Allianz Global Investors

UK governance, global reach

The Merchants Trust PLC

Half-Yearly Financial Report, 31 July 2025

Income, diversification, longevity

High income returns from a high-quality portfolio

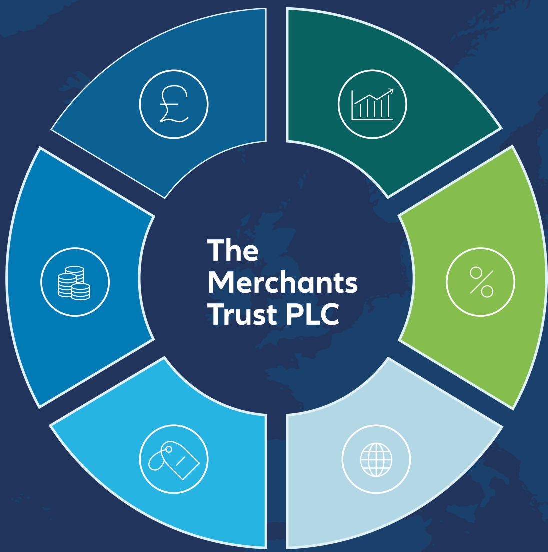
Merchants aims to provide an above average level of income and income growth together with long-term growth of capital. The trust invests mainly in higher-yielding large UK equities.

Stability with income growth

Merchants has paid increasingly higher dividends to its shareholders year-on-year for the last 43 years – from 2.1p per share in 1982 to 29.1p in 2025.

Cost effective

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 1889. The trust can draw on reserves to help smooth dividend payments during difficult economic conditions.

Liquidity and gearing

With a market capitalisation of £816m and a portfolio value of £973m, Merchants provides good liquidity to investors. Merchants is also able to employ gearing which can enhance returns.

Spread the risk with diversification

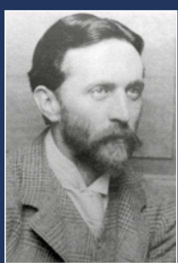
Merchants invests in companies across a number of sectors and markets, many with income derived internationally. This year 4.6% of the portfolio has been in international stocks.

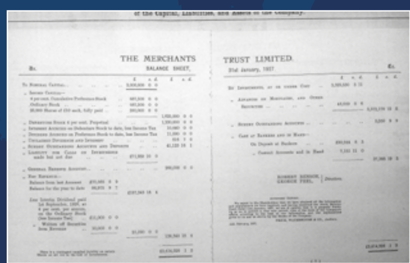
FOCUSED ON DIVIDENDS SINCE 1889

Merchants was founded in 1889 by some of the leading financiers and lawyers of the day. Its name derives partly from the firm which set it up, Bensons, who historically had been merchants themselves.

The trust invested internationally at the outset, putting up money for the building of railways in North America and Africa, as well as into other types of commercial ventures such as breweries. It also held government bonds. This diversification served it well during some difficult times including the two World Wars and the Wall Street crash.

From a very early stage, Merchants also started doing what it has become so good at – paying regular, increasing dividends to its shareholders. During its first 50 years up to 1939, it paid average annual dividends of 7.5%. Since the late 1980s the company's investment universe has been primarily high yield, blue chip UK companies in the FTSE 100 Index.



Left to right: The streets outside the Bank of England, shown here in 1890. The Merchants Trust's founding Memorandum and Articles of Association were signed in February 1889 by the trust's Board of Directors at the offices of Murray, Hutchins and Stirling, Solicitors, perhaps 250 yards to the right of this scene; Robert (Robin) Benson, founder, shown here in 1887; Merchants was an early investor in the Chicago Great Western Railway, which linked Chicago, Minneapolis, Omaha, and Kansas; The Merchants Trust Balance Sheet for 1926.

Contents

Half Year results

As at 31 July 2025

Lloyds Banking Group was the portfolio's largest contributor to performance.

PHOTO: LU-PHOTOGRAPHY / ALAMY

Dividend yield [1]

5.3%

31.1.25 **5.2%**

Dividend growth

+0.7%

31.7.25 **14.6p**
31.7.24 **14.5p**

Revenue earnings per ordinary share

+3.5%

31.7.25 **17.7p**
31.7.24 **17.1p**

Net Asset Value Total Return [1,2]

+5.4%

31.7.24 **+14.5%**

Share price Total Return [1]

+1.5%

31.7.24 **+13.1%**

Benchmark Total Return [1,3]

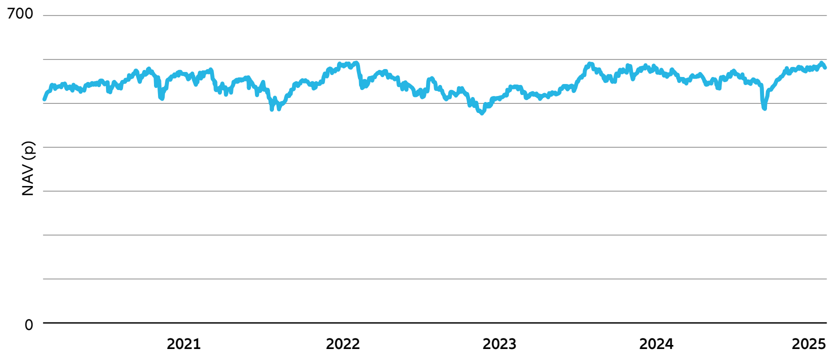
+7.5%

31.7.24 **+12.3%**

Net Asset Value per ordinary share [1,2]

599.2p

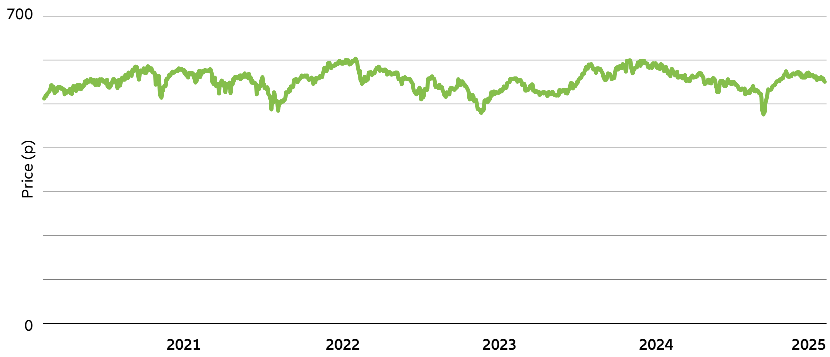
+2.9%



Share price

550.0p

(1.1)%



[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 in the period.
[2] Debt at market value.
[3] Benchmark is the FTSE All-Share Index.
See Glossary on page 28.

Chairman's Statement

Colin Clark

I am pleased to present the Merchants Trust half-year report for the six months to 31 July 2025. Strong income growth from our portfolio has once again enabled the Board to raise the dividend, extending an unbroken record of 43 consecutive annual increases.

The UK stock market delivered healthy returns in the first half of the year, with the Company's net asset value (NAV) total return rising by 5.4%* over the period. This lagged the 7.5% return of the FTSE All-Share Index, for reasons outlined in the Manager's Report. Shareholder returns were lower at 1.5%, reflecting a widening discount to NAV, against a backdrop of continued outflows from UK equity funds.

