

23 April 2020

LEI: 5299008VJFXCUD2EG312

THE MERCHANTS TRUST PLC

Final Results for the year ended 31 January 2020

The following comprises extracts from the company's annual report for the year ended 31 January 2020. The full annual report is being made available to be viewed on or downloaded from the company's website at www.merchantstrust.co.uk. Copies will be posted to shareholders shortly.

MANAGEMENT REPORT

Chairman's Statement

This is my first year-end as Chairman, and while I am delighted to be reporting that the year to 31 January 2020 was a very positive one for shareholders, this is of course tempered by the subsequent brutal impact of COVID-19 on economies, markets and people's health around the world.

Nonetheless, I am pleased to report that Merchants Trust produced a return to its shareholders substantially higher than the benchmark in the year under review, despite a climate of political and Brexit uncertainty.

Highlights of the year

- * 18.7% increase in the NAV total return against 10.7% benchmark return
- * 18.6% rise in the share price
- * 4.2% increase in the dividend
- * 38th successive year of dividend growth
- * Cost of debt more than halved over three years
- * 4,150,000 new shares issued at a premium to NAV

Income remains strong

We pride ourselves on the income we provide for our shareholders and we are very pleased to retain our AIC Dividend Hero status. We have this year provided one of the very highest yields in our peer group as part of an attractive total return for investors and we aim to continue to do so. Our dividend reserves of 28.2p per share, put aside from income over the years, support our aim. The payment of a fourth quarterly dividend of 6.8p on 29 May 2020, giving a full year dividend of 27.1p confirms our 38th successive year of dividend growth – a record of which we are extremely proud. Furthermore, the dividend growth we have been able to provide of 4.2% is ahead of the year end rate of inflation of 1.8% and therefore a real increase for shareholders. We are as focused on dividends as you are.

A year of positive performance

The year under review was a very successful one and the trust's total return Net Asset Value with debt at market (NAV) rose by 18.7% compared with a 10.7% increase in our benchmark, the FTSE All Share index, on a total return basis. The portfolio also significantly outperformed the benchmark and there are more details in the attribution table on page 10 of the annual report. Demand for our shares remained strong throughout the year and we were able to issue 4,150,000 new shares in aggregate over the year during periods when the trust was trading at a premium to Net Asset Value. Since the year end, a further 1,746,423 new shares were issued.

A full investment report containing an analysis of the company's performance is shown on page 12 of the annual report, and the portfolio performance attribution is explained by our investment manager Simon Gergel from page 15. I would also encourage you to read more in the same section about the interesting stock stories that have played out during the past year.

Active management plays its part

The board has long been a supporter of our manager's active approach and value style of investing and this approach showed its merit again this year. We are pleased to note that Simon Gergel,

Matthew Tillet and the rest of the investment team delivered strong performance over the 12 months to the end of January 2020 by continuing to focus on high quality UK companies at reasonable valuations with above-average yields.

It wasn't a completely comfortable ride. In a year that was markedly different between the first half and the second half, our investment team held, and indeed extended, their contrarian positioning earlier in the year, which meant that, in a highly polarised market environment, relative performance at the halfway point was weak. This positioning, though, provided excellent outperformance of a flat market in the second half, boosted by a move by investors back towards value shares later in the year.

A clear-cut General Election result and the return of a government with a sizeable majority and a perceived market-friendly approach also helped the investment managers' strategy towards the end of the year as UK equities became more attractive to both domestic and overseas investors.

The portfolio also benefits from the manager's active positioning to take advantage of the non-UK earnings of a large proportion of UK-listed stocks. This gives the trust a level of diversification and means that it is not wholly exposed to the UK domestic economy but can benefit from overseas growth too.

It is also encouraging that we are seeing media and analyst coverage of Merchants that recognises the positive performance that has been generated not only during the year under review but over a longer period too.

