The Merchants Trust PLC

Half-Yearly Financial Report, 31 July 2022

Why invest in The Merchants Trust?

Merchants' purpose is to provide a single investment that will give a high level of income and income growth together with long term capital growth.

High income returns
Merchants aims to provide an above average level of income and income growth together with long-term growth of capital through a policy of investing mainly in higher yielding large UK equities. This year 5% of the portfolio has been in international stocks.

Income growth
The trust has paid increasingly higher dividends to its shareholders year-on-year for the last 40 years – from 2.1p per share in 1982 to 27.3p in 2022.

Diversification
Merchants invests in a variety of large companies across a number of sectors and markets, many with income derived internationally. This helps spread investment risk.

Cost-effective
Buying shares in an investment trust can be less costly than purchasing the underlying stocks individually – with an annual management fee of 0.35% (ongoing charges 0.55%*), Merchants provides a cost-effective way to access an active and expertly managed portfolio.

Longevity
Merchants has been providing active investment management since its launch in 1889. The trust can draw on reserves to help smooth dividend payments during short-term periods of difficult economic conditions, although income is not guaranteed and could go down as well as up.

Liquidity and gearing
With a market capitalisation of £758m and 135 million shares in issue, Merchants provides good liquidity to investors. Merchants is also able to employ gearing. This enhances the earnings per share, and potentially increases long term returns. However, losses are also amplified when markets fall.

* At 31 January 2022. See glossary on page 24.

Contents

Plumbing, electrical and other related household maintenance provider HomeServe was the top contributor to relative performance during the period.

Half Year Results

As at 31 July 2022

Yield*

4.9%

31 January 2022 **4.8%**

Dividend growth

+0.7%

31 July 2022 **13.7p**
31 July 2021 **13.6p**

Revenue earnings per ordinary share

+20.3%

31 July 2022 **16.0p**
31 July 2021 **13.3p**

Net Asset Value Total Return*#

+1.3%

31 July 2021 **+19.8%**

Share Price Total Return*

+0.5%

31 July 2021 **+19.6%**

Benchmark˜ Total Return*

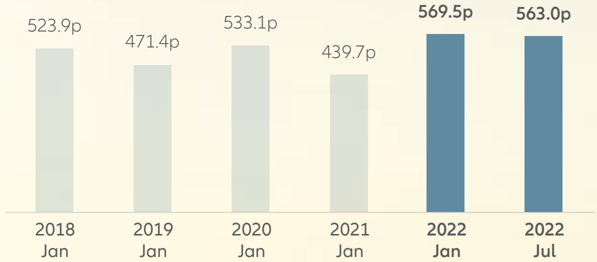
-0.1%

31 July 2021 **+12.6%**

Net Asset Value per ordinary share*#

563.0p

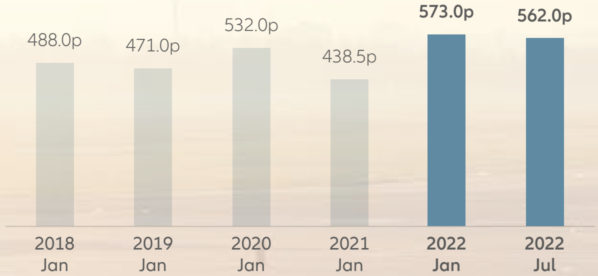
-1.1%



Share price

562.0p

-1.9%



Beyond oil & gas and electricity, the strongest sectors during the period included more defensive industries such as aerospace & defence, pharmaceuticals, utilities and tobacco.

Revenue

Six months ended 31 July	2022	2021	% change
Income	£23.4	£18.1m	+29.3
Revenue earnings attributable to ordinary shareholders	£21.1	£16.4m	+28.7
Revenue earnings per ordinary share	16.0p	13.3p	+20.3
Dividends per ordinary share	13.7p	13.6p	+0.7

Assets

	31 July 2022	31 January 2022	Capital return % change	Total return % change[1]
Net asset value per ordinary share with debt at par	565.2p	578.7p	-2.3	0.0
Net asset value per ordinary share with debt at market value (capital)	563.0p	569.5p	-1.1	+1.3
Ordinary share price	562.0p	573.0p	-1.9	+0.5
FTSE All-Share Index	4,107.0	4,191.8	-2.0	-0.1
Discount ordinary share price to net asset value (debt at par)	-0.6%	-1.0%	n/a	n/a
Discount (debt at market value)	-0.2%	0.6%	n/a	n/a

[1] NAV total return reflects both the change in net asset value per ordinary share and the net ordinary dividends paid.

* Alternative Performance Measure (APM).
\# Debt at market value.
~ FTSE All-Share Index

See Glossary on page 24.

Interim Management Report

Dear Shareholder

I begin this half-year update with a reflection on the death of Her Majesty Queen Elizabeth II on 8 September. All of us at The Merchants Trust, would like to pay our respects and offer our condolences to all members of the royal family. The Queen's unparalleled reign of 70 years commands respect and admiration from around the world. She was a charismatic and respected figure on the world stage and throughout that time witnessed many changes on a personal, national, and global level. To put that in context, she was monarch for over half of the 133-year life of Merchants.

Regretfully the terrible conflict stemming from Russia's invasion of Ukraine is still raging. The conflict passed a six-month landmark at the time of writing this report. Some days there may be less in the news, but that does not diminish the scale of what is occurring and our thoughts remain with those affected. We can only hope that peace may return to the region in the coming months.

As I have written in previous reports the Russian invasion of Ukraine was a shock to the global economic system. It exacerbated inflationary pressures across the world, primarily of energy supply constraints, economic sanctions against Russia and the disruption of certain crop supplies from Ukraine.

To some degree the world has also been caught somewhat off guard with the foundations for a higher inflationary environment quietly cementing in the background over many years. Portfolio manager Simon Gergel describes this issue in more detail in his Investment Manager's Review.

Central banks are now acting more decisively and consistently in their efforts to control inflation, pushing interest rates higher. This is creating an environment in contrast to that of recent decades, where quantitative easing by central banks around the world led to a loose money environment where growth stocks flourished. We now have a very different new world, where both equity and bond markets have been weak and investors are showing nervousness. However, indiscriminate pressure on all stock prices resulting from macroeconomic concerns, largely irrespective of company fundamentals, can provide an environment where active management should prevail and for skilled stock pickers numerous opportunities can arise. Many stock prices have become depressed below the fundamental worth of a company. As shareholders will know, the opportunity to purchase good companies with sound prospects that are trading below their intrinsic worth is at the very heart of the Merchants investment process.

Against this difficult backdrop over the reporting period, we are able to report a marginally positive performance with a NAV total return (with debt at fair value) of 1.3%. That was ahead of the benchmark index, which returned -0.1%.

