

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

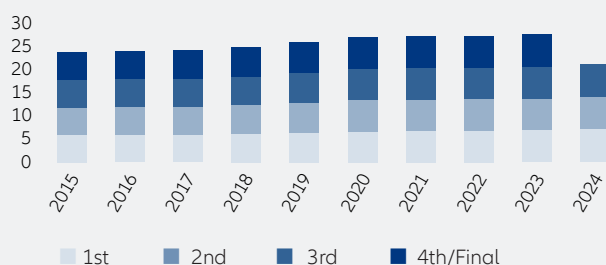
The Merchants Trust PLC was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, but now concentrates primarily on major UK 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
02.02.2024	14.03.2024	7.10p	3rd Interim
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

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 £879.4m

Shares in Issue 148,324,887 (Ordinary 25p)

Market Cap £771.3m

Share Price

520.0p

NAV per Share

526.9p

Premium/-Discount

-1.3%

Dividend Yield

5.4%

Gearing

16.6%

Fund Manager's Review

February saw confirmation that the UK economy had slipped into recession in the second half of 2023, with two quarters of negative real GDP (Gross Domestic Product) growth. However, the magnitude of decline was very modest, at -0.1% in Q3 and -0.3% in Q4, and these numbers may yet be revised. It is probably better to describe the UK economy as stagnating in that period. We have not seen the wholesale job losses across the country that typically accompany a recession. Furthermore, the governor of the Bank of England, Andrew Bailey, said that the recession may already be over, with distinct signs of an upturn.

One of the most notable events in global markets, was Japan's Nikkei 225 Index reaching a new all-time high, for the first time in 34 years! Back in 1989 Japan was the largest equity market in the world. Today the US and the big American technology companies dominate, with the AI chip maker Nvidia, jumping by \$277bn in value on a single day in February. This is more than the entire market value of the largest UK company - Shell.

The UK stock market was relatively calm overall, with a small gain over the month, led by larger companies. However, there was considerable volatility at the individual stock level, with many companies reporting their 2023 annual results. There were also several takeover approaches announced for medium and small sized companies, including Redrow in the portfolio, which was bid for by Barratt Developments. The best performing sectors were aerospace & defence, on the back of a recovery at Rolls Royce; non-life insurance, where trading results have been strong; and industrial transportation, which included the takeover bid for the small-cap Wincanton. The worst performing sectors included cyclical industries like metals & mining, real estate and housebuilding.

Performance was behind the market in the month, but with positive and negative individual stock moves. On the positive side, Barclays shares responded well to strong trading results and a large buy-back announcement, Redrow rallied on the takeover approach, and the reinsurance stocks reacted to strong industry trading. Performance also

“ With a lowly priced stock market and high dispersion, there are many fundamentally strong businesses that are deeply out of favour, offering the potential to pay attractive dividends and generate strong returns for investors

benefited from having no exposure to Glencore, AstraZeneca and Reckitt Benckiser, which were all weak and held back the benchmark return. The Net Asset Value (NAV) total return for February was flat compared to a 0.2% return from the benchmark index.

On the negative side, shares in the specialist bank Close Brothers fell heavily. The company had been impacted in January, by an FCA review into historic motor finance commission payments. In February, the company announced it would not pay a dividend this year, as it could not reliably predict the potential impact of this review. Consumer products company PZ Cussons also saw its shares weaken, in response to a disappointing trading update and a further sharp devaluation of the currency in Nigeria, an important market for the business. The media company WPP also underperformed, as full year results revealed continuing tough conditions among its US technology clients, in particular. However, we believe that WPP's relationships with these clients are beneficial to its long-term prospects. Not owning Rolls Royce also held back relative performance, as those shares rallied on strong results.

We added a new company to the portfolio: Bank of Ireland. We have been gradually building exposure to the banks sector over recent months. The industry has been completely restructured since the Global Financial Crisis. Banks are operating under much stricter regulatory supervision, with tighter lending controls and far stronger capital ratios. The industry is also benefiting from interest rates recovering from the near zero levels, allowing them to earn higher interest margins. Bank of Ireland benefits from a particularly consolidated Irish banking market, where there are only two major banks. It also adds some diversification away from the



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.

UK economy to Ireland, where the housing market looks more resilient. The business is very modestly priced compared to the return on capital it generates, and it pays a dividend yield of over 7%, from strong underlying cash generation. Bank of Ireland is one of our small number of non-UK listed companies in the portfolio.

This investment was funded by selling the building materials company CRH. Ironically, CRH was originally an Irish listed company. We bought it when it had moved its primary listing to the UK, and it has recently moved again to the USA, where the bulk of its activities are based. CRH represents a good example of our sell discipline. We bought CRH (for the second time) in 2022, since when the share price has doubled. The company has delivered strong operational performance, but the shares have also been re-rated significantly. The valuation has benefited from moving its listing to the USA, from the more lowly priced UK stock market. However, we believe the share price now fully reflects the high quality and good prospects of the business, so we sold it to finance other investments where we have higher conviction.