Reducing the costs and the level of gearing in the trust

Shareholders will be aware that, in line with its peers, the board of Merchants has long had the view that an element of gearing of the trust can enhance investment returns and increase dividend generation and that this is consistent with a long-term investment horizon. Between 2016 and 2020 this gearing has been between 15.4% and 27.4% of the portfolio. Two elements of gearing have a meaningful impact on shareholder returns: the cost of debt and the level of gearing.

As I hope you will be aware from previous communications, our board has been working to reduce the costs of debt. This year we have cut it to 3.8%, from a starting point of over 8.5% in 2017 and 6.1% in 2018. Although restructuring the debt incurred a one-off cost which reduced the NAV by 0.5%, it now produces greater earnings potential and a boost to the trust's capital account. The one-off hit to the NAV was experienced mid-way through the year when the more expensive debt was paid down and replaced with a revolving credit facility (RCF). As you can see from our performance figures, it hasn't detracted from a strong year for Merchants, and it will surely pay off to shareholders from now on.

The debt structure is now a mix of short-, medium- and long-term debt, giving a more flexible profile to the debt structure which our managers can use as needed.

At the end of the year the decision was made to reduce gearing to 15%, by paying down £16m of the RCF and that reduction was duly carried out on 29 January 2020, shortly before the yearend and before the market crash. Your board and the investment manager felt it was prudent to reduce risk in the portfolio following strong investment markets during the final quarter of 2019.

Share issuance: taking the opportunity to grow

As I noted earlier, thanks to the strong performance and demand in the market as a result of the marketing efforts we undertake, we have been in a position to issue new shares over the year. Shareholders unfamiliar with this mechanism may wonder what benefit they gain from this activity. Simply speaking, there is advantage to be had from increasing the scale of the trust, not least from fixed costs being spread over a larger fund. As scale increases, so does the attractiveness of the trust's shares to professional investors, who value liquidity in the company's shares. As issuance can only take place at a premium to NAV, it also adds value incrementally to NAV on each issuance.

Due to the demand we are seeing, as in previous years your board and investment manager will be seeking shareholder authority to issue up to 10% more shares in the coming year.

Strategy

At our annual strategy day, we once again took a more in-depth look at the matters we consider at each board meeting, including our objectives and key performance indicators. The Strategic Report follows on page 39 of the annual report.

In summary, the meeting found the key performance indicators we closely monitor still to be appropriate. We reviewed the investment philosophy, including the value style of investing, and we also found this to be appropriate for our objectives. We examined the structure of the portfolio and style exposures, in detail. Finally, from an investment perspective, we discussed the use of flexible debt and the trust's gearing policy.

From a sales and marketing perspective, we analysed competitive strategies from the peer group and considered our strategy for distribution via wealth managers and retail investment platforms.

Board succession

I would like to thank Paul Yates, who will step down from the board on 1 May 2020 after nine years, for his stalwart contribution to the Merchants Trust. His wise advice, deep investment experience and good humour have been very much appreciated by the Board and the investment management team.

I am delighted to announce the appointment of Karen McKellar to replace Paul on 1 May as a Non-Executive Director on the board, subject to election by shareholders at the AGM. Karen (formerly known as Karen Robertson) has had a long career as an investment manager at Standard Life, managing the Standard Life Equity Income Investment Trust as well as several large UK equity open-ended funds. The board looks forward to having the benefit of her investment expertise.

Annual General Meeting

Following the Prime Minister's announcement on 23 March 2020 of stay at home measures and possible further restrictions and the continuing impact of COVID-19 we have been unable to agree a format and set a date for the Annual General Meeting. Whilst this is usually held in May in all likelihood it will be delayed. At the time of writing we are awaiting direction as to what new arrangements will be permitted and will therefore be sending a Notice of the AGM as soon as it is possible to set a date.

As usual questions received from shareholders and answers from the board will be added to the Merchants website subsequent to the AGM.

Fourth interim dividend

Due to the need for us to postpone the AGM and with it the usual opportunity for shareholders to approve a final quarterly dividend the board has declared a fourth interim dividend in its place. Therefore, a quarterly dividend of 6.8p per ordinary share, in line with the third quarter's dividend, is payable on 29 May 2020 to holders on the register at the close of business on 24 April 2020. This means that the total dividend for the 2019/20 year is 27.1p, an increase of 4.2% on the previous year.