The UK market – value investing in vogue

The UK market has been a relative bright spot amongst global peers. The market includes a greater proportion of value stocks compared to growth stocks when viewed in a global context. The general move by investors spurred by rising inflation and interest rates, has impacted many of the largest global markets such as the US where high growth stocks predominate and in return favoured the UK market. In sector terms the UK market also has a relatively high exposure to energy firms that also benefited from the energy crisis unfolding across Europe.

It hasn't been a totally easy ride for the whole UK market though. Returns have seen a wide dispersion by sector and market capitalisation. Whilst the largest (mainly multinational) companies in the index provided good returns, the picture was worse for smaller capitalisation companies with greater exposure to the UK economy. Defensive companies perhaps unsurprisingly were better performers than more cyclical stocks which were shunned by investors concerned about the economic backdrop.

The UK as an investment

Whilst the UK has become more attractive over recent months and, indeed, we have seen overseas investor interest including takeover offers, in terms of an asset class the UK remained on a somewhat shaky footing with money flowing out of many subsectors, most notably from domestically focused small cap funds. UK equity income was more neutral and broadly flat as investors continued to find an income stream attractive amid the uncertain environment. It has been pleasing therefore to see Merchants continue to perform well with steady, positive investor demand.

Market demand and Issuance

Merchants' consistent strategy and strong long-term results have led to sustained demand amongst investors. As a result, for much of the review period Merchants traded at a small premium to Net Asset Value, allowing the issuance of new shares. Over the period under review, we issued some 7,220,000 shares for an aggregate value of £40.8m. Shares are always issued at a premium to the prevailing Net Asset Value, to make the process accretive to existing shareholders. All shareholders also benefit from issuance and increased scale with the company's fixed costs spread over a wider base.

Earnings

We reported this time last year, and again in the latest annual report earlier this year, that we have seen improving earnings following the lows of the pandemic. The period under review has followed a similar trend and earnings per share (EPS) for the six months under review reached 16.0p (2021: 13.3p) which is approaching the pre-pandemic level of 16.1p for the equivalent period in 2019 (2020 financial year). Our investment manager remains cautious on corporate earnings for the near future given the considerable economic uncertainties and rising costs for businesses. Even those businesses that can, over time, largely pass on cost increases to their customers due to inherent pricing power in their business are likely to see margin pressure in the short term.

As many businesses took the opportunity to cut or rebase dividends lower during the pandemic, it is pleasing to be getting close in earnings terms to the situation prior to that period, and recent trends have been favourable. It remains however hard to make predictions in the short term.

Dividends

As shareholders and followers of our process will know, we have a key focus on paying a high and rising dividend. This is important for many reasons. From a shareholder's perspective we recognise that a steady income is an important part of many people's investment strategy. Even for investors who are still in an accumulation phase an income-based strategy can still provide benefits – the compounding effects of reinvesting that income into more shares, themselves due future dividends, is extremely powerful. Dividends are only ever a positive element of investment returns and in the UK market they have become an increasingly important element of investment returns. In a rising market they will enhance the capital return from rising share prices and in a falling market they will help to offset the effects of share price falls. We also view dividend policies in mature companies as an important indicator of the quality of a company. The discipline to return funds to shareholders either by dividend payments or via share buybacks is an important aspect of good capital management where high levels of capital expenditure, R&D or reinvestment in the business are not necessary or prudent.

With the final dividend of the 2022 financial year being approved by shareholders at the AGM, Merchants has raised its dividend for 40 consecutive years – a significant landmark and one which the current board is proud to have played a part in over time.

The board has declared a second quarterly dividend for the current financial year of 6.85p per ordinary share, payable on 10 November 2022 to shareholders on the register at close of business on 7 October 2022. A Dividend Reinvestment Plan ('DRIP') is available for this dividend for which the relevant Election Date is 21 October 2022 and the ex-dividend date is 6 October 2022. This means that for the first half of the 2023 financial year, the aggregated dividend will be 13.7p compared with 13.6p for the same period last year.

ESG Stewardship

Our oversight of the ESG features of Merchants' portfolio has evolved during first half. AllianzGI uses an Integrated ESG process in stock selection, monitoring, engagement with investee companies and voting on resolutions. The board receives a regular report on the ESG rating of Merchants' portfolio including risk assessments, high/low rankings of individual positions, interaction with specific organisations and a carbon emissions analysis. This report uses data from MSCI along with AllianzGI's insight and proprietary tools. During the last six months, the board has reviewed several companies with our portfolio managers by considering potential return characteristics with issues such as transition strategies to net zero carbon, elimination of child labour in the supply chain and independence of the investee company board. We expect to develop our stewardship in the coming years and set out further disclosures in future reports.

Overseas investments

Our manager's use of the ability to invest up to 10% of the portfolio in overseas assets continued through the period and, at the end of the period, these holdings represented an aggregate 5%. The primary function of this ability continues to be to diversify sources of income in the portfolio as well as accessing some types of investment which are difficult to access through the UK market.

Shareholder contact

After two full pandemic-constrained years, it was a pleasure to once again be able to host an in-person Annual General Meeting for Shareholders in May. On a personal note, as it was my first physical AGM as Chair of the Merchants board, it was particularly enjoyable to be able to meet and chat with those shareholders who attended.

We spend considerable effort to ensure that our reporting is informative and interesting for shareholders. It was a pleasure therefore to take the 'Best Report and Accounts, Generalist' award at the Association of Investment Companies' annual awards earlier in the year, having also received this accolade in the 2021 and 2020 awards.

Outlook

What the near future will bring is extremely hard to predict. We can only hope that it is a world with less conflict and geopolitical tension. From an economic perspective there are many factors at play and the possible outcomes range anywhere from a moderation of inflation and return to more 'normal' scenario, to a full-blown recession and spiralling inflation. The UK market seems at the moment to be concerned with something akin to the latter scenario.

As shareholders of The Merchants Trust, you are accessing the active management capabilities and expertise of our investment manager combined with the oversight of the board. It is in times such as these that active management of an investment portfolio becomes particularly important with many divergences in performance between sectors and even individual companies. The ability of our manager to make the right selection of markets, sectors and shares can add considerably to long term shareholder returns. The investment management team continue to make changes to the portfolio where according to their judgement the prevailing outlook alters the investment case for portfolio holdings. As outlined in my comments and described in more detail by our investment manager in his report, the backdrop of uncertainty and associated nervousness of market participants makes for an environment of increased opportunity where shares become more significantly mispriced compared to their intrinsic worth. Happily this is the hunting ground for our investment manager who is looking to exploit those opportunities on behalf of our shareholders, delivering Merchants' objectives by purchasing new long term investment opportunities.

