

The Merchants Trust PLC

As focused on dividends as you are



Aim

The Trust's objective is to provide an above average level of income, income growth and long-term growth of capital through a policy of investing mainly in higher yielding large UK companies.

History

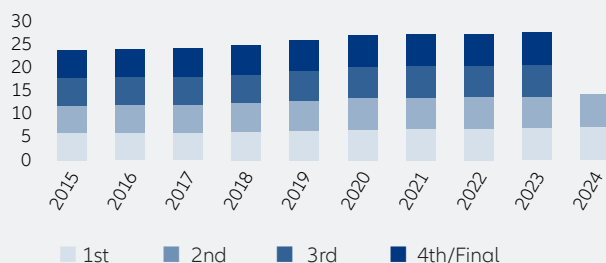
The Merchants Trust PLC was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, but now concentrates primarily on major UK companies with an above average rate of dividend yield.

Trust Benefits

Merchants has for many years focused on a simple proposition to deliver a high and rising income together with capital growth for its shareholders. Simon Gergel has been managing the trust for over 15 years, investing in a diversified portfolio of large, well-established and well-known UK companies. Although past performance is no guide to the future, Merchants has paid increasingly higher dividends to its shareholders year on year for the last 41 years.

Ten Year Dividend History

Dividend Record in Pence per Share
To Year End 31 January



Last Four Dividend Payments per Share

Record Date	Pay Date	Dividend	Type
06.10.2023	10.11.2023	7.10p	2nd Interim
07.07.2023	24.08.2023	7.10p	1st Interim
21.04.2023	26.05.2023	7.00p	Final
03.02.2023	15.03.2023	6.90p	3rd Interim

Past performance is not a reliable indicator of future results.

Key Information

Launch Date	16 February 1889
AIC Sector	UK Equity Income
Benchmark	FTSE All-Share
Annual Management Fee	0.35%
Performance Fee	No
Ongoing Charges ¹	0.56%
Year End	31 January
Annual Financial Report	Final published in April, Half-yearly published in September
AGM	May
NAV Frequency	Daily
Dividends	March, May, August, November
Price Information	Financial Times, The Daily Telegraph, www.merchantstrust.co.uk
Company Secretary	Kirsten Salt
Investment Manager	Simon Gergel, CIO, UK Equities
Codes	RIC: MRCH.L SEDOL: 0580007

1. Source: AIC, as at the Trust's Financial Year End (31.01.2023). Ongoing Charges (previously Total Expense Ratios) are published annually to show operational expenses, which include the annual management fee, incurred in the running of the company but excluding financing costs.



A ranking, a rating or an award provides no indicator of future performance and is not constant over time.

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Total Assets £869.0m

Shares in Issue 147,749,887 (Ordinary 25p)

Market Cap £780.1m

Share Price
528.0p

NAV per Share
522.0p

Premium/-Discount
1.1%

Dividend Yield
5.3%

Gearing
14.2%

Fund Manager's Review

Although it has taken some time for the UK inflation rate to come down, in recent months the decline has accelerated, with a sharp drop in the Consumer Prices Index (CPI) inflation from 6.7% in October, to 4.7% in November. This raised hopes that interest rates could be cut sooner than previously expected by the Bank of England, easing pressure on mortgage holders and company borrowing costs. Over just one month, expectations of interest rates a year ahead fell from 4.9% to 4.6%, compared to the current level of 5.25%. This drop in rate expectations led to a sharp decline in government bond yields and a rally in bond prices (which move inversely to yields). The UK was mirroring market movements in the USA, where government bonds had their strongest monthly gains since 1985, according to Morgan Stanley.

The rally in bonds supported equity markets, with Morgan Stanley also noting the strongest month for global equities in three years. The UK stock market rose by nearly 3%, but in a reversal of recent trends, it was led by medium sized and smaller companies. These tend to be in more cyclical industries, and also more exposed to the domestic economy, so potential beneficiaries of lower interest rates. The stock market was led by interest rate sensitive and cyclical sectors, such as real estate, retail and electricity. On the flipside, the weakest sectors included more economically defensive sectors, such as beverages (exacerbated by a weak trading update at Diageo), pharmaceuticals and personal care, as well as energy.

The portfolio return was well ahead of the benchmark in the month, benefitting from a higher exposure to medium sized companies, as well as some stock specific considerations. The Net Asset Value total return for November was 5.7%, against the 3% return of the benchmark index. The strongest individual contribution to outperformance came from distribution company DCC. Investors took comfort from a robust set of interim results, and from a capital markets event, which addressed concerns about the outlook for DCC's energy business and its potential to benefit from the energy transition. The shares, which had been depressed,

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rose by over 18%.