Outlook

The impact of COVID-19 is a very present shadow at the moment and, as we write, markets have produced sharply negative returns in the first weeks of our new financial year. There is clearly going to be a significant impact on the economy, corporate profitability and dividend income in addition to people's health. We are already seeing numerous company boards taking a cautious approach to payouts and some have decided to postpone or cancel dividend payments. Since some of the companies we own are in this position this will undoubtedly reduce the income stream for the trust in the new financial year. We will continue to monitor this situation closely, however, as Simon Gergel discusses in his Investment Manager's Review, Merchants started the year in a strong position and the dividend was comfortably covered by last year's earnings. In addition, the ability of an investment trust to be able to smooth dividend payments by building up reserves following strong performance and draw upon them in more challenging years is a positive feature of our structure.

As long-term investors, we are confident of our future returns and the investment team are actively reviewing individual company exposures and risks, and making portfolio adjustments, where necessary, to manage the income stream and to take advantage of exacerbated pricing anomalies. Our managers believe that, after the sharp pull back in the market, the UK stock market is offering good value and is one of the cheaper world markets. Against this backdrop they continue to seek out strong, structurally well positioned companies, paying above-average dividend yields, and trading on attractive valuations.

I hope this has given a flavour of the positive year experienced by The Merchants Trust for the year under review and I urge you to read the further detail contained in this report, as it will provide you with the full context and analysis of the past 12 months.

Colin Clark
Chairman
23 April 2020

Risk policy

The board operates a risk management policy to ensure that the level of risk taken in pursuit of the board's objectives and in implementing its strategy is understood. The principal risks identified by the board are listed below, together with the actions taken to mitigate them, and set out in the table opposite. The board has carried out a robust assessment of the principal and emerging risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity and emerging risks and how they monitor and manage them and disclose them in the annual report. The process by which the directors monitor risk is described in the Audit Committee Report on page 64 of the annual report..

Risk mapping

The risk map on pages 44 and 45 of the annual report shows the board's assessment of the principal risks facing the company. These have been grouped into three types: Investment and Portfolio Risks; Business and Strategy Risks; and Operational Risks. Risks are rated as 'red' or 'high' when the risk is of concern and sufficient mitigation measures are not possible or not yet in place; 'amber' or 'moderate' when the risk is of concern but sufficient measures are defined and have been or are being implemented; and 'green' or 'acceptable' when the risk is acceptable and no further measures are needed. The nature of the company's business means that a certain amount of risk must be taken for its objectives to be met therefore it is not surprising that portfolio risk types earn amber ratings.

Principal risks

A more detailed version of the chart is reviewed and updated by the audit committee at least twice yearly. This takes the form of a matrix which sets out risk types, key risks identified and their status, the controls and mitigation in place to address these risks, together with the evidence of controls and gives an assessment of the risk using a traffic light system, as shown at the bottom of the chart, to confirm the outcome of the assessment of the risk. The principal risks have changed from the previous year, primarily as a result of COVID-19. Those identified as having the highest impact are Market decline (item 1.1), Emerging risks (item 3.8) and Investment performance (item 2.3), in the Risk Report on pages 43 to 46 of the annual report. However, Market decline and Emerging risks are shown to have increased in likelihood as shown by the arrows on the risk chart. Some risks have been assessed as being no more likely but with greater impact, such as Currency, Investment performance and Third party risks. Financial crime and cyber risks are now seen as more likely. Some risks: Market decline and Emerging, have moved from amber to red as the board has assessed there are elements to these risks that cannot be managed or mitigated.

