Allianz Global Investors

The Merchants Trust PLC

Annual Report, 31 January 2024

Why invest in The Merchants Trust?

Merchants aims to give shareholders a single investment that will provide a high level of income and income growth together with long term capital growth.

High income returns from a high quality portfolio

Merchants aims to provide an above average level of income and income growth together with long-term growth of capital. The trust invests mainly in higher-yielding large UK equities.

Stability with income growth

Merchants has paid increasingly higher dividends to its shareholders year-on-year for the last 42 years – from 2.1p per share in 1982 to 28.4p proposed in 2024.

Spread the risk with diversification

Merchants invests in companies across a number of sectors and markets, many with income derived internationally. This year 3.4% of the portfolio has been in international stocks.

Cost-effective

Merchants provides a cost-effective way to access an active and expertly managed portfolio.

Reliability with longevity

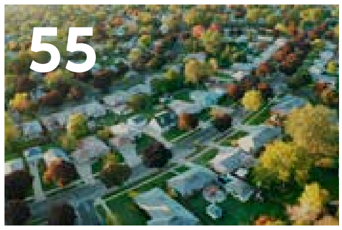
Merchants has been providing active investment management since 1889. The trust can draw on reserves to help smooth dividend payments during difficult economic conditions.

Liquidity and gearing

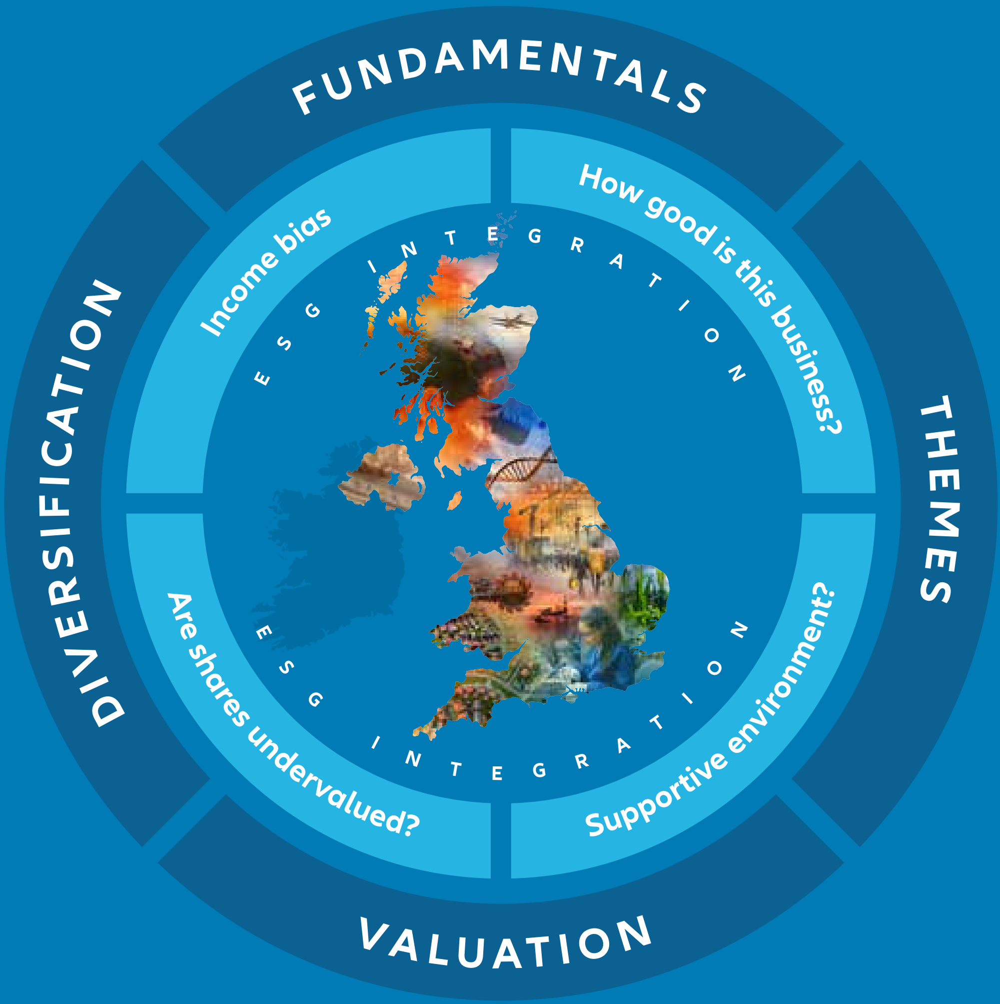
With a market capitalisation of £805m and new issuances, Merchants provides good liquidity to investors. Merchants is also able to employ gearing which can enhance returns.

* At 31 January 2024. See Glossary on page 129.

Contents



The Merchants Method



Merchants' income bias is supported by historical evidence that shows high dividend-yielding portfolios can generate above-average total returns in the long term.

The investment manager's global investment team provides in-depth analysis of mainly large UK companies with an above-average yield that also have strong balance sheets, sustainable cashflows, and favourable fundamentals – a company's products, prospects and competitors – alongside key ESG factors.

We focus on those that are undervalued in terms of cash generation capability. Careful consideration of economic, technological, demographic or sector-specific themes, helps build conviction.

The Merchants portfolio typically consists of 40 to 60 such companies, and is continually reviewed and adjusted in the context of fair valuation.

Merchants thereby aims to provide a diversified income stream and long-term capital growth through attractively-priced exposure to a range of sectors and markets.

You can read more about the Merchants investment philosophy and process on pages 40 to 42.

The Merchants portfolio is analysed in the Investment Manager's Review starting on page 17.

You'll find more information on Merchant's current and historical dvidend payments on pages 5, 6, 14 and 15.

Overview

We re-introduced Inchcape, the world's largest independent car distribution company, to the portfolio during the year. We had sold out of the company on valuation grounds in 2021. Since then, the company has grown rapidly via acquisition, with almost half group profits now coming from Latin America.

PHOTO © JAGUAR

Financial Highlights

For the year ended 31 January 2024

Aena, a Spanish-listed airports operator, was another new addition to the portfolio. The company owns 46 airports in Spain but also has concessions at many other airports around the world, most notably in Brazil, Central America and at Luton in the UK.

PHOTO © AENA

Dividend yield *

5.2%

2023 **4.7%**

Dividend growth

+2.9%

2024 **28.4p**
2023 **27.6p**

Revenue earnings per ordinary share

+6.3%

2024 **30.5p**
2023 **28.7p**

Net Asset Value Total Return *#

-3.1%

2023 **+7.6%**

Share Price Total Return *

-3.4%

2023 **+7.9%**

Benchmark Total Return *~

+1.9%

2023 **+5.2%**

Net Asset Value per ordinary share *#

538.6p

-7.9%

Share price

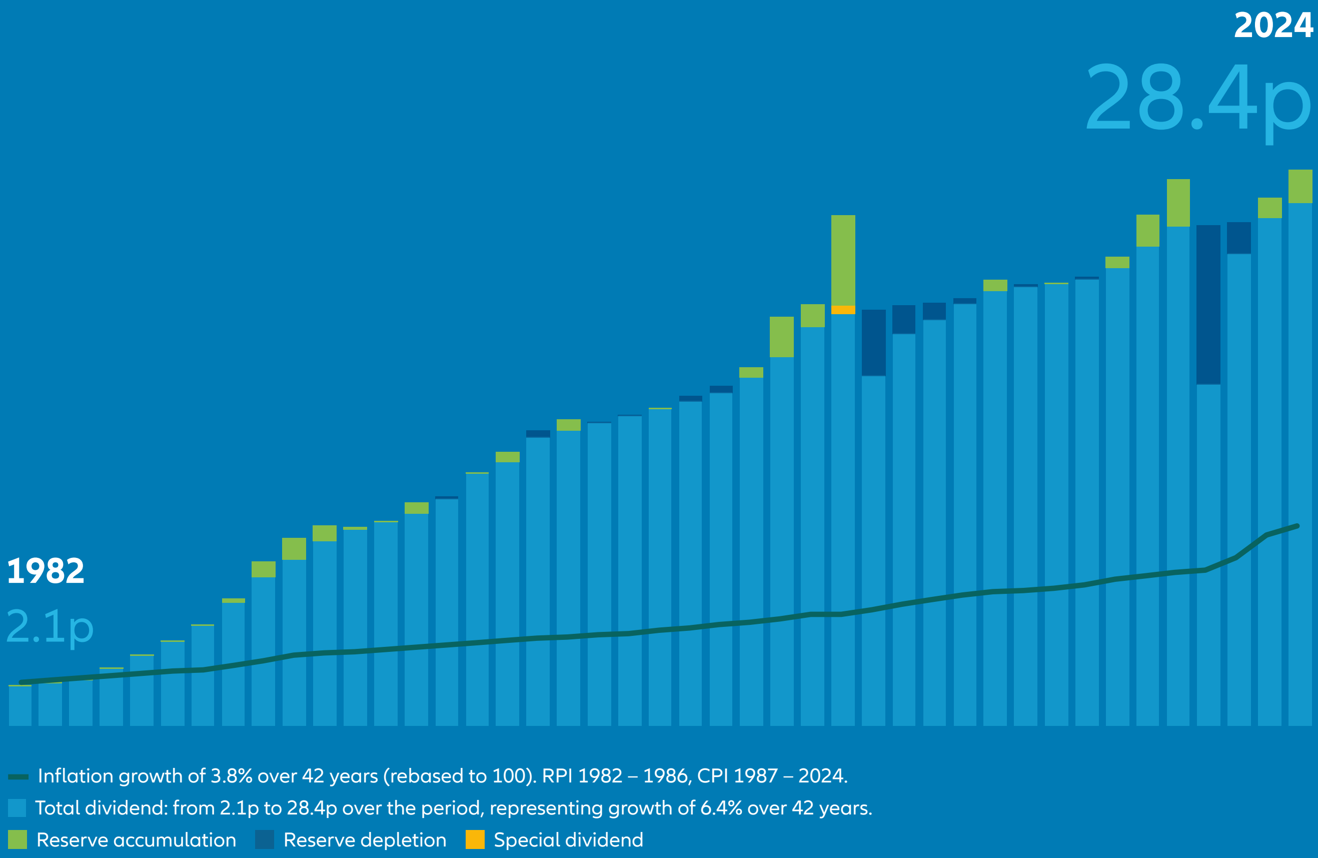
543.0p

-8.1%

* Alternative Performance Measure (APM). APMs are the board's preferred measures for the most meaningful information for shareholders. Total return figures include dividends paid at 31 January.
\# Debt at market value.
~ Benchmark is the FTSE All-Share Index.
See Glossary on page 129.

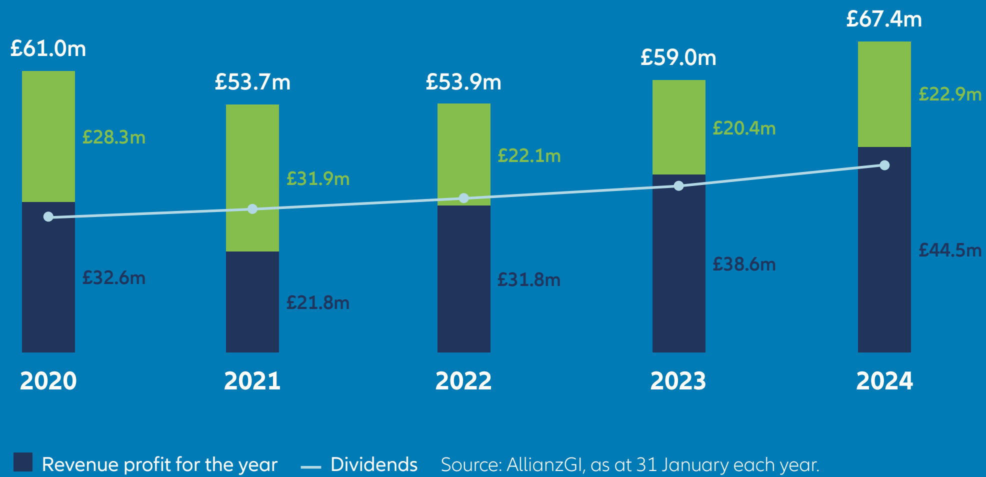
42 years of dividend growth

Merchants has grown its dividend for 42 years at an annualised growth rate above inflation.



