	**11.9%**

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 99. The existence of an independent board of directors demonstrates that the company is free to pursue its own financial and operating policies and therefore, under FRS102 Section 33: Related Party Disclosures, the investment manager is not considered to be a related party.

The company's related parties are its directors. Fees paid to the company's board are disclosed in the Directors' Remuneration Report on pages 78 and 79.

There are no other identifiable related parties at the year end, and as of 4 April 2023.

18. Post Balance Sheet events

Since the year end a further 2,515,000 shares have been issued, as at 31 March 2023.

Investor Information

During the year, we bought a new position in leading UK banking group NatWest. The company has considerably restructured its operations. Its first sustainable banking hub in Bristol features hot desks, wifi and collaboration pods, office rooms and events space for entrepreneurs, businesses, community organisations and charities to use for free.

Photo courtesy of NatWest Group

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 99).

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 2022 (all values in Euro).

Number of employees: 1,710

	All employees	Risk Taker	Board Member	Other Risk Taker	Employees with Control Function	Employees with Comparable Compensation
Fixed remuneration	174,302,493	7,269,792	985,960	2,207,677	390,480	3,685,675
Variable remuneration	121,033,472	16,763,831	1,483,410	4,459,440	377,612	10,443,368
Total remuneration	**295,335,965**	**24,033,623**	**2,469,370**	**6,667,117**	**768,092**	**14,129,043**

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 103 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 7.0p payable on 26 May 2023 to shareholders on the Register of Members at the close of business on 21 April 2023, making a total distribution of 27.6p per share for the year ended 31 January 2023, an increase of 1.1% over last year's distribution. The ex-dividend date is 20 April 2023. A Dividend Reinvestment Plan (DRIP) is available for this dividend and the relevant Election Date is 5 May 2023.

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.com

Shareholder Enquiries

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

Shareholder Proxy Voting

There are two new ways that shareholders can vote this year. Shareholders may submit their proxy electronically using the Share Portal service at www.signalshares.com. Or via the registrars' new LinkVote+ shareholder App. Further details on voting via the LinkVote+ App, online through the registrars' Share Portal, or by post using the personalised proxy card provided, are contained within the Notice of Meeting Notes on page 121.

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. Voting via the Proxymity platform is also available to institutional shareholders. Further details are contained within the Notice of Meeting Notes on page 121.

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 Thursday 18 May 2023 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 2023 together with the Auditors' Report thereon.
2. To declare a final dividend of 7.0p 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 Policy Report.
9. To approve the Directors' Remuneration Implementation Report.
10. 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.
11. To authorise the directors to determine the remuneration of the Auditors.

Special Business

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

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 47,549,962 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 14,264,988 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 2024 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 21,383,218;

(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 2024 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
4 April 2023

Notes:

The following notes explain your general rights as a shareholder and your right to attend and vote at this Meeting or to appoint someone else to vote on your behalf.

1. To be entitled to attend and vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), shareholders must be registered in the Register of Members of the Company at close of trading on Tuesday 16 May 2023 (the record date). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the Meeting.
2. Shareholders are entitled to appoint another person as a proxy to exercise all or part of their rights to attend and to speak and vote on their behalf at the Meeting. A shareholder may appoint more than one proxy in relation to the Meeting provided that each proxy is appointed to exercise the rights attached to a different ordinary share or ordinary shares held by that shareholder. A proxy need not be a shareholder of the Company.
3. A personalised form of proxy which may be used to make such appointment and give proxy instructions accompanies this Notice. If you do not have a form of proxy and believe that you should have one, or if you require additional forms, please contact the registrar of the Company whose contact details are provided in note 6 below.
4. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's Register of Members in respect of the joint holding (the first named being the most senior).
5. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.
6. To be valid, any form of proxy or other instrument appointing a proxy, must be returned by no later than 12 noon on Tuesday 16 May 2023 through any one of the following methods:

i) by post, courier or (during normal business hours only) hand to the Company's registrar at:
Link Group
PXS1
Central Square
29 Wellington Street
Leeds
LS1 4DL

ii) electronically through the website of the Company's registrar at www.signalshares.com
(see note 8 below).

iii) via LinkVote+ (see note 9 below).

iv) via Proxymity (see note 10 below).

v) in the case of shares held through CREST, via the CREST system (see note 13 below).