Risk appetite

The board identifies risks, considers controls and mitigation, the probability of the event, and assesses residual risk. It then evaluates whether its risk appetite is satisfied. The board confirms for the year ended 31 January 2020 that its assessment of risk is in line with its risk appetite for all key risks.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK Accounting Standards have been followed, comprising FRS 102, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements. The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors each have a duty to make themselves aware of any "relevant audit information" and ensure that the auditors have been made aware of that information. A disclosure stating that each director has complied with that duty is given in the Directors' Report on page 54 of the annual report.

The directors are responsible for ensuring that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

The financial statements are published on merchantstrust.co.uk, which is a website maintained by the company's investment manager, AllianzGI. The directors are responsible for the maintenance and integrity of the company's website. The work undertaken by the auditors does not involve consideration of the maintenance and integrity of the website and, accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement under Disclosure and Transparency Rule 4.1.12 The directors at the date of approval of this report, each confirm to the best of their knowledge that:

- the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the company;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.

For and on behalf of the board

Colin Clark
Chairman
23 April 2020

LISTED EQUITY HOLDINGS as at 31 January 2020

Name	Value (£)	% of listed holdings	Principal Activities
GlaxoSmithKline	40,161,408	5.8	Pharmaceuticals & Biotechnology
Royal Dutch Shell B	37,666,000	5.3	Oil & Gas Producers
BAE Systems	28,877,009	4.1	Aerospace & Defence
Imperial Brands	27,503,460	3.9	Tobacco
Barclays	27,044,780	3.8	Banks
British American Tobacco	26,856,000	3.8	Tobacco
Legal & General	22,446,900	3.2	Life Insurance
Land Securities Group	21,648,393	3.1	Real Estate Investment Trusts
SSE	21,413,600	3.0	Electricity
St. James's Place	21,164,000	3.0	Life Insurance
Top Ten Holdings	274,781,550	39.0	
Standard Life Aberdeen	19,872,275	2.8	Financial Services
WPP	19,372,500	2.8	Media
National Grid	19,110,200	2.7	Gas, Water & Multiutilities
Pennon Group	17,586,297	2.6	Gas, Water & Multiutilities
National Express Group	17,539,849	2.5	Travel & Leisure
BP	16,519,163	2.3	Oil & Gas Producers
BHP	16,455,339	2.3	Mining
IG Group Holdings	16,103,801	2.3	Financial Services
Tyman	15,851,278	2.3	Construction & Materials
Royal Bank of Scotland Group	15,281,000	2.2	Banks
Meggitt	14,951,250	2.1	Aerospace & Defence
Balfour Beatty	13,880,947	2.0	Construction & Materials
Morgan Advanced	13,810,933	2.0	Electronic & Electrical Equipment
Keller	13,777,500	2.0	Construction & Materials
CRH	13,708,800	1.9	Construction & Materials
Prudential	13,587,600	1.9	Life Insurance
SThree	12,913,305	1.8	Support Services
Stock Spirits Group	12,790,800	1.8	Beverages
PZ Cussons	12,685,200	1.8	Personal Goods
Antofagasta	11,960,100	1.7	Mining
Vistry Group	11,897,708	1.7	Household Goods & Home Construction
GVC Holdings	11,841,893	1.7	Travel & Leisure
ITV	11,820,420	1.7	Media
Inchcape	10,774,800	1.5	General Retailers
Tate & Lyle	9,989,280	1.4	Food Producers
Redrow	9,925,000	1.4	Household Goods & Home Construction
Senior	9,763,965	1.4	Aerospace & Defence
Man Group	9,155,049	1.3	Financial Services
Hammerson	8,402,400	1.2	Real Estate Investment Trusts
Kin and Carta	6,907,648	1.0	Support Services

Name	Value (£)	% of listed holdings	Principal Activities
Informa	5,973,026	0.8	Media
DFS Furniture	5,719,500	0.8	General Retailers
Norcros	3,660,246	0.5	Construction & Materials
Sirius Real Estate	3,657,150	0.5	Real Estate Investment & Services
M&G	2,414,010	0.3	Financial Services
Total Listed Equities	704,441,782	100.0	

UNLISTED EQUITY HOLDINGS as at 31 January 2020

Name	Value (£)	% of unlisted holdings	Principal Activities
Fintrust Debenture**	4,486	100.0	Financial Services
Total Unlisted Equities	4,486	100.0	

Written Call Options

As at 31 January 2020, the market value of the open option positions was £(28,300) (2019: £(10,490)), resulting in an underlying exposure to 1.11% of the portfolio (valued at strike price).

