17 September 2019

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THE MERCHANTS TRUST PLC
Half-Yearly Financial Report
For the six months ended 31 July 2019

Highlights

- Dividends declared for the first six months of 2019/20 are 13.5p per share, up 4.7% on last year.
- Debt refinancing to lower the average interest cost to 3.5%.
- NAV total return* 7.4%, compared with 10.6% on the FTSE All-Share Index.
- Share Price total return 5.1%.
- Ordinary shares yield 5.3% at 485.0p, compared with 4.2% on the FTSE All-Share Index at the close of business on 13 September 2019.

* Debt at market value

Interim management report

In this landmark year after celebrating the 130th anniversary of The Merchants Trust in February, I am proud to be writing to you as I start my tenure as Chairman. First of all I must thank Simon Fraser for his immense contribution to the trust and commitment to shareholders over the past decade. During that time, and including his nine years as Chairman, the trust has successfully navigated various market conditions, economic cycles and political upheavals, and, today, finds itself a leading option for investors within its peer group. On behalf of shareholders and the board I thank Simon for his valued stewardship of The Merchants Trust and wish him well in his future ventures.

Half year results
In the last published Annual Report shareholders received a report of a challenging year for equity markets, particularly in the final months of 2018. Fortunately, in the past six months investor confidence has returned, at least in select areas, and we ended the period in a more positive position. Over the six months to 31 July 2019, the company's net asset value (NAV) total return of 7.4% (with debt at market value), although positive, was adrift of a strong FTSE All-Share Index performance of 10.6%. This was predominantly due to the underperformance of the value oriented UK equity portfolio compared to the wider market. You will find a more in-depth explanation of this, as well as a description of the current polarised nature of the UK stock market, in the Investment Manager's Review below. A performance attribution analysis can also be found below.

Renegotiation of the company's debt
On 3 July 2019, the board announced that a three year revolving credit facility had been entered into which was to be used to repay early the company's borrowings from Fintrust Debenture PLC of £42 million at the beginning of August 2019. The additional cost of redeeming the debentures was £14.4m and this was funded from existing assets. This was part of an eighteen month strategy to restructure the company's debt profile and this refinancing has significantly lowered the company's finance cost. The company's weighted average interest rate on all borrowings has fallen from 8.5% in January 2018 to 6.0% at the half year end and following this latest refinancing exercise it is 3.5%. This has enhanced the company's earnings potential and your board believes it will improve the long-term capital returns for shareholders. The refinancing has also provided more flexibility in the company's borrowings by introducing an element of shorter term debt.

Net earnings and dividends
Earnings in the six months to 31 July 2019 have been strong at 16.1p per ordinary share (2018: 15.6p), an increase of 3.2% over the equivalent period in the previous year.

The board has declared a second quarterly dividend of 6.8p per ordinary share, payable on 12 November 2019 to shareholders on the register at close of business on 4 October 2019. A Dividend Reinvestment Plan

(DRIP) is available for this dividend and the relevant Election Date is 18 October 2019 and the ex-dividend date is 3 October 2019.

Merchants Trust continues to be an AIC 'Dividend Hero', an elite group of investment trust companies that have increased their dividends each year for 20 years or more. The company's dividend has increased for 37 consecutive years and a high and growing yield remains a key objective of the company. The total distribution declared for the first half of 2019/20 is 13.5p, an increase of 4.7% on the same period last year (12.9p). The directors intend to at least maintain the quarterly dividend payments at 6.8p for the rest of the year, leading to a minimum annual dividend of 27.1p, an increase of 4.2%. The company's revenue reserves remain strong, and, as at 31 July 2019 were 28.8p per share (2018 – 26.9p).

Net asset value

As at 31 July 2019, the NAV per ordinary share (with debt at market value) was 493.2p. On a capital basis, the NAV per ordinary share (with debt at market value) increased by 4.6%, underperforming the benchmark return of 8.1%.

The total return reflects both the change in NAV per ordinary share and the ordinary dividends paid. For the six months to 31 July 2019, the total return NAV per ordinary share increased by 7.4%, whilst the FTSE All-Share Index increased by 10.6%.

Material events and transactions

At the company's annual general meeting (AGM), held in May, all resolutions put to shareholders were passed.

The third quarterly dividend of 6.5p per share was paid on 6 March 2019 to shareholders on the register on 1 February 2019. A final dividend of 6.6p per share was paid on 22 May 2019 to shareholders on the register on 22 April 2019. The total paid and declared for the year ended 31 January 2019 was 26.0p.

There were no related party transactions in the period.