Colin Clark
Chairman
29 September 2022

Principal Risks and Uncertainties

As identified in the Annual Report, the principal risks are now considered to be emerging risks, followed by the risks of market decline.

The principal risks and uncertainties facing the company, together with the board's controls and mitigation, are those described in the Annual Report for the year ended 31 January 2022 published in April 2022 and are listed below:

- Emerging risks, such as significant geopolitical risks
- Risk of market decline adversely affecting investments and returns.

The board's approach to mitigating these risks and uncertainties is set out in the explanation with the Risk Map in the Annual Report. In the board's view these will remain the principal risks and uncertainties for the six months to 31 January 2023.

Going Concern

The directors have considered the company's investment objective and capital structure both in general terms and in the context of the current macro-economic background. Having noted that the portfolio is liquid as it consists mainly of securities which are readily realisable, and through continuous assessment of the company's financial covenants, the directors have concluded that the company has adequate resources to continue in operational existence for the foreseeable future. The directors have also considered the continuing risks and consequences of such external factors on the operational aspects of the company and have concluded that the company has the ability to continue in operation and meet its objectives in the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

Responsibility Statements

The directors confirm to the best of their knowledge that:

- The condensed set of financial statements contained within the half-yearly financial report has been prepared in accordance with FRS102 and FRS104, as set out in Note 2, the Accounting Standards Board's Statement 'Half-Yearly Financial Reports'; and

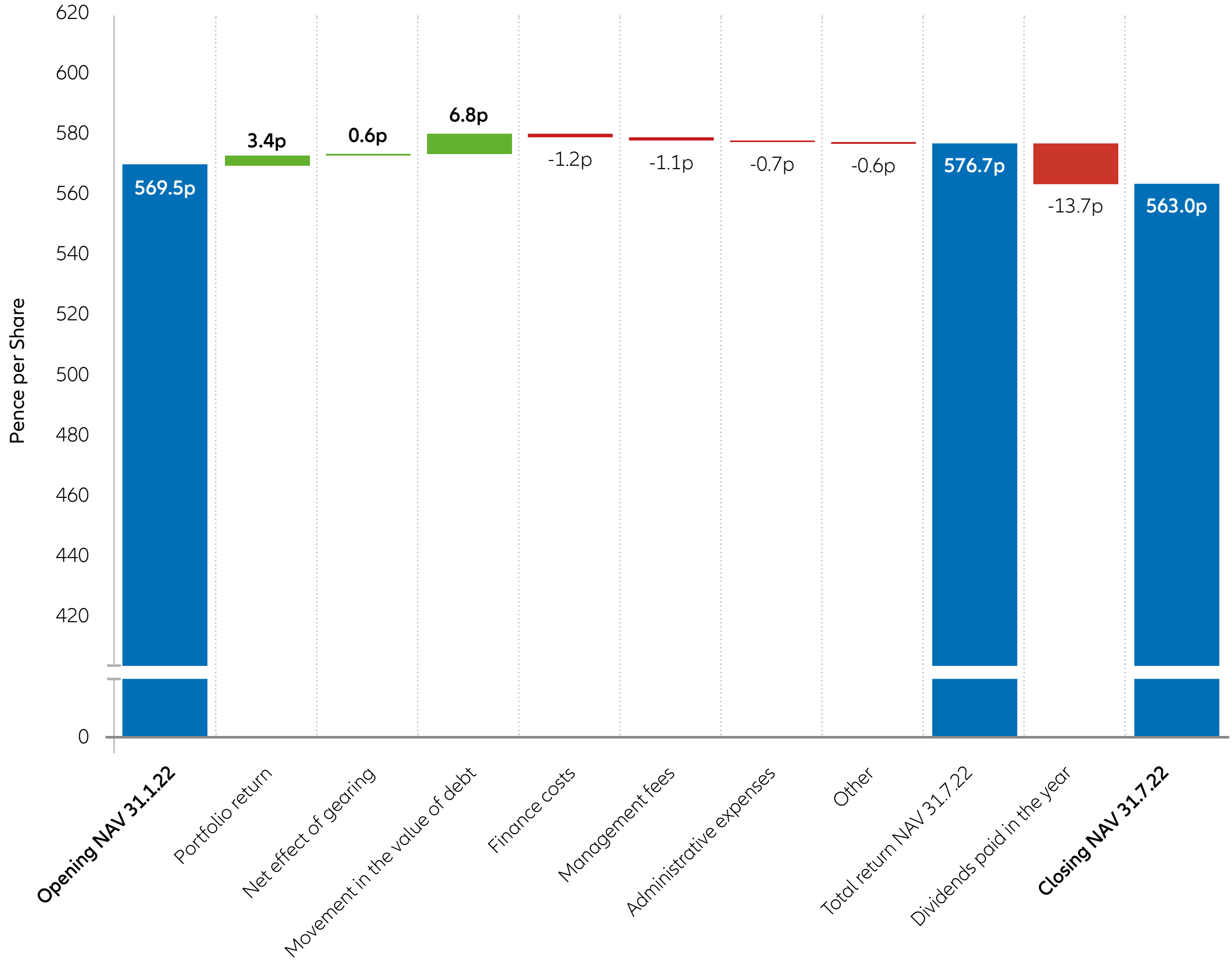
- The interim management report includes a fair review of the information required by The Financial Conduct Authority's ('FCA') Disclosure and Transparency Rule 4.2.7 R of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

- The interim management report includes a fair review of the information concerning related parties transactions as required by the Disclosure and Transparency Rule 4.2.8 R.

Colin Clark
Chairman
29 September 2022

Attribution Analysis

Movement in Capital Return with Debt at Market Value for the six months ended 31 July 2022



The total return reflects both the change in net asset value, from 569.5p to 563.0p and the ordinary dividends paid in the period. The total return NAV of 576.7p as at 31 July 2022 is derived from the NAV with debt at market value of 563.0p plus dividends paid in the period of 13.7p.

A Glossary of Alternative Performance Measures (APMs) is on page 24.

NAV total return reflects both the change in the net asset value per ordinary share and the net ordinary dividends paid.

Investment Manager's Review

Simon Gergel is Chief Investment Officer, UK Equities, Allianz Global Investors, based in London.

Economic and Market Background

The Russian invasion of Ukraine cast a dark shadow over economic conditions and investor sentiment during the first half of the year. Sanctions on Russia and interruptions to oil and gas supplies have exacerbated inflationary pressures across Europe, and there has been a major change in global inflation and interest rate expectations.