While relative performance and the discount widening are disappointing, the Board is monitoring both closely. We continue to promote the Company actively through media engagement and direct shareholder communication.

* Debt at fair value

Encouragingly, the portfolio recently temporarily exceeded £1 billion in value for the first time, placing Merchants among the larger and more liquid trusts in its sector, enhancing its appeal to wealth managers. Our Manager continues to find attractive opportunities in a polarised UK market, and both the Board and Manager remain optimistic about prospects for future income and capital growth.

Background

Although Merchants is primarily invested in UK equities, global developments, particularly in the United States, have had a significant influence during the period. Financial markets have been shaped by policy decisions and geopolitical actions during President Trump's second term, underlining the continuing influence of the US economy and trade policy on global markets.

By contrast, the UK environment was more stable, though persistently high inflation prevented meaningful interest rate cuts. Economic growth, a key priority for the new government, remained modest though better than many large economies, with fiscal challenges weighing on the Chancellor and administration. Despite this, UK equities as a whole posted respectable gains. However, market leadership remained narrow, and investor sentiment was tempered by concerns over domestic growth and global uncertainty.

Performance and portfolio

Merchants delivered a NAV total return of 5.4% over the six-month period, compared with 7.5% for the FTSE All-Share Index. Absolute returns were positive, though relative performance lagged the benchmark and some peers. This was largely due to the narrowness of market leadership: as in the US, certain groups of companies drove the market higher.

> With the final dividend for the 2025 financial year now approved, Merchants has increased its dividend for 43 consecutive years – earning the Company "Dividend Hero" status from the AIC.

Some of these leading stocks did not align with our Manager's long-term value approach. Instead, greater emphasis has been placed on attractively valued domestic cyclicals, which have underperformed in the recent low-growth environment. While this positioning has weighed on short-term results, we remain convinced that it provides the best foundation for long-term returns. The Board has reviewed the Manager's strategy in detail and continues to support this disciplined, value-focused approach.

Portfolio activity reflected evolving opportunities, with an unusually high number of new investments compared with a typical half-year. Selective purchases were made where valuations and income prospects were attractive, while holdings with more limited capital growth potential were reduced.

The share price return of 1.5% reflected a widening discount to NAV, in line with a broader trend across UK investment trusts as international investors reduced exposure to UK equities. The Board, together with advisers and the Manager, monitors this closely and retains the option of share buybacks if appropriate. Meanwhile, we remain active in shareholder engagement and marketing to improve awareness and demand.

Earnings and dividends

Total income from the portfolio was £28.8m, 2.5% higher than the £28.1m generated in the first half of last year. Earnings per share rose by 3.5% to 17.7p (2024: 17.1p). This strong income performance provides confidence both in the sustainability of the dividend and in rebuilding revenue reserves.

With the final dividend for the 2025 financial year now approved, Merchants has increased its dividend for 43 consecutive years – earning the Company "Dividend Hero" status from the AIC. The Board has declared a second interim dividend of 7.3p per share, payable on 20 November 2025 to shareholders on the register at 10 October 2025. This brings the total dividend for the first half of the current financial year to 14.6p, compared with 14.5p last year – a year-on-year increase of 0.7%.

Shareholder engagement

In May we held our AGM in a hybrid format, with shareholders able to attend both in person and online. I was delighted to see such strong participation. For those unable to join, a recording of my introduction and our Lead Portfolio Manager Simon Gergel's update is available on our website under "Videos, Podcasts & Reading."

We remain committed to clear and regular communication. Our podcast series A Value View and other articles, videos, and interviews are available on our website and through streaming platforms.

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In such an environment, macroeconomic predictions are fraught with uncertainty. We believe this favours active, bottom-up investors such as our Manager, who focus on the fundamentals of individual businesses rather than short-term macroeconomic noise.

Board developments

As noted in our Annual Report, Timon Drakesmith retired from the Board at the May AGM. We thank him warmly for his significant contribution. In July, we welcomed Neil Galloway as a new Director. Neil brings over 30 years of experience in banking and finance, including senior leadership roles in listed companies. He is currently a Non-Executive Director and Chair of the Management Engagement Committee at AVI Global Trust PLC. We look forward to his contributions to the Board.

Outlook

UK GDP growth forecasts for 2025 have been revised slightly upwards but remain modest. Inflation is expected to average 3.4%, with energy and labour costs elevated. Further interest rate cuts are anticipated but not assured, while unemployment is forecast to rise gradually. Consumer spending remains cautious, though savings rates are higher and mortgage refinancing pressures appear to be easing.

Globally, geopolitical risks remain high. US trade policy continues to reshape global commerce, while conflicts in Ukraine, Gaza, and elsewhere add to volatility. Meanwhile, advances in AI and automation are reshaping industries and labour markets, with profound implications for productivity and employment.

In such an environment, macroeconomic predictions are fraught with uncertainty. We believe this favours active, bottom-up investors such as our Manager, who focus on the fundamentals of individual businesses rather than short-term macroeconomic noise. UK equities continue to offer compelling value, particularly for income-focused investors, and we believe Merchants is well-positioned to benefit from any broadening of market leadership and improving sentiment.

The Board remains confident in the Trust's strategy and the Manager's disciplined approach. We thank shareholders for their continued support and look forward to reporting further progress in our full-year results.

Principal Risks and Uncertainties

As identified in the Annual Report, the principal risks are now considered to be geopolitical risks, followed by investment risks, including those relating to strategy and performance.

The principal risks and uncertainties facing the company, together with the board's controls and mitigation, are those described in the Annual Report for the year ended 31 January 2025 published in April 2025 and are listed below:

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

Risks such as significant geopolitical risks and climate change risks have become progressively more prevalent and are no longer classified as 'emerging risks'.

The board's approach to mitigating these risks and uncertainties is set out in the explanation with the Risk Map in the Annual Report. In the board's view these will remain the principal risks and uncertainties for the six months to 31 January 2026.

Going Concern

The directors have considered the company's investment objective and capital structure both in general terms and in the context of the current macro-economic background. Having noted that the portfolio is liquid as it consists mainly of securities which are readily realisable, and through continuous assessment of the company's financial covenants, the directors have concluded that the company has adequate resources to continue in operational existence for the foreseeable future. The directors have also considered the continuing risks and consequences of macroeconomic and unanticipated shocks on the operational aspects of the company and have concluded that the company has the ability to continue in operation and meet its objectives in the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

Responsibility Statements

The directors confirm to the best of their knowledge that:

The condensed set of financial statements contained within the half-yearly financial report has been prepared in accordance with FRS102 and FRS104, as set out in Note 2, the Accounting Standards Board's Statement 'Half-Yearly Financial Reports'; and

The interim management report includes a fair review of the information required by The Financial Conduct Authority's (FCA) Disclosure Guidance and Transparency Rule 4.2.7 R of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

The interim management report includes a fair review of the information concerning related parties transactions as required by the Disclosure Guidance and Transparency Rule 4.2.8 R.

