

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

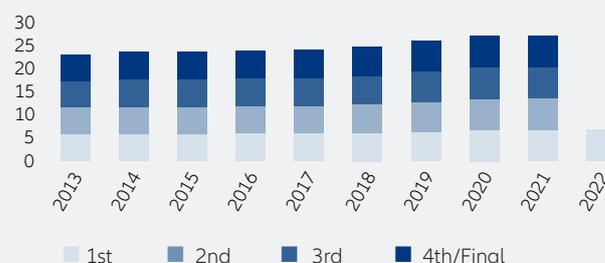
The Merchants Trust PLC was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, but now concentrates primarily on major UK 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 15 years, investing in a diversified portfolio of large, well-established and well-known UK companies. Although past performance is no guide to the future, Merchants has paid increasingly higher dividends to its shareholders year on year for the last 39 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
10.07.2021	20.08.2021	6.80p	1st Quarterly
23.04.2021	18.05.2021	6.80p	Final
05.02.2021	16.03.2021	6.80p	3rd Quarterly
09.10.2020	12.11.2020	6.80p	2nd Quarterly

Past performance is not a reliable indicator of future results.



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

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

The RSMR rating is designed for use by professional advisers and intermediaries as part of their advice process. This rating is not a recommendation to buy. If you need further information or are in doubt then you should consult a professional adviser.

Total Assets £741.7m

Shares in Issue 123,894,887 (Ordinary 25p)

Market Cap £641.8m

Share Price

518.0p

NAV per Share

509.8p

Premium/-Discount

1.6%

Dividend Yield

5.3%

Gearing

14.2%

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

June marked 5 years from the Brexit referendum in the UK, a period which included considerable political uncertainty and the economic and human cost of the coronavirus pandemic. For most of this period inflationary pressures have been modest and interest rates and bond yields have generally been on a downward trajectory. However, we have recently seen inflation pick up and in June the Consumer Price Index moved above the Bank of England's 2% target for the first time since 2018. In the USA, the Federal Reserve brought forward the expectation of its first interest rate rise to 2023 from 2024. Paradoxically, bond yields fell over the month as bond prices moved upwards. The equity market moved broadly sideways over the month with limited volatility.

Within the stock market the best performing large sectors were generally the more defensive industries such as pharmaceuticals, non-life insurance and tobacco, with oil & gas also performing well. The weakest sectors were cyclical industries or those that are sensitive to falling interest rates, including banks, life insurance and housebuilders. Portfolio performance was a little behind the market with recent strong performers giving up some of their gains, including Redrow, Legal & General and Tyman, whilst not owning AstraZeneca also held back returns. On the other hand, relative performance was helped by rising share prices at SThree, on a positive trading update, and St James's Place. There was also a benefit from not owning HSBC which underperformed and held back the market return. The trust recorded a slight negative NAV total return of -1.3% over June, compared to a 0.2% return from the benchmark index.

We added two new companies to the portfolio in June, Tesco and Drax. Tesco, the UK's largest food retailer also has a leading position in online

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food delivery and wholesaling to independent retailers and the catering industry. The business performed resiliently during the pandemic, with rapid growth in online sales in particular, and a sharper pricing policy against the discounters. However, catering supplies and bank profitability were impacted significantly. The company also took a costly but socially responsible decision to repay its UK rates costs which had been waived by the government. The company has been retrenching recently, disposing of its Asian and Polish businesses and returning cash to shareholders. Despite the resilient trading and the sharper business focus, the shares have lagged behind the market and were modestly valued in June. The investment case rests on a revaluation of the shares to reflect the strong underlying cash generation of the business, a recovery in Tesco bank, and the opportunity to gain significant market share in the fragmented catering and wholesale channels over the medium term.

Drax was historically the UK's largest coal fired power station, but has transitioned into a 100% renewable power generator, operating biomass and hydro-electric generation assets, as well as producing wood pellets for biomass energy production. These pellets come from residues in sustainably managed forests in North America, where most of the timber production goes into the construction industry. The company is highly cash generative due to renewable energy subsidies it receives up until 2027, as



Simon Gergel, Portfolio Manager

The Merchants Trust PLC is managed by Simon Gergel who is Chief Investment Officer at AllianzGI and has 32 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.

well as valuable income from hydro-electric power, biomass production and other services for the electricity grid. Uncertainty on the outlook post-2027 has left the shares trading at a modest valuation.

The company is hoping to agree a subsidy regime with the government to allow bio-energy carbon capture and storage (BECCS) which could turn Drax into a major "carbon negative" generator, which could be critical in helping the UK become carbon neutral as a nation. This is a high-profile political project, and if commercially acceptable terms can be agreed, it could represent significant upside for the business and in turn may lead to a major re-rating of the shares. Downside in the shares is limited by ongoing profitability of their hydro generation assets, their pelleting operation and the other stability services they can provide to the electricity network, which provide enough cash to comfortably cover their 4% dividend yield.