However, the inflationary pressures are not simply the result of the situation in Ukraine. Since the Global Financial Crisis, central banks have kept interest rates extremely low and have used quantitative easing to stimulate the economy. These policies were exaggerated during the pandemic, with record low or negative interest rates in many countries. The supply of cheap money led to asset price inflation in everything from wine and cryptocurrencies, to government bonds and high-tech growth equities. Whilst this was happening, there were many coincidental developments in the energy industry, which led to extreme vulnerabilities in the supply of oil and particularly gas. The big energy companies were discouraged from developing new resources by investor environmental concerns, as well as by the collapse in demand during the pandemic. Public policy had lost focus on security of energy supply. The UK closed much of its gas storage capacity, Germany was closing its nuclear power stations, and French nuclear output has been constrained well below theoretical capacity. This all set the stage for an immediate spike in gas and electricity prices after the invasion of Ukraine.

Outside the energy market, restrictions on activity to contain Covid-19 outbreaks, have caused ongoing supply shortages, especially in China. This has impacted the supply of semiconductors and other products, with knock-on impacts into the automotive, technology and other industries.

Taking these factors together, inflation has surged, exacerbated by shortages of skilled and unskilled labour. In the UK, the Bank of England predicted in August, that inflation would peak at over 13% this year. Central banks around the world have been raising interest rates aggressively, in a major reversal of policy, to try to stem inflation.

FTSE All-Share Index

FTSE All-Share 31.1.22 - 31.7.22. Source: AllianzGI/Datastream.

Financial markets have responded negatively to the change in circumstances. There have been several concerns. Inflation raises the cost of living and causes a squeeze on disposable incomes and company profitability, which could impact end demand in the economy. The US recorded two consecutive quarters of negative real growth, and the Bank of England warned about a recession, or a contraction of the UK economy in real terms in 2023 and even 2024. Higher interest rates also raise the cost of capital for businesses and have a direct linkage to bond yields, putting pressure on both bond and equity prices. Furthermore, geopolitical tensions have increased, with western relationships with Russia and also China becoming far more challenged, threatening to reverse many of the benefits of globalisation, seen over previous decades.

Equity and bond markets both fell sharply in the first few months of the financial year, although there was a partial recovery in July. The UK was one of the strongest performing equity markets, with a total return of approximately zero in the first half of Merchants' financial year, reflecting the mix of businesses listed in the UK, and the modest starting valuations. Within the stock market, there was a sharp divergence between sectors, reflecting macro-economic factors. The strongest sectors included commodity related industries, like oil & gas and electricity, which responded to rising energy prices. But also, more defensive industries, like pharmaceuticals, aerospace & defence, utilities and tobacco, which are less vulnerable to economic weakness. Cyclical sectors were generally much weaker, including travel & leisure, retailers, industrial transportation and construction & materials. Larger companies significantly outperformed medium and smaller companies, with the latter generally tending to be more cyclical.

We have seen a continuing improvement in income generation across the portfolio, as company profitability and cash generation recover from the impact of the pandemic. Despite growing economic concerns, most companies have continued to trade well, and maintain or grow their pay-outs. There have also been special dividends paid by DFS Furniture and Rio Tinto.

Investment Performance

The investment portfolio outperformed the stock market, despite having a greater exposure to medium and smaller companies than the benchmark. The portfolio return was 0.4% compared to a return of -0.1% on the FTSE All-Share index benchmark. The Net Asset value of the company produced a total return of 1.3%. This reflected portfolio performance, as well as movements in the value of debt, costs and other factors, as set out on page 8.

The outperformance of the portfolio was driven by stock selection, rather than the choice of sectors. The top ten positive and negative stock contributors to relative performance are shown in the table. The biggest positive impact came from HomeServe, a provider of household repair and improvement services across plumbing, electrical and other related maintenance. The company received a takeover approach from a private equity bidder at a large premium to the share price. In recent years we have seen a number of such takeovers both in and outside of the portfolio, reflecting the extent to which fundamentally sound businesses in the UK continue to trade at cheap valuations. BAE Systems, a major defence equipment manufacturer in the UK, USA and elsewhere, was also re-rated, on expectations of a structural increase in government defence expenditure in most of its markets, as geopolitical tensions rose following the Ukraine invasion.

Most of the other significant stock contributions reflected the two major market themes. Drax, SSE and Diversified Energy all benefited from rising electricity and commodity prices, which will boost their profitability. Tate & Lyle and Imperial brands both outperformed the broader stock market, due to their defensive appeal, although Tate & Lyle also benefited from selling half its primary products business, which increases the company's exposure to higher growth speciality food ingredients.

There were three other top ten positive contributors. The alternatives fund manager Man Group was re-rated on the back of strong fund performance and positive new money flows in the first quarter of the year. Merchants' performance also benefited from owning neither the financial service company Prudential, nor Flutter Entertainment, the bookmaker formed from the merger of Paddy Power and Betfair. Both were weak shares and held back the benchmark return.

The top negative contributor was pharmaceutical company AstraZeneca, which was not owned in the portfolio, as the shares rallied on strong operating results and due to its defensive qualities. We have preferred other pharmaceutical companies, due to their broad mix of business and lower valuations Elsewhere, several cyclical and market related shares were weak, on macro-economic concerns, including WPP, Tyman, DFS, St James's Place and ITV. Of these shares, only DFS reported disappointing trading, although ITV surprised investors with an announcement of a large increase in spending on content for its TV streaming services.

A couple of other companies reported difficult trading conditions; the reinsurance company SCOR, which suffered from high exposure to natural catastrophe losses, and National Express, which is suffering from a shortage of school bus drivers in the USA. Finally, among the top ten negative contributors, not owning the mining company Glencore and holding less than the benchmark exposure in Shell, held back performance as both companies benefited from strong commodity prices. But these positions are balanced out by several other holdings in the energy and mining sectors.

Portfolio changes

Geopolitical events and macro-economic uncertainty present challenges for investors. They also create enormous volatility within the stock market, leading to sharp rotations between sectors and investment styles. This type of volatility, which we are sadly becoming used to, can create investment opportunities. Markets are ultimately driven by fear and greed, and these emotions can lead to certain sectors and stock prices becoming significantly detached from intrinsic value. It is critical in these circumstances to have a disciplined investment process, and to maintain a long-term framework and not to be overly swayed by compelling daily news cycles.

As we said in the annual report, we entered the period with a reasonably balanced portfolio, well diversified across cyclical, defensive, financial and resources companies. We were able to find attractive new investment opportunities across a wide range of industries: companies that generally pay above average dividend yields and met our three criteria of having sound fundamentals, low valuations and positive exposure to longer-term and typically external factors. We term the latter "investment themes", in which category we would analyse such areas as Environmental changes or how digitalisation is affecting an industry.