* The company was the lender of the company's Fixed Rate Interest Loan 2023 which was repaid during the year. More details are available in Note 9 on page 85 of the annual report. All holdings are UK listed.

INCOME STATEMENT
for the year ended 31 January 2020

	Revenue £	Capital £	Total Return £
			Note C
Gains on investments at fair value through profit or loss	-	80,844,082	80,844,082
Gains on foreign currencies	-	21,069	21,069
Income	36,236,313	-	36,236,313
Investment management fee	(829,367)	(1,540,251)	(2,369,618)
Administration expenses	(855,489)	(1,495)	(856,984)
Profit before finance costs and taxation	34,551,457	79,323,405	113,874,862
Finance costs: interest payable and similar charges	(1,884,565)	(15,610,679)	(17,495,244)
Profit on ordinary activities before taxation	32,666,892	63,712,726	96,379,618
Taxation	(23,656)	-	(23,656)
Profit after taxation attributable to ordinary shareholders	32,643,236	63,712,726	96,355,962
Earnings per ordinary share (basic and diluted) (Note B)	29.67p	57.90p	87.57p

BALANCE SHEET
at 31 January 2020

	£	£
Fixed assets		
Investments held at fair value through profit or loss		704,446,268
Current assets		
Others receivables	4,307,985	
Cash and cash equivalents	10,546,075	
	<u>14,854,060</u>	
Current liabilities		
Other payables	(30,086,079)	
Derivative financial instruments	(28,300)	
	<u>(30,114,379)</u>	
Net current assets		<u>(15,260,319)</u>
Total assets less current liabilities		689,185,949
Creditors: amounts falling due after more than one year		(66,651,713)
Total net assets		<u>622,534,236</u>
Capital and Reserves		
Called up share capital		28,219,616
Share premium account		54,092,585
Capital redemption reserve		292,853
Capital reserve		508,109,225
Revenue reserve		31,819,957
Equity shareholders' funds		<u>622,534,236</u>
Net asset value per ordinary share		551.5p

INCOME STATEMENT
for the year ended 31 January 2019

	Revenue £	Capital £	Total Return £
			Note C
Losses on investments at fair value through profit or loss	-	(56,214,287)	(56,214,287)
Gains on foreign currencies	-	414	414
Income	34,104,274	-	34,104,274
Investment management fee	(842,584)	(1,564,801)	(2,407,385)
Administration expenses	(834,705)	(1,586)	(836,291)
Profit (Loss) before finance costs and taxation	32,426,985	(57,780,260)	(25,353,275)
Finance costs: interest payable and similar charges	(2,331,235)	(4,249,587)	(6,580,822)
Profit (Loss) on ordinary activities before taxation	30,095,750	(62,029,847)	(31,934,097)
Taxation	-	-	-
Profit (Loss) after taxation attributable to ordinary shareholders	30,095,750	(62,029,847)	(31,934,097)
Earnings (Loss) per ordinary share (basic and diluted) (Note B)	27.68p	(57.05p)	(29.37p)

BALANCE SHEET
at 31 January 2019

	£	£
Fixed assets		
Investments held at fair value through profit or loss		622,073,420
Current assets		
Others receivables	1,133,804	
Cash and cash equivalents	22,951,619	
	<u>24,085,423</u>	
Current liabilities		
Other payables	(2,016,323)	
Derivative financial instruments	(10,490)	
	<u>(2,026,813)</u>	
Net current assets		<u>22,058,610</u>
Total assets less current liabilities		644,132,030
Creditors: amounts falling due after more than one year		(110,205,297)
Total net assets		<u>533,926,733</u>
Capital and Reserves		
Called up share capital		27,182,116
Share premium account		33,717,572
Capital redemption reserve		292,853
Capital reserve		444,396,499
Revenue reserve		28,337,693
Equity shareholders' funds		<u>533,926,733</u>
Net asset value per ordinary share		491.1p