Colin Clark
Chairman
26 September 2025

Performance – half-year review

Revenue

Six months ended 31 July	2025	2024	% change
Income (£m)	28.8	28.1	+2.5
Revenue earnings attributable to ordinary shareholders (£m)	26.3	25.4	+3.5
Revenue earnings per ordinary share	17.7p	17.1p	+3.5
Dividends per ordinary share in respect of the period	14.6p	14.5p	+0.7

Assets

	31 July 2025	31 January 2025	Capital return % change	Total return[1] % change
Net asset value per ordinary share with debt at par	588.5p	572.6p	+2.8	+5.3
Net asset value per ordinary share with debt at market value (capital)	599.2p	582.4p	+2.9	+5.4
Ordinary share price	550.0p	556.0p	-1.1	+1.5
FTSE All-Share	4,957.2	4,710.6	+5.2	+7.5
Discount of ordinary share price to net asset value (debt at par)	-6.5%	-2.9%	n/a	n/a
Discount of ordinary share price to net asset value (debt at market value)	-8.2%	-4.5%	n/a	n/a

[1] NAV total return reflects both the change in Net Asset Value per ordinary share and the net ordinary dividends paid.
A Glossary of Alternative Performance Measures (APMs) can be found on page 28.

Investment Manager's Review

In May, new investment **SERCO** was awarded contracts with a combined value of over £1bn by the UK Ministry of Defence to provide maritime services for the Royal Navy.

PHOTO: DAVID PETER ROBINSON / SHUTTERSTOCK

Portfolio Managers' report

Simon Gergel
Lead Portfolio Manager

Richard Knight
Portfolio Manager

Andrew Koch
Portfolio Manager

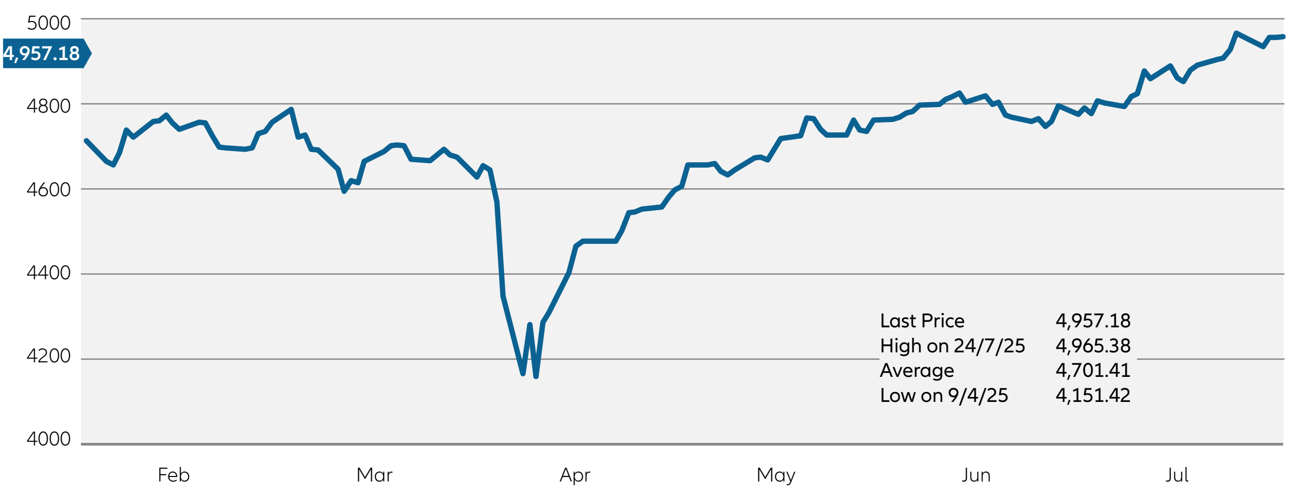
Economic and market background

We said at the start of the year that the outlook was particularly uncertain, especially in the USA, because of President Trump's approach to trade and tariff negotiations. On 2 April, the self-proclaimed "Liberation Day", President Trump unveiled a swingeing range of tariffs on other countries' goods, ranging from 10% to over 40%. This led to heightened anxiety amongst governments and companies and extreme volatility in financial markets during April. Frantic negotiations took place in the subsequent days, and China responded with reciprocal tariffs in an escalating trade war, which led to potential tariffs with China of well over 100%. President Trump also threatened to try to remove the chairman of the Federal Reserve Bank, as he was frustrated by interest rate policy. However, under considerable pressure from the US Treasury market, he soon backed away from this threat, deferred many of the tariffs for up to 90 days and excluded specific goods, pending trade discussions.

Over subsequent weeks, financial markets regained their poise and volatility declined, as tariffs tensions abated somewhat. Eventually, the US announced far more modest tariffs on most countries, including 10% on most UK goods and 15% for the EU. Although, as these were still well above previous prevailing rates, they will likely raise US inflation and reduce growth.

Over the six-month period, most equity markets shook off the policy concerns and rose, producing healthy total returns of around 7.5% in the UK for the FTSE All-Share and just under 6% for the US S&P Index. However, the US dollar weakened notably, even with a partial recovery in July, in response to this trade uncertainty

FTSE All-Share Index for the six months to 31 July 2025



Source: AllianzGI/Datastream.

and a massive US stimulus package. This drop in the currency wiped out the gains in the S&P Index for investors based in the UK.

Whilst overall stock market gains were solid, individual sector and stock moves were more extreme in both directions. In general, the movements of individual share prices and stocks seemed to depend more on investors crowding into "winning" stocks, and rewarding positive earnings momentum, i.e. whether earning expectations were being upgraded or downgraded, rather than changes to intrinsic values. The UK stock market continued to see large outflows from investment funds, which likely exaggerated the market trends, as there was less active money to exploit opportunities among falling stocks. We also saw a large number of share buy-back announcements from companies, which were generally welcomed by investors looking for liquidity.

The strongest major sector in the UK stock market was aerospace & defence, which rose by nearly 60%. This was driven by prospects of increasing defence spending, but also by the strong operational recovery at Rolls Royce which raised earnings guidance materially. Life insurance, tobacco and banks were also strong sectors. The weakest large sector was finance & credit services, where London Stock Exchange Group fell heavily. Several cyclical sectors were also weak, including general industrials, media and housebuilding, although the defensive beverages sector also declined.

Investment performance

The total return on Merchants' investment portfolio was 5.2%, below the strong 7.5% market return. Our investment philosophy is based on identifying undervalued companies in the expectation that, over time, undervalued companies will outperform the broader stock market. Whilst there is considerable evidence that a value driven approach should outperform in the long term, it can also have periods of underperformance. Paradoxically though, these periods often increase the opportunities that a value-driven style can exploit. When stock markets are driven by momentum trading, such as in recent months, shares that are lowly priced compared to their intrinsic value can lag behind those that are seeing strong current trading.