Energian's shares also bounced by 18%, reversing most of the prior month's drop, as it reported that gas production from its platform near Israel was uninterrupted by the events in the region, with sentiment also benefitting from the temporary halting of the war in Gaza. The reinsurer Lancashire rose, as it reported strong third quarter trading and announced a large special dividend. There were several other shares that posted double digit percentage returns, notably housing related companies and retailers. In addition, relative performance benefitted from not owning Diageo and AstraZeneca, where share price weakness held back the market return.

There were fewer negative performance contributors, but the car distribution company Inchcape pulled back, though on little news. Gambling company Entain was also weak, on the back of a poor run of sporting results, which came after some earlier disappointments at the company. Elsewhere, not owning Rolls Royce and Experian impacted relative returns as both of those companies rose sharply.

We took the difficult decision to sell St James's Place in November. This is a strong business, with a leading position in the wealth management industry, and a large network of financial advisors. However, as we reported last month, the company announced a major change to its charging structure, which will have a significant impact on future profitability. Whilst the very long-term prospects still look favourable, and the current valuation is quite depressed, there will be a long period of restructuring ahead, which carries risk. There is a reasonable argument that St James's Place could offer good value here, but our original investment case has not worked out, and it is an important discipline in our investment process that we objectively reassess these types of situations. Therefore, we decided to sell the shareholding, but we will continue to monitor the company in the months and years ahead.



Simon Gergel, Portfolio Manager

The Merchants Trust PLC is managed by Simon Gergel who is Chief Investment Officer, UK Equities at AllianzGI and has 32 years investment experience. Simon joined AllianzGI in April 2006 from HSBC Halbis Partners where he managed over £900m in high income funds as well as core institutional and life UK equity portfolios. Prior to joining HSBC, Simon worked for 14 years at Phillips & Drew Fund Management / UBS Asset Management.

We also sold out of the French listed pharmaceutical company Sanofi, after the company announced an unexpected major step up in spending on research & development. Whilst this may be a sensible additional investment, the justification was not that clear and the shares were not especially cheap. We decided to sell the shares to fund investments where we have higher conviction.

We supported a fund raising by the power supply company XP Power, which had warned in October about weak trading conditions and the potential need to raise fresh capital. Elsewhere, we added to positions where we saw particularly good value, typically where share prices had been weak. These included Pets-At-Home, which reported a tricky period in its retail business due to disruption at a new distribution centre, but excellent progress in its veterinary arm, which we believe to be an underappreciated strength of the group. Other additions included Inchcape, Tate & Lyle, PZ Cussons and Lloyds Banking Group.

Finally, we trimmed a few other holdings for portfolio construction reasons, where strong performance had increased the position sizes, and reduced the upside potential. These included DCC, Next and Admiral.

We said a month ago, that any change in sentiment over the outlook for interest rates could lead to a sharp reassessment of the outlook for the UK stock market, and particularly for the more cyclical and medium sized companies, which were very cheap. We have seen the start of this in November, and we think there is a long way to go. However, markets do not move in straight lines, there could be considerable volatility over the next few months. Falling interest rate expectations do not just reflect lower inflation, but also weak economic growth and the risk of recession. Conditions are challenging for many businesses, with the full effects of higher interest costs not fully embedded yet.

In order to manage risk, we have diversified the portfolio across different industries, geographic end markets, and levels of economic cyclicality.

We invest in a collection of around 50 companies where we have conviction in the investment case, supported by attractive valuations. We will continue to reassess business fundamentals as they develop and to take advantage of share price volatility to add to positions at favourable prices, and trim back holdings when the upside has reduced.

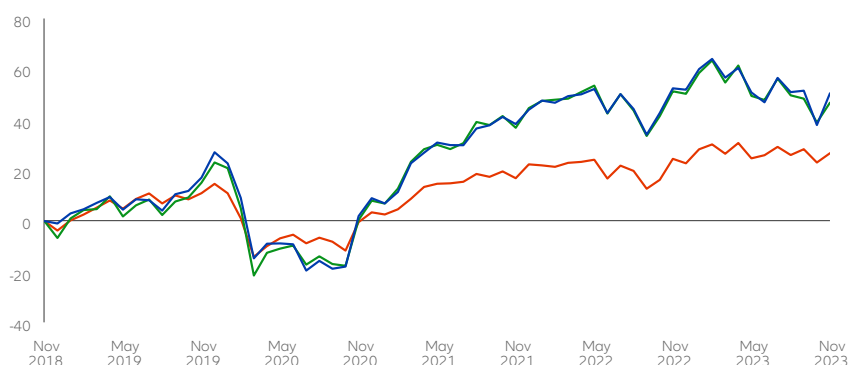
The UK stock market remains lowly valued in aggregate, with a high level of polarisation. We remain excited about the investment opportunities available, to help deliver Merchants' income and total return objectives.

Simon Gergel
18 December 2023

This is no recommendation or solicitation to buy or sell any particular security. Any security mentioned above will not necessarily be comprised in the portfolio by the time this document is disclosed or at any other subsequent date.

