

The Merchants Trust PLC

As focused on dividends as you are



Aim

The Trust's objective is to provide an above average level of income, income growth and long-term growth of capital through a policy of investing mainly in higher yielding large UK companies.

History

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

Trust Benefits

Merchants has for many years focused on a simple proposition to deliver a high and rising income together with capital growth for its shareholders. Simon Gergel has been managing the trust for ten 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 38 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
24.04.2020	29.05.2020	6.80p	4th Quarterly
31.01.2020	11.03.2020	6.80p	3rd Quarterly
04.10.2019	12.11.2019	6.80p	2nd Quarterly
12.07.2019	20.08.2019	6.70p	1st Quarterly

Past performance is not a reliable indicator of future results.



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 £557.8m

Shares in Issue 118,144,887 (Ordinary 25p)

Market Cap £457.8m

Share Price

387.5p

NAV per Share

367.1p

Premium/-Discount

5.5%

Dividend Yield

7.0%

Gearing

17.2%

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

Financial markets staged a strong recovery in April after sharp falls in March. Volatility declined amid signs that COVID-19 was peaking in Europe, with tentative moves to ease lockdown measures and reinvigorate economic growth. Economic statistics were bleak, but were met by massive support and stimulus measures.

The FTSE All-share index produced a total return of 5% in April, but medium and smaller companies returned almost twice as much, whilst US shares were even stronger, led by technology shares. Although volatility was lower than in March, there was still a wide range of sector and stock returns. The strongest UK sectors were typically cyclical areas, like general retailers, housebuilders and engineering, which all produced mid-teens percentage returns, but certain defensive sectors like pharmaceuticals and tobacco also recorded double digit returns. The weakest sector was oil & gas producers, brought down by Shell's decision to slash its dividend rate. The banks and non-life insurance sectors also recorded negative returns, along with utilities and telecommunications.

The Trust's NAV returned 11.4% in April, well ahead of the 4.9% return of the market. We benefitted from a more cyclical market environment, better performance from medium and smaller companies and some specific stock selection decisions. Sometimes the hardest thing to do in markets is to do nothing. We mentioned last month that we did not see a good fundamental reason why the Barclays share price (our biggest bank holding) should have fallen by 24% more than HSBC in March, so we retained Barclays. This month, there was a gap of 22% in the other direction as HSBC fell 10%, whilst Barclays rallied by over 12%. Not owning HSBC was the single biggest contributor to outperformance in the month,

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and Barclays also helped. Other stand out performers were GVC and National Express. The biggest negative impact came from not owning AstraZeneca, which continued to rally. Performance was also impacted by modest share price declines at BAE Systems and SSE.

We continued to actively reposition the portfolio in response to company news flow as well as opportunities created by market volatility. The largest trade was to sell about a third of Royal Dutch Shell, after their decision to cut the dividend. Whilst we understand they need to take a more cautious view of long term cash generation potential, their normal planning horizon stretches into decades. It seems a particularly severe reaction to cut the dividend so sharply, after only a couple of months of pressure, even accepting this is likely to be a deep and prolonged downturn. As important as the dividend cut, was the lack of any newly articulated capital allocation framework. We do not know how Shell is likely to allocate cash flow in the future, which is a critical consideration for such a capital intensive business. We decided to reduce the position and reassess over the coming months.

Elsewhere, we added to companies where share prices were depressed but where we are confident in the medium term prospects, as well as supporting the DFS fund raising. We also added to companies that have more resilient earnings and should continue to pay attractive dividends in the near term. These were funded by reducing holdings in shares that had outperformed the market and offered less good value, including



Simon Gergel, Portfolio Manager

The Merchants Trust PLC is managed by Simon Gergel who is Chief Investment Officer at AllianzGI and has 27 years investment experience. He is pictured here with Matthew Tillet, UK equity portfolio manager. 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.

Antofagasta, Balfour Beatty and PZ Cussons. We reduced the RBS investment to fund the Bellway position, preferring the risk reward trade-off in housebuilding, where construction activity is already restarting, compared to banking, where recovery will take longer.

As governments start to lift lockdown restrictions, we would expect to see a gradual recovery in economic activity. Some sectors, like housebuilding and manufacturing should recover much of their previous output relatively quickly. But others like travel, leisure and parts of retail may be impacted by social distancing policies for far longer. The broader economic cost of business failures and rising unemployment could also be considerable, although offset partially by government support and low interest rates.

