

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

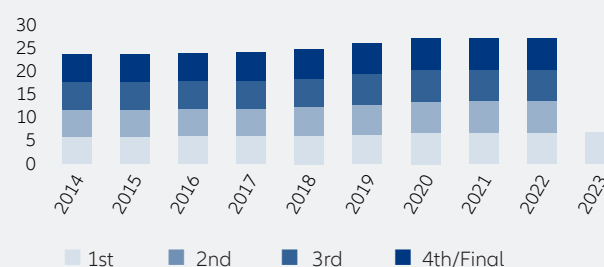
The Merchants Trust PLC was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, but now concentrates primarily on major UK 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 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 40 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 |
|-------------|------------|----------|-------------|
| 15.07.2022 | 24.08.2022 | 6.85p | 1st Interim |
| 19.04.2022 | 24.05.2022 | 6.85p | Final |
| 05.02.2022 | 15.03.2022 | 6.85p | 3rd Interim |
| 08.10.2021 | 11.11.2021 | 6.80p | 2nd Interim |

Past performance is not a reliable indicator of future results.



Consideration of Environmental, Social and Governance (ESG) factors is fully integrated into The Merchants Trust's investment process. Visit www.merchantstrust.co.uk/Integrated-ESG/ for more information.

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

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 £846.5m

Shares in Issue 134,924,887 (Ordinary 25p)

Market Cap £758.3m

Share Price

562.0p

NAV per Share

556.2p

Premium/-Discount

1.0%

Dividend Yield

4.9%

Gearing

12.1%

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.

Fund Manager's Review

For the second month in a row, the US Federal Reserve (Fed) raised interest rates by 0.75% to try to stem inflation. This came against a background of heightened concerns about slowing economic growth. In the US, the economy recorded its second consecutive quarter of negative real economic growth, normally a measure of a recession. However, the Fed chairman, Jay Powell, disputed this common definition, saying the economy was performing too well to be in a recession. It may seem like an academic discussion about whether a "technical" recession, with robust nominal economic growth lagging even stronger inflation, is really a recession, but it is very important for financial markets.

At the moment, employment remains strong, unemployment low and wages are generally rising in the US and the UK, although probably below the rate of inflation. Many of the inflationary pressures are caused by supply constraints such as the impact of Covid-19 containment policies in China, or the knock-on impact on energy and food costs from the Russian invasion of Ukraine. What investors are watching is whether these pressures cause a widespread loss of confidence and lead to consumers cutting spending and companies shedding jobs. That would presumably be classified as a real recession by the Fed chairman.

Anecdotally, many companies we speak to are still seeing shortages of labour, especially skilled labour. Some of this seems to be structural, not just cyclical. One company in the portfolio, the recruitment company SThree, is benefitting from the strong labour market and reported buoyant trading in July. SThree specialises in placing contractors with STEM skills, such as information technology and life sciences. In the second quarter of their financial year, ending in May, the company saw 23% growth in

“ At present many of the best opportunities seem to be among the more cyclical stocks, where we have been deploying capital in recent months

net fees compared to the previous year, with nearly 30% growth in their contractor business. Referring to the shortage of skilled labour, the chief executive said, *"While there has clearly been heightened macro-economic uncertainty in the last six months, demand from our clients for the skills our candidates possess has continued to grow strongly, while supply remains tight. This supply constraint is acute, entrenched, and increasing YoY across our core markets"*.

The economic uncertainty is leading to volatility in the stock market, as sentiment swings from fears of a "real" recession, to hopes that we may be near the peak of inflation, and the economy may be able to muddle through. July was generally a strong month for stock markets, after a weak June, with a more cyclical feel to share price moves. Areas that had been weak earlier in the year, such as US technology stocks or UK mid-caps, performed better than broad US or UK benchmarks. The best performing larger sectors in the UK included industrial support services, consumer services, construction & building materials and retailers. The weakest sectors included many defensive areas, such as tobacco, telecommunications and pharmaceuticals.

Portfolio performance was modestly behind the benchmark. Underperformance of defensive companies like BAE Systems and Imperial Brands, as well as weak trading at the reinsurer Scor, held back performance. However, this was largely offset by strong gains at IG Group, which unveiled good results and a new share buy-back, and the housebuilder Redrow. Whilst performance also benefitted from not owning HSBC or AstraZeneca, which underperformed the market. Against this backdrop the NAV Total Return for the month was 1.6%, compared to 4.4% from the benchmark index.



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.

In July, the consumer health business of GSK, now named Haleon, was demerged. This is one of the largest "new" companies to list in the UK for many years. Haleon owns strong global brands such as Sensodyne toothpaste, Panadol and Voltaren in pain care and Centrum in vitamins. It is world market leader in four of its five categories². Following the demerger, there was some selling pressure from investors, who obtained quite small stakes in the business, and this depressed the shares to a level that we believe offers good value. We decided to increase the modest position in the portfolio, to make it more substantial, because we see strong growth prospects at the business and a very resilient profits profile.

Elsewhere, we added to the commodity exposed companies, Rio Tinto and Energean, after shares retreated on the back of declines in commodity prices. We funded these purchases by reducing the position in renewable power generator Drax. Drax has performed exceptionally well since our purchase last summer. Whilst we still see a positive investment case, we decided to moderate the position size, due to rising risks of a normalisation in electricity prices or some sort of windfall tax or change to the electricity pricing regime.