Performance Track Record

Five Year Performance (%)



■ Share Price ■ NAV (debt at fair value)

■ Benchmark: With effect from 1 February 2017 the benchmark changed from the FTSE 100 to the FTSE All-Share Index

Risk & Features

Investment trusts are quoted companies listed on the London Stock Exchange. Their share prices are determined by factors including the balance of supply and demand in the market.

Merchants seeks to enhance returns for its shareholders through gearing which can boost the Trust's returns when investments perform well, though losses can be magnified when investments lose value. You should be aware that this Trust may be subject to sudden and large falls in value and you could suffer substantial capital loss.

Derivatives may be used to manage the Trust efficiently.

Cumulative Returns (%)

	3M	6M	1Y	3Y	5Y
Share Price	-0.3	-0.2	-1.3	47.6	50.5
NAV (debt at fair value)	-1.9	-1.8	-3.0	46.1	46.8
Benchmark	0.6	1.6	1.8	27.3	26.8

Discrete 12 Month Returns to 30 November (%)

	2023	2022	2021	2020	2019
Share Price	-1.3	10.2	35.6	-13.0	17.1
NAV (debt at fair value)	-3.0	10.5	36.2	-12.7	15.1
Benchmark	1.8	6.5	17.4	-10.3	11.0

Source: Thomson Reuters Refinitiv DataStream, percentage growth, mid to mid, total return to 30.11.23. Copyright 2023 © DataStream, a Thomson Reuters company. All rights reserved. DataStream shall not be liable for any errors or delays in the content, or for any actions taken in reliance thereon.

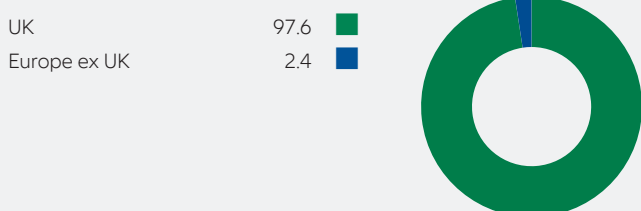
Past performance does not predict future returns. Investing involves risk. The value of an investment and the income from it may fall as well as rise and investors might not get back the full amount invested. This investment trust charges 65% of its annual management fee to the capital account and 35% to revenue. This could lead to a higher level of income but capital growth will be constrained as a result.

Portfolio Breakdown

Sector Breakdown (%)

Financials	20.5	
Industrials	18.7	
Consumer Staples	14.7	
Consumer Discretionary	12.3	
Energy	10.8	
Utilities	7.8	
Health Care	6.2	
Materials	3.3	
Real Estate	2.7	
Cash	3.0	

Geographic Breakdown* (%)



Top Ten Holdings (%)

GSK	4.7
Shell	4.3
British American Tobacco	3.6
DCC	3.3
Scottish & Southern Energy	3.3
BP	3.1
IG Group	3.1
Imperial Brands	2.8
Tate & Lyle	2.8
Rio Tinto	2.7

Total number of holdings** 50

**Excludes derivatives

Market Cap Breakdown (%)



The data shown is not constant over time and the allocation may change in the future. Totals may not sum to 100.0% due to rounding.

This is no recommendation or solicitation to buy or sell any particular security.

*Excludes Cash

Board of Directors

Colin Clark (Chairman)

Timon Drakesmith (Chairman of the Audit Committee)

Karen McKellar

Mary Ann Sieghart

Sybella Stanley (Senior Independent Director)

Glossary

Share Price is the price of a single ordinary share, as determined by the stock market. The share price above is the mid-market price at market close.

Net Asset Value (NAV) per Share is calculated as available shareholders' funds divided by the number of shares in issue, with shareholders' funds taken to be the net value of all the company's assets after deducting liabilities.

The NAV figure above is based on the fair/market value cum income of the company's long-term debt and preference shares (known as debt at market value). This allows for the valuation of long-term debt and preference shares at fair value or current market price, rather than at final repayment value (known as debt at par).

Premium/Discount. Since investment company shares are traded on a stock market, the share price that you get may be higher or lower than the NAV. The difference is known as a premium or discount.

Dividend Yield is calculated using the latest full year dividend divided by the current share price.

Gearing is a measure of a company's financial leverage and shows the extent to which its operations are funded by lenders versus shareholders.

How to invest

You can buy shares in the Trust through:

- A third party provider - see 'How to Invest' on our website, where you will find links to a range of these platforms, many of which allow you to hold the shares within an ISA, Junior ISA, SIPP and/or savings scheme.
- A stockbroker.
- A financial adviser.

Contact us

If you have any queries regarding our investment trusts our Investor Services team can be contacted on:

0800 389 4696

www.merchantstrust.co.uk

E-mail: investment-trusts@allianzgi.com

You will find much more information about The Merchants Trust on our website.

Please note that we can only offer information and are unable to provide investment advice. You should contact your financial adviser before making any investment decision.



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All data source Allianz Global Investors as at 30.11.23 unless otherwise stated.

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