Contribution to investment performance relative to the benchmark

	Overweight / underweight (%)	Total return (%)	Contribution (%)
Best			
London Stock Exchange	-2.3	-22.5	0.7
Diageo	-1.8	-22.3	0.6
Lloyds	2.7	30.8	0.5
Assura	1.8	36.9	0.4
British American Tobacco	2.0	31.1	0.4
Entain	1.1	46.7	0.4
AstraZeneca	-6.6	1.3	0.4
OSB	1.4	38.9	0.4
Unilever	-2.9	-3.2	0.4
Sirius Real Estate	1.2	37.9	0.3
Worst			
Rolls Royce	-2.8	78.4	-1.5
WPP	1.9	-43.3	-1.3
Tate & Lyle	2.5	-16.4	-0.7
BAE Systems	-2.1	49.2	-0.6
DCC	2.7	-12.4	-0.6
B&M	1.4	-26.6	-0.6
Man Group	1.7	-19.1	-0.5
Barratt Redrow	2.0	-16.8	-0.5
Conduit	0.9	-30.3	-0.4
HSBC	-6.3	13.5	-0.4

Tyre manufacturer **MICHELIN**, listed on the French stock exchange, was a new addition to the portfolio.
PHOTO: MICHELIN

The table shows the companies that made the biggest positive and negative contributions to relative performance. The dispersion of individual stock returns in the first half of the year was very high, as certain companies in favour with investors outperformed markedly, and many of those out of favour fell heavily.

Looking at this table, not owning the aerospace & defence stocks Rolls Royce and BAE Systems accounted for virtually all of the underperformance. Rolls' 78% rally alone added 1.5% to the index return. Whilst the recovery in profitability and cash generation at Rolls has been notable, the shares have also re-rated considerably, as investors have favoured stocks with strong momentum. Rolls only recommenced paying dividends this year after a five-year pause, so it is not a natural holding for Merchants' high yield strategy. BAE Systems shares rose 49% on the back of strong performance and optimism about rising defence budgets. Merchants had owned BAE previously, but we sold it in 2023, on valuation grounds.

We have to acknowledge, however, that our holding in **WPP** has been very disappointing. The marketing services company reported weak results and lowered guidance several times in recent months. We had believed that a major repositioning of the business under CEO Mark Reed, simplifying the corporate structure and investing in digital and AI capabilities, would lead to improved performance. However, the business has continued to underperform peers, notably Publicis. We took the difficult decision to sell the position in July, despite a depressed valuation, on concerns that there would have to be further restructuring of the business under a new chief executive. We decided to focus on investments where we have higher conviction.

The remaining negative contributors had lower individual impacts and broadly fit into three categories. First, there are companies that have disappointed investors for idiosyncratic reasons. These included distribution company **DCC**, which received less than expected for the sale of its healthcare business, fund manager **Man Group**, which earned lower performance fees from one of its major strategies, and **Conduit**, which reported poor reinsurance results, despite a solid industry backdrop.

In these cases, we continue to have confidence in the medium-term outlook and believe the shares are significantly undervalued.

Second, several companies have found trading conditions tougher than anticipated, but we believe conditions will improve in due course. Some of these are in the housing related sectors (although only Barratt Redrow is among the top ten contributors). We would also include **Tate & Lyle** and **B&M** in this category. Finally, there are shares that are not in the portfolio but have lifted the index return, most notably **HSBC**.

Looking at the top positive contributors to relative performance, the largest were also companies that were not owned in the portfolio. London Stock Exchange Group fell back on disappointing subscriber growth, whilst spirits company Diageo has seen concerns about US tariffs and weaker sales in certain regions. AstraZeneca also underperformed, largely due to concerns about potential changes to US pharmaceutical industry regulation and pricing. The underweight position in Unilever also helped relative performance.

Of the stocks owned in the portfolio, **Lloyds** and **OSB** (OneSavingsBank) rallied, as rising bank profitability, cash generation and cash returns continued to find support with investors. **Assura**, the real estate company that owns healthcare assets, like GP surgeries, received competing takeover bids from a private equity consortium and their sector peer Primary Health Properties. There was another property company among the top ten positive stocks, **Sirius Real Estate**, which benefited from strong trading performance and optimism about German industrial and defence spending, which should benefit their German industrial properties.

British American Tobacco saw a strong re-rating from a low level, as investors warmed to the opportunities for their "reduced harm", next generation nicotine products, in particular. Elsewhere, the gambling company **Entain**, saw its shares rally by over 45%. Entain was helped especially by very strong growth and upgraded expectations for its BetMGM joint venture in America, which is benefitting as online gaming and sports betting is progressively legalised in many US states.

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> We added eight new companies to the portfolio, a much higher level of change than in recent years, as we were able to identify strong businesses, trading well below our assessment of their fair value.

Portfolio changes

The wide dispersion of share price moves provided many new investment opportunities. We added eight new companies to the portfolio, a much higher level of change than in recent years, as we were able to identify strong businesses, trading well below our assessment of their fair value. Conversely, several portfolio companies' share prices appreciated towards fair value, and we sold these to fund the other stocks, where we had higher conviction. In total we sold nine companies, leaving a portfolio of fifty two companies at the end of July.

The new investments span a range of industries and have different drivers, but they were typically shares trading well below historic average valuations, often with recovery potential in their business, and generally paying an attractive dividend yield.

Sirius Real Estate, mentioned above, is a well-managed industrial property company, operating in Germany and the UK. It provides an interesting example of the inefficiency of the stock market. Merchants sold out of Sirius five years ago, at a higher price than we were now able to reinvest at. From 2020 to 2024, the company's book value per share had risen over 50% and the dividend by nearly 70%. The shares were trading at an unusual discount to book value, despite the benefits of the large, expected increase in German defence spending.

Another business set to benefit from higher defence spending is **Serco**, the government outsourcing company operating in justice, immigration and defence. Following recent acquisitions, defence spending now represents approximately half of group profits, and the order book is growing rapidly. Unlike other defence related companies, the valuation was very modest, as the overall group has been going through a short-term hiatus in growth, due to a few specific contracts ending or scaling down.

In the consumer area we added **Reckitt** and **B&M European Value Retail**. Reckitt owns many leading household brands like Dettol, Finish, Durex and Nurofen. The shares were depressed, primarily due to litigation in the USA over infant formula milk, which seemed to be overly discounted in the valuation, even on pessimistic assumptions. B&M is a value retailer that has an excellent long-term growth record, but has more recently seen earnings come back from an exceptional period during the Covid-19 pandemic. This led to a sharp drop in the valuation of the business. We believed this was unduly pessimistic, as the company remains differentiated, is highly cash generative, and has plans to reinvigorate growth.

RS Group is a high service distributor of hundreds of thousands of industrial and electronic components to over a million customers. A period of weak industrial activity provided an opportunity to invest at an unusually attractive price, whilst a relatively new management team is also transforming the business to enhance profitability and growth. **Begbies Traynor** is a small domestic insolvency and property services company. It has an excellent record of organic and acquisition led growth. The insolvency business is counter-cyclical, as it should benefit from stress in the economy. This provides a useful diversification benefit for the portfolio.

The final new investments were both global businesses but listed on the French stock exchange. **Michelin**, the tyre manufacturer, is a leader in the industry and is benefiting from structural trends, such as the growth in higher specification, premium tyres and speciality off-road vehicles. General concerns about the automotive industry have depressed the shares, but tyres are predominantly a replacement product, less susceptible to new car sales. **Sodexo** is a leader in food services and facilities management, serving more than 100m people in over 40 countries. The business is economically defensive and should deliver steady growth. At time of purchase, the shares were paying a 5% dividend yield, well covered by cash generation, and the valuation was at a substantial discount to its historic averages, as well as to its peers.