As we said last month, it is exceptionally hard to predict how the economy will perform in the months ahead. However, this uncertainty is causing volatility in share prices, and that can create opportunities for investors with longer term horizons. It can sometimes be easier to have confidence in how a business will be performing three to five years in the future, than in the next six months. We seek to take advantage of situations where this short-term uncertainty leads to shares trading well below or above their long-term fundamental worth. At present many of the best opportunities seem to be among the more cyclical stocks, where we have been deploying capital in recent months. On the other hand, we have typically been funding this from more defensive companies, which are not necessarily expensive in absolute terms, but are likely to produce lower total returns in the medium term.

¹<https://www.londonstockexchange.com/news-article/STEM/sthree-half-year-results/15553801>

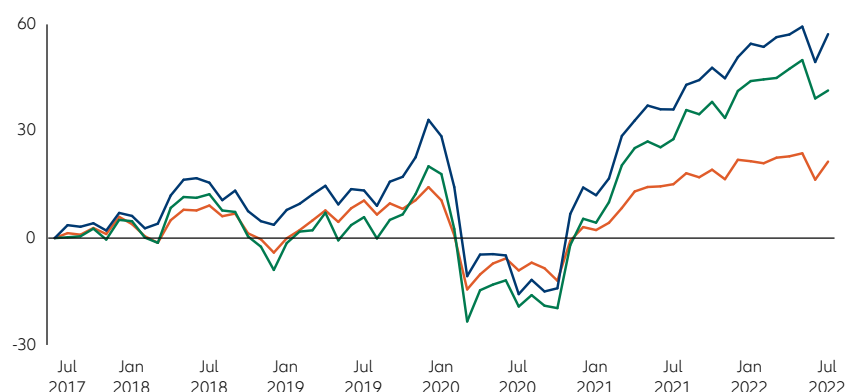
²<https://www.gsk.com/media/8979/consumer-healthcare-capital-markets-day.pdf>

Simon Gergel
16 August 2022

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 | 0.1 | 1.7 | 15.5 | 38.7 | 57.3 |
| NAV (debt at fair value) | -4.1 | -1.8 | 10.7 | 33.4 | 41.2 |
| Benchmark | -1.2 | -0.1 | 5.5 | 9.9 | 21.5 |

Discrete 12 Month Returns to 31 July (%)

| | 2022 | 2021 | 2020 | 2019 | 2018 |
|--------------------------|------|------|-------|------|------|
| Share Price | 15.5 | 61.5 | -25.7 | -1.9 | 15.6 |
| NAV (debt at fair value) | 10.7 | 57.9 | -23.7 | -5.7 | 12.3 |
| Benchmark | 5.5 | 26.6 | -17.8 | 1.3 | 9.2 |

Source: Thomson Reuters DataStream, percentage growth, mid to mid, total return to 31.07.22. Copyright 2022 © 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 is not a reliable indicator of future returns. You should not make any assumptions on the future on the basis of performance information. The value of an investment and the income from it can fall as well as rise as a result of market fluctuations and you may not get back the amount originally 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.

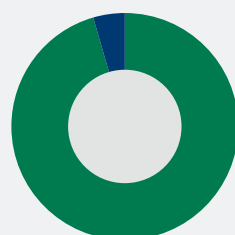
Portfolio Breakdown

Sector Breakdown (%)

| | | |
|------------------------|------|--|
| Financials | 23.3 | |
| Consumer Staples | 16.2 | |
| Industrials | 15.0 | |
| Consumer Discretionary | 13.5 | |
| Energy | 9.9 | |
| Utilities | 6.6 | |
| Health Care | 6.6 | |
| Materials | 3.6 | |
| Real Estate | 3.2 | |
| Communication Services | 1.5 | |
| Cash | 0.6 | |

Geographic Breakdown* (%)

| | | |
|--------------|------|--|
| UK | 95.6 | |
| Europe ex UK | 4.5 | |



Top Ten Holdings (%)

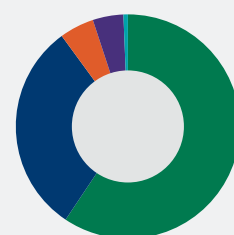
| | |
|--------------------------|-----|
| GSK plc | 4.1 |
| British American Tobacco | 4.0 |
| Imperial Brands | 4.0 |
| Shell | 3.9 |
| IG Group | 3.6 |
| HomeServe | 3.0 |
| Rio Tinto | 3.0 |
| Legal & General | 3.0 |
| BP | 2.9 |
| BAE Systems | 2.9 |

Total number of holdings** 51

**Excludes derivatives

Market Cap Breakdown (%)

| | | |
|-----------|------|--|
| FTSE 100 | 59.4 | |
| FTSE 250 | 30.6 | |
| Small Cap | 5.0 | |
| Other | 4.4 | |
| Cash | 0.6 | |



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

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 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 (31.01.2022). 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.

Board of Directors

Colin Clark (Chairman)
Sybella Stanley (Senior Independent Director)
Mary Ann Sieghart
Timon Drakesmith (Chairman of the Audit Committee)
Karen McKellar

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 31.07.22 unless otherwise stated.

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