Initially our investments were broadly spread. However, in the latter months some cyclical stocks started to approach valuation levels last seen in the Great Financial Crisis. Our value-driven approach is centred around the analysis of single stocks and, as such, we try to avoid making top-down calls on the

Contribution to Investment Performance relative to the FTSE All-Share Index

	Positive stocks	Performance impact %	Negative stocks	Performance impact %
Overweight (holding larger than index weight)	HomeServe	1.2	WPP	-0.6
	BAE Systems	0.8	Tyman	-0.6
	Drax Group	0.8	SCOR	-0.5
	Man Group	0.7	DFS Furniture	-0.5
	SSE	0.4	St James's Place	-0.4
	Tate & Lyle	0.4	ITV	-0.3
	Diversified Energy	0.3	National Express	-0.3
	Imperial Brands	0.3		
Underweight (zero holding or weight lower than index weight)	Prudential	0.3	AstraZeneca	-1.5
	Flutter Entertainment	0.2	Glencore	-0.5
			Shell	-0.5

economy. Yet the wholesale nature of some of these devaluations has created more compelling value among specific cyclical opportunities. We have thus started to build a more cyclical positioning, although stock specific considerations remain paramount.

Among the more defensive areas, we purchased the consumer goods company Unilever, which has had some short-term challenges in dealing with inflation and pandemic related disruption. This brought the valuation down to an unusually attractive level, for a company with strong brands and an exceptional position in emerging markets. We also bought back into National Express, the school bus and public transport company, that is recovering from the pandemic and normally has a very defensive business model. In both cases, recovery may take time, but the long-term prospects for the companies are good. The portfolio also gained a new consumer health company, Haleon, which demerged from GSK and has leading brands such as Sensodyne, Panadol and Centrum. We added to the position, as selling pressure from new shareholders brought the shares below our view of fair value.

Among the more cyclical industries, we bought a position in German car company BMW, which owns the Mini and Rolls Royce brands as well as its eponymous car brand. The company has a strong technology base and a growing, attractive suite of electric vehicles, as well as a flexible manufacturing base. The shares were lowly priced, with very strong cash generation, even assuming a normalisation of profitability from current elevated levels. We also bought CRH, which is the largest building materials and products supplier in North America and Europe. We had sold out of the shares a year earlier, as we believed CRH to be fully valued, but the share price retreated to a level that once again offered good value.

In the financial sector, we bought specialist bank OSB (OneSavingsBank) which has a strong market position in the professional buy-to-let market. The bank earns higher returns, and has delivered better growth and has stronger capital ratios than most of the big banks, yet was trading on a very undemanding valuation. We also bought property company CLS Holdings, a medium sized company, specialising in office investments in the UK, Germany and France. It has an excellent long-term record of opportunistically buying underperforming assets, refreshing them and improving the tenant mix to raise the valuation, and then recycling capital into new opportunities.

The final new holding was Atalaya mining, whose principal asset is the famous Rio Tinto mine in Spain, which has been operational since Roman times. This is a high quality mine, with local expansion potential, in a country with a strong legal framework. Copper is an attractive commodity, essential to renewable power generation and electricity storage and transmission, which are driving the energy transition away from fossil fuels.

There were four complete sales from the portfolio. The media company Relx had performed well since we bought it the previous year and had reached a full valuation. The three other sales were situations where circumstances changed, challenging our investment cases. In such situations we are disciplined in reviewing the investment case carefully, and we will often sell out to prioritise stocks where we have greater conviction.

We sold TotalEnergies after the Russian invasion of Ukraine, as the business has many complex ties to Russia, that are hard to break. We reinvested part of the proceeds into sector peers. We sold the Chilean copper miner Antofagasta. Whilst we believe there are attractive fundamentals in the copper mining industry, there were concerns about the potential introduction of high royalty charges in Chile. Finally, we sold our small position in ITV, after the management team announced a major step up in spending on their streaming business, which significantly reduces the company's cash generation, with no guarantee of success.

As well as new investments and complete sales, we added to several companies where we had high conviction, most notably IG Group and Rio Tinto. We also reduced exposure to shares, where strong performance had taken valuations up closer to fair value, like Drax, National Grid, BAE Systems and BP, or where our level of conviction in the investment case had moderated, such as Vodafone.

Outlook

It is very hard to predict how the economy will perform in the coming months, not least because certain factors are inherently uncertain, such as the course of the Russian invasion of Ukraine and its effect on commodity prices, the impact of future Covid-19 lockdowns in China, and central bank interest rate policy. The Bank of England is concerned about a significant further spike in inflation, which has compelled it to raise interest rates, and it sees the rising cost of living and higher interest rates as leading to a contraction, in real terms, in the UK economy next year. It is possible that these pressures lead to falling consumer spending, corporate restructurings and rising unemployment. On the other hand, global commodity costs may be peaking, which could lead to a rapid moderation in inflation, employment trends are currently strong and there could be a recovery in Chinese activity and an easing of global supply chains, as Covid-19 restrictions are gradually lifted.

Whilst the outlook is hard to call, 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.

Investors have collectively priced in considerable uncertainty into stock market valuations, particularly in cyclical sectors. Whilst many of the defensive sectors still offer reasonable value in absolute terms, and these provide a firm foundation for the portfolio, we believe that there are an increasing number of cyclical businesses that now offer compelling long-term value. We have been building positions in these stocks, confident that current valuations are attractive even if highly sentiment driven markets mean these may take time to improve. We believe that the portfolio can provide a good income stream and attractive long-term returns, to meet Merchants' objectives.

Simon Gergel
Allianz Global Investors

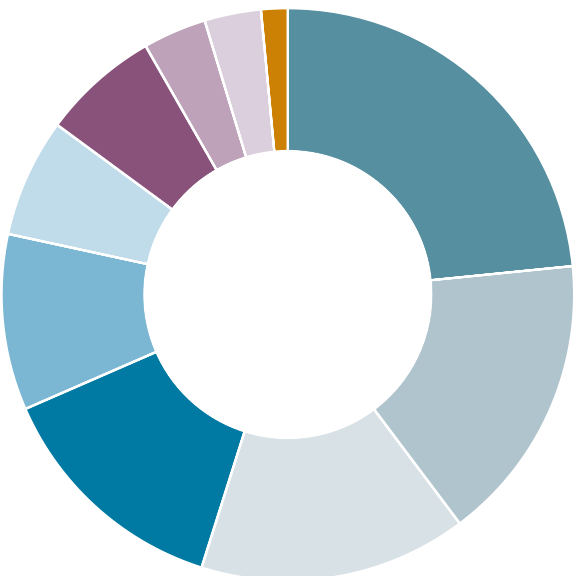
New purchase BMW has a strong technology base and a growing, attractive suite of electric vehicles, as well as a flexible manufacturing base.

