

The Merchants Trust PLC

As focused on dividends as you are

Allianz 
Global Investors

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

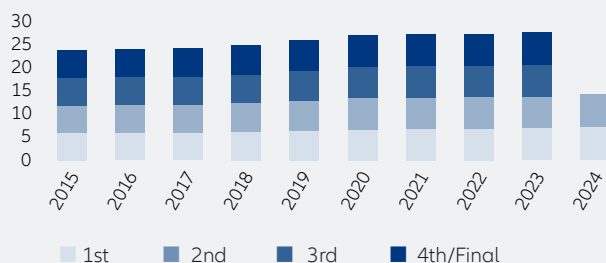
The Merchants Trust PLC was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, but now concentrates primarily on major UK 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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The RSMR rating is designed for use by professional advisers and intermediaries as part of their advice process. This rating is not a recommendation to buy. If you need further information or are in doubt then you should consult a professional adviser.

Total Assets £817.8m

Shares in Issue 147,094,887 (Ordinary 25p)

Market Cap £711.9m

Share Price
484.0p

NAV per Share
491.0p

Premium/-Discount
-1.4%

Dividend Yield
5.8%

Gearing
18.0%

Fund Manager's Review

The month was overshadowed by the ongoing conflict in Gaza following the terrorist attacks, by Hamas, in Israel on 7th October that triggered it. The full ramifications of this; the human suffering and loss of life and the geopolitical implications are hard to fathom at this stage.

The situation in Israel and Gaza weighed on stock market sentiment, which was further impacted by rising US bond yields for most of the month. Equity markets generally fell, with the FTSE All-Share index down by over 4%. In a "risk off" and rising bond yield environment, small and mid-sized companies underperformed the larger stocks, and many of the worst performing sectors were in cyclical or financial industries. These included industrial support services, real estate, banks and retailers. Conversely, the best performing sectors were more economically resilient industries, such as utilities, beverages and electricity, whilst the strongest sector was aerospace & defence for understandable reasons.

The portfolio underperformed the benchmark, although with some recovery towards the end of the month. Merchants NAV Total return for the month was -6.4% versus -4.1% for the benchmark. Underperformance was caused by a combination of market trends, and a number of stock specific issues. The main market trend, was the underperformance of medium and smaller sized companies and those that are more cyclical. Consistent selling of equity funds by investors, has put selling pressure on many stocks, especially at the smaller end, as fund managers have liquidated positions. This has happened, despite valuations of many of these companies already being very low. Valuation offered limited support last month. As Benjamin Graham famously said, "*in the short run, the stock market is a voting machine, but in the long run, it is a weighing machine*". Investors have been "voting" against UK equities, especially those that are small or cyclical, pushing valuations lower. But that weakness also creates future opportunity, as we discuss below.

In terms of individual stock impacts, there were several notable situations. The biggest was Energean, the Mediterranean gas producer, which saw

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its shares fall 25%, on fears about potential disruption to its largest asset, a large gas field and platform, off the coast of Israel. There was little, if any, interruption to production during October, and the platform is a good distance away from the coast, but investors were understandably nervous.

St James's Place shares fell, as the company announced a major change to their pricing strategy, in response to regulatory and competitive pressures. Whilst the long-term implications for profitability seem modest, there will be a long implementation period, during which time cash generation at the company will be impacted. Although the shares had already been de-rated, they fell further during October.

The portfolio was also impacted by profits warnings from the power supply manufacturer XP Power, and the transport company Mobicco (formerly National Express). These were very different situations, but in both cases the companies suspended dividend payments. XP Power had been investing in new capacity for the business, and saw some order delays, that put the balance sheet under strain. But, in terms of our portfolio holding, our view is that it remains a strong business, that has the potential to make good margins and financial returns and offer medium term growth. Mobicco has had persistent problems with the availability of drivers and inflationary pressures in some of its operations since coming out of the pandemic. Despite reassurances over the summer that they should see a strong recovery in the second half of the year, they had to rein back expectations again in October.

Most of the other share price declines in the portfolio were due to a more general risk aversion from investors, rather than really significant news flow.



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.

The largest positive individual share contributions to performance, were from companies not owned in the portfolio, that fell in price, bringing down the index return. These included AstraZeneca and HSBC, which had previously been strong performers, and Rentokil, which disappointed investors with a trading update. Performance also benefitted from share price gains at the defensive stocks Imperial Brands and SSE, as well as engineering firm Keller, which announced strong trading results, notably in its core US market.

We sold the investment in Mobicco after its profits warning, as its financial position has weakened. Whilst the company has put its US school business up for sale, that could be a long process and market conditions for a sale are uncertain.

