

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 |
|-------------|------------|----------|---------------|
| 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 £576.1m

Shares in Issue 118,894,887 (Ordinary 25p)

Market Cap £459.5m

Share Price

386.5p

NAV per Share

379.1p

Premium/-Discount

1.9%

Dividend Yield

7.0%

Gearing

18.5%

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

Last month saw the sharpest ever reported contraction in the British economy, with a 20% fall in monthly gross domestic product (GDP) recorded for April, due to the government's lockdown measures to control the coronavirus pandemic. However, investor attention seemed more focused on the gradual lifting of restrictions on most retailers in June and air travel, restaurants and pubs from July. There were positive developments in the UK and across much of Europe as the rate of reported Covid-19 infections and deaths declined significantly over the month. However, the trend was more concerning in the USA, where contagion was accelerating in certain large states, such as California and Florida.

Stock markets were supported by optimism over easing lockdown restrictions, low interest rates and government stimulus packages, recording a small positive return for the month. This took the UK market's total return for the quarter to over 10%, one of the strongest returns in the last decade, whilst the US stock market and European indices returned high teens percentage gains or better.

The volatility and divergence within the UK market was not as extreme as in the last few months, but there were still some notable sector moves. The strongest sectors included life insurance, utilities and mining, whilst the weakest included healthcare equipment, travel & leisure and beverages.

Portfolio performance was marginally behind the FTSE All-Share benchmark in June. The NAV returned 1.4%, also marginally behind the 1.5% return of the benchmark. Strong performers included double digit share price total returns at recruitment company SThree, which reported

“ UK “value” shares offer an extraordinary valuation opportunity compared to broader equity markets

more resilient demand than expected for temporary workers in specialist STEM areas, SSE which met market expectations for its final dividend, and Legal & General which was supported by rising markets. On the other hand, Landsec was weak on general concerns about the real estate market, especially retail property. Man Group pulled back in response to weak performance in some of their investment funds. Also, Redrow shares fell back at the end of the month as a trading update included a write-down of assets in London, as the company scales down its homebuilding operations in the capital.

We made a modest new investment into retailer Next Plc. Next has migrated the business successfully from predominantly shop and catalogue based retailing towards online, whilst broadening the product range and earning consistently high returns and strong cash flows. Whilst current trading is under huge pressure from the lockdown and social distancing, Next has reacted in its characteristically decisive way to protect its financial position and reposition for the future. Although the business cancelled its recent dividend, we would expect Next's historically strong cash flow to recover, in the medium term, and for ordinary and possibly special dividends to resume.

We also added to National Grid and SSE, two large UK utilities which reaffirmed their attractive dividend policies in June. Both companies are investing significant amounts into their growing infrastructure businesses, and exploiting rising demand for renewable power generation, whilst they are well placed to benefit from any “green recovery” investment plans backed by the government. Although both are exposed to an element



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.

of regulatory risk, regulators also need to help facilitate a transition to cleaner energy, which requires substantial investment over very long time scales.

These investments were financed primarily from taking profits on shares that had outperformed in recent months and offered lower upside potential, such as the building materials and construction firms CRH and Balfour Beatty, and gambling company GVC. We also reduced holdings in the banks sector to reinvest into Next where we have higher conviction.

Investment markets are being heavily influenced by cheap money and stimulus from central banks. These money flows are also influencing share prices, with more dependable, higher quality or growth stocks finding particular favour. A small group of very large US technology stocks, which are relatively resilient to the impact of the Covid-19 pandemic, have driven the technology heavy Nasdaq index to record highs, despite the continuing health and economic problems in that country. In the UK we have also seen certain company share prices appreciate to high valuations, which we find hard to justify in many cases. However, the picture is not uniform. According to Morgan Stanley, the valuation gap between UK “value” and “growth” companies is the widest in 45 years, whilst the UK market is as lowly valued compared to the world index as it has been over that entire period. By implication, therefore, UK “value” shares offer an extraordinary valuation opportunity compared to broader equity markets.