Since the period end, the first quarterly dividend for the year ending 31 January 2020 of 6.7p per share was paid on 20 August 2019 to shareholders on the register on 12 July 2019.

Buybacks and share issuances

The board has a policy in place to (i) issue new shares when the company's ordinary shares are trading at a premium to NAV with debt at market value and (ii) buy back shares for holding in treasury to help dampen share price volatility when it is at a sustained discount to NAV. The renewal of this programme was approved by shareholders at the AGM in May this year. During the period under review the company has issued 1,300,000 new shares.

Gearing

The company has gearing in place which is deployed in the market for investment purposes. As mentioned above, this gearing was partially refinanced just after the end of the half-year period under review. Gearing amounted to £111 million, or 19.5% of net assets at 31July 2019. Following the refinancing, gearing primarily comprises long term loan notes maturing in 2052, secured bonds maturing in 2029 and the recent revolving credit facility maturing in 2022.

Gearing had a positive effect of 1.8% on the Net Asset Value, but this was cancelled out by movements in the value of debt, as bond yields fell, and the cost of finance.

Performance attribution analysis against the FTSE All-Share Index	**Capital return %**	**Income return %**	**Total return %**
Return of Index	8.1	2.5	10.6
Relative return of portfolio	-3.4	0.4	-3.0
Return of portfolio	4.7	2.9	7.6
Impact of gearing on portfolio	1.2	0.6	1.8
Movement in market value of debt	-1.2	-	-1.2
Finance costs	-0.4	-0.2	-0.6
Management fee	-0.1	-0.1	-0.2
Administration expenses	-	-0.1	-0.1
Other	0.4	-0.3	0.1
Change in net asset value per ordinary share (debt at market value)	4.6	2.8	7.4

Outlook
Although markets have undoubtedly been stronger over the period than in the final months of 2018, the main issues that were prevalent then are still present now and our managers remain cognisant of the potential ramifications of global trade tensions, Brexit and US interest rate policy in particular. That said, as to be expected when following a value based investment philosophy, uncertainty will often reveal opportunities to invest in companies with sound business models and whose share prices have been caught in a wider sentimental downdraught.

It was noted in the annual report at the start of the year that the UK stock market does not solely reflect the UK economy and we believe that this should be borne in mind when looking forward. Brexit is less of a structural risk for the portfolio than might be expected, given a high exposure to multinational businesses and the benefit of the weakness of sterling on overseas earnings. The fundamentals of much of the UK stock market should remain largely unaffected by Brexit and a fair buffer of pessimism is already priced in. In the near term, our investment manager reports an ongoing polarisation of the UK market due to investors favouring “quality” and “growth” stocks. This is causing a significant distortion of market valuations, and creating opportunities for value investors. The managers expect this polarisation to reverse at some point, although the trigger for that reversal remains uncertain.

Our manager remains focused on uncovering individual stock opportunities with sound business models that should generate attractive long-term total returns for investors. A primary consideration within this selection process remains the overall delivery of a high and rising income as a mainstay of the trust’s objective.

Colin Clark
Chairman
199 Bishopsgate
London EC2M 3TY

17 September 2019

Principal Risks and Uncertainties

The principal risks and uncertainties facing the company, together with the board's controls and mitigation, are broadly unchanged from those described in the annual report for the year ended 31 January 2019 under the headings below:

- Investment and Portfolio Risks
- Business and Strategy Risks
- Operational Risks

The board's approach to mitigating these risks and uncertainties is set out in the explanation with the Risk Map in the annual report. In the board's view these will remain the principal risks and uncertainties for the six months to 31 January 2020.

Responsibility Statements

The directors confirm to the best of their knowledge that:

- The condensed set of financial statements contained within the half-yearly financial report has been prepared in accordance with FRS102 and FRS104, as set out in Note 2, the Accounting Standards Board's Statement 'Half-Yearly Financial Reports'; and
- The interim management report includes a fair review of the information required by Disclosure and Transparency Rule 4.2.7 R of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- The interim management report includes a fair review of the information concerning related parties transactions as required by the Disclosure and Transparency Rule 4.2.8 R.

Colin Clark
Chairman

17 September 2019

Enquiries:

For further information, please contact:

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Investment Manager’s Review

Economic and Market Background

The issues that dominated stock market sentiment at the start of the year: US/China trade tensions, Brexit and US interest rate policy, have remained key issues throughout the period. The US and China seem to be no closer to agreeing an end to their tariff war, with the US threatening further tariffs at the beginning of August. Brexit did not happen on 29 March. The new Prime Minister, Boris Johnson, has vowed to deliver Brexit on 31 October, with or without a deal with the EU, but parliamentary actions still make this event uncertain. However, US interest rate policy has arguably had the biggest impact on financial markets. Initial concerns that interest rate increases might slow the US (and world) economy gradually gave way to an acceptance that US interest rates may need to come down in response to slowing economic growth and heightened trade tensions. The US Federal Reserve cut interest rates on the last day of July and the European Central Bank talked of further stimulus.