We sold two retailers from the portfolio. **Next** is an exceptional retailer, which has built an impressive online operation serving its own and third-party brands. Our investment played out, as the stock market rewarded the online growth opportunity and resilience of the physical shops and the shares moved close to our assessment of fair value. **Tesco** was a similar case, as the market started to recognise Tesco's industry-leading performance and commanding position in food retail. In these and other cases, we aim to differentiate between great companies and great investment opportunities. Next and Tesco remain great, or at least good companies, but at the valuations they reached, we found more compelling investment opportunities elsewhere.

Several other companies were sold as they performed very well and approached our assessment of fair valuation; **Haleon**, **Keller** and **Imperial Brands**. We also sold the automotive engineering business **Dowlais**, which attracted a takeover bid from its rival American Axle.

Other sales included **Drax**, which was another strong performer. However, the sale also reflected a change in our investment view, as we believe the prospects for the UK government to subsidise their proposed Bio-Energy Carbon Capture and Storage (BECCS) project have diminished. **WPP** was also a change of view, as explained above. Finally, we sold **Bank of Ireland**. The shares had performed well, and whilst the valuation remained modest, we believed the outlook for domestic banks was better, given differences in interest rate policy between the UK and the EU.

Income

Dividend income grew modestly during the period, with total income up around 2.5% to £28.8m (£28.1m), and revenue earnings per share up 3.5% to 17.7p (17.1p). We have seen a few dividend cuts in the period, generally when companies have experienced challenging trading conditions, but many companies continued to steadily increase their dividends. A number of companies have also taken advantage of depressed share prices to allocate surplus capital to share buybacks, rather than to higher dividend growth. Where shares are clearly undervalued, this can make good sense from a capital allocation perspective, and we are generally supportive. However, we expect boards to be disciplined on price and only buy back shares when the company is undervalued. We will continue to monitor this trend.

Portfolio income also benefits from our general policy, of reducing positions in investments as share prices rise towards fair value (when yields have typically gone down) and adding to investments which fall further below fair value (when yields have typically gone up).

In aggregate, the payout ratio of the UK stock market – the proportion of company earnings needed to cover dividend payments – is low compared to recent history. This is partly due to a higher preference for buy-backs, and it should mean that dividend payments will be more resilient if there is any mild deterioration in trading conditions.

Outlook

It is easy being based in the UK to be concerned about anaemic growth rates, a large government deficit and high national debt. There has been a lot of commentary about the difficulties that Rachel Reeves, Chancellor of the Exchequer, faces in trying to fund spending increases while staying within her fiscal rules, and not raising income tax, VAT or national insurance. However, the UK is not alone in this challenge. Economic growth of 1.2% in the second quarter of 2025, compared to a year earlier, was actually one of the higher growth rates among the leading G7 economies. Also, the UK budget deficit and government debt levels are lower than many other G7 countries, with the notable exception of Germany.

So, although the outlook for the UK economy is lacklustre, it is not especially weak on a global basis. Furthermore, the Bank of England has been cutting interest rates for over a year, and the benefits of lower funding costs will gradually feed through to consumer mortgage rates and corporate borrowing costs. It is also important to remember that the UK stock market is not the UK economy. A large majority of sales and profits of UK-listed businesses comes from overseas, so that the global outlook is at least as important.

Where the portfolio does have a large domestic exposure, there are also reasons for optimism. The banks sector is seeing improving profitability and cash generation, after being fundamentally restructured in the 15 years since the global financial crisis. There is a positive outlook for the real estate markets that the portfolio is exposed to, whilst property yields seem to be peaking (i.e. valuations troughing). Elsewhere, one of the biggest domestic exposures is to the housing market, either directly via housebuilders, or via building products and materials manufacturers or distributors. It is a government priority to increase the level of house building in the UK. There are early signs that planning reforms should ease some of the constrains on housebuilders, and falling mortgage costs should stimulate demand. These factors should support a recovery in building activity over the next few years.

Taking a step back, though, our role is not to forecast economic growth, or even the short-term outlook for various industries. Out role is to identify and build a portfolio of mis-priced assets that can deliver superior capital returns and a high and rising income stream, for investors, over the medium term. To do that successfully, we need the following things to come together.

First, we need an inefficient stock market, where it is possible to identify strong businesses trading below their intrinsic value. At present, the UK market is not only cheap compared to its history and other markets, but it is also highly polarised. Outflows of money from actively managed funds and the momentum driven market we described earlier, have created a fertile opportunity set for investors with a longer-term mindset to exploit.

Second, we need a clear investment philosophy, a disciplined investment process and an experienced team of investment professionals, backed by a well-resourced investment platform. As investors, we need to constantly challenge ourselves both on our stock selection process and on individual investment decisions. We will make mistakes along the way, and markets will move in cycles, but we have shown historically that we can make the strongest returns after periods when our approach has been out of favour.

In summary, we are confident that there are considerable inefficiencies in the UK stock market. These inefficiencies can be exploited by owning a diversified collection of strong businesses, trading well below their fair value and paying a high dividend stream. We believe that Merchants' portfolio can deliver strong capital returns and income to meet the company's objectives.

Reckitt Benckiser, owner of a number of leading household brands, was a new addition to the portfolio.

PHOTOS: KOY_HIPSTER, AILEENCHIK, SIDEK HANIZAM, YAU MING LOW, HELGAQ, ANDISANDI / SHUTTERSTOCK

Portfolio breakdown

at 31 July 2025

Name	Principal activities	Value £'000s	% of listed holdings	Benchmark weighting
British American Tobacco	*Tobacco*	47,862	4.9	3.0
GSK	*Pharmaceuticals & Biotechnology*	46,990	4.8	2.2
Lloyds Banking Group	*Banks*	46,961	4.8	1.8
Shell	*Oil, Gas & Coal*	38,652	4.0	6.3
Barclays	*Banks*	33,974	3.5	2.1
BP	*Oil, Gas & Coal*	32,732	3.4	2.5
Rio Tinto	*Industrial Metals & Mining*	30,846	3.2	1.8
SSE	*Electricity*	28,744	3.0	0.8
DCC	*Industrial Support Services*	27,727	2.8	0.2
Tate & Lyle	*Food Producers*	26,239	2.7	0.1
National Grid	*Gas, Water & Multiutilities*	25,330	2.6	2.0
Reckitt Benckiser Group	*Personal Care, Drug & Grocery Stores*	24,976	2.6	1.5
Legal & General	*Life Insurance*	24,425	2.5	0.6
IG Group	*Investment Banking & Brokerage*	23,673	2.4	0.1
Whitbread	*Travel & Leisure*	23,348	2.4	0.2
Inchcape	*Retailers*	22,904	2.4	0.1
Man Group	*Investment Banking & Brokerage*	19,898	2.0	0.1
Pets At Home Group	*Retailers*	18,491	1.9	0.0
Energean	*Oil, Gas & Coal*	18,300	1.9	0.0
Assura	*Real Estate Investment Trusts*	18,249	1.9	0.1
Barratt Redrow	*Household Goods & Home Construction*	18,069	1.9	0.2
Harbour Energy	*Oil, Gas & Coal*	18,039	1.9	0.0
Sirius Real Estate	*Real Estate Investment & Services*	17,938	1.8	0.1
Land Securities Group	*Real Estate Investment Trusts*	17,741	1.8	0.2
B&M European Value Retail	*Retailers*	17,436	1.8	0.1
Serco Group	*Industrial Support Services*	17,347	1.8	0.1
Grafton Group	*Industrial Support Services*	17,123	1.8	0.1
OSB Group	*Finance & Credit Services*	16,826	1.7	0.1
Unite Group	*Real Estate Investment Trusts*	15,569	1.6	0.1
Entain	*Travel & Leisure*	14,717	1.5	0.2
Lancashire Holdings	*Non-Life Insurance*	14,687	1.5	0.1
RS Group	*Industrial Support Services*	14,266	1.5	0.1
Morgan Advanced	*Electronic & Electrical Equipment*	13,891	1.4	0.0
Unilever	*Personal Care, Drug & Grocery Stores*	13,885	1.4	4.2
Bellway	*Household Goods & Home Construction*	13,496	1.4	0.1
Atalaya Mining	*Precious Metals & Mining*	13,416	1.4	0.0
Michelin[1]	*Automobiles & Parts*	11,622	1.2	0.0
SCOR[1]	*Non-Life Insurance*	11,489	1.2	0.0