Dividend Capacity

Dividends can be funded from revenue profits in the year and from brought forward reserves.



Source: AllianzGI, as at 31 January each year.

Chairman's Statement

Colin Clark

Dear Shareholder

The Merchants Trust was established in 1889, so in 2024 we mark the one hundred and thirty fifth anniversary. We are all proud to be involved with a company that has not just endured for such a long time, but remains relevant to shareholders today. Merchants is one of the oldest listed investment trusts. Our name, as with some of our eldest peers, hints at our history and origins and Merchants was originally incorporated to invest in railroad assets in the burgeoning North American market. One of the most important factors in Merchants success over such an extended period of time has been its adaptability and its continued focus on the needs of investors and an ability to navigate investment markets to continue to deliver attractive investment returns.

Merchants shareholders have witnessed both World Wars, many smaller scale conflicts, and significant geopolitical and economic shifts in the world. During the past 42 years, including the proposal this year, I am proud to report that the company has managed to provide a rising dividend every year.

Whilst investing is never 'easy', the financial year to the end of January 2024 was especially challenging. Some days heralded recovery and others felt like economies and markets were falling badly backwards. The newsworthy events of 2023 could justify an article in their own right and included (overseas) bank failures, equal measures of utopian and dystopian views of a future shaped by AI, war and conflict (sadly now more than one major ongoing conflict) and natural disasters. Geopolitics often felt 'on the brink', but we seem at least to have stayed just the right side of the line for now, to avoid wider global involvement. Some events affect markets more than others and Merchants' lead portfolio manager, Simon Gergel, reflects on the noteworthy events from a financial markets perspective in his Portfolio Manager's Report starting on page 18.

The market backdrop was generally one of concern over inflation and how central banks would use interest rates to control it, but at the same time maintain growth. Bond markets reflected the volatility of investor's expectations and risk appetite oscillated during the year. In turn this drove equity market fluctuation. For global investors the year was positive, though those gains were generally narrow and led by a small number of US tech stocks, particularly on the back of 'AI fever' triggered by the launch of Chat GPT's GPT-4 model in March. A new narrative for future economic development was born at that point, and markets followed it with eagerness.

The UK market was not buoyed in the same way by Tech and AI stocks. Its returns were more muted and produced only a modest positive total return. This positive total return was a great example of how dividends can make a difference. The FTSE All-Share started the period at 4,255.7 and ended at 4,173.1 - a fall of 1.9%. Total return however, including dividends of 3.8%, produced a positive total return of 1.9%.

"

During the past 42 years, including the proposal this year, I am proud to report that the company has managed to provide a rising dividend every year.

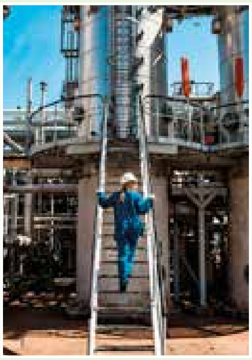
Merchants Trust:
ESG research and stewardship

The portfolio managers of the Merchants Trust integrate the analysis of Environmental, Social and Governance (ESG) issues into their investment process.

This follows AllianzGI's proprietary methodology, and is designed to enhance risk management by adding another dimension to existing investment processes, across all asset classes. This approach does not require additional exclusions.

The main objective of integrating ESG analysis is to develop an assessment of the financially material ESG risks and opportunities within a broader investment case. AllianzGI's approach also fosters active engagement with company management.

Highlights within this report include:



BP plc Case Study
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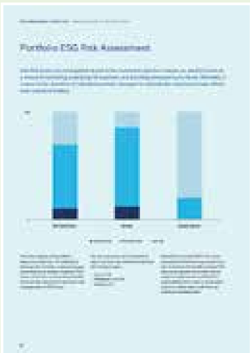

Portfolio ESG Risk Assessment
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Active Engagement
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A State of the Art Sustainability tool: SuSIE
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Carbon and Climate
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Integration of ESG in the investment process
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In terms of the income generated by the underlying portfolio, it was a strong year with revenue earnings per ordinary share rising 6.3%.

Performance

Even though the UK market finished the period marginally up on a total return basis as noted above, Merchants' Net Asset Value total return for the year unfortunately lagged the benchmark, recording a fall of 3.1%. This is obviously very disappointing and the board has engaged with the portfolio manager and the AllianzGI team to understand the contributions, both positive and negative, to this result. Whilst we clearly need to monitor short term performance, this disappointing result comes after two very good years when the portfolio outperformed the benchmark and we recognise that the longer term (3 and 5 year) track record of the trust is extremely strong.

Shareholders will be aware that the UK stock market is still a mix of both lowly priced stocks some of which offer 'value' and higher rated 'growth' stocks. Unfortunately, the period under review was a difficult one for the more modestly priced stocks that our manager tends to favour due to his 'value' investment style. Whilst this produced a relatively disappointing 1-year picture for Merchants shareholders, the longer-term record remains strong, with outperformance of both the industry benchmark, as well as the sector peer average, over 3 and 5 years.

For a value-oriented investor, a run of poor relative performance can often reflect simple under-pricing of particular types of companies, or certain cyclical sectors. With any disciplined, active management investment approach, there will always be periods when it is difficult to outperform the benchmark if the strongest performance comes from the areas of the market that do not meet the portfolio manager's investment criteria. It should also be remembered that a period such as the year to January 2024 can often be a time when the best new ideas for investing are generated, often ahead of any improvement in sentiment or cyclical upturn.

Despite short-term headwinds, we were delighted to collect the Citywire award for Best UK Equity Income trust at their annual investment trust awards in November. The award is based around 3-year performance as well as other factors, and is therefore a welcome recognition of the returns to shareholders over the long term.

The board remains confident that the tried and tested investment strategy followed by the manager remains appropriate to meet Merchants' objectives for shareholders over the long term.

Income

In terms of the income generated by the underlying portfolio, it was a strong year with revenue earnings per ordinary share rising 6.3% to a record 30.5p (2023: 28.7p) as dividend income received by the trust has fully recovered from the impact of the pandemic. This meant the dividend declared for the year was fully covered by earnings, as well as allowing the board to add 1.8p per ordinary share to revenue reserves.

I have written before about the importance of investment trusts being able to build revenue reserves in order to provide some protection against difficult times. This was amply demonstrated during COVID years when our revenue reserves built in good years enabled the board to maintain dividends to our shareholders even though dividend receipts from the Merchants portfolio of investments were weak. Now that dividend receipts from the portfolio have recovered the board thinks it important that we should build up reserves once again, as illustrated by the chart on page 6.

At the end of the financial year, the revenue reserve stands at 18.1p per ordinary share.

Dividend

The board is pleased to propose a final dividend of 7.1p for shareholder approval at Merchants' upcoming AGM on 16 May 2024. This will be payable on 22 May 2024 to holders on the register at the close of business on 19 April 2024, with an ex-dividend date of 18 April 2024. A Dividend Reinvestment Plan (DRIP) is available for this dividend and the relevant Election Date is 3 May 2024. Subject to approval, that will mean a full year dividend of 28.4p (2023: 27.6p), a rise of 2.9%.

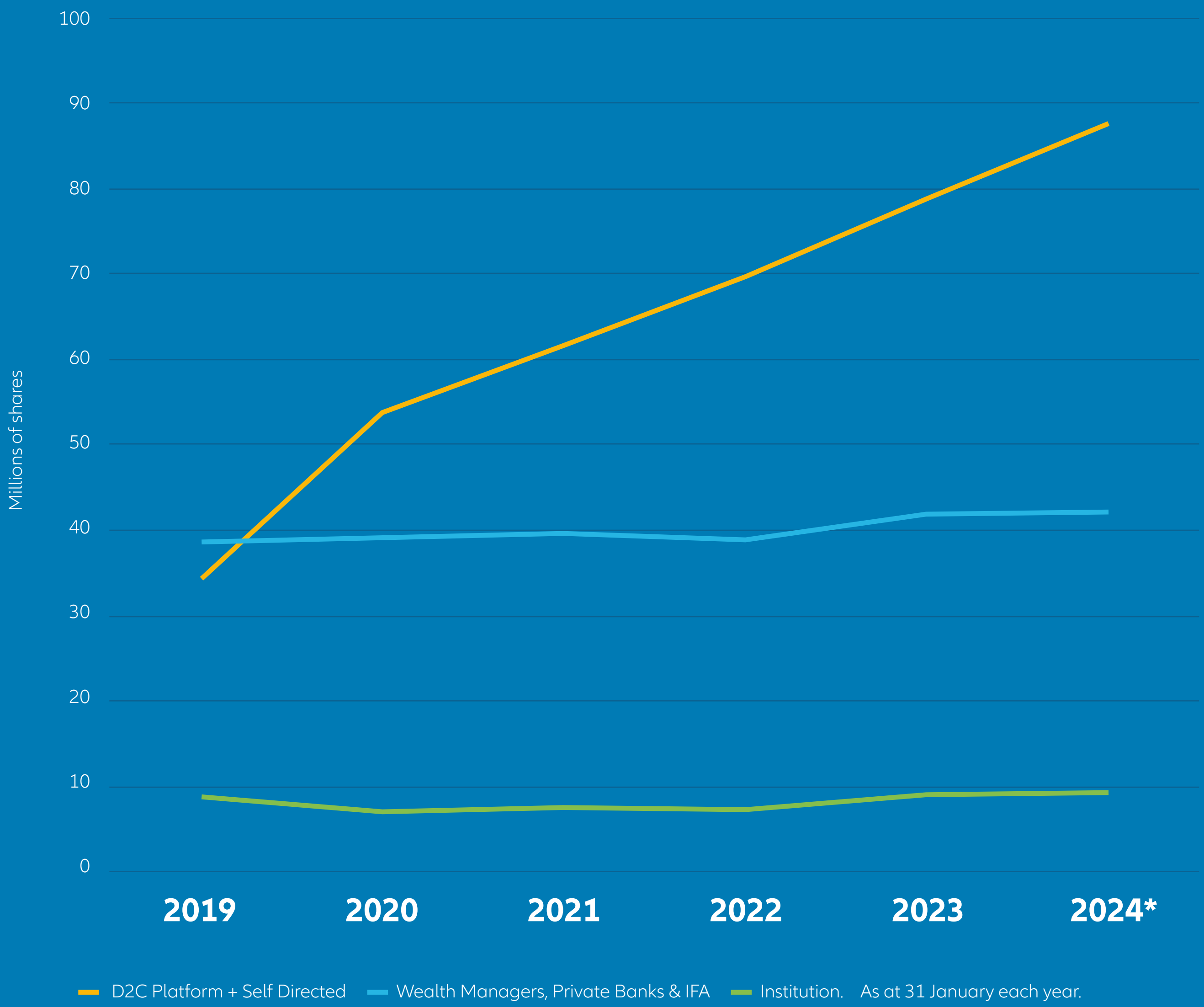
The annualised growth rate of the dividend paid by the trust over 42 years stands at 6.4%, remaining well above the rate of inflation over that period which stands at 3.8% annually as measured by the Consumer Prices Index (CPI) despite the particularly high inflation numbers evident over the past two years. The company continues to pay a high dividend, representing a yield of some 5.2% at the period end. This remains well above the sector average (4.5%), placing it in the top-ten yielders in the sector.

Shareholder demand

> An interesting illustration of the way Merchants' shareholder register has changed over recent years.

Over the past five years as the chart on this page shows and as the Chairman notes on page 11, ownership of the company's shares has increased on investment platforms where shares are held by self-directed individuals, and so shareholding by wealth managers and institutions has become less dominant.

Newer styles of communications through webinars, podcasts and social media, and engagement through shareholder conferences, as well as traditional media such as press articles and advertising, have helped Merchants to reach this wider investor audience on the investment platforms.