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 January

	Called up Share Capital £	Share Premium Account £	Capital Redemption Reserve £	Capital Reserve £	Revenue Reserve £	Total Shareholders Funds £
Net assets at 1 February 2019	27,182,116	33,717,572	292,853	444,396,499	28,337,693	533,926,733
Revenue profit	-	-	-	-	32,643,236	32,643,236
Dividends on ordinary shares	-	-	-	-	(29,160,972)	(29,160,972)
Capital profit	-	-	-	63,712,726	-	63,712,726
Shares issued during the year	1,037,500	20,375,013	-	-	-	21,412,513
Net assets at 31 January 2020	28,219,616	54,092,585	292,853	508,109,225	31,819,957	622,534,236
Net assets at 1 February 2018	27,182,116	33,717,572	292,853	506,426,346	25,858,973	593,477,860
Revenue profit	-	-	-	-	30,095,750	30,095,750
Dividends on ordinary shares	-	-	-	-	(27,617,030)	(27,617,030)
Capital loss	-	-	-	(62,029,847)	-	(62,029,847)
Net assets at 31 January 2019	27,182,116	33,717,572	292,853	444,396,499	28,337,693	533,926,733

CASH FLOW STATEMENT

For the year ended 31 January

	2020 £	2019 £
Operating activities		
Profit (Loss) before finance costs and taxation*	113,874,862	(25,353,275)
Less: (Gains) Losses on investments at fair value	(80,844,082)	56,214,287
Less: Gains on foreign currency	(21,069)	(414)
Purchase of fixed asset investments held at fair value through profit or loss	(183,903,663)	(181,992,796)
Sales of fixed asset investments held at fair value through profit or loss	184,945,332	189,013,652
Increase in other receivables	(1,004,094)	(409,432)
Increase (Decrease) in other payables	155,284	(146,648)
Less: Overseas tax suffered	(23,656)	-
Net cash inflow from operating activities	33,178,914	37,325,374
Financing activities		
Interest paid	(6,040,184)	(6,809,955)
Repayment of Fixed Rate Interest Loan 2023	(42,000,000)	-
Premium paid on Fixed Rate Interest Loan 2023	(13,603,800)	-
Proceeds from Revolving Credit Facilities	42,000,000	-
Repayment of Revolving Credit Facility	(16,000,000)	-
Dividends paid on cumulative preference stock	(42,997)	(42,997)
Dividends paid on ordinary shares	(29,160,972)	(27,617,030)
Share issue proceeds	21,412,513	-
Share issue proceeds receivable	(2,170,087)	-
Net cash outflow from financing activities	(45,605,527)	(34,469,982)
(Decrease) increase in cash and cash equivalents	(12,426,613)	2,855,392
Cash and cash equivalents at the start of the year	22,951,619	20,095,813
Effect of foreign exchange rates	21,069	414
Cash and cash equivalents at the end of the year	10,546,075	22,951,619
Comprising:		
Cash and cash equivalents	10,546,075	22,951,619

* Cash inflow from dividends was £34,785,104 (2019: £33,116,522) and cash inflow from interest was £161,352 (2019: £596).

Notes

Note A

The financial statements have been prepared under the historical cost convention, except for the revaluation of financial instruments held at fair value through profit or loss and in accordance with applicable United Kingdom law and UK Accounting Standards (UK GAAP), including Financial Reporting Standard 102 – the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (FRS 102) and in line with the Statement of Recommended Practice “Financial Statements of Investment Trust Companies and Venture Capital Trusts” issued by the Association of Investment Companies (AIC SORP) in October 2019.

Note B

The earnings per ordinary share is based on a weighted number of shares 110,037,230 (2019 - 108,728,464) ordinary shares in issue.