Other than these transactions, we have added to several positions where we see good value, including Shell, Inchcape and Pets-At-Home, as well as switching more of the Imperial Brands holding into British American Tobacco. We also reduced exposure to Next Plc, which has been re-rated on the back of solid trading results, and we now see less upside in the shares as a portfolio holding.

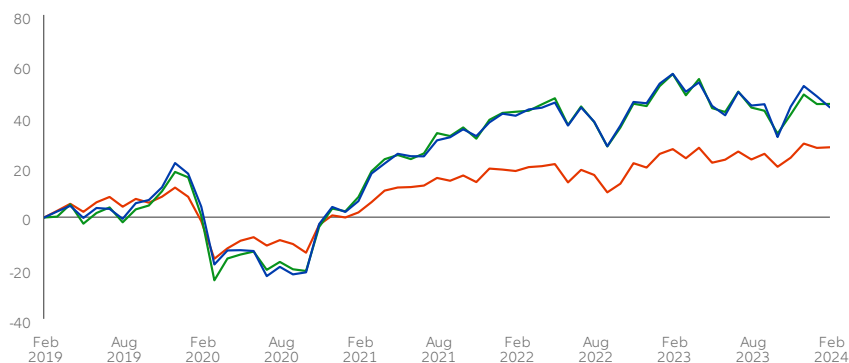
We are finding excellent investment opportunities in the UK stock market. Economic volatility and investor risk aversion have created pricing anomalies. With a lowly priced stock market and high dispersion, there are many fundamentally strong businesses that are deeply out of favour, offering the potential to pay attractive dividends and generate strong returns for investors. There are risks. The economic environment is uncertain, and some sectors and individual companies will have trading issues. Therefore, although we hold a relatively concentrated portfolio of around 50 companies where we have strong conviction, the portfolio is diversified across various industries, with different geographic exposures and varying levels of economic cyclicality. The average valuation of shares in the portfolio is at a significant discount to the broader market. Amongst more defensive sectors, we have investments in electricity distribution companies, food retail, tobacco and personal care. Amongst cyclicals, there is a large exposure to the housing and construction sector (although not just in the UK), energy, financial services, industrial services and more.

Simon Gergel
15 March 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	-0.2	-0.5	-8.5	34.7	43.5
NAV (debt at fair value)	3.0	1.0	-7.5	34.0	44.8
Benchmark	3.3	3.9	0.6	25.2	27.7

Discrete 12 Month Returns to 29 February (%)

	2024	2023	2022	2021	2020
Share Price	-8.5	11.8	31.6	2.1	4.3
NAV (debt at fair value)	-7.5	10.5	31.1	7.3	0.7
Benchmark	0.6	7.3	16.0	3.5	-1.4

Source: Thomson Reuters Refinitiv DataStream, percentage growth, mid to mid, total return to 29.02.24. 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.

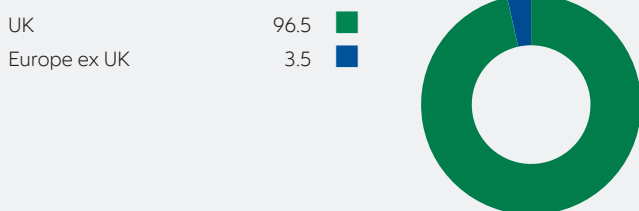
Past performance does not predict future returns. Investing involves risk. The value of an investment and the income from it may fall as well as rise and investors might not get back the full amount invested. This investment trust charges 65% of its annual management fee to the capital account and 35%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

Portfolio Breakdown

Sector Breakdown (%)

Sector	Percentage (%)
Financials	22.0
Industrials	18.3
Consumer Staples	14.1
Consumer Discretionary	11.8
Energy	11.0
Utilities	7.9
Health Care	6.9
Materials	3.9
Real Estate	3.9
Cash	0.2

Geographic Breakdown* (%)



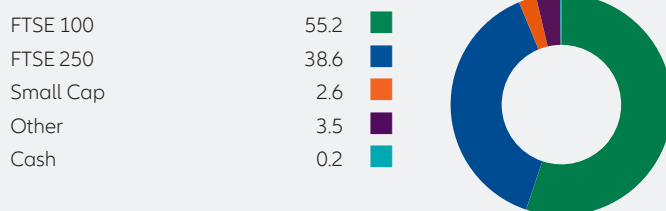
Top Ten Holdings (%)

Company	Percentage (%)
GSK	5.4
Shell	4.5
British American Tobacco	4.2
BP	3.2
Barclays	3.2
Rio Tinto	3.1
IG Group	3.0
Inchcape	3.0
DCC	3.0
Scottish & Southern Energy	2.9

Total number of holdings** 51

**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)

Lisa Edgar

Karen McKellar

Sybella Stanley (Senior Independent Director)

Mal Patel (joined the board 1 March 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 29.02.24 unless otherwise stated.

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