* At 31 January 2024 there were c. 148 million ordinary shares in issue. Of these, c. 138 million were analysed in the above chart.

> We believe that our strong focus on providing a high and rising income stream, as well as long term capital growth, is a key attraction for investors.

With 42 years of unbroken annual dividend rises, Merchants also retains its place on the Association of Investment Companies' (AIC) Dividend Hero list – those companies having managed to consistently raise their dividend for twenty years or more.

Shareholder demand

During the year the company's shares traded at a premium to its Net Asset Value for much of the time – averaging 0.9% for 2024 (2023: 1.0%) as demand for the shares continued to be strong. This led Merchants to have a good record of share issuance over the period (£46m) – something that was not evident amongst the majority of our sector peers or, indeed, within the wider investment trust landscape. The wider investment trust sector had an extremely difficult 2023 as average discounts hit high levels not seen since the 2008 financial crisis. Interestingly, open ended UK Equity Income funds, continued in aggregate to suffer further significant outflows.

Once again, I have written before about the attractiveness for the shareholders of the trust of Merchants issuing shares when they are trading at a premium. Increasing the size of the trust in this way improves the liquidity of the shares and spreads the cost of managing the portfolio (many of which are fixed costs) over a bigger pool of assets.

We attribute the success of the company in issuing shares in large part to its strong support amongst 'direct' private investors, the majority of whom now tend to purchase their shares via the UK's so-called investment platforms. There are numerous platforms, though there continue to be just a few very dominant ones (generally, as well as on the Merchants' shareholder register). During our annual strategy session we were interested to review a chart showing the growth of platforms over time, as compared to shares held in aggregate by Wealth Managers and Independent Financial Advisors and shares held in aggregate by financial institutions. We felt this was an interesting illustration of the way Merchants' shareholder register has changed over recent years and therefore we have included this as a chart on page 10.

We believe that our strong focus on providing a high and rising income stream for investors, as well as long term capital growth, is a key attraction for investors. Alongside that, Merchants retains a competitive ongoing charge of 0.55% for 2024 (2023: 0.56%).

We continue to support AllianzGI's sales and marketing efforts to introduce Merchants to as wide an investor base as possible. Part of that programme involves ensuring there are sufficient updates for existing and potential shareholders within the year, in multiple formats such as written reports, videos, podcasts, events, meetings and webinars.

Gearing

Merchants continues to employ gearing, believing it is additive to long term performance in terms of both income and capital returns, so long as the manager has confidence in being able to generate returns in excess of the cost of the debt.

Currently our gearing level of 12.3% is in the lower half of the policy range (10%-25%, see page 56) that we are happy to operate within. The manager operates gearing generally as a structural element of the portfolio management strategy, rather than a tactical allocation based on any short-term market movements. Shareholders should remember that whilst gearing can amplify returns in a rising market, it will also serve to exacerbate any negative movements. During the course of 2024 we will be considering refinancing or paying down our revolving credit facility, which expires in January 2025.

Board

As part of the normal programme of board succession, there are two retirements and two appointments which I must notify to shareholders. One of each happened within the period, and a further of each happened after the reporting period.

Having attained nine years as a non-executive director of the Company, Mary Ann Sieghart duly retired from the board on 25 January 2024, just before the end of the financial year. Mary Ann witnessed a period of real transformation for the company in terms of engagement with private investors – I would like to thank Mary Ann for her contribution and wish her all the very best for her future endeavours.

Sybella Stanley, who was the Senior Independent Director (SID), also attained nine years as a non-executive director of the Company. She duly retired from the board on 21 March 2024. I would like to thank Sybella for

Our investment managers have a strongly held 'glass half full' attitude to the current UK market outlook. They remain optimistic for the long term and believe that there is considerable pent-up value in the market.

her outstanding commitment as SID for the trust, her expertise in corporate strategy and investment practice and to also wish her well for her future endeavours. Karen McKellar became SID with effect from Sybella's retirement from the board.

Lisa Edgar joined as a non-executive director of the Company on 1 January 2024. Lisa was until very recently Chief Customer Officer on the Executive Leadership Team at Saga PLC and is founder/CEO of the Big Window Consulting, a consumer and B2B insight agency with considerable expertise in financial services. Lisa became a member of the Audit Committee, Nomination Committee, Management Engagement Committee and Remuneration Committee on appointment. In a period where we look to the next stage in Merchants' development as a key holding for the retail investor, Lisa's experience in consumer marketing trends and practice will prove invaluable.

Mal Patel was appointed as a non-executive director of the Company on 1 March 2024. Mal is Head of Investor Relations at Spirax Group and has held senior roles in IR and corporate development in a number of large UK companies. Mal is a chartered accountant and he became a member of the Audit Committee, Nomination Committee, Management Engagement Committee and Remuneration Committee on appointment.

Investment manager

We first noted in 2022 that AllianzGI was pursuing an FCA authorisation for AllianzGI UK as a UK entity and reported again last year that the authorisation had been granted. The company's Alternative Investment Fund Manager (AIFM) therefore subsequently became AllianzGI UK Limited in May 2023. As noted in previous reporting, we view this change as being in the best interests of Merchants' shareholders.

There was no change to the investment process, strategy or the teams involved with managing Merchants as a result of the entity change, nor is it envisaged that this would prompt any future changes.

AGM

Last year we were pleased to host the second physical AGM, welcoming back shareholders in person, since the cessation of lockdown conditions. 2024 will once again see the AGM being held at Grocers' Hall on Thursday 16 May and full details can be found in the notice of meeting on page 126.

As usual, I would like to take the opportunity to remind shareholders that you have the right to vote on important matters that affect Merchants, such as the proposed renewal of share issuance authorities and the appointment of directors. It is an important aspect of an investment trust that shareholders can vote and all shareholders are therefore encouraged to make their voices heard by voting on all business matters, as detailed in this report.

We continue to be pleased to see moves in the investment platform industry to open up shareholder access for nominee holders. Information is being made more readily available by platforms to shareholders when companies have votes and platforms are improving the ease with which shareholders can participate in those votes. Should you be a Merchants shareholder through a platform which offers the opportunity to vote then we encourage you to take advantage of those arrangements for casting your votes and thus having your say in the running of your company.

Outlook

As ever it is difficult to predict the 'macro' direction for economies and markets. There are many factors which may influence short term sentiment and consequential market movements and returns. However, fortunately, that is of less consequence to the Merchants' investment strategy which is predicated on good stock picking with a long-term time horizon – finding individual companies which have good prospects, but which are trading below our manager's estimation of their intrinsic worth.

The negative sentiment which has overshadowed the UK market in recent years has led to a market which is lowly-rated by international comparison and by extension, to a lowly-rated Merchants portfolio. With the manager's value 'tilt' in terms of share selection this has been a drag on recent performance as noted earlier. Our investment managers, however have a strongly held 'glass half full' attitude to the current UK market outlook. They remain optimistic for the long-term for the UK market and believe that there is considerable pent-up value in the market. That value, they believe, is both evident in the aggregate valuation of the market compared to global peers, but also between the more lowly-priced and the higher rated segments of the UK market.

We remain confident that the current investment approach is well suited to meeting Merchants' stated objectives for shareholders over the long term.

Colin Clark
Chairman
3 April 2024

Key Performance Indicators (KPIs)

The board uses certain financial and non-financial Key Performance Indicators (KPIs) to monitor and assess the performance of the company in achieving its strategic aims:

Increasing and sustainable dividends

1. Provide a high and progressively growing income stream

Dividend

28.4p

Year-on-year dividend growth

+2.9%

Earnings per share of 30.5p fully cover the dividends, with a surplus of 1.8p being transferred to revenue reserves (2023: 0.3p transferred to revenue reserves), increasing the reserves to 18.1p at 31 January 2024.

Shareholder returns and performance

2. Provide long-term capital growth
3. Provide a long-term total return above the benchmark and peers

5 year portfolio return

+43.37%

5 year NAV return

+49.56%

One year portfolio return of -2.5% was behind the index return of +1.9%. The NAV return also underperformed the benchmark after the impact of gearing (borrowings). Gearing tends to amplify portfolio returns in both directions. Over the long term, 5 year portfolio and NAV returns were ahead of the benchmark of +30.42%.

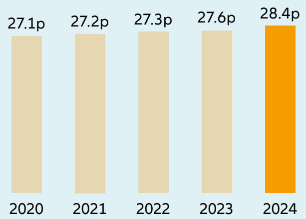
Investor appeal

4. Position Merchants to outperform its peers, and to remain relevant and attractive to new and existing investor groups
5. Ensure the costs of running the company remain reasonable and competitive

1 year peer group ranking	3 year peer group ranking	5 year peer group ranking
19th	1st	2nd

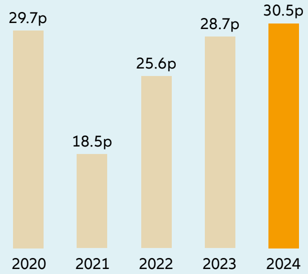
Performance was first out of 21 in the peer group over 3 years, second out of 21 over five years and nineteenth out of 21 over one year. The ongoing charge is stable at 0.55% compared to 0.56% last year. The board remains focused on reducing fixed costs. Merchants' costs are below average in the peer group and the dividend yield is above average.

Dividend record per share



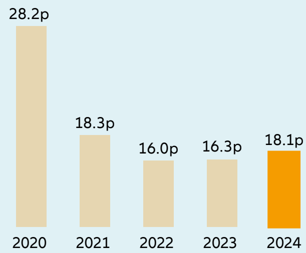
The board has a policy of paying a progressive dividend each year, taking into account inflation and subject to general earnings growth and dividends received in the portfolio. Ordinary dividends have risen in every year since 1982.

Earnings progression



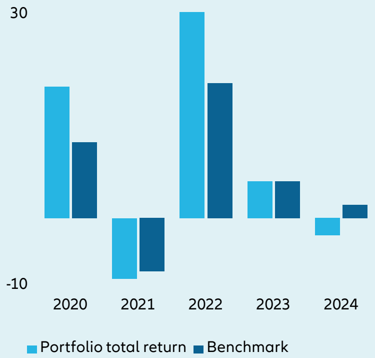
Earnings per share (EPS) shows the income that the company generates each year which can be used to fund dividend payments to shareholders, over time.

Revenue reserves per share[1]

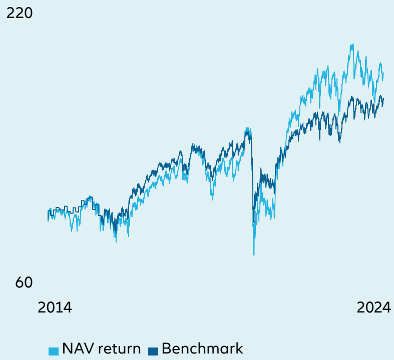


Revenue reserves can be used to ensure that dividend payments can be maintained through difficult market conditions. Income is put aside in good years and can be used to maintain a steady increase in dividends when income is less readily available.

Portfolio return vs benchmark



NAV return vs benchmark



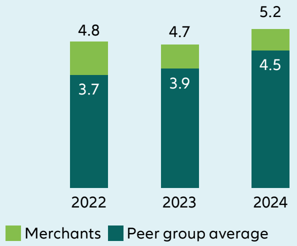
The board uses this KPI to monitor investment performance. As the company's policy is to invest mainly in higher yielding large UK companies, the FTSE All-Share Index has been chosen as the benchmark index against which we measure our performance.

The board seeks a return that is better than the benchmark over various time periods. The benchmark was the FTSE 100 Index until 31 January 2017, but was revised to better reflect the changing structure of the portfolio over the preceding decade.

Peer rankings[2]

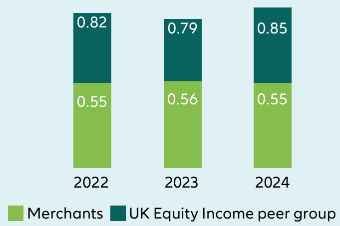
The board also monitors the performance relative to a broad range of competitor investment trusts. The chart shows Merchants' position in UK Equity Income peer group quartiles over a range of time periods.