Cash for these investments came mostly from shares that had performed well and offered less upside, including trimming holdings in Inchcape, St James's Place and Entain, and selling the remaining position in Kin & Carta for a large profit.

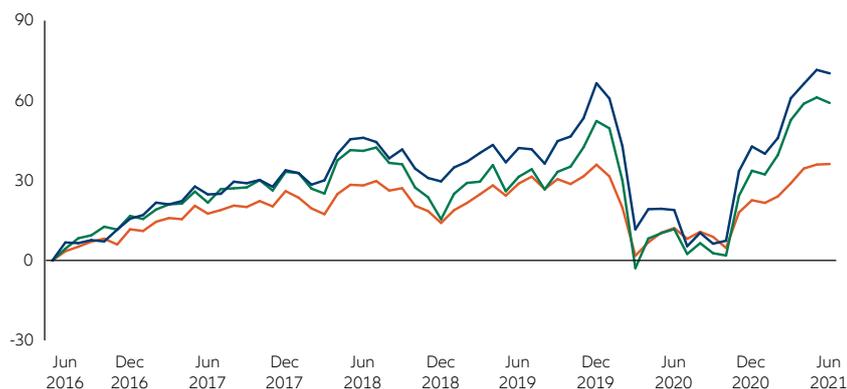
Five years after the Brexit referendum, a long period of uncertainty, followed by the pandemic, has left UK stock market standing out as one of the cheapest of the major markets. This is despite the fact that the majority of profits of UK-listed companies comes from abroad. This can be seen among some of the "mega cap" multinationals in the portfolio, like Shell and GSK, as well as among smaller companies like SThree and Keller. With a high level of polarisation within the market too, there are still many opportunities to buy strong businesses on attractive valuations, paying reasonable dividend yields. We believe that a portfolio of such companies can continue to deliver income and capital returns in line with Merchants' objectives.

Simon Gergel
15 July 2021

This is no recommendation or solicitation to buy or sell any particular security. Any security mentioned above will not necessarily be comprised in the portfolio by the time this document is disclosed or at any other subsequent date.

Performance Track Record

Five Year Performance (%)



■ Share Price ■ NAV (debt at fair value)
 ■ Benchmark: With effect from 1 February 2017 the benchmark changed from the FTSE 100 to the FTSE All-Share Index

Risk & Features

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

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

Derivatives may be used to manage the Trust efficiently.

Cumulative Returns (%)

	3M	6M	1Y	3Y	5Y
Share Price	5.8	19.2	43.1	16.6	70.2
NAV (debt at fair value)	4.1	18.9	42.2	12.6	58.9
Benchmark	5.6	11.1	21.5	6.3	36.2

Discrete 12 Month Returns to 30 June (%)

	2021	2020	2019	2018	2017
Share Price	43.1	-16.4	-2.6	17.0	24.8
NAV (debt at fair value)	42.2	-15.0	-6.9	16.0	21.7
Benchmark	21.5	-13.0	0.6	9.0	17.5

Source: Thomson Reuters DataStream, percentage growth, mid to mid, total return to 30.06.21. Copyright 2021 © 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.

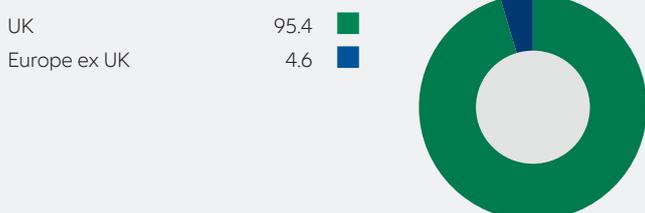
Past performance is not a reliable indicator of future returns. You should not make any assumptions on the future on the basis of performance information. The value of an investment and the income from it can fall as well as rise as a result of market fluctuations and you may not get back the amount 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 (%)

Consumer Goods	22.9	
Financials	20.5	
Industrials	17.7	
Oil & Gas	9.5	
Utilities	8.4	
Consumer Services	7.7	
Health Care	6.6	
Telecommunications	3.4	
Basic Materials	2.3	
Cash	1.0	

Geographic Breakdown* (%)



Top Ten Holdings (%)

GlaxoSmithKline	5.3
Imperial Brands	4.8
British American Tobacco	4.5
BP	3.5
Scottish & Southern Energy	3.4
Vodafone	3.4
National Grid	3.3
WPP	3.3
BAE Systems	3.3
Royal Dutch Shell - B Shares	3.3

Total number of holdings* 48

*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.

*Excludes Cash

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	0.61%
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 (31.01.2021). 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.



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 30.06.21 unless otherwise stated.

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