Name	Principal activities	Value £'000s	% of listed holdings	Benchmark weighting
Marshalls	*Construction & Materials*	11,234	1.2	0.0
Aena[1]	*Industrial Transportation*	11,219	1.1	0.0
Sodexo[1]	*Travel & Leisure*	11,072	1.1	0.0
Close Brothers Group	*Banks*	10,998	1.1	0.0
Burberry Group	*Personal Goods*	10,647	1.1	0.2
DFS Furniture	*Retailers*	10,189	1.0	0.0
SThree	*Industrial Support Services*	8,503	0.9	0.0
Norcros	*Construction & Materials*	8,394	0.9	0.0
PZ Cussons	*Personal Care, Drug & Grocery Stores*	8,339	0.9	0.0
Conduit Holdings	*Non-Life Insurance*	7,229	0.7	0.0
CLS Holdings	*Real Estate Investment & Services*	4,810	0.5	0.0
Begbies Traynor Group	*Investment Banking & Brokerage*	4,376	0.4	0.0
Duke Royalty	*Finance & Credit Services*	4,270	0.4	0.0
XP Power	*Electronic & Electrical Equipment*	3,977	0.4	0.0
Total invested funds		**973,135**	**100.0**	

[1] International stock

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.

Portfolio analysis

Sector	% held*	Benchmark weighting
Financials	24.4	22.1
Consumer Staples	12.2	14.6
Industrials	13.5	13.5
Consumer Discretionary	17.3	7.8
Energy	10.9	9.0
Utilities	5.4	4.0
Health Care	4.8	10.9
Basic Materials	4.5	5.0
Real Estate	5.2	2.3
Net current assets*	1.8	-

* Total assets include current liabilities

Financial Statements

Food services and facilities management company **SODEXO** was another new investment.

Income Statement

for the six months ended 31 July 2025

	Notes	For the six months ended 31 July 2025			For the six months ended 31 July 2024		
		Revenue £'000s	Capital £'000s	Total Return £'000s	Revenue £'000s	Capital £'000s	Total Return £'000s
				1			*1*
Gains on investments held at fair value through profit or loss		-	22,523	22,523	-	93,385	93,385
Losses on foreign currencies		-	(77)	(77)	-	(17)	(17)
Losses on derivatives		-	(413)	(413)	-	(328)	(328)
Income from investments		28,112	-	28,112	27,523	-	27,523
Other income		723	-	723	597	-	597
Investment management fee		(586)	(1,089)	(1,675)	(574)	(1,067)	(1,641)
Administrative expenses		(648)	(2)	(650)	(549)	(1)	(550)
Profit before finance costs and taxation		**27,601**	**20,942**	**48,543**	**26,997**	**91,972**	**118,969**
Finance costs: interest payable and similar charges		(1,045)	(1,902)	(2,947)	(1,008)	(1,833)	(2,841)
Profit on ordinary activities before taxation		**26,556**	**19,040**	**45,596**	**25,989**	**90,139**	**116,128**
Taxation		(234)	-	(234)	(578)	-	(578)
Profit after taxation attributable to ordinary shareholders		**26,322**	**19,040**	**45,362**	**25,411**	**90,139**	**115,550**
Earnings per ordinary share (basic and diluted)	*4*	**17.73p**	**12.83p**	**30.56p**	**17.13p**	**60.77p**	**77.90p**

Statement of Changes in Equity

	Notes	Called up share capital £'000s	Share premium account £'000s	Capital redemption reserve £'000s	Capital reserve £'000s	Revenue reserve £'000s	Total £'000s
Six months ended 31 July 2025							
Net assets at 1 February 2025		37,106	228,726	293	555,757	27,940	849,822
Revenue profit		-	-	-	-	26,322	26,322
Dividends on ordinary shares	*3*	-	-	-	-	(21,670)	(21,670)
Capital profit		-	-	-	19,040	-	19,040
Net assets at 31 July 2025		**37,106**	**228,726**	**293**	**574,797**	**32,592**	**873,514**
Six months ended 31 July 2024							
Net assets at 1 February 2024		37,081	228,174	293	495,155	26,819	787,522
Revenue profit		-	-	-	-	25,411	25,411
Dividends on ordinary shares	*3*	-	-	-	-	(21,062)	(21,062)
Capital profit		-	-	-	90,139	-	90,139
Net assets at 31 July 2024		**37,081**	**228,174**	**293**	**585,294**	**31,168**	**882,010**

Balance Sheet

	As at 31 July 2025 £'000s	As at 31 July 2024 £'000s	As at 31 January 2025 £'000s
Assets and liabilities			
Investments held at fair value through profit or loss	973,135	977,158	954,514
Net current assets (liabilities)	17,610	(28,250)	12,089
Total assets less current liabilities	**990,745**	**948,908**	**966,603**
Creditors: amounts falling due after more than one year	(117,231)	(66,898)	(116,781)
Total net assets	**873,514**	**882,010**	**849,822**
Capital and reserves			
Called up share capital	37,106	37,081	37,106
Share premium account	228,726	228,174	228,726
Capital redemption reserve	293	293	293
Capital reserve	574,797	585,294	555,757
Revenue reserve	32,592	31,168	27,940
Equity shareholders' funds	**873,514**	**882,010**	**849,822**
Net asset value per ordinary share	**588.5p**	**594.6p**	**572.6p**

The net asset value as at 31 July 2025 is based on 148,424,887 ordinary shares.
The net asset value as at 31 July 2024 is based on 148,324,887 ordinary shares.
The net asset value as at 31 January 2025 is based on 148,424,887 ordinary shares.