Yields[3]



Merchants' yield has consistently been higher than the UK Equity Income peer group average.

Ongoing charges[3]



The board has a policy of ensuring that the company's running costs are reasonable and competitive. The ongoing charge is calculated using the AIC's recommended methodology (See Glossary on page 129).

[1] At the year end before payment of the third and final quarterly dividends. [2] Source: JP Morgan Cazenove. [3] Source: Morningstar/AllianzGI.
Alternative Performance Measure (APM). See Glossary on page 129.

Investment Manager's Review

We increased our investment in healthcare business GSK, making it the portfolio's largest holding at year end. The company currently has 71 assets in the pipeline, including 19 candidate vaccines and 11 investigational oncology medicines.

PHOTO © GSK

Portfolio Managers' Report

Simon Gergel

Richard Knight

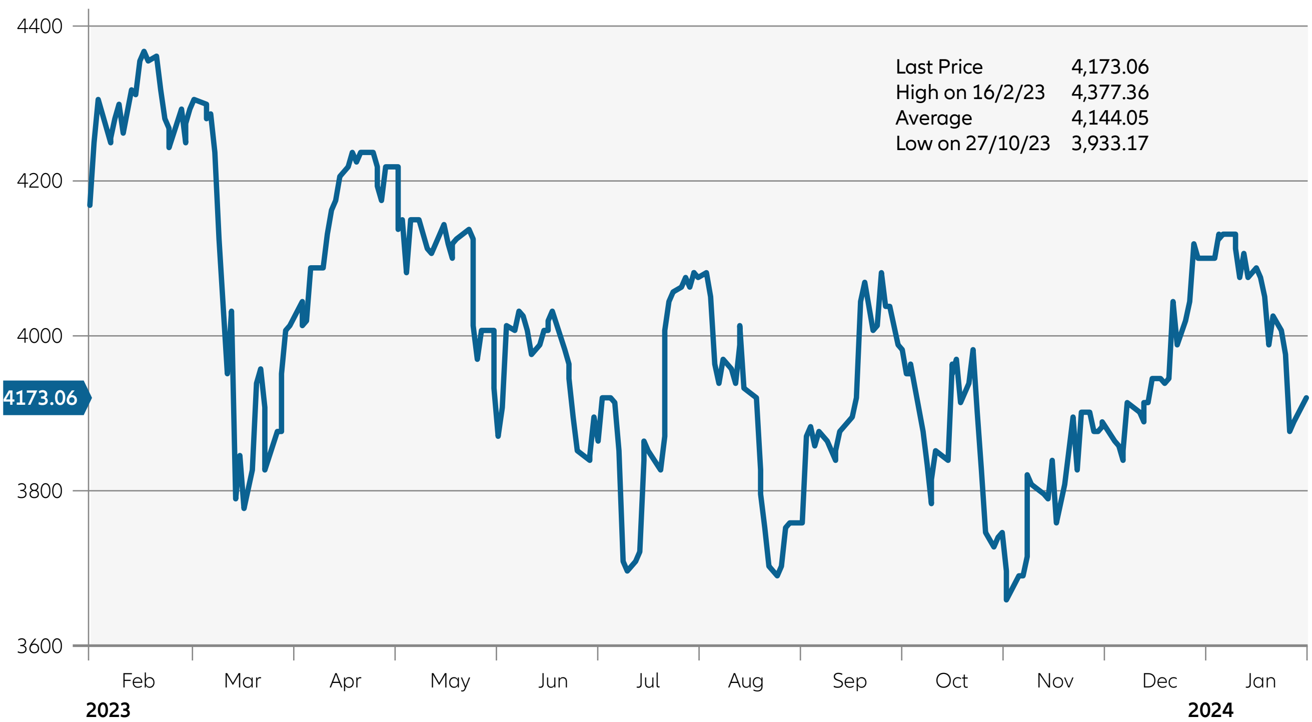
Andrew Koch

Economic and Market Background

The dominant theme of the year was the rise and subsequent fall of inflation, and in response, government bond yields. This drove the value of other financial assets, and also affected economies and businesses. In the corporate world, there was a growing awareness of the potential of the latest emerging technology; generative artificial intelligence (AI) which supported a boom in the valuation of US technology giants, such as Google's parent Alphabet, Microsoft and Nvidia. Sadly, another theme was rising geopolitical risk, with a continuing war in Ukraine, an extreme act of terrorism in Israel on 7th October, the ensuing war between Israel and Hamas, attacks on shipping in the Red Sea and US and UK reprisals on targets in the Middle East.

Inflation rose rapidly, early in the year, forcing Western central banks to raise interest rates aggressively, to try to stem price shocks. Higher interest rates led to rising government bond yields and falling bond prices. As we reported at the interim stage, stress in the banking sector, caused by falling bond prices and a lack of funding for start-up companies, led to the collapse of Silicon Valley Bank in California and the forced rescue of Credit Suisse by UBS. Higher interest rates raise the cost of financing for businesses, which have

FTSE All-Share Index for the year to 31 January 2024



FTSE All-Share 31.1.23 - 31.1.24. Source: AllianzGI/Datastream.

been used to falling or low funding costs for a generation. Higher rates also affect consumer demand, for example by raising mortgage costs and putting pressure on disposable incomes. For much of the year concerns about a squeeze on companies led to the most economically sensitive, or cyclical, parts of the stock market underperforming the more defensive areas.

However, inflation rates fell back sharply over the summer and autumn, causing investors to reassess the outlook for interest rates. Government bond yields fell sharply, as investors started to anticipate lower rates in 2024. This in turn supported the more cyclical parts of the stock market, partially reversing the earlier trend.

In the USA, the main theme in the stock market was the excitement over the potential of AI, which seemed to be reaching a breakthrough in capabilities and adoption. Companies like chipmaker Nvidia and Microsoft, which owns a stake in the AI leader Chat GPT, saw rapid share price appreciation, giving rise to a new 'Magnificent 7" stocks which dominated US and global market returns, albeit after a poor 2022. The biggest of these companies, including Apple and Microsoft, are now larger than the entire London stock market. Whilst the UK does not have any technology giants, the trend of higher growth stocks outperforming lower growth, or "value" stocks, was also evident, partly because lower priced "value" stocks are generally more economically sensitive.

The FTSE All-Share index of leading UK companies moved broadly sideways, though with some volatility, in a fairly narrow range. Over the year, it produced a modest total return, including dividends, of 1.9%. UK small and medium sized companies underperformed for most of the year, on concerns for the domestic economy, but they had a strong resurgence in the last few months, and ended the year broadly in line with the top 100.

Another feature of the year, sadly, was the resurgence of geopolitical risks. Events in Israel and Gaza, in October, led to increased tensions across the Middle East. Attacks on shipping in the Red Sea disrupted the use of the Suez Canal, threatening an important trade route between Asia and Europe. This led to transport delays and potentially supply shortages as ships were diverted around Africa. There were also attacks on British warships and US military targets in the region leading to reprisals by the US and UK, potentially bringing them closer to direct conflict with Iran.

Investment Performance.

It is disappointing to report that portfolio performance has lagged behind the benchmark during the financial year, with a total return of -2.5% on the portfolio, compared to a return of +1.9% on the FTSE All-Share index benchmark. On the other hand, three and five year returns remain strong and well ahead of the benchmark.

There were two main features to explain the underperformance. Firstly, as explained above, rising interest rates

Building materials producer CRH was a notable contributor to performance, assisted by a favourably-received relisting onto the US stock market.

PHOTO © CRH

> During the year, sector allocation was actually positive, driven mainly by a large exposure to the strong construction & building materials sector.

and investor caution supported higher growth companies, at the expense of the more modestly prices stocks that we tend to favour. This also led to an underperformance of certain cyclical parts of the stock market, as well as smaller and medium sized companies. There was a partial recovery in relative performance in the last three months, as some of the market trends reversed, on expectations for interest rate cuts in 2024. Secondly, there were several idiosyncratic issues affecting investee companies, and impacting performance. In a portfolio of around 50 stocks, it is not unusual to have unexpected developments impacting a few individual companies each year, but there were a larger number than normal, and fewer offsetting positive movers. With many investment funds seeing outflows, there has been persistent selling of UK equities, which seems to have exacerbated some of the share price moves. Having reviewed these individual stocks in detail, we do not see a pattern developing, but we explain a few of the larger impacts in a longer than usual section below.

During the year, sector allocation was actually positive, driven mainly by a large exposure to the strong construction & building materials sector and a low exposure to the weak metals & mining sector. This was partially offset by a low allocation to the strong aerospace & defence sector. However, stock selection within sectors was negative, and indeed most sector allocations are primarily driven by individual stock considerations, rather than a strong view on a sector's likely performance. We detail the top ten positive and negative stock contributors below.

The largest single impact came from the wealth manager, **St James's Place**, which fell sharply. The company made significant changes to its charging structure in response both to regulatory developments, and to significant media and competitor attention on its charging structure. These changes will impact profitability in the medium term, although less so in the very long term. This has undermined confidence in the company's prospects. As we explain in a case study, we sold the shares, as our conviction on the investment case diminished.

Shares in the North American natural gas producer **Diversified Energy** were very weak during the year. The company has a business model of buying under-

Contribution to Investment Performance Relative to the Benchmark

	Top ten positive contributors	Performance impact %	Top ten negative contributors	Performance impact %
Overweight (holding larger than index weight)	DCC	0.8	St James's Place	-1.1
	Redrow	0.5	Diversified Energy	-0.8
	Next	0.4	Close Brothers	-0.7
	Bellway	0.4	PZ Cussons	-0.6
	CRH	0.3	Mobico	-0.6
	Tyman	0.3	Tate & Lyle	-0.4
			Pets At Home	-0.4
Underweight (zero holding or weight lower than index weight)	Anglo American	0.8	RELX	-0.7
	Prudential	0.6	Rolls Royce	-0.7
	Diageo	0.6	HSBC	-0.5
	Glencore	0.5		

managed legacy gas wells, improving their operations, reducing methane emissions and generating strong cash flows to pay down debt and pay shareholder dividends. Diversified Energy owns more gas wells in the USA than any other company. However, falling natural gas prices and rising competition for assets has made its acquisition fuelled model harder to sustain. This led investors to question the dividend sustainability and caused share price weakness. There have also been negative comments about the company's methane emissions, although we believe the company has a strong record here.

Close Brothers, a specialist bank which has a good long-term record, was also very weak, impacted by a number of unrelated issues affecting each of the company's three divisions. Most notably, in January, there were concerns about a review by the financial regulator into historic commissions paid for selling car finance, which could have a material impact on the company. Other issues, such as the impact of lower asset prices in its wealth management business, are more normal, cyclical concerns. But the combination of events this year had a major impact on the shares.

PZ Cussons, the maker of Carex soap, Original Source shower gel and other consumer brands, has operations in Europe, the USA, Asia, Australia and a large market position in Nigeria. Nigeria announced a sudden and unexpected end to currency controls, which led to a sharp devaluation of the Niara. This led to a major downgrade to the sterling value of future profits from the region, and a related increase in group's net debt, as the company had large Niara cash balances. Whilst the relatively new management team has made significant improvements to the business, including in Nigeria, the impact of the devaluation dented investor confidence.

Elsewhere, **Mobico** (formerly National Express) shares also fell heavily. The business should be relatively resilient as it provides school buses in the USA, and bus and coach services in the UK and Iberia. However, we had under-estimated the challenges Mobico faced in finding sufficient numbers of drivers for its US School buses, and the impact of driver wage increases on their profitability in UK buses. This led to profit warnings and share price weakness. With a relatively stretched balance sheet, we decided to sell the shares to fund investments where we have higher conviction, even though we could see long term potential in the company.

There were smaller price falls at food ingredients company **Tate & Lyle** and **Pets At Home**, the UK's leading pet retailer and veterinary services group, due to softer trading conditions. We do not have any structural concerns on these. Finally, relative performance was impacted by not owning certain shares that performed strongly, and helped lift the benchmark return; RELX, Rolls Royce and HSBC.