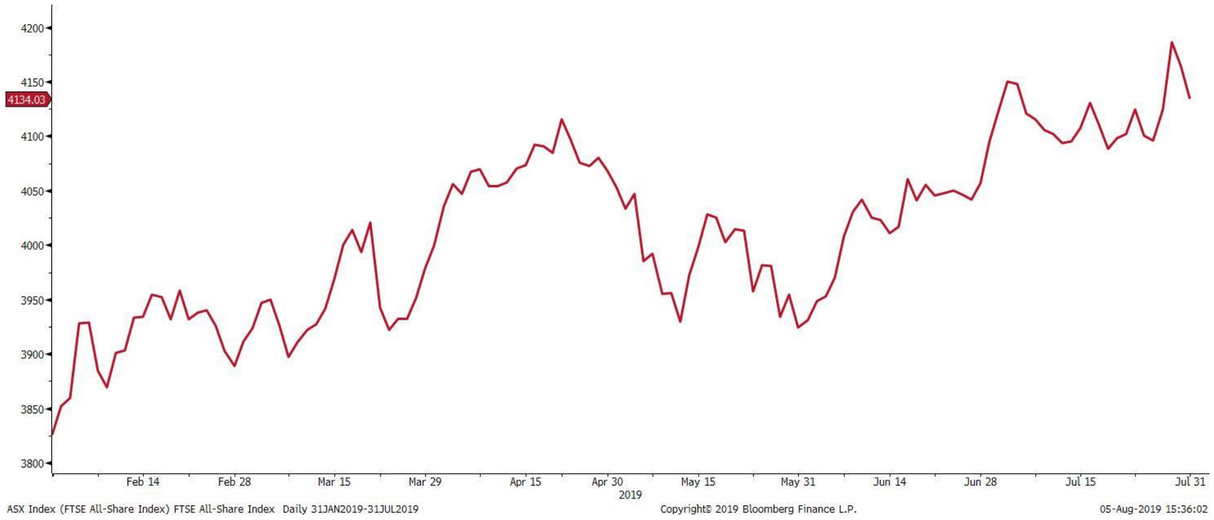
The decline in interest rate expectations drove financial asset prices upwards, as low interest rates force investors to take money out of bonds and cash to place into riskier assets, in order to generate a decent return. In the USA, holders of government bonds can at least still make a positive return, whereas in Germany, by early August, investors in government bonds would have to pay the German government for the pleasure of lending them money, even out to 30 years.

This weight of money lifted most asset classes, and equities were no exception. The UK stock market, as represented by the FTSE All-Share Index gave a total return of 10.6%, with little volatility, recovering all of its losses in the last quarter of 2018. The pound was weak, especially later in the period on rising fears of a “no deal” Brexit. This bolstered the larger companies within the stock market, which tend to earn more money overseas. Large companies performed far better than medium and smaller sized companies.

We highlighted the polarisation of the stock market at the start of the year. This polarisation has become even more extreme. Share prices have been driven by two opposing forces. On the one hand, as discussed above, central bank policy and cheap money is forcing money into the stock market. On the other hand, investors are nervous about the economic risks from trade wars and Brexit. This is leading to a polarisation in the market and strong investor preference for companies that are seen (not always justifiably) as relatively safe and defensive rather than cyclical, domestic and smaller companies. The outperformance of the “high quality” and “growth” companies is fuelling further investor money flows into investment styles that focus on these companies, and exacerbating this trend. Also, outflows from more value orientated strategies and inflows into passive investments, is further supporting the trend.

In this environment, the best performing larger sectors in the stock market included defensive sectors like personal goods, pharmaceuticals, healthcare and beverages, although financial services also performed well. The weakest large sectors included domestically exposed sectors like utilities and fixed line telecommunications which had difficult trading issues, and banks and real estate, which are more cyclically exposed.

FTSE ALL-Share Index



Investment Performance

It was a difficult period for our high yield and value oriented strategy. Although the portfolio produced a good absolute total return of 7.6%, this was some way behind the even stronger 10.6% return on the FTSE All-Share Index. There was a disconnect between trading results of the companies in the portfolio and the weak relative performance of their share prices, compared to the overall stock market. Whilst a few companies did experience trading difficulties, these instances were not unusual in either number or severity, and most companies performed satisfactorily or better. Furthermore, the level of income generation was healthy, which is important for underpinning future dividend payments.