Investment Portfolio

as at 31 July 2022

Twenty Largest Equity Holdings

Name	Value (£'000s)	% of listed holdings	Benchmark weighting	Principal Activities
GSK	35,251	4.19	2.92	Pharmaceuticals & Biotechnology
British American Tobacco	34,620	4.12	3.08	Tobacco
Imperial Brands	34,361	4.09	0.72	Tobacco
Shell	33,737	4.01	6.91	Oil, Gas & Coal
IG Group	30,477	3.62	0.13	Investment Banking & Brokerage
HomeServe	26,129	3.11	0.14	Non-Life Insurance
Rio Tinto	25,848	3.07	2.26	Industrial Metals & Mining
Legal & General	25,438	3.02	0.65	Life Insurance
BP	25,267	3.00	3.23	Oil, Gas & Coal
BAE Systems	25,179	2.99	1.03	Aerospace & Defence
SSE	23,338	2.77	0.80	Electricity
Redrow	22,965	2.73	0.06	Household Goods & Home Construction
Tate & Lyle	22,301	2.65	0.14	Food Producers
CRH	21,830	2.60	0.00	Construction & Materials
WPP	21,653	2.57	0.40	Media
Unilever	20,458	2.43	4.29	Personal Care, Drug & Grocery Stores
DCC	20,437	2.43	0.22	Industrial Support Services
St. James's Place	20,061	2.39	0.28	Investment Banking & Brokerage
Land Securities Group	18,987	2.26	0.22	Real Estate Investment Trusts
Next	18,376	2.18	0.36	Retailers
	506,713	**60.23**		**% of Total Invested Funds**



Portfolio Analysis

Sector	% Held	Benchmark weighting
Financials	23.75	15.68
Consumer Staples	16.57	15.76
Industrials	15.34	11.19
Consumer Discretionary	13.78	10.60
Energy	10.07	10.50
Utilities	6.79	3.70
Health Care	6.73	11.76
Basic Materials	3.63	7.62
Real Estate	3.24	3.21
Telecommunications	1.52	2.17
Net current liabilities	(1.42)	


Photo: Nayeli Reyes Cuentos Culinarios

Financial Statements

Tate & Lyle was a notable contributor to performance. The food science company sold half its primary products business to focus more on higher growth speciality 'healthier and tastier' food ingredients such as those used in fibre-fortified smoothies and sugar-reduced jam spreads.

Income Statement

	For the six months ended 31 July 2022			For the six months ended 31 July 2021		
	Revenue £'000s	Capital £'000s	Total Return £'000s (Note 1)	Revenue £'000s	Capital £'000s	Total Return £'000s (Note 1)
(Losses) gains on investments held at fair value through profit or loss	-	(18,646)	(18,646)	-	88,533	88,533
Gains (losses) on foreign currencies	-	29	29	-	(2)	(2)
Income from investments	22,997	-	22,997	17,434	-	17,434
Other income	439	-	439	715	-	715
Investment management fee	(515)	(957)	(1,472)	(442)	(822)	(1,264)
Administrative expenses*	(690)	(1)	(691)	(468)	(1)	(469)
Profit (loss) before finance costs and taxation	**22,231**	**(19,575)**	**2,656**	**17,239**	**87,708**	**104,947**
Finance costs: interest payable and similar charges	(634)	(1,137)	(1,771)	(590)	(1,048)	(1,638)
Profit (loss) on ordinary activities before taxation	**21,597**	**(20,712)**	**885**	**16,649**	**86,660**	**103,309**
Taxation	(490)	-	(490)	(288)	-	(288)
Profit (loss) after taxation attributable to ordinary shareholders	**21,107**	**(20,712)**	**395**	**16,361**	**86,660**	**103,021**
Earnings per ordinary share (basic and diluted) (Note 4)	**16.04p**	**(15.74p)**	**0.30p**	**13.33p**	**70.58p**	**83.91p**

Administrative expenses for 2022 include the London Stock Exchange block listing fee of £170,000.

Balance Sheet

	As at 31 July 2022 £'000s	As at 31 July 2021 £'000s	As at 31 January 2022 £'000s
Investments held at fair value through profit or loss	841,088	741,650	814,895
Net current liabilities	(11,753)	(14,764)	(9,091)
Total assets less current liabilities	**829,335**	**726,886**	**805,804**
Creditors: amounts falling due after more than one year	(66,782)	(66,728)	(66,754)
Total net assets	**762,553**	**660,158**	**739,050**
Called up share capital	33,731	31,182	31,926
Share premium account	157,058	102,192	118,047
Capital redemption reserve	293	293	293
Capital reserve	547,640	504,599	568,352
Revenue reserve	23,831	21,892	20,432
Equity shareholders' funds	**762,553**	**660,158**	**739,050**
Net asset value per ordinary share	**565.2p**	**529.3p**	**578.7p**

The net asset value as at 31 July 2022 is based on 134,924,887 ordinary shares.
The net asset value as at 31 July 2021 is based on 124,729,887 ordinary shares.
The net asset value as at 31 January 2022 is based on 127,704,887 ordinary shares.

Statement of Changes in Equity

	Called up Share Capital £'000s	Share Premium Account £'000s	Capital Redemption Reserve £'000s	Capital Reserve £'000s	Revenue Reserve £'000s	Total £'000s
Six months ended 31 July 2022						
Net assets at 1 February 2022	31,926	118,047	293	568,352	20,432	739,050
Revenue profit	-	-	-	-	21,107	21,107
Dividends on ordinary shares (Note 3)	-	-	-	-	(17,708)	(17,708)
Capital loss	-	-	-	(20,712)	-	(20,712)
Shares issued during the period	1,805	39,011	-	-	-	40,816
Net assets at 31 July 2022	**33,731**	**157,058**	**293**	**547,640**	**23,831**	**762,553**
Six months ended 31 July 2021						
Net assets at 1 February 2021	30,246	84,137	293	417,939	22,102	554,717
Revenue profit	-	-	-	-	16,361	16,361
Dividends on ordinary shares (Note 3)	-	-	-	-	(16,571)	(16,571)
Capital profit	-	-	-	86,660	-	86,660
Shares issued during the period	936	18,055	-	-	-	18,991
Net assets at 31 July 2021	**31,182**	**102,192**	**293**	**504,599**	**21,892**	**660,158**