Whilst there have been several negative performers, there have also been some significant positive movers. The distribution company **DCC**, one of the largest active positions in the portfolio, has had a sharp rally. This was spurred by a capital markets day, where the company explained the favourable positioning of their energy business to

Leading contributor DCC's energy business focuses on the sales, marketing and distribution of commercial and domestic cleaner energy solutions.

PHOTO © DCC

Redrow

Sector: Household Goods and Home Construction
Value of holding: £23,226,000
Percentage of portfolio: 2.7%
Benchmark weighting: 0.1%

Redrow is the largest of the two housebuilders in the portfolio, with Bellway the other one. Both shares were amongst the strongest performers last year, along with several other building and construction related companies. This may seem counter-intuitive in what was a difficult year for the house-building industry. However, it provides an interesting example of the way the stock market can be forward thinking, looking for a recovery in trading, rather than focusing on the current trading environment.

Redrow has the three characteristics we look for in an investment. Firstly, it has strong business fundamentals. Volume housebuilding is a relatively consolidated industry, where the leading companies can make high returns over the cycle. Redrow has a differentiated position at the premium end of the market, with a strong balance sheet, a long land bank and a history of growth. Secondly, there are helpful structural trends. Most notably, there is a severe shortage of housing in the UK, so demand is strong, and tightening environmental, biodiversity and planning regulations favour the bigger companies over smaller peers. Thirdly, the valuation was attractive, with the shares, a year ago, trading well below the company's asset value (essentially land and half-built homes) which is unusual.

The reason for the low valuation was concern over the outlook for Redrow's and the sector's profits, especially since the spike in mortgage rates after the disastrous Kwasi Kwarteng mini budget in September 2022. We took advantage of share price weakness after that budget to add to the Redrow position in October 2022.

The stock market's fears over the outlook were well founded. Housebuilders saw significant cost inflation as material and labour costs spiked higher in 2023, whilst house prices stagnated, or even fell back a little. This severely squeezed profits, such that in the 6 months to December 2023, Redrow's sales were down 27%, and profits and earnings per share were down nearly 60% on the previous year with the dividend also cut.

However, the share price movements were interesting. For most of the financial year, Redrow's shares were volatile and generally quite weak. But, once government bond yields started to fall in November, the expectation of lower future mortgage costs boosted the shares, which rallied hard for two months. Redrow shares finished the year up 16%, or over 23% including dividends.

Since the year end, Redrow have announced a proposed merger with Barrat Developments, to form the largest house-builder in the UK. The combined business should have further opportunities to drive efficiencies and cost savings. Barratts were offering a sizeable premium to Redrow shareholders, which provided a further boost to the shares in February, and a merger should also increase the dividend income.

PHOTO © REDROW

> High levels of price volatility between different sectors and between individual companies, exacerbated by low market liquidity, created many investment opportunities.

help customers manage the transition away from fossil fuels. We explained the investment rationale for investing in DCC in some detail, in a case study in last year's annual report.

Several consumer stocks performed well, partly reflecting depressed sentiment and low valuations at the start of the year. The housebuilders **Redrow** (see separate case study) and **Bellway** were both up over 20%, despite deteriorating short-term trading conditions in the house building market, as investors started to look to potential recovery when mortgage costs come down. These stocks also provide a useful reminder of how quickly sentiment can change when valuations are depressed, with almost all of the gains coming in the last three months. The building materials producer **CRH**, also rallied, reflecting both strong operational performance and also a relisting of its shares onto the US stock market, which was favourably received by investors.

Another consumer stock, the retailer **Next**, has delivered consistent operating results, with a number of upgrades to profits expectations through the year. It also reported favourable developments with its "Platform" business for third party brands. Next has taken equity stakes in several of these brands, providing an additional profits stream to support the company's growth.

There were several positive relative performance contributions from companies that were not in the portfolio, but which held back the index return. Mining stock Anglo American had a large profit warning, and Glencore suffered from more difficult industry conditions. The insurance business Prudential was also weak, as the post Covid re-opening of the key Hong Kong market , was slower than expected, and sentiment about the outlook for Chinese growth deteriorated. Finally, spirits giant Diageo warned about profitability in its Central American business, causing its shares to underperform.

Portfolio Changes

As we have seen in recent years, high levels of price volatility between different sectors and between individual companies, exacerbated by low market liquidity, created many investment opportunities. We identified new companies to buy that met our investment requirements, having fundamentally strong business models, with attractive thematic trends, and trading well below our estimate of their intrinsic worth. In other cases, shares in the portfolio rallied towards our assessment of fair value and we sold out. There were also a few sales where our assessment of the investment case

Largest net purchases and sales within the portfolio

Largest Net Purchases	£m
Inchcape	28.7
Lloyds	24.2
Drax	15.4
Lancashire	14.7
Marshalls	11.7
Assura	10.4
British American Tobacco	10.3
Aena Sme	9.4
Barclays	9.2
XP Power	7.8

Largest Net Sales	£m
BAE Systems	-24.0
CRH	-20.2
Natwest Group	-13.7
BMW	-12.6
Swiss Re	-12.1
St James's Place	-11.1
Sanofi	-10.6
DCC	-9.4
Next	-9.0
Vodafone	-7.6

Marshalls

Sector: Construction and Materials
Value of holding: £11,671,000
Percentage of portfolio: 1.3%
Benchmark weighting: 0%

Marshalls is a new investment in the portfolio this year. Marshall's manufactures and sells a variety of building materials for the construction, home improvement and garden landscaping sectors. In 2022 it acquired Marley Group, a leader in the manufacture and supply of pitched roof systems and integrated solar panels.

In our investment process, we consider three aspects of a company: Fundamentals, Themes and Valuation. In terms of fundamentals, Marshalls has high market shares across all its operations, including within its newest venture in solar, where the group has over 50% of the residential UK integrated solar panel market. This should provide an additional source of growth, and further diversifies the group's offering within construction.

Marshalls traded well up to and through the Covid-19 pandemic, particularly in its landscaping business, as many people spent money on improving their home environment. However, since then the business has seen a steep decline in sales, but it retains a strong market position, with well invested factories and a broad distribution network.

In terms of themes, Marshalls benefits from a couple of positive drivers that support the investment case. Britain is suffering from a significant housing deficit, that would take years to replenish, even if the government's ambitious target to build 300,000 homes a year is reached. This underlying supply deficit should provide strong demand for new homes, and Marshalls' products.

Secondly, the forthcoming Future Homes Standard, set to be implemented in 2025, will see the housebuilding industry take a major step towards helping the UK meet its 2050 net zero target. To achieve lower CO2 emissions, new homes will require a renewable energy source, which should lead to increased demand for solar solutions.

The drop in Marshalls' sales, referred to above, led to a sharp drop in the company's share price, providing an opportunity for us to buy at an attractive valuation, which is the third aspect of our stock selection process. We do not think that demand for the type of products that Marshalls sells will remain depressed long term. Rather, we view the current weakness as cyclical and macro-driven. The business should demonstrate a sharp improvement in profitability as and when demand recovers. The valuation at the time of purchase did not reflect our view of the intrinsic worth of Marshalls, nor its fundamental strengths and the supportive long term structural themes of a housing shortage and tightening environmental standards.

PHOTO © MARSHALLS

changed. In total, we added 7 new companies to the portfolio and sold out of 9 completely, leaving 51 companies in the portfolio at the year end.

We reported on some of these transactions at the interim stage, with purchases of **Marshalls** in building materials (see separate case study), **Inchcape** in car distribution, the reinsurance company **Lancashire** and **Lloyds Banking Group**. The latter two were switches from **Swiss Re** and **NatWest**, respectively. Other sales reported in the first half were defence company **BAE Systems**, one of last year's best performers, telecoms company **Vodafone** and the fund management company **Ashmore**.

In August, we added a position in **XP Power**, a medium-sized company, to the portfolio. XP designs and manufacturers power supply units, an essential component in most electronic machinery. XP Power's customers are generally major manufacturers of electronic equipment, across a broad range of industrial, semiconductor and healthcare markets. XP's products are often critical components, that represent a small cost to the equipment manufacturer, but are generally designed-in for specific applications, allowing XP to make high margins and good returns. The company has an excellent growth record and normally commands a high valuation. However, the company had been through a difficult period, with supply chain problems and other company specific issues, which took the shares down to an unusually modest valuation for the quality and growth potential of the business. This prompted our initial modest investment. The shares fell further in October, following a profits warning and the company announced a subsequent fund raising, which we supported. Trading has continued to be challenging with customer destocking this year, but trends in end user demand are positive and we retain confidence in the business.

We own some non-UK listed companies, where we find particularly interesting situations, sometimes in industries that are not represented on the London stock exchange. We made a new investment in **Aena**, a Spanish listed airports operator. Aena, which is majority owned by the Spanish state, owns 46 airports in Spain but also has concessions at many other airports around the world, most notably in Brazil, Central America and at Luton in the UK. Under a favourable regulatory structure, it earns a fair regulated return on its capital invested to provide airport capacity to aircraft landing in Spain, but it is able to earn a higher, unregulated return on commercial activities, such as renting space for duty free shopping or restaurants. Overall, the company makes attractive financial returns and has reasonable growth potential, whilst modest capital investment requirements mean the business is cash generative and able to pay a healthy dividend to shareholders.

Housebuilders Redrow and Bellway were both up over 20% as investors begin to anticipate falling mortgage costs.

PHOTO © BELLWAY

St James's Place

Sector: Investment Banking and Brokerage
Value of holding: £0
Percentage of portfolio: 0%
Benchmark weighting: 0.2%

This year we took the difficult decision to sell out of our holdings in St. James's Place, a position we have held since 2018. St James's Place is a leading UK wealth manager with an extensive network of tied financial advisors, 'partners', who offer full-service advice to help clients achieve their long-term financial goals. The firm has around £170bn in assets under management and earns a proportion of both annual and upfront fees charged to clients as revenue.

We like the St. James's Place business model because of the strong market leadership position, the generally high customer loyalty and satisfaction, and the compelling growth outlook for financial advice, given an ageing population with growing wealth available for discretionary investment. These strengths have helped the business grow underlying post tax cash flow steadily though our holding period despite a number of disruptions to global markets, UK investor sentiment, and rising corporate taxes during that time. A particular strength of the investment case was that cash flow growth was underpinned by a large reservoir of client assets that were not yet generating cash for shareholders, but reliably would over time, due to the structure of many of the most popular products.

In 2023 the regulatory landscape changed quite dramatically for St. James's Place with the introduction of the Financial Conduct Authority's 'Consumer Duty' framework. Whilst initially we believed that the new set of regulations would have a relatively minor effect on St. James's Place, it has led in fact to the most significant overhaul of charging and product structure in decades. Fees have been reduced and charges for early withdrawal of funds are being phased out.

In the long run we believe the new model will create value for consumers and may fortify the strengths of St James's Place's business model and market position, but in the short to medium term these changes to products and fees create material risks for the investment case. There is a lengthy delay until the changes take effect, and in the meantime there are risks of operational difficulties, customer and partner confusion, and further regulatory intervention. Investors must also become comfortable with a very material step down in cash generation when the new model begins, before growing relatively strongly in the following years. This unusual profile of cash generation creates additional uncertainty.

Our process emphasises a robust sell discipline when an investment case deteriorates. It is all too tempting, as value-driven investors, to conclude that a lower share price represents a greater opportunity. Often it can. Because of this temptation we try to conduct a rigorous and objective review when an investment case has materially changed. Often in these situations it is sensible to ask, would we invest today with fresh money if we did not already hold a position? If not, the right thing to do is to sell and reallocate the capital to where we retain higher conviction.

St James's Place is a good example of our disciplined approach to allocating shareholders' capital in the most compelling investment cases, especially if an investment case has not developed as we had hoped. We will continue to watch the company with interest as it navigates the challenges of the next few years.

