

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 £569.2m

Shares in Issue 118,769,887 (Ordinary 25p)

Market Cap £460.8m

Share Price

388.0p

NAV per Share

373.9p

Premium/-Discount

3.8%

Dividend Yield

7.0%

Gearing

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.

Fund Manager's Review

The stock market continued to react to the spread of the coronavirus pandemic and the economic implications. Although the spread of the virus through North and South America was a concern, investor attention turned towards the gradual easing of lockdown restrictions in much of Europe and the UK. The stock market was relatively firm in the second half of May, with the FTSE All-Share index ending the month up 3.4%, with single digit gains in most international markets.

Apart from the coronavirus news, the Chinese government announced a new national security law for Hong Kong outlawing acts such as sedition and subversion. This raised fears that it could lead to the end of the one country two system status of Hong Kong that has existed since the British handover in 1997. The Hong Kong stock market fell heavily.

Within the UK, there was quite a wide variation of sector performances, with pressure on the sectors most affected by COVID-19 effects for much of the month, reversing sharply in the last week on hopes around the easing of lockdown restrictions. The best performing sectors included mobile telecommunications, reacting to robust results and a maintained dividend at Vodafone, as well as cyclical sectors like mining and general retail. The worst sectors included banks with HSBC falling by 10% on Hong Kong fears, aerospace & defence, and more defensive sectors like food producers and utilities.

The portfolio lagged behind the market return, but with a strong end to the month as sentiment towards the more depressed and lower valued companies improved. The biggest impact to performance came from Imperial Brands, which reported weaker than expected results and a

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widely anticipated one third cut to the dividend. National Express was also weak as the company carried out a large equity issue and real estate company Landsec also declined as results highlighted continued pressure on asset values, especially in the retail sector. Against this backdrop the Trust's NAV returned 1.9% in May, lagging the 3.4% return of the market.

On the other hand, strong results from Stock Spirits lifted the share price by 30%, whilst Standard Life Aberdeen and BHP Billiton both produced double digit returns. Not owning HSBC also helped relative performance significantly, given the weakness in the share price.

We have had limited exposure to large UK telecommunications companies in the last few years. For most of that period the sector has been a value trap, with attractive looking valuations being repeatedly undermined by deteriorating industry fundamentals. We are starting to see those fundamentals improve. Governments and regulators are keen to encourage investment in fibre networks and they are adjusting regulatory frameworks, companies are sharing infrastructure, such as mobile phone masts, and we are seeing greater consolidation. We have become more positive on the prospects for UK telcos in recent weeks. Share prices fell sharply in the first quarter of 2020 taking valuations to more attractive levels and despite telecommunications revenues being far more resilient than many other sectors to the economic impacts of the coronavirus pandemic. In March we made a new investment in BT and this month we bought Vodafone.



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, 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.

We added another new company to the portfolio, Diversified Gas and Oil (DGOC). We have followed the business for some time and took advantage of its move up to a premium listing in the main stock market index from AIM to make an investment. DGOC owns a large portfolio of gas producing wells, pipelines and associated assets in North America. These are generally mature, but undermanaged assets that have been sold by companies, which are typically focused on drilling new wells for oil.

The UK stock market staged quite a strong recovery from its low point in March, to the end of May, but remained down by over 15% since the beginning of our financial year. We find it hard to call the direction of the equity market in the short term, given the wild swings in investor sentiment we are witnessing in response to news on the pandemic. However, the stock market remains highly polarised. There are many companies that appear fully valued, or expensive, and we do not hold these in the portfolio. But we can still find many other businesses across a variety of sectors that are fundamentally sound, have strong market positions and are trading on attractive valuations. Some of these are economically sensitive businesses where profits are under pressure in the short term and a recovery in earnings will take time to come through, whereas others are more economically defensive and continue to generate robust cash flows and pay significant dividends.

We believe that a portfolio of these companies should deliver attractive returns to investors in line with Merchants' objectives. Whilst dividend income is undoubtedly under pressure in the short term, we would expect most of the companies in the portfolio that have cancelled dividends to resume payments within the next two years, even if some will resume at a lower rate. Also, Merchants has significant revenue reserves, which the board has used previously to smooth dividend payments to shareholders at times when income has been under pressure.