Cash Flow Statement

	Six months ended 31 July 2022 £'000s	Six months ended 31 July 2021 £'000s
Operating activities		
Profit before finance costs and taxation	2,656	104,947
Add: Losses (gains) on investments at fair value	17,696	(88,138)
Less: (Gains) losses on foreign currency	(29)	2
Purchase of fixed asset investments held at fair value through profit or loss	(176,160)	(104,954)
Sales of fixed asset investments held at fair value through profit or loss	130,106	94,207
Transaction costs	(950)	(395)
Increase in other receivables	(1,569)	(1,421)
(Decrease) increase in other payables	(87)	13
Less: Overseas tax suffered	(490)	(288)
Net cash (outflow) inflow from operating activities	**(28,827)**	**3,973**
Financing activities		
Interest paid	(1,725)	(1,599)
Dividend paid on cumulative preference stock	(21)	(22)
Dividends paid on ordinary shares	(17,708)	(16,571)
Share issue proceeds	41,109	17,983
Net cash inflow (outflow) from financing activities	**21,655**	**(209)**
(Decrease) increase in cash and cash equivalents	**(7,172)**	**3,764**
Cash and cash equivalents at the start of the period	18,626	6,623
Effect of foreign exchange rates	29	(2)
Cash and cash equivalents at the end of the period	11,483	10,385
Composed of:		
Cash at bank	11,483	10,385

Notes to the Financial Statements

Note 1 – Financial Statements

The half-yearly financial report has been neither audited nor reviewed by the company's auditors. The financial information for the year ended 31 January 2022 has been extracted from the statutory financial statements for that year which have been delivered to the Registrar of Companies. The auditors' report on those financial statements was unqualified and did not contain a statement under section 498 of the Companies Act 2006.

The total return column of the Income Statement is the profit and loss account of the company.

All revenue and capital items derive from continuing operations. No operations were acquired or discontinued in the period.

Allianz Global Investors GmbH, UK Branch (AllianzGI), acts as Investment Manager to the company. Details of the services and fee arrangements are given in the latest annual report of the company, which is available on the company's website at www.merchantstrust.co.uk.

Note 2 – Accounting Policies

The Company presents its results and positions under 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102), which forms part of the Generally Accepted Accounting Practice ('UK GAAP') issued by the Financial Reporting Council.

The condensed set of financial statements has been prepared on a going concern basis in accordance with FRS 102 and FRS 104, 'Interim Financial Reporting' and the Statement of Recommended Practice – 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (SORP). The context of the current macro-economic background has been thoroughly considered and the directors have concluded that there are no material uncertainties related to going concern. They have also been prepared on the assumption that approval as an investment trust will continue to be granted.

The interim financial statements and the net asset value per share figures have been prepared in accordance with FRS 102 using the same accounting policies as the preceding annual accounts.

Note 3 – Dividends on Ordinary Shares

Dividends paid on ordinary shares in respect of earnings for each period are as follows:

Dividends on Ordinary Shares of 25p:	**Six months ended 31 July 2022 £'000s**	**Six months ended 31 July 2021 £'000s**
Third interim dividend 6.85p paid 15 March 2022 (2021 - 6.8p)	8,758	8,227
Final dividend 6.85p paid 24 May 2022 (2021 - 6.8p)	8,950	8,344
	17,708	**16,571**

In accordance with FRS 102 section 32 'Events After the End of the Reporting Period', dividends payable at the period end have not been recognised as a liability. Details of these dividends are set out below.

	Six months ended 31 July 2022 £'000s	**Six months ended 31 July 2021 £'000s**
First interim dividend 6.85p payable 24 August 2022 (2021 - 6.8p)	9,208	8,451
Second interim dividend 6.85p payable 10 November 2022 (2021 - 6.8p)	9,242	8,482
	18,450	**16,933**

The dividends above are based on the number of shares in issue at the period end. However, the dividend payable will be based upon the number of shares in issue on the record date and will reflect any purchase or cancellation of shares by the company settled subsequent to the period end.

Note 4 – Earnings per Ordinary Share

The earnings per ordinary share is based on a weighted number of ordinary shares 131,625,080 (31 July 2021 - 122,779,445) in issue.

Note 5 – Fair Value Hierarchy

Investments and derivative financial instruments are designated as held at fair value through profit or loss in accordance with FRS 102 sections 11 and 12.

FRS 102 sets out three fair value levels.

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

With the exception of those financial liabilities measured at amortised cost, all other financial assets and financial liabilities are either carried at their fair value or the balance sheet amount is a reasonable approximation of their fair value.

As at 31 July 2022, the financial assets at fair value through profit and loss of £841,080,000 (31 July 2021: £741,637,000; 31 January 2022: £814,280,000) are categorised as follows:

	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Financial assets at fair value through profit or loss at 31 July 2022				
Equity investments	841,088	-	-	841,088
Financial instruments	-	-	-	-
Derivative financial instruments - written call options	-	(8)	-	(8)
	841,088	**(8)**	**-**	**841,080**

	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Financial assets at fair values through profit or loss at 31 July 2021				
Equity investments	741,646	-	-	741,646
Financial instruments	-	-	4	4
Derivative financial instruments - written call options	-	(13)	-	(13)
	741,646	**(13)**	**4**	**741,637**

	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Financial assets at fair value through profit or loss at 31 January 2022				
Equity investments	814,895	-	-	814,895
Financial instruments	-	-	-	-
Derivative financial instruments - written call options	-	(615)	-	(615)
	814,895	**(615)**	**-**	**814,280**

For exchange listed equity investments the quoted price is either the bid price or the last traded price depending on the convention of the relevant exchange. For written options the value of the option is marked to market based on traded prices. Financial instruments valued using valuation techniques level 3 have, in the absence of relevant trading prices or market data, been valued based on the directors' best estimate.

Note 6 – Status of the Company

The company applied for and was accepted as an approved investment trust for accounting periods commencing on or after 1 February 2013, subject to it continuing to meet eligibility conditions at section 1158 Corporation Taxes Act 2010 and the on-going requirements for approved companies in Chapter 3 Part 2 Investment Trust (Approved Company) (Tax) Regulations 2011 (Statutory Instrument 2011/2999).

Note 7 – Transactions with the Investment Manager and related parties

As disclosed in the annual report, the existence of an independent board of directors demonstrates that the company is free to pursue its own financial and operating policies and therefore, under FRS 8: Related Party Disclosures, the investment manager is not considered to be a related party. The company's related parties are its directors.

There are no other identifiable related parties as at 31 July 2022, 31 July 2021 and 31 January 2022.