Note C

The total return column of this statement is the profit and loss account of the company. The supplementary revenue return and capital return columns are both prepared under the guidance published by the Association of Investment Companies.

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

The net profit for the year disclosed above represents the company’s total comprehensive income.

Included in the cost of investments are transaction costs and stamp duty on purchases which amounted to £919,537 (2019 - £1,037,451) and transaction costs on sales amounted to £78,717 (2019 - £87,200).

Note D

As the company’s business is investing in financial assets with a view to profiting from their total return in the form of increases in fair value, financial assets are designated as held at fair value through profit or loss in accordance with FRS 102 Section 11: ‘Basic Financial Instruments’ and Section 12: ‘Other Financial Instruments’. The company manages and evaluates the performance of these investments on a fair value basis in accordance with its investment strategy, and information about the investments is provided on this basis to the board.

Investments held at fair value through profit or loss are initially recognised at fair value. After initial recognition, these continue to be measured at fair value, which for quoted investments is either the bid price or the last traded price depending on the convention of the exchange on which the investment is listed. Gains or losses on investments are recognised in the capital column of the Income Statement. Purchases and sales of the financial assets are recognised on the trade date, being the date which the company commits to purchase or sell the assets.

Unlisted investments are valued by the Directors based upon the latest dealing prices, stockbrokers’ valuations, net asset values, earnings and other known accounting information

in accordance with the principles set out by the International Private Equity and Venture Capital Valuation Guidelines issued in December 2018.

After initial recognition unquoted stocks are valued by the board on an annual basis.

Note E

	2020	2019
	£	£
Dividends paid on ordinary shares of 25p:		
Third interim dividend 6.5p paid 6 March 2019 (2018 - 6.2p)	7,067,350	6,741,165
Final dividend 6.6p paid 22 May 2019 (2018 - 6.3p)	7,205,779	6,849,893
First interim dividend 6.7p paid 20 August 2019 (2018 - 6.4p)	7,371,907	6,958,622
Second interim dividend 6.8p paid 12 November 2019 (2018 - 6.5p)	7,515,936	7,067,350
	29,160,972	27,617,030

Dividends payable at the year end are not recognised as a liability under FRS 102 Section 32 'Events After the End of the Reporting Period' (see page 80 - Statement of Accounting Policies). Details of these dividends are set out below.

	2020	2019
	£	£
Third interim dividend 6.8p paid 11 March 2020 (2019 - 6.5p)	7,675,736	7,067,350
Fourth interim dividend 6.8p payable 29 May 2020 (2019 Final - 6.6p)	7,675,736	7,176,079
	15,351,472	14,243,429

The declared fourth interim dividend accrued is based on the number of shares in issue at the year end. However, the dividend payable will be based on the numbers of shares in issue on the record date and will reflect any changes in the share capital between the year end and the record date.

All dividends disclosed in the tables above have been paid or are payable from the revenue reserves.

Note F

Post Balance Sheet events

There are no significant events after the end of the reporting period requiring disclosure. As described extensively in the Annual Report, global markets have experienced significant fluctuations due to risks associated with COVID-19 virus. Since the year end, Merchants' NAV has fallen by 32.8%, as at close of business on 22 April 2020. However, the full extent of the impact remains uncertain.

Note G

The full annual report will shortly be available to be viewed or downloaded from the company's website at www.merchantstrust.co.uk. Neither the contents of the company's website nor the contents of any website accessible from hyperlinks on the company's website (or any other website) is incorporated into, or forms part of this announcement.

The financial information for the year ended 31 January 2020 has been extracted from the statutory accounts for that year. The auditor's report on these accounts was unqualified and did not contain a statement under either Section 498(2) or (3) of the Companies Act 2006. The annual report has not yet been delivered to the Registrar of Companies.

The financial information for the year ended 31 January 2019 has been extracted from the statutory accounts for that year which have been delivered to the Registrar of Companies. The auditor's report on these accounts was unqualified and did not contain a statement under either Section 498(2) or (3) of the Companies Act 2006.