

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 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
09.10.2020	12.11.2020	6.80p	2nd Quarterly
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

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 £654.2m

Shares in Issue 120,984,887 (Ordinary 25p)

Market Cap £540.8m

Share Price

447.0p

NAV per Share

443.1p

Premium/-Discount

0.9%

Dividend Yield

6.1%

Gearing

15.1%

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 coronavirus pandemic dominated news flow for financial markets, as it had done for much of 2020. Early in the month, the UK became the first country to approve the Pfizer / BioNTech vaccine and the first Western country to begin vaccinating people. This provided a further sentiment boost to stock markets, following news of successful trial results in November. However, rising infection rates in the UK and the discovery of a new, more contagious strain of the virus, led to increasing restrictions on activity and a very subdued festive season. This provided a reminder of the very real health and economic costs of the pandemic.

The other major event in the UK, was the signing of a Brexit trade and cooperation agreement with the EU after many months of difficult negotiations. Investors generally welcomed the deal, which allows for tariff and quota free trade in goods between the UK and EU, and also covers many other areas, including security, transport, telecommunications and energy. There had been fears, right up until the final few days, that the UK would exit the transition period at the end of December, without an agreement.

Stock markets rose in December, supported by the Brexit deal, which particularly lifted medium and smaller companies that are more exposed to the domestic economy. The FTSE All-Share Index gave a total return of 3.9%. Sector performance was mixed, with the more cyclical and domestically exposed companies tending to outperform. The strongest performing sectors included electricity, fixed line telecommunications, mining and life insurance, whilst the weakest included pharmaceuticals, personal goods, beverages and banks. For the full calendar year, the UK stock market produced a negative total return of approximately 10%, although this marked a significant recovery from the low point in March.

“ This should make UK equities, which have been relatively cheap for some time, more attractive to global investors

The portfolio return was well ahead of the benchmark and drove a 7.5% return in the Trust's NAV over the month, compared with the 3.9% from the index. Several companies' shares produced double digit total returns, including Meggitt, Imperial Brands and Kin & Carta. The latter rose by over 30%, as it announced further corporate deals, building up its digital transformation business. But the biggest relative performance contributions came from not owning AstraZeneca and Unilever, which both gave small negative returns, holding back the index. The largest negative contributions came from BAE Systems, which fell back slightly, and from not owning Rio Tinto and Prudential, which both rose by over 10%.

We added one new company to the portfolio, Conduit Holdings. This is a new reinsurance company, established in Bermuda and listed in the UK. It has been set up to take advantage of a cyclical upturn in insurance pricing. This follows three years of large losses in the insurance industry, which has led to capacity constraints among insurers and sharply rising insurance rates. Conduit is led by an experienced team, that have managed several start up and more established insurance and reinsurance companies. We took part in the initial public offering of the company, investing at asset value.



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.

We sold the remaining holding in National Express, after the recent rally in the share price, as explained last month. We also reduced the position in shopping centre owner Hammerson. This has been one of our worst investments in recent years, as the Covid-19 pandemic has exacerbated structural pressure that were already evident in the retail industry. Temporary centre closures have led to an acceleration in retail tenant failures and further rental declines. We supported the company's rights issue in the summer, which we saw as a necessary step towards restoring financial security to allow the company time to reposition the business and realise its substantial asset value. The shares have subsequently rallied, and whilst there remains significant potential upside, there are also many risks and cash dividends are likely to be constrained for some time.

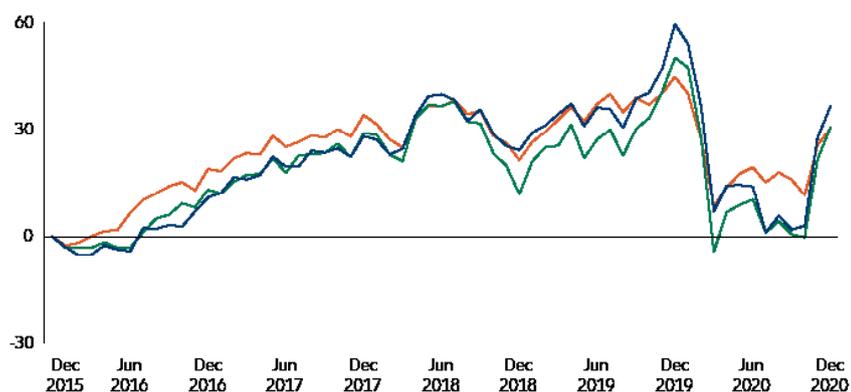
As we move into 2021, most of the uncertainty over Brexit and the UK's future trading arrangements with the EU has finally been removed. This should make UK equities, which have been relatively cheap for some time, more attractive to global investors, even though many UK listed companies are multi-national businesses that are not that dependent upon the UK economy. The vaccine rollout at home and abroad should also lead to a greater investor focus on economic recovery from the pandemic, although the short-term outlook remains highly uncertain. Despite a recovery in "value" oriented shares in recent months, the stock market remains polarised and we still see many attractive investment opportunities. Merchants owns a portfolio of strong businesses trading on reasonable or low valuations, with supportive structural or cyclical thematic drivers. We believe this portfolio has the potential to deliver a level of income and total returns commensurate with Merchants' objectives.

Simon Gergel
18 January 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	34.3	20.1	-14.3	6.7	36.9
NAV (debt at fair value)	30.1	19.6	-12.3	0.3	29.6
Benchmark	12.6	9.3	-9.8	-2.7	30.7

Discrete 12 Month Returns to 31 December (%)

	2020	2019	2018	2017	2016
Share Price	-14.3	28.4	-3.1	15.7	10.9
NAV (debt at fair value)	-12.3	32.0	-13.4	14.2	13.2
Benchmark	-9.8	19.2	-9.5	12.8	19.1

Source: Thomson Reuters DataStream, percentage growth, mid to mid, total return to 31.12.20. 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.

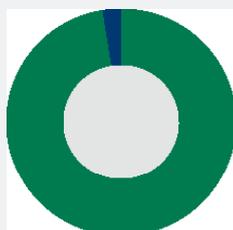
Portfolio Breakdown

Sector Breakdown (%)

Consumer Goods	23.0	
Financials	20.8	
Industrials	16.9	
Oil & Gas	8.0	
Utilities	7.0	
Consumer Services	6.8	
Health Care	5.7	
Telecommunications	4.4	
Basic Materials	3.3	
Technology	1.6	
Cash	2.5	

Geographic Breakdown (%)

UK	97.5	
Cash	2.5	



Top Ten Holdings (%)

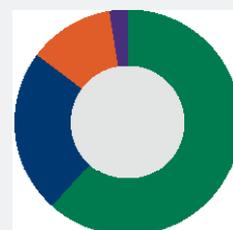
GlaxoSmithKline	5.6
Imperial Brands	5.0
British American Tobacco	4.5
Scottish & Southern Energy	3.9
Barclays	3.9
Royal Dutch Shell - B Shares	3.6
BAE Systems	3.5
BP	3.2
IG Group	3.2
WPP	3.1

Total number of holdings* 44

*Excludes derivatives

Market Cap Breakdown (%)

FTSE 100	61.8	
FTSE 250	23.6	
Small Cap	12.2	
Cash	2.5	



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 31.12.20 unless otherwise stated.

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