The table shows the ten companies that had the biggest impact on relative performance, both positive and negative. Underperformance was driven by the themes above, with poor performance from a number of domestic and cyclical companies, and an impact from not owning certain defensive shares which rallied. However, there were positive drivers too, with the portfolio benefiting from takeover activity and a strong recovery in several stocks that had underperformed last year.

The biggest positive contributor was Inmarsat, the satellite communications company, which received a takeover offer. The fund management companies Standard Life Aberdeen and Man Group also performed well on the back of stronger financial markets and improving investment performance. Keller bounced back from last year's warning, on reassuring trading results, while CRH and Informa made solid trading progress. Relative performance also benefited from not owning Glencore, Lloyds, BT or British Airways parent - IAG - which were all weak shares and impacted the index return.

On the negative side, two real estate stocks, Hammerson and Landsec, underperformed amid investor nervousness about the outlook for the UK retail property sector in particular. Imperial Brands shares also weakened, despite relatively solid trading results and a 10% interim dividend increase, on investor concerns about future regulation and smoking trends. IG Group, Senior and Tyman suffered from trading disappointments, posting modest share price declines against a rising stock market, whilst Balfour Beatty was impacted by investor sentiment against construction stocks, despite resilient trading results. There was also a significant impact from not owning AstraZeneca, Diageo and Unilever, which performed very well, as "quality growth" companies, even though they were highly valued at the start of the year.

Contribution to Investment Performance relative to the FTSE All-Share Index

	Positive stocks	Performance impact %	Negative stocks	Performance impact %
Overweight (holding larger than index weight)	Inmarsat	0.5	Hammerson	-0.7
	Standard Life Aberdeen	0.4	Imperial Brands	-0.6
	Keller	0.3	IG Group	-0.4
	CRH	0.3	Balfour Beatty	-0.4
	Informa	0.2	Landsec	-0.4
	Man Group	0.2	Senior	-0.4
			Tyman	-0.3
Underweight (zero holding or weight lower than index weight)	Glencore	0.4	AstraZeneca	-0.7
	Lloyds Bank	0.3	Unilever	-0.3
	BT	0.3	Diageo	-0.3
	IAG	0.2		

Portfolio Changes

In a polarised stock market, we identified many opportunities to invest into companies where the share prices did not reflect our view of the intrinsic value of the businesses. These investments were financed by taking money out of other companies, typically where share prices had performed well, and shares were trading closer to fair value, but also in some situations where our view of the investment case had changed.

We added three new companies to the portfolio. All three were in the consumer sector and all three have significant exposure to emerging markets where we see superior long term growth opportunities compared to developed markets. But that is where the similarities end as they are very different companies acting across different continents.

PZ Cussons is a leading manufacturer of soaps and beauty products, with brands such as Carex, Imperial Leather and St Tropez. The company is even older than The Merchants Trust, tracing its history back to 1884. The investment case rests on the long term attractions of a highly profitable UK and European consumer business, strong positions in growing emerging market countries, such as Nigeria and Indonesia, and a reasonable valuation. There is also considerable recovery potential as a third of group sales come from the African division, which is currently loss-making due to weak economic conditions in Nigeria, where PZ Cussons is a market leader.

Inchcape is a leading distributor and retailer in the luxury automotive sectors. Inchcape has long-standing relationships with car manufacturers and operates in over 30 markets, including an exclusive relationship with Toyota, to represent their brands in Hong Kong and Singapore. Inchcape's strategy is to broaden its distribution business further into emerging markets with more brands, consolidating a fragmented global industry. The shares offered good value after a difficult period in the global car industry and did not reflect the improving quality of the business and its growth prospects.

The most recent addition to the portfolio was Stock Spirits, an Eastern European spirits company. It is market leader in the Czech Republic and number two in the much larger Polish market, with smaller operations in Italy and elsewhere. Primarily focused on vodka but with several other complementary brands and distribution arrangements, the company is benefiting from consumers trading up to premium spirits and it has been taking market share in the Polish market against weaker competitors. The shares were modestly valued, with strong cash generation and paying a good dividend yield.

Elsewhere, we added to existing positions in the tobacco sector, where sentiment was depressed and valuations were exceptionally low. Also, we increased holdings in specific opportunities in the media and aerospace & defence sectors. There were two switches on relative valuation grounds, adding to Royal Dutch Shell and Barclays, funded by reducing the BP and HSBC holdings.