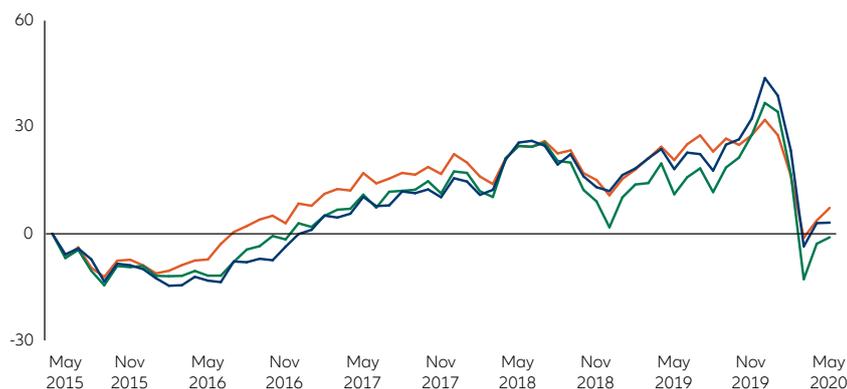
This is an edited version – for the full version, please visit: www.merchantstrust.co.uk/Portfolio-and-Performance

Simon Gergel
17 June 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 (%)



■ 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 | -16.5 | -22.2 | -12.8 | -6.6 | 3.1 |
| NAV (debt at fair value) | -15.2 | -22.6 | -12.5 | -12.4 | -2.8 |
| Benchmark | -7.8 | -16.1 | -11.2 | -8.4 | 7.3 |

Discrete 12 Month Returns to 31 May (%)

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|--------------------------|-------|-------|------|------|-------|
| Share Price | -12.8 | -5.9 | 13.9 | 27.1 | -13.2 |
| NAV (debt at fair value) | -12.5 | -10.9 | 12.4 | 25.9 | -11.8 |
| Benchmark | -11.2 | -3.2 | 6.5 | 26.2 | -7.2 |

Source: Thomson Reuters DataStream, percentage growth, mid to mid, total return to 31.05.20. 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.

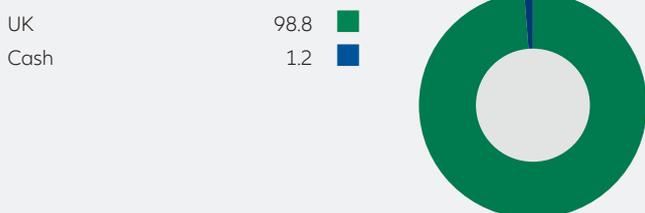
Past performance is not a reliable indicator of future returns. You should not make any assumptions on the future on the basis of performance information. The value of an investment and the income from it can fall as well as rise as a result of market fluctuations and you may not get back the amount 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 | 21.4 | <div style="width: 21.4%;"></div> |
| Consumer Goods | 20.8 | <div style="width: 20.8%;"></div> |
| Industrials | 17.0 | <div style="width: 17.0%;"></div> |
| Consumer Services | 10.3 | <div style="width: 10.3%;"></div> |
| Utilities | 7.4 | <div style="width: 7.4%;"></div> |
| Oil & Gas | 6.8 | <div style="width: 6.8%;"></div> |
| Health Care | 6.0 | <div style="width: 6.0%;"></div> |
| Basic Materials | 5.2 | <div style="width: 5.2%;"></div> |
| Telecommunications | 3.9 | <div style="width: 3.9%;"></div> |
| Cash | 1.2 | <div style="width: 1.2%;"></div> |

Geographic Breakdown (%)



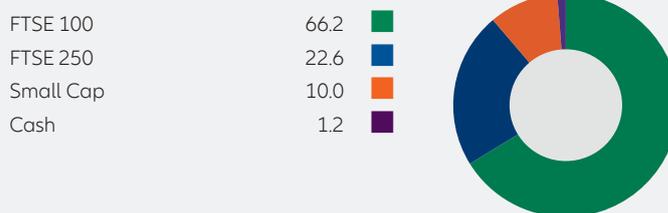
Top Ten Holdings (%)

| | |
|------------------------------|-----|
| GlaxoSmithKline | 5.9 |
| British American Tobacco | 5.5 |
| Imperial Brands | 4.5 |
| BHP Group | 3.7 |
| Royal Dutch Shell - B Shares | 3.3 |
| Barclays | 3.3 |
| IG Group | 3.2 |
| Tate & Lyle | 3.2 |
| BAE Systems | 3.1 |
| St James's Place | 3.0 |

Total number of holdings* 46

*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)
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.



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All data source Allianz Global Investors as at 31.05.20 unless otherwise stated.

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