

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

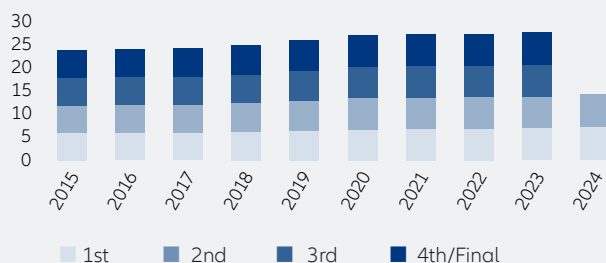
The Merchants Trust PLC was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, but now concentrates primarily on major UK 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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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 £915.6m

Shares in Issue 147,824,887 (Ordinary 25p)

Market Cap £824.9m

Share Price
558.0p

NAV per Share
551.8p

Premium/-Discount
1.1%

Dividend Yield
5.0%

Gearing
14.1%

Fund Manager's Review

Financial market movements in December followed the same trend as in November. There was another sharp drop reported in the rate of inflation with UK Consumer Price Inflation (a measure of price changes experienced by consumers) falling to 3.9% in November, well below expectations, from 4.6% the previous month, and down from over 10% a year earlier. This, in turn, brought down interest rate expectations and government bond yields, with the 10-year gilt (UK government bonds – effectively a loan to the government) yielding around 3.5% at the end of the month, boosting their value, as prices move inversely to yields. UK interest rates are now expected to drop sharply in 2024, from the current level of 5.25%, even though three members of the Bank of England's Monetary Policy Committee still voted for an interest rate increase in December.

Rising bond prices, and falling interest rate expectations, once again supported equity markets. The FTSE All Share index gained over 4%. As in November, medium sized and smaller companies outperformed. The best performing sectors were those that are more economically sensitive, which benefit from falling interest rates, such as travel & leisure, industrial transport, house building and real estate. Conversely the worst performing sectors, included more defensive industries such as tobacco, telecommunications and utilities, as well as oil & gas.

Portfolio performance was ahead of the rising market, helped by a large exposure to medium sized companies, and some of the more cyclical sectors. Merchants' Net Asset Value (NAV) total return for December was 5.6%, well ahead of the 4.5% return of the benchmark index. The largest individual contributions to outperformance came from mortgage lender OSB (OneSavingsBank), housebuilder Redrow, car distributor Inchcape and financial trading company IG Group, which were among a number of shares with double digit percentage returns. The largest negative contributors were the US based gas company Diversified Energy, the reinsurer SCOR and the two tobacco companies in the portfolio.

“ Looking into 2024 and beyond, given the modest valuations in the portfolio, we have grounds for optimism that the portfolio can continue to deliver income and total returns to meet Merchants' objectives

We made a new investment in Assura PLC, a developer and owner of healthcare property, mostly GP surgeries in the UK and Ireland. Surgeries typically have long leases, with rents backed by the NHS, and often with direct or indirect inflation linkage. A shortage of suitable properties and structurally rising care needs, keep demand resilient. Assura also has long term funding at a low cost of 2.3%. In recent months, the company has had to slow down its expansion, partly due to higher interest rates and this has coincided with falling property values, due to rising yields. These two factors have led to the shares suffering a sharp de-rating, and provided us an opportunity to buy into the company, at a valuation below its asset value and with dividend yield around 7%.

Elsewhere, we increased the investment in Barclays as, though in no way a recommendation, we continue to see good value in the domestic banks. We also added to other modestly priced shares, such as Inchcape, PZ Cussons and BP. We took profits in certain shares that had performed well in the year, especially DCC and Admiral.



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 are wary of making forecasts, conscious of the quote from baseball player Yogi Berra, "It is difficult to make predictions, especially about the future". As we look into 2024, however, it seems likely that UK interest rates will come down. How quickly rates decline, will depend upon the level of inflation, the strength of the economy and the Bank of England's willingness to risk cutting rates, after arguably being too slow to increase them earlier. All things being equal, the expectation of declining interest rates should make mortgages more affordable and support a recovery in housebuilding and associated industries, given the structural shortage of housing in the UK. Lower interest rates should also support other cyclical industries. The main risk is a recession, with recent economic statistics suggesting growth is already close to zero. A weaker economy and rising unemployment would impact demand in those same industries, putting pressure on profitability.