We sold three companies completely from the portfolio, Ashmore, Inmarsat and Marks & Spencer. Ashmore, the emerging market fund manager has been a very strong performer over the last three years, benefiting from healthy asset flows, as investor sentiment has improved towards emerging markets, and Ashmore's funds have outperformed. The shares had moved up to a high valuation, reflecting the attractive long term growth prospects for the business, but leaving less upside potential, so we sold the position.

Inmarsat, the satellite communications company, received a takeover bid for the business from private equity bidders, backed by two Canadian pension funds. This was a good example of where the stock market was undervaluing the long term prospects of a market leading business due to short-term trading issues. Whilst there could be further upside in the business in the long term, the bid was priced at a large premium to the preceding price and it was recommended unanimously by the board of directors, and so we decided to vote for the takeover bid and sold the holding.

Marks & Spencer was a case of us changing our view of the investment case. We had owned M&S as a long term restructuring situation, backed by healthy cash flow from a resilient and differentiated food business. However, we sold out of the business when it became clear that the management had a different view of the food business, favouring an expansionary strategy, which could compromise the short-term cash generation of the group. Subsequently, M&S announced its intention to spend up to £750m on a joint venture with Ocado, funded by a £600m rights issue and by cutting the dividend.

As well as these complete sales, we took money out of several shares after strong performance had taken the prices closer to our assessment of fair value, notably BHP, Tate & Lyle, Informa, Greene King and Prudential.

Outlook

As explained above, the stock market is extremely polarised in the UK. Normally, active investors in the stock market arbitrage opportunities, selling highly valued companies to buy cheaper ones. This process keeps the market relatively efficient. However, this process is not working effectively at the moment. As we explained, investment flows are either going into passive strategies that buy the whole market or into "quality" and "growth" strategies which are largely valuation insensitive. Many years ago Benjamin Graham famously described the stock market as a voting machine in the short term but a weighing machine in the long term. Currently investors voting with their money are overpowering the weighing process.

It is reminiscent of the technology, media and telecommunications (TMT) bubble at the end of the 1990s. In that period companies like Vodafone, BT, Dixons, and many others were seen as high growth businesses as they enabled consumers to access the emerging internet. These companies traded on extremely high valuations, whilst much of the rest of the stock market, known as "old economy" stocks languished with few buyers. As the word "bubble" implies, this period ended rather sharply. Inflated expectations could not be met by profits growth, and there was a huge rotation back towards better value companies in the early 2000s. Even a company like Amazon, which was one of the true winners and has grown into a phenomenal business, saw its share price sink by over 90% during the TMT crash. Many other TMT shares collapsed and, even if they survived, never recovered previous levels.

Perhaps the extremes today are not at the same level as in that period, but much of the market is partying like it's 1999. We are not going to chase the most fashionable companies if we cannot make a sensible valuation argument for investing in them. Especially as we can find many fundamentally sound businesses trading on really attractive valuations. To give just one example, we can look at SThree. This company is a leading provider of primarily contract employees in STEM markets, such as life sciences, engineering and IT, to large employers around the world. The company has just reported interim sales (net fees) of £163m, up 12% from a year ago, and operating profits of £25m up 21%, with 86% of its sales outside the challenging UK market. 5 years ago, in the same period in 2014, the company reported sales of £101m and operating profits of £8.4m. So sales are up 60% and profits have trebled in 5 years. The really remarkable thing is that the share price has fallen over that period, from 360p in July 2014 to 281p in July 2019! On consensus forecasts the shares* trade at just over 8x price to earnings, with a dividend yield of 5.6% and no debt on the balance sheet. Recruitment is a cyclical industry, so the valuation would be expected to come down late in the economic cycle. However, with substantial long-term growth opportunities and with most of its business overseas, this valuation looks far too low.

There are several potential triggers that could cause a reversal in the polarisation trend within the stock market. A resolution to trade and Brexit concerns could lead to a more optimistic economic outlook and raise consensus expectations for interest rates. This could quickly reverse sentiment and make investors more willing to look at less defensive, but much cheaper shares. We are also seeing rising interest in some depressed UK stocks from private equity or corporate buyers, who ironically seem to be taking a longer term view than many market participants. Indeed, we have seen a takeover bid for one of the portfolio holdings - Greene King - in August, at a considerable premium to the prevailing share price. If this trend gathers pace, it could also change sentiment. Ultimately, however, it is hard to call the timing on any change. History has shown over a long period of time that buying shares on low valuations tends to deliver outperformance and we believe that this will prove true in the future too. Having said that, careful analysis of business franchises, competitive forces, technological changes and environmental, social and governance risks remains critical to differentiate between cheap companies and "value traps": companies that appear cheap but for good reason.