7. If you return more than one proxy appointment, either by paper or electronic communication, the appointment received last by the Registrar before the latest time for the receipt of proxies will take precedence. You are advised to read the terms and conditions of use carefully. Electronic communication facilities are open to all shareholders and those who use them will not be disadvantaged.
8. To submit your proxy instructions electronically through the company's registrar, please complete the online form of proxy by logging on to www.signalshares.com. If you have not previously registered for the share portal you will need your investor code (IVC) which is detailed on your share certificate or is available by calling our Registrar, Link Group on 0371 664 0300 or, if calling from overseas, on +44 (0) 371 664 0300. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. The Registrar is open between 09:00 - 17:30, Monday to Friday excluding public holidays in England and Wales.
9. Link Group, the company's registrar, has launched a shareholder app: LinkVote+. It's free to download and use and gives shareholders the ability to access their shareholding record at any time and allows users to submit a proxy appointment quickly and easily online rather than through the post. The app is available to download on both the Apple App Store and Google Play. QR codes to facilitate this are shown below. Your vote must be lodged by 12 noon on Tuesday 16 May 2023 in order to be considered valid or, if the meeting is adjourned, by the time which is 48 hours before the time of the adjourned meeting.

Apple App Store **GooglePlay**

10. If you are an institutional investor, you may be able to appoint a proxy electronically via the Proxymity platform, a process which has been agreed by the Company and approved by the Registrar. For further information regarding Proxymity, please go to www.proxymity.io. Your proxy must be lodged by 12 noon on

Tuesday 16 May 2023 in order to be considered valid or, if the meeting is adjourned, by the time which is 48 hours before the time of the adjourned meeting. Before you can appoint a proxy via this process you will need to have agreed to Proxymity's associated terms and conditions. It is important that you read these carefully as you will be bound by them and they will govern the electronic appointment of your proxy. An electronic proxy appointment via the Proxymity platform may be revoked completely by sending an authenticated message via the platform instructing the removal of your proxy vote.

11. The return of a completed form of proxy, electronic voting online or via the app or any CREST Proxy Instruction (as described in note 13 below) will not prevent a shareholder from attending the Meeting and voting in person if he/she wishes to do so.

12. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Meeting (and any adjournment of the Meeting) by using the procedures described in the CREST Manual (available from www.euroclear.com). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

13. In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & International Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID RA10) by 12 noon on Tuesday 16 May 2023. For this purpose, the time of receipt will be taken to mean the time (as determined by the timestamp applied to the message by the CREST application host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

14. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & International Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

15. Unless otherwise indicated on the Form of Proxy, CREST voting or any other electronic voting channel instruction, the proxy will vote as they think fit or, at their discretion, withhold from voting.

16. 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.

17. 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.

18. 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.

19. As at 31 March 2023, 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 142,649,887 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 143,827,887.

20. 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.

21. 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 2023, the NAV with debt at par value was £812,375,000 (2022: £739,050,000) and the NAV per share was 579.7p (2022: 578.7p).

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 2023 earnings per ordinary share was 28.7p (2022: 25.6p), calculated by taking the profit after tax of £38,626,000 (2022: £31,835,000), divided by the weighted average shares in issue of 134,599,189 (2022: 124,156,079).

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 111 and 112). As at 31 January 2023, the NAV with debt at market value was £819,960,000 (2022: £727,281,000) and the NAV per share with debt at market value was 585.1p (2022: 569.5p). (Further details can be found in Note 15(c) on page 111).

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 106).

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 2023 was 591.0p, an increase of 18.0p from the price of 573.0p as at 31 January 2022. The change in share price of 18.0p plus the dividends paid in the year of 27.4p are divided by the opening share price of 573.0p to arrive at the share price total return for the year ended 31 January 2023 of +7.9% (2022: +36.9%).

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 50).

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 15).

	2023 £'000s	2022 £'000s
Management fee	2,946	2,659
Administration expenses	1,171	933
Less - non-recurring expenses*	-	-
Total expenses (A)	**4,117**	**3,592**
Average net asset value with debt at market value (B)	741,304	648,689
Ongoing charge (A/B)	**0.56%**	**0.55%**

* Non-recurring expenses in 2022 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 4.7% at 31 January 2023 in the highlights on page 2.

	2023	2022
Dividends declared for the year	27.6p	27.3p
Share price at year end	591.0p	573.0p
Annual dividend as a percentage of the share price	**4.7%**	**4.8%**

Gearing is the amount of debt as a percentage of the net assets (see Note 16 on page 113).

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