

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

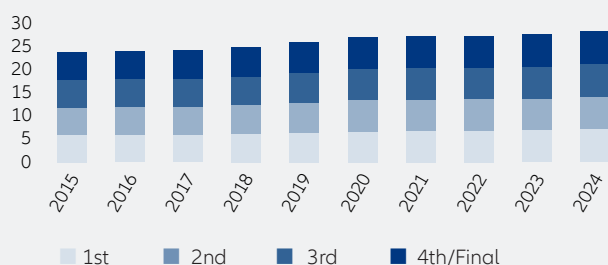
The Merchants Trust PLC was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, but now concentrates primarily on major UK 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 42 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
19.04.2024	22.05.2024	7.10p	Final
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

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	0.55%
Year End	31 January
Annual Report	Annual 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 Kelly Nice
Investment Manager	Simon Gergel, CIO, UK Equities
Codes	RIC: MRCH.L SEDOL: 0580007

1. Source: AIC, as at the Trust's Financial Year End (31.01.2024). 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 £972.4m

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

Market Cap £863.3m

Share Price
582.0p

NAV per Share
590.2p

Premium/-Discount
-1.4%

Dividend Yield
4.9%

Gearing
14.0%

Fund Manager's Review

Politics came to the fore in May, with the prime minister Rishi Sunak calling a UK general election for July 4th, US Independence Day, whilst over in America, Donald Trump became the first former president to be convicted of a criminal offence. The UK election was called after the announcement of a return to economic growth in the first quarter of 2024, with GDP growing at a better than expected 0.6%, one of the strongest rates amongst major economies. Economic conditions continued to normalise, with CPI inflation dropping back to 2.3% in April, close to the Bank of England's 2% target, from 3.2% in the prior month, although this figure was modestly higher than expected.

The UK stock market continued its recovery, hitting several record highs, with a rise of over 2%. There were some signs of a broadening of the market, as medium and smaller sized companies outperformed larger stocks. The stock market was helped by a number of takeover offers, as corporate predators sought to capitalise on the modest valuation of many UK stocks. There was a bid approach for one of Merchants' portfolio companies, the power supply manufacturer XP Power, from industry peer Advanced Energy Industries. In this case, the board of XP Power rejected the proposal, which they described as opportunistic and fundamentally undervaluing the business, despite the considerable premium offered. This is the third bid approach seen in the portfolio in the first four months of this financial year.

Certain economically cyclical sectors led the market, including housebuilders, real estate and retailers, but there were also good gains in telecommunications and aerospace & defence. The worst performing sectors included utilities, which was impacted by the £7bn National Grid rights issue to fund electrification infrastructure, as well as beverages and oil & gas.

Merchants' portfolio outperformed the benchmark, with quite a few companies delivering double digit percentage returns. The biggest three contributors to outperformance were all in the building industry.

“ The stock market was helped by a number of takeover offers, as corporate predators sought to capitalise on the modest valuation of many UK stocks

The ground engineering company Keller continued its sharp rally, on the back of strong results, whilst housebuilder Redrow and materials producer Marshalls also rallied. Elsewhere XP Power rose nearly 40% on the takeover approach, and there was a benefit from not owning Diageo, which underperformed and held back the benchmark return. Merchants Net Asset Value (NAV) total return for May was 3.21% compared to 2.41% from the benchmark index.

There were few notable negative contributors, but Dowlais (see below) and the reinsurer SCOR were weak, and not owning Experian and Rolls Royce also held back relative performance as those shares rallied.

We added two new companies to the portfolio. Dowlais is a supplier of components and powdered metals for the automotive manufacturing industry, working with around 95% of global manufacturers. It was originally part of the industrial business GKN, but it has been restructured over the last few years by the corporate turnaround specialist Melrose, before being demerged and listed just over a year ago. Dowlais is world leader in sids shafts and prop shafts that help provide power to the wheels of vehicles, as well as making many other products.

A key issue facing the company and the car industry is the transition from internal combustion engines (ICE) to electric vehicles (EV). Whilst most of Dowlais products are neutrally or even positively exposed to the move to EVs, a small proportion are dependent on ICEs, especially within powdered metals. These concerns have depressed the shares of Dowlais,



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.

and this has been exacerbated by selling pressure from former Melrose shareholders, who may not want to retain the stock. That provided us with an opportunity to buy shares at an exceptionally low valuation, which does not reflect the long term prospects for Dowlais, and the significant improvement we expect to see in both profits and cash generation, at the completion of the major restructuring in the business.