The last new investment was **Assura plc**, a developer and owner of healthcare property, mostly GP surgeries in the UK and Ireland. Surgeries typically have long leases, with rents backed by the NHS, and often with a direct or indirect inflation linkage. A shortage of suitable properties and structurally rising care needs keep demand resilient. Assura also has long term funding at a low cost of 2.3%. In the preceding months, the company had to slow down its expansion, partly due to higher interest rates. This coincided with falling property values due to rising yields. These two factors led to the shares suffering a sharp de-rating, and provided us with an opportunity to buy into the company, at a valuation below its asset value and with dividend yield around 7%.

There were four complete sales from the portfolio in the second half. **BMW**, the German car manufacturer which also owns the Mini and Rolls Royce brands, had been a strong performer and had also paid significant dividends, as the industry benefitted from high new and used car prices, due to constraints on vehicle supply during and after the pandemic. As those supply constraints started to ease, and with consumer budgets under pressure, we decided to sell, to fund other ideas.

We took the difficult decision to sell **St James's Place** in November, as explained in the separate case study. We also sold out of the French-listed pharmaceutical company **Sanofi**, after the company announced an unexpected step up in spending on research & development. Whilst this additional investment may be sensible, the justification was unclear and the shares were not especially cheap. Finally, as explained earlier, we sold Mobico.

As well as new holdings and complete sales, there were many opportunities to increase or decrease positions in response to company and stock market developments. We increased the investment in healthcare business **GSK**, taking it to the largest holding, as we gained further confidence in the turnaround of the business and the growth it can deliver, yet it was still trading at a modest rating. We also made large additions to companies where we have high conviction, including **Barclays**, **Drax** and **Pets At Home**.

We switched part of the **Imperial Brands** investment into fellow tobacco company **British American Tobacco**. Imperial had been a better performer, in response to operational improvements and a share buy-back. However, the valuation gap had closed, and BAT has a far stronger position in more attractive, next generation tobacco products, like vaping and non-combustibles, as well as a larger exposure to Emerging markets where prospects are generally stronger.

Elsewhere, we reduced other positions, typically after share price strength had taken companies nearer to fair value, such as CRH, DCC, **Admiral** and **Shell**, as well as a number of consumer facing companies, including **Next**, **Tesco** and **Bellway**.

Clothing and home products retailer Next was another significant contributor to performance.

PHOTO © NEXT PLC

BP plc

Sector: Oil, Gas and Coal
Value of holding: £28,774,000
Percentage of portfolio: 3.3%
Benchmark weighting: 3.4%

BP is one of the global 'Oil Majors' – the largest and most influential multinational energy producers. It is vertically integrated, meaning it explores for hydrocarbon deposits, extracts this oil and gas, and then carries out various downstream activities. These include trading, refining, distribution and marketing (i.e. petrol stations) as well as power generation. Like many oil companies it has a chequered history in terms of oil spills and disasters. However, in recent years it has been amongst the vanguard of energy companies who are transitioning activities towards more environmentally sustainable ways.

As investors, we regularly engage with portfolio companies. Speaking directly with management and non-executive directors enables us to address specific issues at a senior level, as well as advocating for any changes we think would be beneficial to the company. In both cases, our duty as stewards of client capital gives us a responsibility to address strategic and operational concerns, as well as Environmental, Social and Governance (ESG) issues. Throughout this process, our portfolio managers and stewardship specialists work closely together, coming from slightly different perspectives, to pursue a coherent engagement approach.

As BP is one of the UK's largest companies, we have engaged with the company many times over recent years. In 2023 some of the contact involved topics we frequently speak to companies about, such as communicating with the remuneration committee. In this instance it was concerning adjustments for "windfall" profits, and a reduction in parts of executive remuneration due to a deteriorating health and safety record.

However more topically, oil companies have been reassessing their environmental agendas and their targets for CO2 reduction and green energy production. BP had previously announced a strategic shift in priorities, reducing oil production and increasing the spend on their Transition Growth Engines, which are principally green energy projects. This was then agreed upon by a shareholders vote at the AGM, making BP a leader in their field. In 2023, BP altered their targets, announcing an increase in spending for these projects, but also an increase in oil and gas development. This translated into a significant change to the previously expected decline in CO2 emissions from the company's products.

Sustainability and the efforts to reach carbon net zero is a complex and evolving area. Our conversations here with BP and others have several aims. Firstly, it is important that we listen to key players and understand their thoughts and views. Secondly, it is via meeting with parties from all sides that enables us to form well considered views on these areas. These are then fed back to the companies we have invested in, to influence their actions positively.

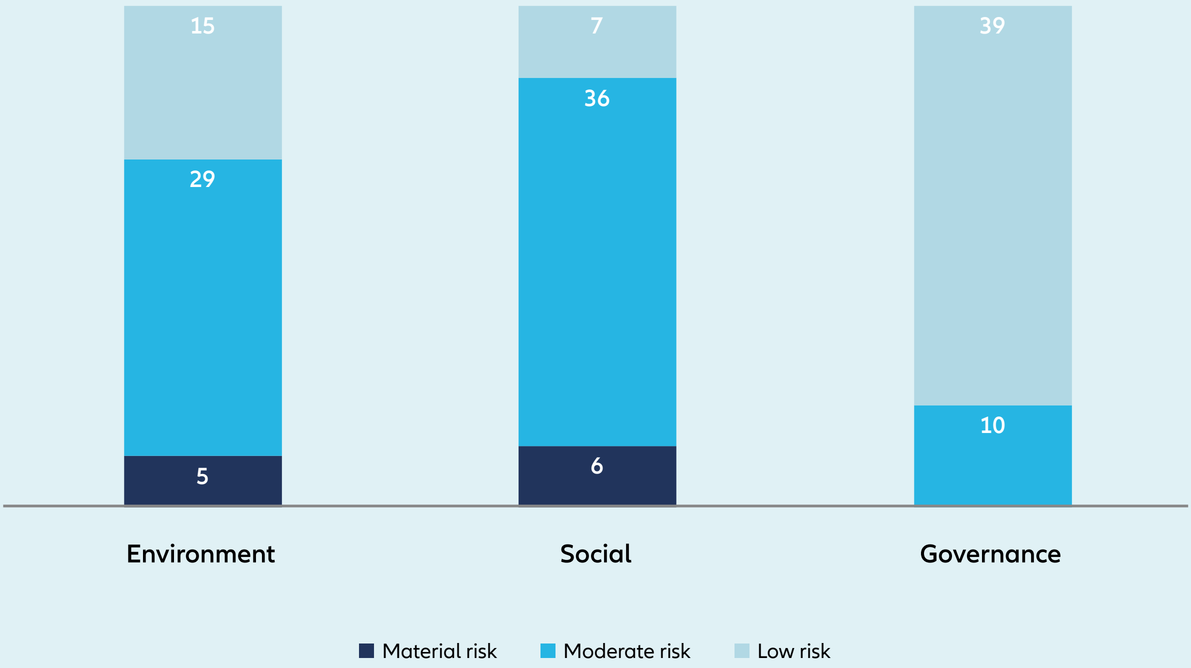
BP is in a difficult situation, which it describes as a trilemma, between Affordability, Accessibility and Sustainability. The squeeze on gas and oil prices caused by Russia's invasion of Ukraine has dramatically illustrated the issues here. Thus, the share price of BP jumped higher when it announced the change in strategy. There are complex merits and drawbacks of this change. Aside from our view on these, it seemed important to us that for an issue that shareholders had voted on originally, there should be another vote for any significant subsequent change. We expressed this view clearly to the company. Ultimately, we took the sanction of voting against the Chair of the Sustainability Committee at the AGM, as the changes were not put to a shareholder vote. We continue to engage with the company, its peers and the wider industry, to understand fully the issues and company strategies, and to ensure they align with our expectations for companies' financial and sustainability performance.

"In recent years, BP has been amongst the vanguard of energy companies who are transitioning activities towards more environmentally sustainable ways.

PHOTO © BP

Portfolio ESG Risk Assessment

ESG Risk Scores are not targeted as part of the investment objective. Instead, we use ESG scores as a means of monitoring underlying risk exposure, and providing transparency to clients. Ultimately, it is down to the discretion of individual portfolio managers to calculate the risk/reward trade-offs for each individual holding.



This chart displays the portfolio's exposure to ESG risk. The underlying data are risk scores for corporate issuers according to the ratings company MSCI. These scores aim to assess the potential financial risks arising from exposure and management of ESG issues.

The risk scale spans from 0 (material risk) to 10 (low risk). We have built three risk scoring clusters:

- Low: >7-10
- Moderate: >3.1-6.9
- Material: 0-3

AllianzGI has chosen MSCI risk scores as research information input since they aim to measure financially material ESG risks. There were 49 stocks with MSCI risk scores in the portfolio at 31 January 2024 and the chart above shows how the risks for each are scored against E,S and G factors.

Our approach to ESG and Sustainability

We integrate the analysis of Environmental, Social and Governance (ESG) issues into our investment process. This follows AllianzGI's proprietary methodology and is designed to enhance risk management by adding another dimension to existing investment processes; an assessment of the financially material ESG risks and opportunities within a broader investment case. Our approach also fosters and supports active engagement with company management.

Many ESG issues have the potential to become structural challenges if not addressed. Conversely, if harnessed to the company's advantage, they can become long-term opportunities that act as meaningful tailwinds for the business. Understanding how a company manages ESG issues therefore, as well as how external stakeholders like regulators and customers perceive them, is an essential part of the valuation discipline.

Within ESG, environmental issues have historically tended to draw the most attention. The need to decarbonise our global economy has rightly brought focus on to energy companies, the transportation sector and – more recently – agriculture. However, recent geo-political events saw these issues become more evenly balanced with social considerations, including security of supply and the need to provide affordable energy.

AllianzGI places high importance on the quality of boards as good governance goes hand-in-hand with better financial performance and high sustainability standards.

Looking at voting for the year ahead, AllianzGI intends to continue to strengthen its voting guidelines with respect to gender diversity. AllianzGI will set stricter board gender diversity targets for certain countries, raising the threshold to 40% for large UK, Italian and French companies and will also expect at least one female board member for all Asian-listed companies.

In the UK, across the whole business, AllianzGI voted against only 5% of all resolutions in 2023 (4% in 2022) as corporate governance standards continue to be high in the UK market. AllianzGI monitors a number of corporate governance reforms in the UK as it believes sound standards of shareholder protection are an important ingredient to support investor confidence in the market.

For the Merchants Trust portfolio, out of the 42 resolutions where we voted against management, we voted against four remuneration resolutions, at three different companies during the year, although only one of these was listed in the UK. In general, executive remuneration structures and disclosures are well-formed in the UK. We note that more companies proposed restricted share plans which were in line with expectations and saw high levels of support.

We added to high conviction holding Barclays during the year, whilst engaging with the company on the gender pay gap and biodiversity.