We have constructed a portfolio of companies, like SThree, listed in the UK but with operations spread across many different industries, both in the UK and internationally. This provides the portfolio with a high level of diversification, whilst also being differentiated from the broad UK stock market. This also introduces an element of foreign currency exposure. Share valuations and income generation have benefited from the recent drop in the value of the pound. Whilst this could reverse, over time, it does provide some protection from domestic economic risks.

In conclusion, we believe that given the fundamental strengths of the businesses in the portfolio and their low valuations, the prospects for capital growth in the medium term are excellent. The portfolio pays a high yield and, in aggregate, is delivering a decent level of dividend growth, supporting Merchants' objective of paying a high and rising dividend yield.

* Source Bloomberg as at 8 August 2019

Simon Gergel, Allianz Global Investors

THE MERCHANTS TRUST PLC

Twenty Largest Equity Holdings as at 31 July 2019

	Value £'000s	% of Total Assets	Principal Activities
Royal Dutch Shell B	43,149	6.34	Oil & Gas Producers
GlaxoSmithKline	40,027	5.89	Pharmaceuticals & Biotechnology
Imperial Brands	29,540	4.33	Tobacco
HSBC Holdings	26,472	3.89	Banks
BAE Systems	25,912	3.81	Aerospace & Defence
British American Tobacco	23,604	3.47	Tobacco
Standard Life Aberdeen	21,368	3.14	Financial Services
Legal & General	20,813	3.06	Life Insurance
Barclays	18,944	2.79	Banks
CRH	18,051	2.65	Construction & Materials
Meggitt	17,987	2.64	Aerospace & Defence
BHP	17,697	2.60	Mining
St James's Place	17,455	2.57	Life Insurance
BP	17,449	2.57	Oil & Gas Producers
Prudential	17,060	2.51	Life Insurance
SSE	16,995	2.50	Electricity
National Express Group	15,199	2.23	Travel & Leisure
Land Securities Group	15,174	2.23	Real Estate Investment Trusts
National Grid	15,151	2.23	Gas, Water & Multiutilities
WPP	14,071	2.07	Media
	432,118	63.52	

Portfolio Analysis as at 31 July 2019

Sector	Value £'000s	%** of listed holdings
Financials	185,661	27.29
Industrials	132,203	19.44
Consumer Goods	85,395	12.55
Consumer Services	75,468	11.09
Oil & Gas	60,598	8.91
Utilities	46,174	6.79
Health Care	40,027	5.88
Basic Materials	30,611	4.50
Net current assets	24,084	3.55
	680,221	100.00

** % of listed holdings include current liabilities

As at 31 July 2019 call options were written over 1.11% of the portfolio (valued at strike price). During the period, income generated from call options amounted to £135,457.

THE MERCHANTS TRUST PLC

Summary of Unaudited Results

INCOME STATEMENT
For the six months ended 31 July 2019

	Revenue £'000s	Capital £'000s	2019 Total Return £'000s
			(Note 1)
Gains on investments at fair value through profit or loss	-	29,429	29,429
Income from investments	19,429	-	19,429
Other income	195	-	195
Investment management fee	(408)	(757)	(1,165)
Administrative expenses	(417)	(1)	(418)
Profit before finance costs and taxation	18,799	28,671	47,470
Finance costs: interest payable and similar charges	(1,164)	(2,122)	(3,286)
Profit on ordinary activities before taxation	17,635	26,549	44,184
Taxation	-	-	-
Profit after taxation attributable to ordinary shareholders	17,635	26,549	44,184
Earnings per ordinary share (Note 4) (basic and diluted)	16.13p	24.29p	40.42p

BALANCE SHEET
As at 31 July 2019

	2019 £'000s
Fixed Assets	
Investments at fair value through profit or loss	656,137
Net current assets	24,084
Total assets less current liabilities	680,221
Creditors: amounts falling due after one year	(110,077)
Total net assets	570,144
Called up share capital	27,507
Share premium account	39,699
Capital redemption reserve	293
Capital reserve	470,945
Revenue reserve	31,700
Equity shareholders' funds	570,144
Net asset value per ordinary share	518.2p

The net asset value is based on 110,028,464 ordinary shares in issue at 31 July 2019.

