The Merchants Trust PLC

As focused on dividends as you are

Allianz Global Investors

Aim

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

History

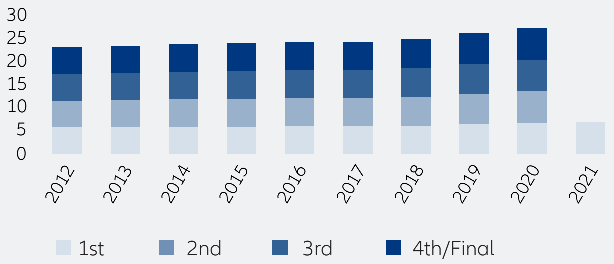
The Merchants Trust PLC was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, but now concentrates primarily on major UK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

Trust Benefits

Merchants has for many years focused on a simple proposition to deliver a high and rising income together with capital growth for its shareholders. Simon Gergel has been managing the trust for 14 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
10.07.2020	19.08.2020	6.80p	1st Quarterly
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

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 £529.3m **Shares in Issue** 118,894,887 (Ordinary 25p) **Market Cap** £399.5m

Share Price	NAV per Share	Premium/-Discount	Dividend Yield	Gearing
336.0p	341.2p	-1.5%	8.1%	20.1%

Share Price is the price of a single ordinary share, as determined by the stock market. The share price above is the mid-market price at market close.

Net Asset Value (NAV) per Share is calculated as available shareholders' funds divided by the number of shares in issue, with shareholders' funds taken to be the net value of all the company's assets after deducting liabilities.

The NAV figure above is based on the fair/market value cum income of the company's long-term debt and preference shares (known as debt at market value). This allows for the valuation of long-term debt and preference shares at fair value or current market price, rather than at final repayment value (known as debt at par).

Premium/Discount. Since investment company shares are traded on a stock market, the share price that you get may be higher or lower than the NAV. The difference is known as a premium or discount.

Dividend Yield is calculated using the latest full year dividend divided by the current share price.

Gearing is a measure of a company's financial leverage and shows the extent to which its operations are funded by lenders versus shareholders.

All data source DataStream and Allianz Global Investors as at 31.07.20 unless otherwise stated.

Fund Manager's Review

The Coronavirus pandemic continued to dominate headlines during July, both in the media and within financial markets. Concerns about the pandemic spreading in several large US states and second wave outbreaks in Europe gave markets a nervous feel, with the gold price, often seen as a safe haven, rising sharply, partly due to weakness in the US dollar. UK government bond prices also rallied causing 10 year gilt yields to fall to only 0.1%, and the British government was able to borrow for up to 7 years at negative interest rates.

Many UK companies reported on second quarter trading, which included a period of economic lockdown and the start of the reopening of industries such as retail and housebuilding. In general, companies have come through with stronger balance sheets than worst case scenarios envisaged a few months ago, helped by tight cash management, government support and in some cases equity raising. The pace of recovery has been quite varied. The listed housebuilders have reported strong order books, resilient pricing and build activity levels returning to 85-90% of normal levels. Within Merchants' portfolio, sofa retailer DFS reported a remarkable 69% growth in total revenue compared to the previous year, in the 6 weeks after reopening stores up to 12th July. Tyman, which makes door and window products reported a return to revenue growth in July, including in the key American market. Norcros a manufacturer and retailer of bathroom products has also returned to growth in July with UK sales 15% above a year ago. Clearly there is a question about how much of this represents pent up demand or restocking and how much is genuine end market demand, but nonetheless these are encouraging performances. However, not all companies have seen this speed of recovery, with the leisure, aerospace and transportation industries taking longer to recover.

> **"In general, companies have come through with stronger balance sheets than worst case scenarios envisaged**

Despite some better news on the trading front, general anxiety caused the UK stock market to decline by over 3% in total return terms. In contrast, US stock markets produced quite strong returns, powered by the technology giants. Falling bond yields continued to exacerbate the high level of polarisation in the UK market, with investors favouring high return or higher growth companies, over cheaper value or more cyclical sectors. The best performing sectors included software and computer services, beverages, non-life insurance and mining, whereas tobacco, fixed line telecommunications, oil producers and banks were very weak.

Our performance fell behind the market in July, affected primarily by our value approach which favours lowly priced shares. The biggest negative contributors to relative performance came from the two tobacco companies, which fell sharply despite little news, and from not owning highly rated AstraZeneca and Diageo, which both outperformed the weak market. The main positive contributors to relative performance came from Landsec and Antofagasta which both performed well, and from not owning HSBC which fell significantly, bringing down the index return. Against this backdrop the trust's NAV returned -8.3% in July compared to the -3.6% return of the benchmark.

There were fewer portfolio changes than in recent months, but we added to some of the more defensive companies, which are performing relatively well in the current environment, yet continue to trade on attractive valuations and pay decent dividends, such as GlaxoSmithKline, BAE Systems, Imperial brands and IG Group. We also topped up companies where we see a relatively quick recovery in activity in their markets, such as DFS and Inchcape. On the other hand, we reduced positions in shares that had performed well recently and offered less upside potential. This was particularly the case in the materials sectors, with reductions in BHP, Antofagasta and CRH. We also took some profits on GVC and Balfour Beatty, as well as reducing the Standard Life Aberdeen position.