The stock market, however, already reflects this outlook. There is, once again, an extreme level of polarisation between different companies and different sectors. In general, more resilient businesses, making high returns are priced on elevated multiples, and we see little value in them. In contrast, there are many fundamentally sound companies, that may be working through temporary interruptions to activity, that are trading on exceptionally attractive valuations on a medium term view. But these are not the only areas where we are finding investment opportunities. There are also economically defensive businesses, in sectors like telecommunications, tobacco and utilities, where valuations remain reasonable or in some cases very cheap.

Income generation from equities will be a particular challenge this calendar year, and into the start of 2021, as so many companies have ceased or cut dividend payments. We do, however, expect most of our portfolio companies that have cancelled or postponed dividends to resume payments in 2021, if not before. We are monitoring the portfolio's income stream closely, and adapting the portfolio as appropriate. Merchants benefits from significant revenue reserves, which allow the board to smooth dividends to shareholders during periods when portfolio dividends are temporarily reduced.

Simon Gergel
18 May 2020

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 (%)



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	-25.8	-18.6	-16.8	-2.5	4.5
NAV (debt at fair value)	-27.6	-20.0	-20.3	-10.8	-3.9
Benchmark	-18.8	-17.0	-16.7	-7.5	4.5

Discrete 12 Month Returns to 30 April (%)

	2020	2019	2018	2017	2016
Share Price	-16.8	2.4	14.5	20.2	-10.8
NAV (debt at fair value)	-20.3	-1.3	13.3	19.5	-9.9
Benchmark	-16.7	2.6	8.2	21.3	-6.8

Source: Thomson Reuters DataStream, percentage growth, mid to mid, total return to 30.04.20. Copyright 2020 © 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.

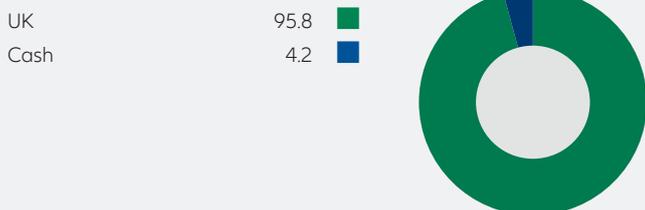
Past performance is not a reliable indicator of future returns. You should not make any assumptions on the future on the basis of performance information. The value of an investment and the income from it can fall as well as rise as a result of market fluctuations and you may not get back the amount 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	21.2	
Consumer Goods	20.8	
Industrials	16.7	
Consumer Services	11.1	
Utilities	7.5	
Health Care	6.1	
Oil & Gas	5.8	
Basic Materials	4.3	
Telecommunications	2.3	
Cash	4.2	

Geographic Breakdown (%)



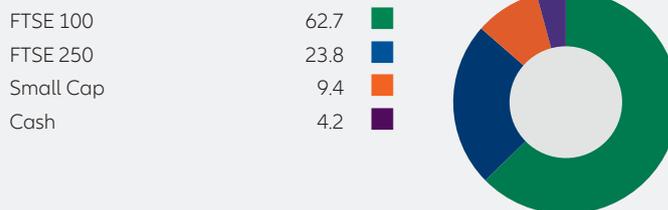
Top Ten Holdings (%)

GlaxoSmithKline	5.9
Imperial Brands	5.2
British American Tobacco	4.8
Royal Dutch Shell - B Shares	3.5
IG Group	3.2
Tate & Lyle	3.1
Barclays	3.1
Land Securities	3.0
BAE Systems	3.0
BHP Group	2.9

Total number of holdings* 44

*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.

Key Information

Launch Date	16 February 1889
AIC Sector	UK Equity Income
Benchmark	FTSE All-Share
Annual Management Charge	0.35%
Performance Fee	No
Ongoing Charges ¹	0.59%
Year End	31 January
Annual Financial Report	Final published in April, Half-yearly published in September
AGM	May
NAV Frequency	Daily
Dividends	February/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 (31.01.2020). Ongoing Charges (previously Total Expense Ratios) are published annually to show operational expenses incurred in the running of the company but excluding financing costs.

Board of Directors

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

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.



Investing involves risk. The value of an investment and the income from it may fall as well as rise and investors may not get back the full amount invested. The views and opinions expressed herein, which are subject to change without notice, are those of the issuer and/or its affiliated companies at the time of publication. The data used is derived from various sources, and assumed to be correct and reliable, but it has not been independently verified; its accuracy or completeness is not guaranteed and no liability is assumed for any direct or consequential losses arising from its use, unless caused by gross negligence or wilful misconduct. The conditions of any underlying offer or contract that may have been or will be made or concluded shall prevail.

All data source Allianz Global Investors as at 30.04.20 unless otherwise stated.

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