Given the uncertainty, we continue to invest across a diversified portfolio of companies, spread between defensive and cyclical industries, both domestic and international. We find valuations of many medium and smaller sized businesses attractive, even after a decent bounce in recent months. For example, the two housebuilders in the portfolio, Redrow and Bellway, trade around or below the value of their assets, principally land and homes under construction, which is unusual. Many companies in the portfolio trade on single digit price to earnings ratios, generate healthy cash flows and pay above average dividend yields.

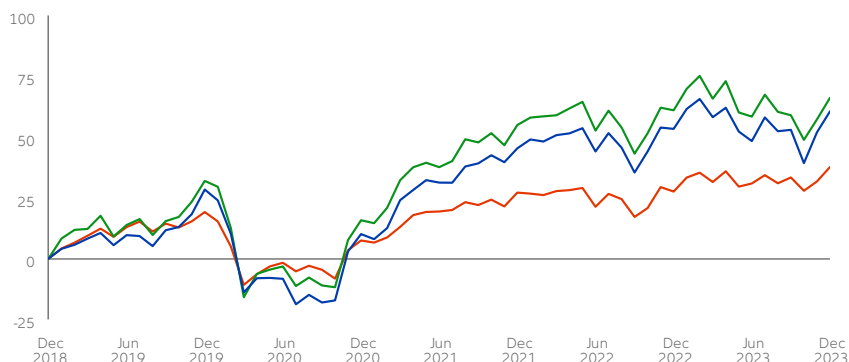
Therefore, looking into 2024 and beyond, given the modest valuations in the portfolio, we have grounds for optimism that the portfolio can continue to deliver income and total returns to meet Merchants' objectives.

Simon Gergel
11 January 2024

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	5.0	8.2	4.7	45.8	60.6
NAV (debt at fair value)	4.5	4.9	3.2	43.5	66.1
Benchmark	3.2	5.2	7.9	28.1	37.7

Discrete 12 Month Returns to 31 December (%)

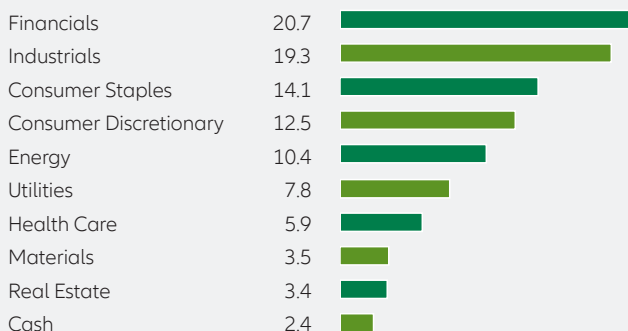
	2023	2022	2021	2020	2019
Share Price	4.7	5.5	32.0	-14.3	28.4
NAV (debt at fair value)	3.2	3.9	33.8	-12.3	32.0
Benchmark	7.9	0.3	18.3	-9.8	19.2

Source: Thomson Reuters Refinitiv DataStream, percentage growth, mid to mid, total return to 31.12.23. 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 (%)



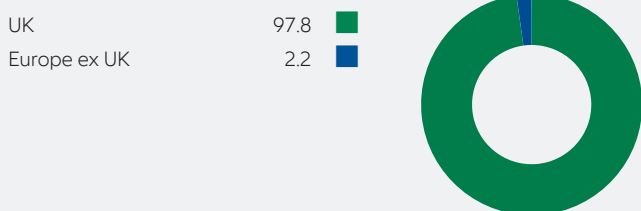
Top Ten Holdings (%)

GSK	4.6
Shell	4.1
British American Tobacco	3.5
Scottish & Southern Energy	3.2
BP	3.2
IG Group	3.1
DCC	3.0
Barclays	2.9
Inchcape	2.9
Rio Tinto	2.8

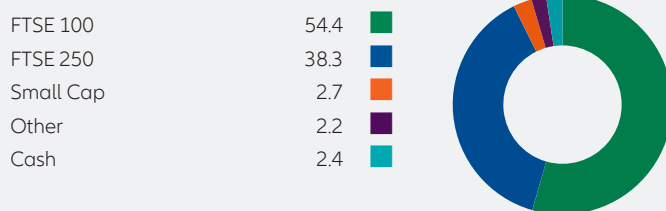
Total number of holdings** 51

**Excludes derivatives

Geographic Breakdown* (%)



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)

Lisa Edgar (appointed 1 January 2024)

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 31.12.23 unless otherwise stated.

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