Investor Information (unaudited)

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

Managers
Allianz Global Investors GmbH, UK Branch
199 Bishopsgate, London, EC2M 3TY
Telephone: +44 (0)20 3246 7000
Represented by Simon Gergel

Head of Investment Trusts
Stephanie Carbonneil
Email: stephanie.carbonneil@allianzgi.com

Secretary and Registered Office
Kirsten Salt ACG
199 Bishopsgate, London, EC2M 3TY
Telephone: +44 (0)20 3246 7513
Registered Number: 28276

Registrars
Link Group, 10th Floor, Central Square, 29 Wellington Street, Leeds LS1 4DL. Telephone: 0371 664 0300. Lines are open 9.00 am to 5.30 pm (UK time)
Monday to Friday.
Email: shareholderenquiries@linkgroup.co.uk
Website: www.linkgroup.eu

Financial Calendar
Year end 31 January.
Full year announced in March.
Annual report posted to shareholders in April.
Annual general meeting held in May.
Half year results announced and half-yearly Financial Report posted to shareholders in September.

Ordinary Dividends

1st interim	August
2nd interim	November
3rd interim	February/March
Final	May

Website
Further information about The Merchants Trust PLC, including monthly fact sheets, daily share price and performance, is available on the company's website: www.merchantstrust.co.uk.

Association of Investment Companies (AIC)
The company is a member of the AIC, the trade body of the investment trust industry, which provides a range of literature including fact sheets and a monthly statistical service. Copies of these publications can be obtained from the AIC, 9th Floor, 24 Chiswell Street, London EC1Y 4YY, or at www.theaic.co.uk.

AIC Category: UK Equity Income.

How to invest
Information is available from Allianz Global Investors either via Investor Services on 0800 389 4696 or on the company's website: www.merchantstrust.co.uk.

Shareholder Enquiries
In the event of queries regarding their holdings of shares, lost certificates, dividend payments, registered details, etc., shareholders should contact the registrars on 0371 664 0300. Lines are open 9.00 a.m. to 5.30 p.m. (London time) Monday to Friday. Calls to the helpline number from outside the UK are charged at applicable international rates. Different charges may apply to calls made from mobile telephones and calls may be recorded and monitored randomly for security and training purposes.

Changes of name and address must be notified to the registrars in writing. Any general enquiries about the company should be directed to the Company Secretary, The Merchants Trust PLC, 199 Bishopsgate, London EC2M 3TY. Telephone: 020 3246 7513.

Net Asset Value
The net asset value of the ordinary shares is calculated and announced daily and the top ten holdings are announced monthly. They are published on the London Stock Exchange Regulatory News Service. They are also available from the Allianz Global Investors, via Investor Services on 0800 389 4696, or on the company's website: www.merchantstrust.co.uk.

Glossary of UK GAAP Performance Measures and Alternative Performance Measures

UK GAAP performance measures

Net Asset Value is the value of total assets less all liabilities. The Net Asset Value, or NAV, per ordinary share is calculated by dividing this amount by the total number of ordinary shares in issue. The debt in the company used in the calculation is measured at par value, that is, the net proceeds on issue plus accrued finance costs to date and, if issued at a premium, the amortised premium to date. As at 31 July 2022, the NAV with debt at par value was £762,553,000 (31 January 2022: £739,050,000) and the NAV per share was 565.2p (31 January 2022: 578.7p).

Earnings per ordinary share is the profit after taxation, divided by the weighted average number of shares in issue for the period. For the period ended 31 July 2022 earnings per ordinary share was 16.0p (31 July 2021: 13.3p), calculated by taking the profit after tax of £21,107,000 (31 July 2021: £16,361,000), divided by the weighted average shares in issue of 131,625,080 (31 July 2021: 122,779,445).

Derivatives

The company operates a covered call overwriting strategy on a limited proportion of the portfolio to generate additional income. In "writing" or selling an option, Merchants gives the purchaser the right to buy a specific number of shares in a company at an agreed "strike" price within a fixed period. In exchange Merchants receives an option premium, which is taken to the revenue account. Merchants gets the full benefit of any move in the share price up to the strike price but not beyond. If the share price rises above the strike price, there is a potential "opportunity" (but not cash) cost, as the option holder can exercise their option to buy the shares at the strike price.

Merchants' selective approach to option writing is driven by the investment fundamentals on each stock we hold, rather than by a separate derivatives rationale. We write calls on portions of shareholdings that we are happy to sell at the strike price, provided that the premium income received is sufficiently attractive. The options written are typically short dated with most less than four months duration. The total exposure is closely monitored and is limited to 15% of the portfolio value with all option positions "covered" by shares owned. From a holistic view, it can be argued that the overall strategy slightly reduces the trust's gearing to the equity market, neutralising a small part of the financial leverage. It tends to be more profitable in sideways or downwards markets but less profitable in rising markets.

Alternative Performance Measures (APMs)

Net Asset Value, debt at market value is the value of total assets less all liabilities, with the company's debt measured at the market value at the time of calculation. The Net Asset Value, or NAV, per ordinary share with debt at market value is calculated by dividing this amount by the total number of ordinary shares in issue. As at 31 July 2022, the NAV with debt at market value was £759,691,000 (31 January 2022: £727,281,000) and the NAV per share with debt at market value was 563.0p (31 January 2022: 569.5p).

Net Asset Value per ordinary share, total return represents the theoretical return on NAV per ordinary share, assuming that dividends paid to shareholders were reinvested at the NAV per ordinary share at the close of business on the day the shares were quoted ex dividend.

Share Price Total Return the theoretical return to a shareholder, on a closing market price basis, assuming that all dividends received were reinvested, without transaction costs, into the ordinary shares of the company at the close of business on the day the shares were quoted ex dividend. The share price as at 31 July 2022 was 562.0p, a decrease of 11.0p from the price of 573.0p as at 31 January 2022. The change in share price of 11.0p plus the dividends paid in the period of 13.7p are divided by the opening share price of 573.0p to arrive at the share price total return for the period ended 31 July 2022 of +1.3% (year ended 31 January 2022: +36.9%).

Benchmark Total Return is the return on the benchmark, on a closing market price basis, assuming that all dividends received were reinvested into the shares of the underlying companies at the time their shares were quoted ex dividend.

Discount or **Premium** is the amount by which the stock market price per ordinary share is lower (discount) or higher (premium) than the Net Asset Value, or NAV, with either debt at par or debt at market value, per ordinary share. The discount/premium is normally expressed as a percentage of the NAV per ordinary share.

Ongoing Charges are operating expenses incurred in the running of the company, whether charged to revenue or capital, but excluding financing costs. These are expressed as a percentage of the average net asset value during the period and this is calculated in accordance with guidance issued by the Association of Investment Companies.

Yield represents dividends declared in the past year as a percentage of share price. This is shown as 4.9% at 31 July 2022 in the highlights on page 2.

The Merchants Trust PLC
199 Bishopsgate
London
EC2M 3TY

+44 (0)203 246 7000

www.merchantstrust.co.uk