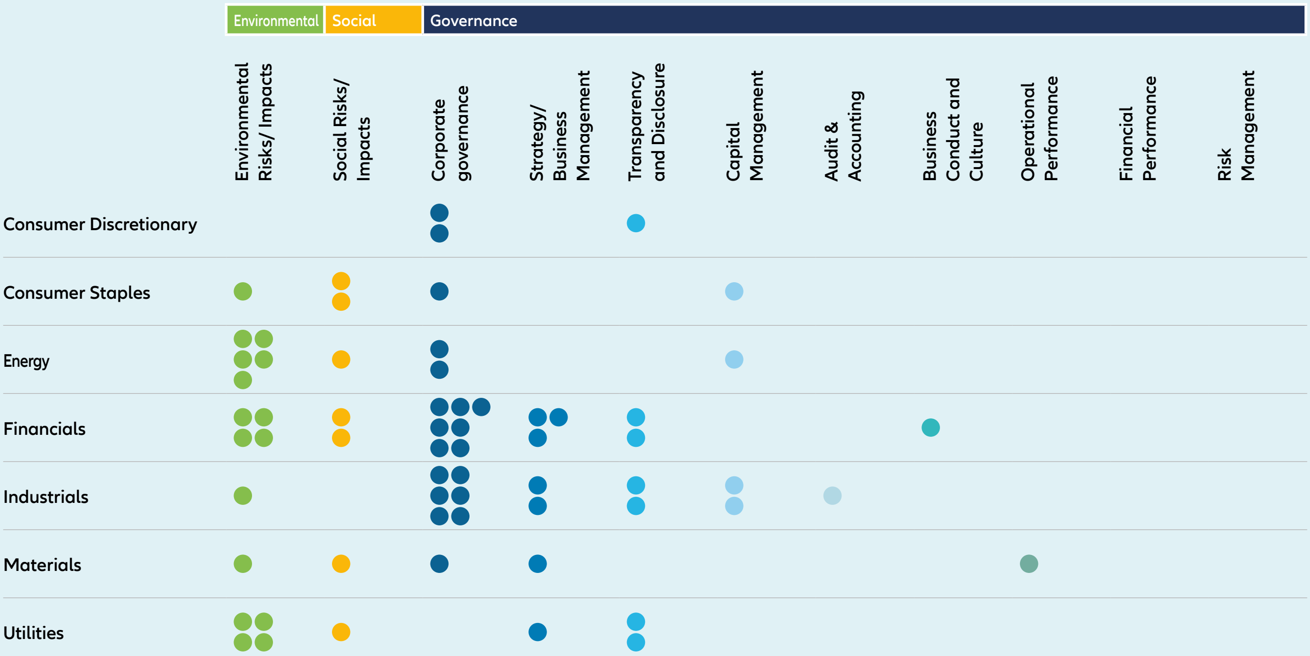
PHOTO © BARCLAYS PLC

Active Engagement

AllianzGI's engagement activities include: monitoring strategic developments, providing feedback, challenging corporate practices and seeking change.

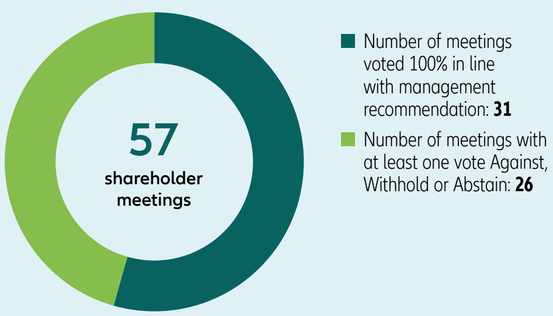
Engagement can take various forms, including correspondence; face-to-face meetings and conference calls, as well as Proxy Voting and – in rare instances – public interventions through filing shareholder resolutions, speaking at shareholder meetings, and commenting in the media. In addition, AllianzGI sees value in collaborative engagement initiatives coordinated by investors, trade associations and other organisations, where these seek to address market or industry-wide concerns. As an active investment manager, AllianzGI sees engagement as a way to reduce investment risk, help improve corporate performance and better assure the long-term business prospects of investee companies.

Company Engagements by Sector and Topic



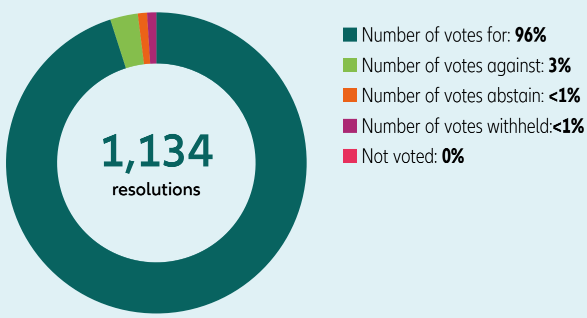
Proxy voting 1 February 2023 to 31 January 2024

Company meeting voting record



In the year there were 57 shareholder meetings for companies in the portfolio and the manager voted on the company's behalf at all 57 of these.

Vote distribution



This represents a total of 1,134 resolutions and the company voted on 100% of these. Source: AllianzGI.

Active Engagement

As investors, we have an important duty to engage with the boards and executive management teams of our investee companies. Over the course of the trust's financial year, AllianzGI has conducted 34 meetings with portfolio companies dedicated to furthering our understanding of ESG issues and encouraging management to take action. These engagements are separate and in addition to both our implementation of proxy votes and our more regular strategy and financials focused meetings.

Our engagements rest clearly on two approaches. Our risk-based approach focuses on the material ESG risks that we identify. The focus of engagements is determined by considerations such as significant votes against company management at past general meetings and sustainability issues that we identify as below market practice. Engagements can also be triggered by controversies connected to sustainability or governance. Engagement activities typically relate to an investee company's strategy, operational or financial performance, capital management, corporate governance and ESG risks and impacts.

We also lead themed engagement projects. These are either linked to AllianzGI's three strategic sustainability themes – climate change, planetary boundaries and inclusive capitalism – or related to governance themes within specific markets or more broadly. We identify thematic engagement projects based on topics that we deem to be important for our portfolio investments, for example energy transition or climate change. We observe an increasing number of requests from clients for engagement, in particular on topics such as climate and energy transition. Over the years, we have engaged extensively with our energy holdings Shell and BP around this topic and discussed the evolution of their business models and any shift to renewables. We have explained the BP engagement in a separate case study (on page 28).

As part of our thematic engagement on utilities, we engaged with SSE on their climate transition plan. Whilst there is a lot to do and there are still many uncertainties, we believe that SSE is well engaged in its transition. We also engaged with National Grid on biodiversity and on a second occasion, we had a discussion to better understand their climate transition plan. The regulated nature of their business means that their strategic decisions are to a large extent driven by regulatory bodies and policymakers. Going forward, we will need to monitor the delivery of the strategy over time due to the many moving parts involved, from politics/policymaking, feasibility & technology, and financial considerations.

Over the year, we also had several engagements with Barclays. We discussed the gender pay gap as the company had been flagged with a gender pay gap above 30%, we therefore wanted to look at what measures are currently being taken to address it; we intend to further engage with them on that topic. We also had an engagement with Barclays on biodiversity. Their biodiversity approach is leveraging on the existing climate works, as the two topics are interlinked. We feel that Barclays is quite advanced in addressing deforestation with tight policies that define well the commodities at risk and what they expect from corporates to comply. They understand the challenges for some clients and work closely with them in sensitive areas such as Brazil and the Amazon.

Among the medium sized companies in the portfolio, we have had several discussions with the recruitment company SThree about capital allocation. The company has a large net cash balance and we have been encouraging the board to consider buying back stock, which would enhance the per share value of the business.

Interactions can last over many years, spanning in-person meetings, email conversations, proxy voting seasons and even public debate.

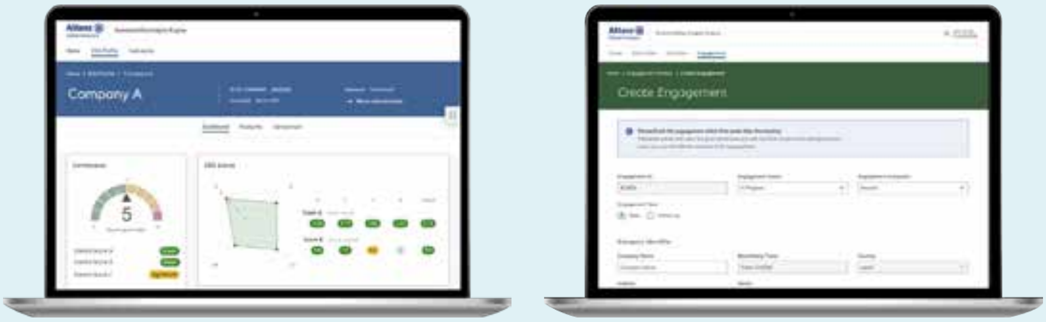
Income

The income stream from the portfolio has continued to recover from the pandemic period. In addition, there have been several special dividends in the insurance and banks sectors, with **Lancashire** being the largest.

In aggregate, revenue earnings per share increased by 6.3% to 30.5p. The

"Over the course of the trust's financial year, AllianzGI has conducted 34 meetings with portfolio companies dedicated to furthering our understanding of ESG issues and encouraging management to take action.

A State of the Art Sustainability tool: SuSIE



The investment team has access to the Sustainability Insights Engine (SusIE) system. It was developed by the AllianzGI Sustainability and Impact team and launched in 2022 to enable ESG-informed investment decision making for the fund managers.

Our digital platform uses state-of-the-art technology to facilitate mainstream access to a range of ESG data in one place for all.

A wide range of external ESG datasets complemented by in-house research

Our multi-provider-based strategy for ESG data ensures that we benefit from a broad spectrum of data inputs. SusIE processes, computes and transforms data from more than ten third-party vendors into standardised datasets using cloud data storage. This includes automated checks of pre- and post-data processing to ensure high quality standards and data integrity across the value chain.

SusIE is also our main portal to access proprietary sustainability scores with transparent and granular indicators. In 2023, SusIE was enhanced to distribute in-house research – thematic, sector and company research – from our sustainability research and stewardship analysts. External and internal insights contribute to the real integration of sustainability in our active investment decisions.

Looking ahead

Integrating non-financial factors into investment decision making is increasingly mainstream, but the choice and types of data being integrated is still evolving. ESG disclosures and complexity will only grow and the addition of further information to disclose will result in an even more challenging data system to report and understand. Therefore, AllianzGI will reinforce SusIE to shape the most meaningful solutions and, in doing so, demystify, inform and guide clients on the most appropriate methodologies and analytics for targeted outcomes. A strong proprietary sustainability data architecture is the cornerstone in understanding and aligning non-financial outcomes alongside financial returns.

In 2023, SusIE was developed further with a focus on embedding stewardship-related data and outcomes into a new Engagement module. Furthermore, supporting centralisation efforts we released a Sustainability Library where our investment team can access all information and document about transparency of our Sustainability Content from methodologies to research publications, methodological documents, policies and beyond.

SuSIE helps the portfolio managers identify risks and opportunities with the topics they engage on and how they fit into the portfolio process

Insight: **Barclays Bank**

SuSIE provides us with a snapshot of the ESG ratings on Barclays as well as any controversies facing the company. It is therefore easy to quickly assess ESG issues and consult all related engagement activities (see page 33).

Insight: **SSE**

All engagement activities are recorded and accessible on SuSIE. For SSE, we can check progress in their climate transition plan through the various engagements undertaken (see page 33).

directors have declared a dividend of 28.4p per share for the year, fully covered by earnings, with an increase in revenue reserves. Revenue reserves per share were up 11% at 18.1p (2023: 16.3p) at the year end.

Looking forward, even though the domestic economy is under some pressure, most of the companies in the portfolio should report steady or rising dividends. There are some industries, such as house-builders, where profit cyclicality is likely to lead to dividend cuts, and there are a small number of individual companies facing specific challenges. However, our current view is that we will not see the wholesale dividend cuts we saw during the Great Financial Crisis or the pandemic, partly because many high yielding industries like oil & gas, or mainstream banking, are in a far healthier state than they were in those earlier periods.

Derivatives

Over the full year, Merchants generated an additional income of £0.9m (2023: £0.9m) approximately 0.6p per share, from writing covered call options, on shares that we were willing to sell at specific strike prices. There were a small number of option exercises. Taking these into account and any movements in options value, there was an overall net profit from the strategy of £0.1m (last year net profit of £1.0m).

Economic and market outlook

We are optimistic about the opportunities for UK equities, and in particular for many of the more modestly priced shares in the portfolio, due to the low valuation of the UK stock market, the high dispersion of valuations within the market, and a belief that UK equities may start to attract more support from international investors in future. To understand why, it is important to look at what has been driving investor behaviour over recent years.

The latest economic statistics suggest that the UK economy was in a recession at the end of 2023, with two quarters of slightly negative economic growth. The magnitude of the decline in output was modest and may yet be revised. This situation can probably best be described as the economy broadly stagnating. We have not seen wholesale job losses and corporate retrenchment, typical of a recession, but certain industries have been under pressure, like housebuilding, due to the earlier spike in mortgage rates and weaker consumer confidence. There has also been a mixed picture globally, with certain industrial and consumer markets seeing volatile trading conditions and de-stocking, whilst other areas have been more robust.