Simon Gergel, Portfolio Manager

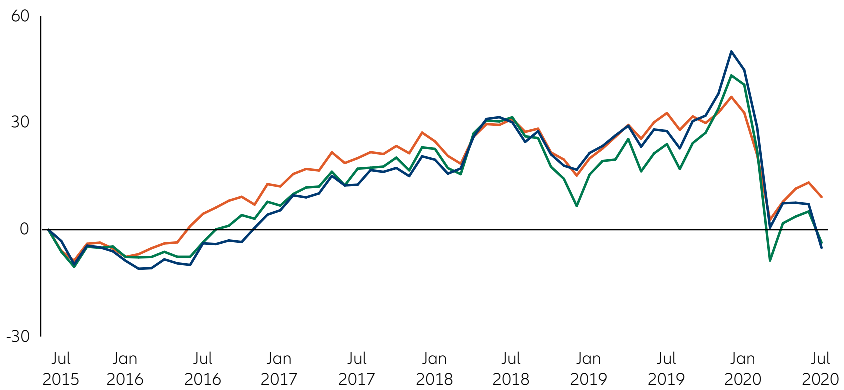
The Merchants Trust PLC is managed by Simon Gergel who is Chief Investment Officer at AllianzGI and has 27 years investment experience. He is pictured here with Matthew Tillett, Senior Portfolio Manager. Simon joined AllianzGI in April 2006 from HSBC Halbis Partners where he managed over £900m in high 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.

We talked last month about the extreme valuation dispersion within the market between higher growth and cheaper value stocks. If anything, the divergence has become even greater in July. There are a number of factors that could cause this dispersion to reverse, potentially quite sharply. Any credible vaccine against the COVID-19 coronavirus, or signs that second wave pandemic fears are overdone, could raise optimism about a recovery in the economy, and could lead to a bounce in cyclical and "value" stocks. Even without that, there are plenty of signs suggesting worst case expectations in the stock market may be too pessimistic. Another possibility is that massive financial stimulus and de-globalisation trends could lead to inflationary pressures and lift bond yields, which have fuelled the crowding into "growth" stocks. Ultimately however, we are not dependent upon any of those things happening. By building a portfolio of lowly priced yet fundamentally strong businesses, with a balance of cyclical and defensive earning streams, we are confident that we can deliver both an attractive income for shareholders and good total returns, over the medium term. Any closing of the historically extreme gap between "growth" and "value" companies, should also lead to strong relative returns compared to broad market benchmarks.

Simon Gergel
14 August 2020

Performance Track Record

Five Year Performance (%)



Share Price NAV (debt at fair value)

Benchmark: With effect from 1 February 2017 the benchmark changed from the FTSE 100 to the FTSE All-Share Index

Risk & Features

Investment trusts are quoted companies listed on the London Stock Exchange. Their share prices are determined by factors including the balance of supply and demand in the market.

Merchants seeks to enhance returns for its shareholders through gearing which can boost the Trust's returns when investments perform well, though losses can be magnified when investments lose value. You should be aware that this Trust may be subject to sudden and large falls in value and you could suffer substantial capital loss.

Derivatives may be used to manage the Trust efficiently.

Cumulative Returns (%)

	3M	6M	1Y	3Y	5Y
Share Price	-11.7	-34.5	-25.7	-15.7	-5.1
NAV (debt at fair value)	-5.3	-31.5	-23.7	-19.2	-5.3
Benchmark	1.2	-17.8	-17.8	-9.1	9.2

Discrete 12 Month Returns to 31 July (%)

	2020	2019	2018	2017	2016
Share Price	-25.7	-1.9	15.6	17.1	-3.8
NAV (debt at fair value)	-23.7	-5.7	12.3	21.4	-3.5
Benchmark	-17.8	1.3	9.2	15.0	4.5

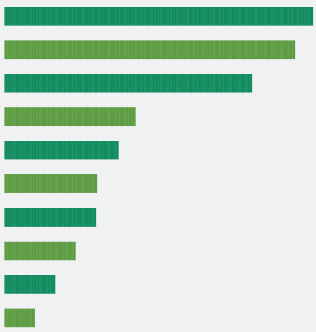
Source: Thomson Reuters DataStream, percentage growth, mid to mid, total return to 31.07.20. DataStream shall not be liable for any errors or delays in the content, or for any actions taken in reliance thereon.

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	21.5
Consumer Goods	20.3
Industrials	17.3
Utilities	9.2
Consumer Services	8.0
Oil & Gas	6.5
Health Care	6.4
Basic Materials	5.0
Telecommunications	3.6
Cash	2.2



Top Ten Holdings (%)

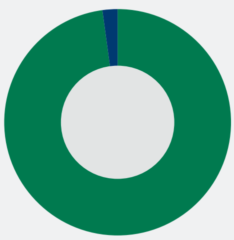
GlaxoSmithKline	6.2
British American Tobacco	4.6
Imperial Brands	4.4
BAE Systems	3.8
Scottish & Southern Energy	3.8
National Grid	3.6
IG Group	3.5
BHP Group	3.5
Tate & Lyle	3.3
St James's Place	3.3

Total number of holdings* 48

*Excludes derivatives

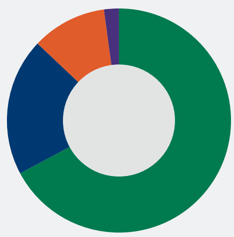
Geographic Breakdown (%)

UK	97.9
Cash	2.2



Market Cap Breakdown (%)

FTSE 100	67.2
FTSE 250	19.9
Small Cap	10.8
Cash	2.2



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)
Karen McKellar
Mary Ann Sieghart
Sybella Stanley (Senior Independent Director)

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.