We made a new investment in Aena, a Spanish listed airports operator. Aena, which is majority owned by the Spanish state, owns 46 airports in Spain but also has concessions at many other airports around the world, most notably in Brazil, Central America and at Luton in the UK. Under a favourable regulatory structure, it earns a fair regulated return on its capital invested to provide airport capacity to aircraft landing in Spain, but it is able to earn an unregulated return on commercial activities, such as renting space for duty free shopping or restaurants. Modest capital investment requirements mean the business is cash generative and able to pay a healthy dividend to shareholders.

The UK stock market trades at a very low valuation, with a high level of stock dispersion, exacerbated by recent market movements. This creates an excellent environment for finding unloved companies offering good value. Whilst the last few months have been difficult for our style of investing, which is heavily focused on the price we pay for companies, these are exactly the circumstances that can create future opportunities. We are finding many strong companies to invest in, trading on unusually depressed valuations, and often with limited exposure to the domestic economy, despite being listed in the UK.

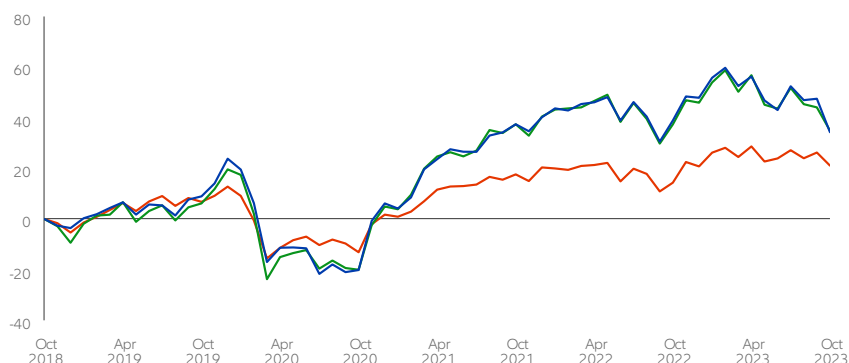
At the beginning of November, we saw the Bank of England and the US Federal Reserve hold interest rates flat. Whilst it is too early to call the turn in the interest rate cycle, any change in sentiment over the direction of interest rates could lead to a sharp reassessment of the outlook for stock markets, and particularly for the more cyclical and medium sized companies, where the portfolio has a large allocation.

Simon Gergel
22 November 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	-11.9	-14.1	-3.3	68.2	34.3
NAV (debt at fair value)	-11.1	-14.0	-1.8	68.7	34.9
Benchmark	-4.8	-5.9	5.9	39.4	21.1

Discrete 12 Month Returns to 31 October (%)

	2023	2022	2021	2020	2019
Share Price	-3.3	1.1	72.1	-26.7	9.0
NAV (debt at fair value)	-1.8	0.0	71.8	-24.7	6.2
Benchmark	5.9	-2.8	35.4	-18.6	6.8

Source: Thomson Reuters Refinitiv DataStream, percentage growth, mid to mid, total return to 31.10.23. 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	22.3	<div style="width: 22.3%;"></div>
Industrials	18.0	<div style="width: 18.0%;"></div>
Consumer Staples	14.3	<div style="width: 14.3%;"></div>
Consumer Discretionary	12.1	<div style="width: 12.1%;"></div>
Energy	11.4	<div style="width: 11.4%;"></div>
Health Care	7.9	<div style="width: 7.9%;"></div>
Utilities	7.7	<div style="width: 7.7%;"></div>
Materials	3.5	<div style="width: 3.5%;"></div>
Real Estate	2.6	<div style="width: 2.6%;"></div>
Cash	0.2	<div style="width: 0.2%;"></div>

Geographic Breakdown* (%)



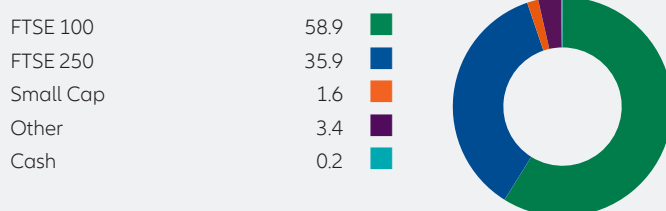
Top Ten Holdings (%)

GSK	5.1
Shell	4.6
British American Tobacco	3.7
BP	3.5
DCC	3.3
Scottish & Southern Energy	3.1
IG Group	3.1
Imperial Brands	2.8
WPP	2.8
Rio Tinto	2.8

Total number of holdings** 52

**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 31.10.23 unless otherwise stated.

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