We also bought shares in Unite Group, the largest owner and operator of student accommodation in the UK. Unite and its joint venture partners own and rent out about 70,000 rooms, and have long term relationships with many of the UK's leading universities. The business has grown over many years by building and acquiring properties and through rental increases. There is a shortage of accommodation in the UK, with many private landlords withdrawing from the market. We are also seeing growing student numbers. Together, these factors provide a structural tailwind for the company. Like many real estate companies, rising interest rates have impacted property values and brought the shares down to a level which does not reflect the company's growth opportunities and its income generation. Both Unite and Dowlais also pay attractive dividend yields.

These purchases were funded by taking profits in several of the shares that had rallied, to pull back position sizes as they moved closer to fair value. Reductions included the retailers Tesco and Next, building companies Keller and Tyman, the energy company Energean and Barclays bank.

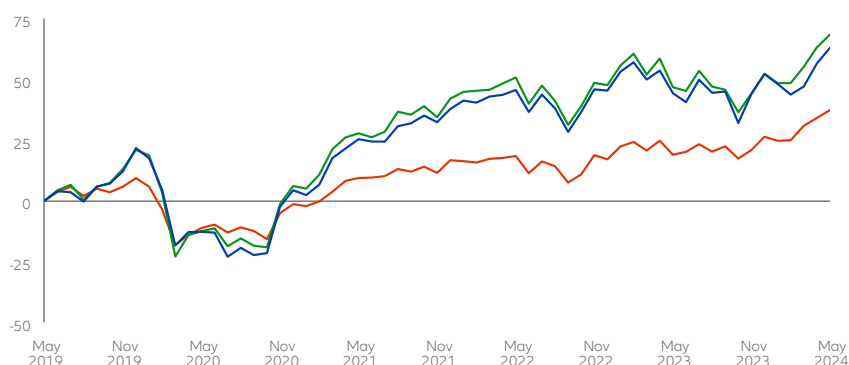
There seems to have been a subtle change of sentiment in the UK stock market over recent weeks. It feels like we are seeing more commentary about the number of takeover bids being launched for UK listed businesses, and we are seeing a few rights issues and even talk about new flotations (IPOs) which are signs of a healthier stock market. As we said a month ago, it is impossible to know whether this is likely to be a longer term trend. However, the UK continues to stand out in terms of its low rating, and a wide dispersion of valuations makes the London Stock Exchange a fertile opportunity set. We remain excited about the potential income and capital returns we believe the portfolio can generate over the medium term.

**Simon Gergel
14 June 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	13.4	13.2	12.9	30.0	62.9
NAV (debt at fair value)	13.4	16.8	14.7	31.8	68.4
Benchmark	9.9	13.6	15.4	25.5	37.3

Discrete 12 Month Returns to 31 May (%)

	2024	2023	2022	2021	2020
Share Price	12.9	-0.9	16.1	43.7	-12.8
NAV (debt at fair value)	14.7	-2.7	18.0	46.0	-12.5
Benchmark	15.4	0.4	8.3	23.1	-11.2

Source: Thomson Reuters Refinitiv DataStream, percentage growth, mid to mid, total return to 31.05.24. Copyright 2024 © 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.

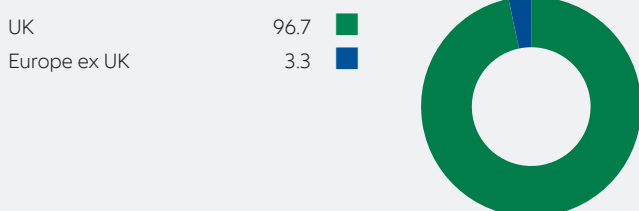
Past performance does not predict future returns. Investing involves risk. The value of an investment and the income from it may fall as well as rise and investors might not get back the full amount invested. This investment trust charges 65% of its annual management fee to the capital account and 35% 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	21.1	<div style="width: 21.1%;"></div>
Industrials	17.7	<div style="width: 17.7%;"></div>
Consumer Staples	14.2	<div style="width: 14.2%;"></div>
Consumer Discretionary	12.7	<div style="width: 12.7%;"></div>
Energy	10.4	<div style="width: 10.4%;"></div>
Utilities	7.2	<div style="width: 7.2%;"></div>
Health Care	6.5	<div style="width: 6.5%;"></div>
Real Estate	4.9	<div style="width: 4.9%;"></div>
Materials	4.1	<div style="width: 4.1%;"></div>
Cash	1.2	<div style="width: 1.2%;"></div>

Geographic Breakdown* (%)



Top Ten Holdings (%)

GSK	5.2
British American Tobacco	4.2
Shell	4.2
Barclays	3.3
Inchcape	3.2
IG Group	3.2
Rio Tinto	3.1
BP	3.1
WPP	3.1
Scottish & Southern Energy	2.9

Total number of holdings** 53

**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 (Senior Independent Director)

Mal Patel

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 31.05.24 unless otherwise stated.

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