Anecdotally we see this dispersion of opportunities when we look at individual companies. There are many fundamentally sound businesses, trading on really attractive valuations, which we believe are likely to be re-rated as the economy recovers from its period of forced shut-down. Whilst we are maintaining a balance in the investment portfolio, with a combination of more cyclical and more defensive businesses, the average valuation of the companies owned by Merchants is significantly below the average for the broader UK market.

Simon Gergel
15 July 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 | 6.5 | -28.6 | -16.4 | -4.7 | 9.0 |
| NAV (debt at fair value) | 15.1 | -26.7 | -15.0 | -8.2 | 5.8 |
| Benchmark | 10.2 | -17.5 | -13.0 | -4.6 | 16.4 |

Discrete 12 Month Returns to 30 June (%)

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|--------------------------|-------|------|------|------|------|
| Share Price | -16.4 | -2.6 | 17.0 | 24.8 | -8.3 |
| NAV (debt at fair value) | -15.0 | -6.9 | 16.0 | 21.7 | -5.3 |
| Benchmark | -13.0 | 0.6 | 9.0 | 17.5 | 3.8 |

Source: Thomson Reuters DataStream, percentage growth, mid to mid, total return to 30.06.20. 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.

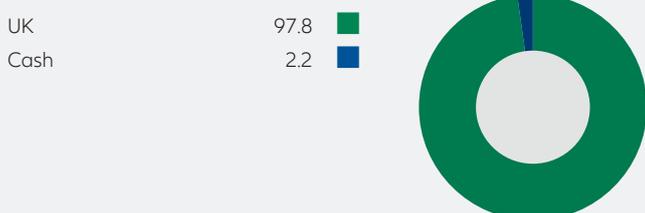
Past performance is not a reliable indicator of future returns. You should not make any assumptions on the future on the basis of performance information. The value of an investment and the income from it can fall as well as rise as a result of market fluctuations and you may not get back the amount 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 | 21.0 | |
| Consumer Goods | 20.4 | |
| Industrials | 17.4 | |
| Utilities | 9.0 | |
| Consumer Services | 8.4 | |
| Oil & Gas | 6.7 | |
| Health Care | 5.8 | |
| Basic Materials | 5.4 | |
| Telecommunications | 3.7 | |
| Cash | 2.2 | |

Geographic Breakdown (%)



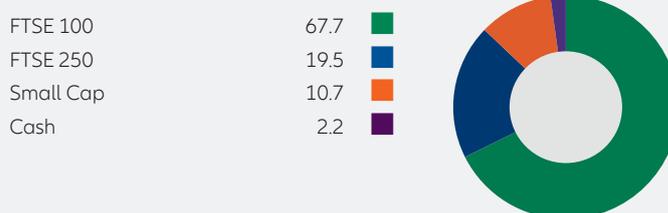
Top Ten Holdings (%)

| | |
|------------------------------|-----|
| GlaxoSmithKline | 5.7 |
| British American Tobacco | 5.3 |
| Imperial Brands | 4.7 |
| BHP Group | 3.8 |
| National Grid | 3.7 |
| Scottish & Southern Energy | 3.7 |
| IG Group | 3.4 |
| Royal Dutch Shell - B Shares | 3.3 |
| Tate & Lyle | 3.1 |
| St James's Place | 3.1 |

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.

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.



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 30.06.20 unless otherwise stated.

This is a marketing communication issued by Allianz Global Investors GmbH, an investment company with limited liability, incorporated in Germany, with its registered office at Bockenheimer Landstrasse 42-44, D-60323 Frankfurt/M, registered with the local court Frankfurt/M under HRB 9340, authorised by Bundesanstalt für Finanzdienstleistungsaufsicht (www.bafin.de). Allianz Global Investors GmbH has established a branch in the United Kingdom, Allianz Global Investors GmbH, UK branch, which is subject to limited regulation by the Financial Conduct Authority (www.fca.org.uk). This communication has not been prepared in accordance with legal requirements designed to ensure the impartiality of investment (strategy) recommendations and is not subject to any prohibition on dealing before publication of such recommendations. 814721