INCOME STATEMENT
For the six months ended 31 July 2018

	Revenue £'000s	Capital £'000s	2018 Total Return £'000s
			(Note 1)
Gains on investments at fair value through profit or loss	-	25,533	25,533
Income from investments	18,573	-	18,573
Other income	425	-	425
Investment management fee	(433)	(805)	(1,238)
Administrative expenses	(429)	(1)	(430)
Profit before finance costs and taxation	18,136	24,727	42,863
Finance costs: interest payable and similar charges	(1,168)	(2,130)	(3,298)
Profit on ordinary activities before taxation	16,968	22,597	39,565
Taxation	-	-	-
Profit after taxation attributable to ordinary shareholders	16,968	22,597	39,565
Earnings per ordinary share (Note 4) (basic and diluted)	15.61p	20.78p	36.39p

BALANCE SHEET
As at 31 July 2018

	2018 £'000s
Fixed Assets	
Investments at fair value through profit or loss	709,381
Net current assets	20,398
Total assets less current liabilities	729,779
Creditors: amounts falling due after one year	(110,327)
Total net assets	619,452
Called up share capital	27,182
Share premium account	33,718
Capital redemption reserve	293
Capital reserve	529,023
Revenue reserve	29,236
Equity shareholders' funds	619,452
Net asset value per ordinary share	569.7p

The net asset value is based on 108,728,464 ordinary shares in issue at 31 July 2018.

BALANCE SHEET As at 31 January 2019	**2019** **£'000s**
Fixed Assets	
Investments at fair value through profit or loss	622,073
Net current assets	22,059
Total assets less current liabilities	644,132
Creditors: amounts falling due after one year	(110,205)
Total net assets	533,927
Called up share capital	27,182
Share premium account	33,718
Capital redemption reserve	293
Capital reserve	444,396
Revenue reserve	28,338
Equity shareholders' funds	533,927
Net asset value per ordinary share	491.1p

The net asset value is based on 108,728,464 ordinary shares in issue at 31 January 2019.

THE MERCHANTS TRUST PLC

STATEMENT OF CHANGES IN EQUITY

	Called Up Share Capital £'000s	Share Premium Account £'000s	Capital Redemption Reserve £'000s	Capital Reserve £'000s	Revenue Reserve £'000s	Total £'000s
Six months ended 31 July 2019						
Net assets at 1 February 2019	27,182	33,718	293	444,396	28,338	533,927
Revenue profit	-	-	-	-	17,635	17,635
Dividends on ordinary shares (Note 3)	-	-	-	-	(14,273)	(14,273)
Capital profit	-	-	-	26,549	-	26,549
Shares issued during the period	325	5,981	-	-	-	6,306
Net assets at 31 July 2019	27,507	39,699	293	470,945	31,700	570,144
Six months ended 31 July 2018						
Net assets at 1 February 2018	27,182	33,718	293	506,426	25,859	593,478
Revenue profit	-	-	-	-	16,968	16,968
Dividends on ordinary shares (Note 3)	-	-	-	-	(13,591)	(13,591)
Capital profit	-	-	-	22,597	-	22,597
Net assets at 31 July 2018	27,182	33,718	293	529,023	29,236	619,452

THE MERCHANTS TRUST PLC

CASH FLOW STATEMENT
for the six months ended 31 July 2019 and comparative periods

	Six Months ended 31 July 2019 £'000s	Six Months ended 31 July 2018 £'000s
Operating activities		
Profit before finance costs and taxation	47,470	42,863
Less: Gains on investments at fair value	(29,429)	(25,533)
Purchase of fixed asset investments held at fair value through profit or loss	(81,967)	(124,680)
Sales of fixed asset investments held at fair value through profit or loss	79,035	128,031
Increase in other receivables	(1,600)	(2,010)
(Decrease) Increase in other payables	(26)	733
Net cash inflow from operating activities	**13,483**	**19,404**
Financing activities		
Interest paid	(3,394)	(3,372)
Dividends paid on cumulative preference stock	(21)	(22)
Dividends paid on ordinary shares	(14,273)	(13,591)
Proceeds from issue of ordinary shares	6,306	-
Net cash outflow from financing activities	**(11,382)**	**(16,985)**
Increase in cash and cash equivalents	**2,101**	**2,419**
Cash and cash equivalents at the start of the period	22,952	20,096
Cash and cash equivalents at the end of the period	25,053	22,515
Comprising:		
Cash at bank	25,053	22,515

Note 1 – Financial Statements

The half-yearly financial report has been neither audited nor reviewed by the company's auditors. The financial information for the year ended 31 January 2019 has been extracted from the statutory financial statements for that year which have been delivered to the Registrar of Companies. The auditors' report on those financial statements was unqualified and did not contain a statement under section 498 of the Companies Act 2006.

The total return column of the Income Statement is the profit and loss account of the company.

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

Allianz Global Investors GmbH, UK Branch (AllianzGI), acts as Investment Manager to the company. Details of the services and fee arrangements are given in the latest annual report of the company, which is available on the company's website at www.merchantstrust.co.uk.