Cash Flow Statement

	Six months ended 31 July 2025 £'000s	Six months ended 31 July 2024 £'000s
Operating activities		
Profit before finance costs and taxation[1]	48,543	118,969
Less: gains on investments held at fair value	(23,214)	(93,956)
Add: losses on derivatives	395	328
Add: losses on foreign currency	77	17
Purchase of fixed asset investments held at fair value through profit or loss	(164,232)	(101,113)
Sales of fixed asset investments held at fair value through profit or loss	176,848	93,956
Transaction costs	(691)	(571)
Increase in other receivables	(2,070)	(839)
Increase in other payables	82	188
Less: overseas tax suffered	(234)	(578)
Net cash inflow from operating activities	**35,504**	**16,401**
Financing activities		
Interest paid	(2,901)	(2,794)
Dividend paid on cumulative preference stock	(21)	(21)
Dividends paid on ordinary shares	(21,670)	(21,062)
Net cash outflow from financing activities	**(24,592)**	**(23,877)**
Increase (decrease) in cash and cash equivalents	**10,912**	**(7,476)**
Cash and cash equivalents at the start of the period	15,604	22,886
Effect of foreign exchange rates	(77)	(17)
Cash and cash equivalents at the end of the period	26,439	15,393
Comprising:		
Cash at bank and in hand	26,439	15,393

[1] Cash inflow from dividends was £27,841,000 (2024: £26,930,000) and cash inflow from interest was £180,000 (2024: £147,000).

Notes to the Financial Statements

for the six months ended 31 July 2025

1. Financial statements

The half-yearly financial report has been neither audited nor reviewed by the company's auditors. The financial information for the year ended 31 January 2025 has been extracted from the statutory financial statements which have been delivered to the Registrar of Companies. The auditors' report on those financial statements was unqualified and did not contain a statement under section 498 of the Companies Act 2006. The total return column of the Income Statement is the profit and loss account of the company. All revenue and capital items derive from continuing operations. No operations were acquired or discontinued in the period. Allianz Global Investors UK Ltd acts as Investment Manager to the company. Details of the services and fee arrangements are given in the latest annual report of the company, which is available on the company's website at www.merchantstrust.co.uk.

2. Accounting policies

The Company presents its results and positions under 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102), which forms part of the Generally Accepted Accounting Practice ('UK GAAP') issued by the Financial Reporting Council.

The condensed set of financial statements has been prepared on a going concern basis in accordance with FRS 102 and FRS 104, 'Interim Financial Reporting', the Companies Act 2006 and the Statement of Recommended Practice – 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (SORP) issued by the Association of Investment Companies in July 2022. The context of the current macro-economic background has been thoroughly considered and the directors have concluded that there are no material uncertainties related to going concern. They have also been prepared on the assumption that approval as an investment trust will continue to be granted.

The accounting policies applied in preparation of the condensed set of financial statements with regard to measurement and classification have not changed from those set out in the Company's annual financial report for the year ended 31 January 2025.

3. Dividends on ordinary shares

Dividends paid on ordinary shares in respect of earnings for each period are as follows:

	Six months ended 31 July 2025 £'000s	Six months ended 31 July 2024 £'000s
Dividends paid on ordinary shares		
Third interim dividend 7.3p paid 19 March 2025 (2024: 7.1p)	10,835	10,531
Final dividend 7.3p paid 29 May 2025 (2024: 7.1p)	10,835	10,531
	21,670	**21,062**

In accordance with FRS 102 section 32 'Events After the End of the Reporting Period', dividends payable at the period end have not been recognised as a liability. Details of these dividends are set out below.

	Six months ended 31 July 2025 £'000s	Six months ended 31 July 2024 £'000s
First interim dividend 7.3p paid 22 August 2025 (2024: 7.2p)	10,835	10,679
Second interim dividend 7.3p payable 20 November 2025 (2024: 7.3p)	10,835	10,828
	21,670	**21,507**

The dividends above are based on the number of shares in issue at the period end. However, the dividend payable will be based upon the number of shares in issue on the record date and will reflect any purchase or cancellation of shares by the company settled subsequent to the period end.

4. Earnings per ordinary share

The earnings per ordinary share is based on a weighted number of ordinary shares 148,424,887 (31 July 2024: 148,324,887) in issue.

5. Fair value hierarchy

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. 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 July 2025, the financial assets at fair value through profit and loss of £972,501,000 (31 July 2024: £976,724,000; 31 January 2025: £954,275,000) are categorised as follows:

	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Financial assets at fair value through profit or loss at 31 July 2025				
Equity investments	973,135	-	-	973,135
Derivative financial instruments: written call options	-	(634)	-	(634)
	973,135	**(634)**	**-**	**972,501**
Financial assets at fair value through profit or loss at 31 July 2024				
Equity investments	977,158	-	-	977,158
Derivative financial instruments: written call options	-	(434)	-	(434)
	977,158	**(434)**	**-**	**976,724**
Financial assets at fair value through profit or loss at 31 January 2025				
Equity investments	954,514	-	-	954,514
Derivative financial instruments: written call options	-	(239)	-	(239)
	954,514	**(239)**	**-**	**954,275**

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.

6. Status of the Company

The company applied for and was accepted as an approved investment trust for accounting periods commencing on or after 1 February 2013, subject to it continuing to meet eligibility conditions at section 1158 Corporation Taxes Act 2010 and the ongoing requirements for approved companies in Chapter 3 Part 2 Investment Trust (Approved Company) (Tax) Regulations 2011 (Statutory Instrument 2011/2999).

7. Transactions with the Investment Manager and related parties

As disclosed in the annual report, 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 FRS 8: Related Party Disclosures, the investment manager is not considered to be a related party. The company's related parties are its directors

There are no other identifiable related parties as at 31 July 2025, 31 July 2024 and 31 January 2025.

8. Comparative information

The half yearly financial report to 31 July 2025 and the comparative information to 31 July 2024 have neither been audited nor reviewed by the Company's auditors and do not constitute statutory accounts as defined in section 434 of the Companies Act 2006 for the respective periods. The financial information for the year ended 31 January 2025 has been extracted from the statutory accounts for that year which have been delivered to the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

Investor Information

Sirius Real Estate, the owner and operator of business parks and commercial workspaces in Germany and the UK, benefited from strong trading performance and optimism about German industrial and defence spending.

PHOTO: SIRIUS REAL ESTATE

Investor information (unaudited)

Directors

Colin Clark (Chairman)
Karen McKellar (Senior Independent Director)
Mal Patel (Chairman – Audit Committee)
Lisa Edgar
Neil Galloway

Investment Manager

Simon Gergel, Lead Portfolio Manager,
Richard Knight, Portfolio Manager,
Andrew Koch, Portfolio Manager.
Representing Allianz Global Investors UK Limited,
199 Bishopsgate, London EC2M 3TY (the manager).

Head of Investment Trusts

Stephanie Carbonneil
Email: stephanie.carbonneil@allianzgi.com

Company Secretary and Registered Office

Nira Mistry and Kirsten Salt
199 Bishopsgate, London EC2M 3TY
Telephone: 0800 389 4696
Email: investment-trusts@allianzgi.com

Registered number

28276

Registrar

MUFG Corporate Markets, Central Square, 29 Wellington Street, Leeds, LS1 4DL. Lines are open 9.00 am to 5.30 pm (UK time) Monday to Friday.

Website: https://eu.mpms.mufg.com
Email: shareholderenquiries@cm.mpms.mufg.com
Telephone: 0371 664 0300.

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

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: www.merchantstrust.co.uk.

Website

Further information about The Merchants Trust PLC, including monthly factsheets, daily share price and performance, is available on the company's website: www.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.

Shareholder enquiries

In the event of queries regarding their holdings of shares, lost certificates, dividend payments, registered details, etc., shareholders should contact the registrar by email at shareholderenquiries@cm.mpms.mufg.com or by calling 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 registrar 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.