Note 2 – Accounting Policies

The Company presents its results and positions under 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102), which forms part of revised Generally Accepted Accounting Practice (New UK GAAP) issued by the Financial Reporting Council.

The condensed set of financial statements has been prepared on a going concern basis in accordance with FRS 102 and FRS 104, 'Interim Financial Reporting' and the Statement of Recommended Practice – 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (SORP). They have also been prepared on the assumption that approval as an investment trust will continue to be granted.

The interim financial statements and the net asset value per share figures have been prepared in accordance with FRS 102 using the same accounting policies as the preceding annual accounts.

Note 3 – Dividends on Ordinary Shares

Dividends paid on ordinary shares in respect of earnings for each period are as follows:

	Six months ended 31 July 2019 £'000s	**Six months ended 31 July 2018 £'000s**
Third quarterly dividend 6.5p paid 6 March 2019 (2018: 6.2p)	7,067	6,741
Final dividend 6.6p paid 22 May 2019 (2018: 6.3p)	7,206	6,850
	14,273	13,591

In accordance with FRS 102 section 32 'Events After the End of the Reporting Period', dividends payable at the period end have not been recognised as a liability. Details of these dividends are set out below.

	Six months ended 31 July 2019 £'000s	Six months ended 31 July 2018 £'000s
First quarterly dividend 6.7p paid 20 August 2019 (2018: 6.4p)	7,372	6,959
Second quarterly dividend 6.8p payable 12 November 2019 (2018: 6.5p)	7,482	7,067
	14,854	14,026

The final and quarterly dividends above are based on the number of shares in issue at the period end. However, the dividend payable will be based upon the number of shares in issue on the record date and will reflect any purchase or cancellation of shares by the company settled subsequent to the period end.

Note 4 – Earnings per Ordinary Share

The earnings per ordinary share is based on a weighted number of shares 109,323,492 (31 July 2018 - 108,728,464) ordinary shares in issue.

Note 5 - Fair Value Hierarchy

Investments and derivative financial instruments are designated as held at fair value through profit or loss in accordance with FRS 102 sections 11 and 12.

FRS 102 as amended for fair value hierarchy disclosures (March 2016) sets out three fair value levels.

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e., developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e., for which market data is unavailable) for the asset or liability.

With the exception of those financial liabilities measured at amortised cost, all other financial assets and financial liabilities are either carried at their fair value or the balance sheet amount is a reasonable approximation of their fair value.

As at 31 July 2019, the financial assets at fair value through profit and loss of £656,050,000 (31 July 2018: £709,358,000; 31 January 2019: £622,063,000) are categorised as follows:

	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Financial assets at fair value through profit or loss at 31 July 2019				
Equity investments	656,133	-	-	656,133
Financial instruments	-	-	4	4
Derivative financial instruments - written call options	-	(87)	-	(87)
	656,133	(87)	4	656,050
Financial assets at fair value through profit or loss at 31 July 2018				
Equity investments	709,353	-	-	709,353
Financial instruments	-	-	28	28
Derivative financial instruments - written call options	-	(23)	-	(23)
	709,353	(23)	28	709,358
Financial assets at fair value through profit or loss at 31 January 2019				
Equity investments	622,069	-	-	622,069
Financial instruments	-	-	4	4
Derivative financial instruments - written call options	-	(10)	-	(10)
	622,069	(10)	4	622,063

For exchange listed equity investments the quoted price is either the bid price or the last traded price depending on the convention of the relevant exchange. For written options the value of the option is marked to market based on traded prices. Financial instruments valued using valuation techniques level 3 have, in the absence of relevant trading prices or market data, been valued based on the directors' best estimate.

Note 6 – Status of the Company

The company applied for and was accepted as an approved investment trust for accounting periods commencing on or after 1 February 2013, subject to it continuing to meet eligibility conditions at section 1158 Corporation Taxes Act 2010 and the on-going requirements for approved companies in Chapter 3 Part 2 Investment Trust (Approved Company) (Tax) Regulations 2011 (Statutory Instrument 2011/2999).

Note 7 – Transactions with the Investment Manager and related parties

As disclosed in the annual report, the existence of an independent board of directors demonstrates that the company is free to pursue its own financial and operating policies and therefore, under FRS8: Related Party Disclosures, the investment manager is not considered to be a related party. The company's related parties are its directors.

There are no other identifiable related parties as at 31 July 2019, 31 July 2018 and 31 January 2019.

The half-yearly financial report will be sent to shareholders in mid September 2019 and will be available to members of the public from the company's registered office at 199 Bishopsgate, London EC2M 3TY.

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