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.

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 July 2025, the NAV with debt at par value was £873,514,000 (31 January 2025: £849,822,000) and the NAV per share was 588.5p (31 January 2025: 572.6p).

Earnings per ordinary share is the profit after taxation, divided by the weighted average number of shares in issue for the period. For the period ended 31 July 2025 earnings per ordinary share was 17.7p (31 July 2024: 17.1p), calculated by taking the profit after tax of £26,322,000 (31 July 2024: £25,411,000), divided by the weighted average shares in issue of 148,424,887 (31 July 2024: 148,324,887).

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 company'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)

Benchmark Total Return is the return on the benchmark, on a closing market price basis, assuming that all dividends received were reinvested into the shares of the underlying companies at the time their shares were quoted ex dividend (see page 3).

Discount or premium is the amount by which the stock market price per ordinary share is lower (discount) or higher (premium) than the Net Asset Value, or NAV, with either debt at par or debt at market value, per ordinary share. The discount/premium is normally expressed as a percentage of the NAV per ordinary share (see page 8).

Dividend yield represents dividends declared in the past year as a percentage of the share price. This is shown as 5.3% at 31 July 2025 in the highlights on page 3.

Gearing is the amount of debt as a percentage of the net assets.

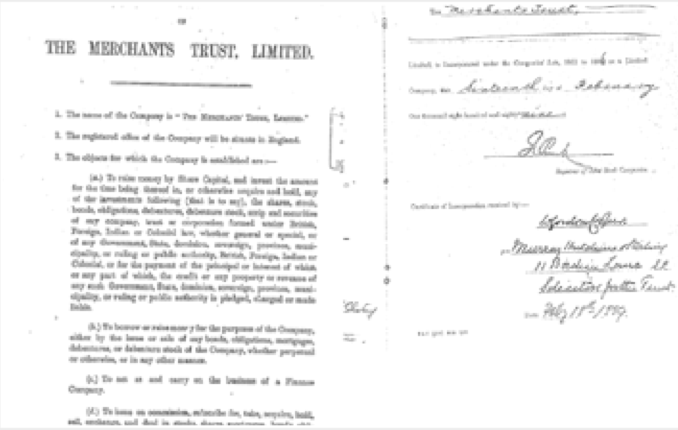
Net Asset Value, debt at market value is the value of total assets less all liabilities, with the company's debt measured at the market value at the time of calculation. The Net Asset Value, or NAV, per ordinary share with debt at market value is calculated by dividing this amount by the total number of ordinary shares in issue (see page 29). As at 31 July 2025, the NAV with debt at market value was £889,355,000 (31 January 2025: £864,485,000) and the NAV per share with debt at market value was 599.2p (31 January 2025: 582.4p).

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.

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.

Share price Total Return is the theoretical return to a shareholder, on a closing market price basis, assuming that all dividends received were reinvested, without transaction costs, into the ordinary shares of the company at the close of business on the day the shares were quoted ex dividend (see page 3). The share price as at 31 July 2025 was 550.0p, a decrease of 6.0p from the price of 556.0p as at 31 January 2025. The change in share price of 6.0p plus the dividends paid in the period of 14.6p are divided by the opening share price of 556.0p to arrive at the share price total return for the period ended 31 July 2025 of +1.5% (31 July 2024: +13.1%).

FOCUSED ON DIVIDENDS SINCE 1889



THE MERCHANTS TRUST, LIMITED.

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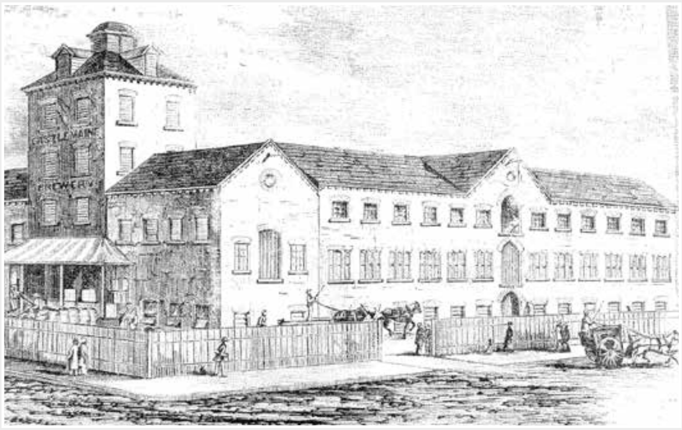

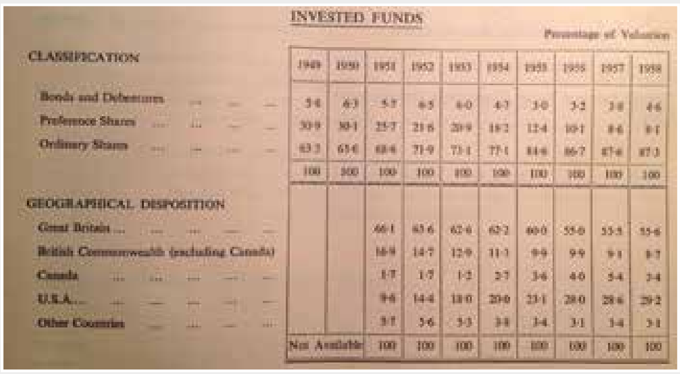

INVESTED FUNDS

Percentage of Valuation

CLASSIFICATION	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958
Bonds and Debentures	5·6	6·3	5·7	6·5	6·0	4·7	3·0	3·2	3·8	4·6
Preference Shares	30·9	30·1	25·7	21·6	20·9	18·2	12·4	10·1	8·6	8·1
Ordinary Shares	63·5	63·6	68·6	71·9	73·1	77·1	84·6	86·7	87·6	87·3
	100	100	100	100	100	100	100	100	100	100
GEOGRAPHICAL DISPOSITION										
Great Britain			66·1	63·6	62·6	62·2	60·0	55·0	55·5	55·6
British Commonwealth (excluding Canada)			16·9	14·7	12·9	11·3	9·9	9·9	9·1	8·7
Canada			1·7	1·7	1·2	2·7	3·6	4·0	5·4	3·4
U.S.A.			9·6	14·4	18·0	20·0	23·1	28·0	28·6	29·2
Other Countries			5·7	5·6	5·3	3·8	3·4	3·1	3·4	3·1
	Not Available		100	100	100	100	100	100	100	100

Clockwise from top-left: Memorandum of Association, 1889; The American Telephone and Telegraph Company (AT&T) was another early Merchants Trust investment, made in 1906; Aside from his directorship of the trust and other business interests Arthur, Lord Kinnaird (1847-1923) was described as 'the first Lord of football'; The Castlemaine Brewery in Newcastle, New South Wales was one of The Merchants Trust's first equity investments; From the 1958 Annual Report: the changing shape of the trust's portfolio in the post-World War Two era as the 'age of the equity' developed; Violet 'Floss' Lincoln, shown here in 1965, was only one of three women employees when she joined the firm in 1927. Future Merchants Trust Chairman Constantine (Con) Benson was awarded the DSO at the age of 22 for his actions at Passchendaele during Haig's Flanders offensive in 1917.

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