This environment has made investors nervous over the outlook for many of the more economically sensitive, or cyclical companies. There have been profits warnings in sectors as diverse as luxury consumer goods, beverages, building and financial services. However, the stock market is forward looking. The outlook for interest rates has been driving share price movements within the stock market. Signs that central banks may cut interest rates have lifted many cyclical shares, as these would benefit most from a lower cost of money

Pet care business Pets At Home remains a high conviction holding which we substantially added to during the year.

"

The UK stock market is trading towards the lowest multiple it has traded at over the last 20 years. Valuation matters.

and the associated boost to consumer spending power. Conversely, any signs that the economy may be more resilient and inflation more sticky, have had the opposite effect.

With so much uncertainty, the stock market has been led by a narrow band of growth stocks, which investors have confidence can continue to grow rapidly, in almost any environment. These tend to be more highly rated companies. This has maintained the dispersion of valuations at a historically high level, and provides a fertile environment for stock pickers to uncover strong businesses that are significantly mis-priced.

Another important consideration when assessing the outlook, is the overall valuation of equities. The UK stock market is trading towards the lowest multiple it has traded at over the last 20 years. Valuation matters. According to Liberum research in January, the UK stock market was trading on a price to earnings ratio of around 10x. This means that investors, on average, were paying £10 for every £1 of profits after tax. Liberum have looked back, all the way to the end of the second world war, at the results of buying shares at different valuations. On average, the higher the starting valuation, the lower the subsequent returns. From this year's starting valuation, the average total return on UK equities over the subsequent decade was around 13% per annum. More importantly, in all historic periods observed, the lowest return from buying shares at the current valuation (or below) was above 5% per annum, over the subsequent decade. Of course, we cannot always rely on history to be a guide to the future, but this is nevertheless an encouraging place to start.

It is true that the UK stock market has looked cheap for some time, but we believe that many of the reasons for this are historic, and investor attitudes could well change. There have been two broad reasons that have put off many investors from investing in the UK; politics and economics. Both now look quite different to recent perception. Politically, the UK has been seen as risky, ever since the Brexit referendum in 2016. There has been concern from domestic and overseas investors over the impact of Brexit, the risk of a Jeremy Corbyn led Labour government in 2019, and the uncertainty during the Liz Truss prime ministership in 2022. All of this is now in the past. Although there is going to be a general election within the next year, the UK is not alone in this, and the likely policy gap between Labour and the Conservatives is modest. Both sides have learnt from recent events that financial markets will determine which spending and taxation plans are acceptable. The UK political landscape looks relatively stable and market friendly, compared to many other countries, both in Europe and the USA.

In terms of economics, there has been a narrative that the UK economic performance has been significantly worse than most other developed countries, with lower growth and higher inflation. However, news flow over the last few months has undermined both of these concerns. Economic statistics have been revised upwards to show that UK growth has been very similar to other developed countries, whilst inflation has moderated significantly as well. The UK economic outlook now looks very similar to much of Europe. In addition, the bulk of UK listed companies' sales and profits come from overseas anyway so the direct relationship with the domestic outlook is not as great as commonly believed.

A change in sentiment to the UK stock market could have significant impact. Money flows out of UK equity funds have led to forced selling of many smaller and medium sized companies, exacerbating the natural volatility caused by company fundamentals. If this process reverses, it could squeeze shares higher, especially given the low starting valuations. We have already seen several takeovers in the UK, and more seem likely as interest rates come down. We have also seen the first signs of improved interest in cyclical shares in the last few months of the year, with sectors like house-building having a strong run.

In summary, we see excellent opportunities for stock selection. Economic volatility and investor risk aversion have created pricing anomalies. With a lowly priced stock market and high dispersion, there are many fundamentally strong businesses that are deeply out of favour, offering the potential to pay attractive dividends and generate strong returns for investors. There are risks. The economic environment is uncertain, and some sectors and individual companies will have trading issues. Therefore, although we hold a relatively concentrated portfolio of around 50 companies, where we have strong conviction, the portfolio is diversified across various industries, with different geographic exposures and varying levels of economic cyclicality. The average valuation of shares in the portfolio is at a significant discount to the broader market. Amongst more defensive sectors we have investments in electricity distribution companies, food retail, tobacco and personal care. Amongst cyclicals there is a large exposure to the housing and construction sector (although not just in the UK), energy, financial services, industrial services and more.

We have seen in the last few years that following a disciplined approach to investing, based on the fundamental value of businesses, can lead to superior long-term performance. This can be particularly true after periods of high market dispersion, as neglected shares once again find support either from investors, or from other companies seeking to buy assets on the cheap. These are the market conditions that we see today, which support our confidence that we can meet Merchants' investment objectives.

New investment Assura plc currently owns 612 healthcare properties in the UK and Ireland, consisting mostly of GP surgeries.

PHOTO © ASSURA PLC

Carbon and Climate

Reporting on climate risks

Merchants is not required to report its carbon footprint or provide other climate related financial disclosures under current legislation (see page 73). AllianzGI UK, the trust's manager, will be publishing its own TCFD statement in the Summer of 2024 and Merchants will provide a link to this from its own website.

Insights

There are no climate-related targets for Merchants; the board and the portfolio managers do not make any claims about the carbon emissions status of the portfolio. However, the board and manager recognise that carbon is one of several significant factors in long term company and share price performance. Detailed ESG data including carbon information on portfolio companies is viewed at every board meeting and the managers' engagements with these companies and progress against the portfolio companies' own improvement targets are discussed in detail.

AllianzGI has its own internal sustainability insights platform SusIE (see page 34). An example of information in use: Merchants is invested in building materials producer CRH, which the tables below and in last year's report show a company which contributes significantly to the carbon footprint of the portfolio and is among the most carbon intensive of the companies we invest in, but which has a very strong fundamental investment case and is investing time and money on progress to decarbonisation.

Purpose of climate data

- Assists active engagement with portfolio companies
- Identifies investment risks and opportunities
- Provides feedback and helps monitor progress towards climate goals and carbon reduction targets
- Supports portfolio managers' influence to achieve positive future outcomes
- Consistent reporting shows year-on-year trends.

Some of these metrics, as last year, are shown below for Merchants' year to 31 January 2024.

Coverage	Total Carbon Emissions	Carbon intensity	
by weight	Emissions scope 1+2	Relative Carbon Footprint	Weighted average carbon intensity
95.6%	79,616.7	88.6	130.5
Market value	tCO_2e	tCO_2e/GBP m invested	tCO_2e/GBP m revenue

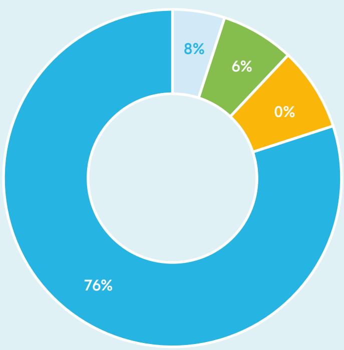
The table above analyses Merchants' portfolio in terms of carbon dioxide (CO_2) emissions invested. The table includes absolute and relative figures for portfolio carbon emissions as well as carbon intensity measures. All carbon emissions are based on Scope 1 and Scope 2 emissions data. Scope 1 aims to measure all direct emissions from the activities of a corporate entity or under its control. Scope 2 aims to measure all indirect emissions from energy purchased and used by the entity.

'Total Carbon Emissions' is the portfolio's absolute level of carbon footprint.

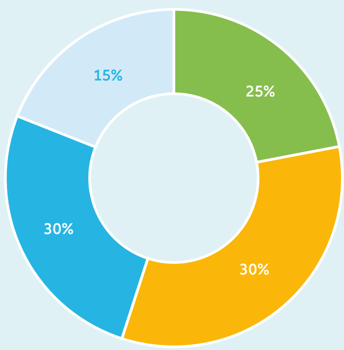
'Relative Carbon Footprint' is a normalised measure of a portfolio's carbon dioxide emissions investment contribution. It is the total carbon emissions of the portfolio per million GBP invested.

'Weighted average carbon intensity' measures the portfolio's exposure to carbon-intensive companies.

Sector weight



Contribution to emissions



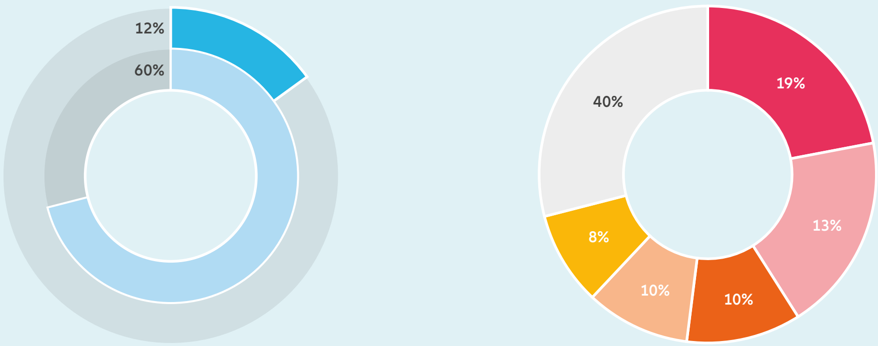
The sectors Energy, Materials, All other sectors (per GICS classification) in the portfolio make up 76% of the weight vs. 30% of the contribution to emissions. Each holding's contribution to the carbon footprint is calculated on an enterprise value ownership basis. Analysis is based on Scope 1+2.

Top 5 absolute contributors

The list below shows the 5 individual companies contributing most to the greenhouse gas emissions of the Merchants Trust. The chart on the right contrasts this with the value of those 5 companies within the portfolio.

Top 5 absolute contributors

	Company	Financed emissions (tCO_2e)	% of total	Portfolio weight
1	Shell	15,073.0	18.9%	4.0%
2	CRH	10,642.8	13.4%	1.1%
3	BP	7,810.3	9.8%	3.2%
4	Rio Tinto	7,632.1	9.6%	2.7%
5	Diversified Energy Company	6,708.6	8.4%	0.7%



Weighting of the top 5 contributors in the portfolio

Percentage of the top 5 contributor emissions of the total portfolio emissions

Top 5 carbon intensive firms per m GBP invested

	Company	Financed emissions (tCO_2e)	% of total	Portfolio weight
1	Rio Tinto	7,632.1	9.6%	2.7%
2	SSE	5,920.2	7.4%	3.0%
3	CRH	10,642.8	13.4%	1.1%
4	Shell	15,073.0	18.9%	4.0%
5	Energran	1,119.0	1.4%	2.2%

Carbon report statistics

Number of portfolio holdings	51
Number of issuers with carbon information	49
Percentage of portfolio NAV covered	95.64%
Portfolio NAV covered (in m GBP)	859.06

The Merchants Method: a closer look

Investment Philosophy

At the heart of our investment philosophy is a belief that stock markets are inefficient. By focusing on the fundamental qualities of businesses and identifying situations where those qualities are under-priced in the stock market, it is possible to deliver a high and rising income stream and superior long term returns for investors.

Income bias

There is compelling historical evidence that, on average, companies paying high dividend yields have delivered above average total returns, as well as a higher income stream. We therefore, principally, buy companies which have an above average yield, either today or within the near future.

However, the dividend yield is never a sufficient reason for buying a share. We only buy companies where we believe shareholders can make an attractive total return. The buy and sell decisions are both driven by total return considerations. Furthermore, we do not have a rigid policy to sell shares at a particular yield.

Research intensive, focus on cash flow

AllianzGI's research platform combines a large global team of investment professionals, including credit research analysts and sustainability specialists and our own Grassroots* market research organisation to provide our fund managers with in-depth analysis of businesses and industries as well as insights into structural and cyclical trends.

Our research particularly focuses on the analysis of sustainable company cash flows, which typically provide the truest measure of corporate performance.

Stock Selection

Our stock selection process blends together a view on company fundamentals, valuation and external themes. Essentially we are trying to answer three critical questions: How good is this business? Are the shares undervalued? How supportive is the environment?

The fundamentals can be thought of as a full understanding of the strength of a company. We need to understand the prospects for the business area or industry that the company operates within. We analyse the company's competitive position, its products, brands, assets and technology to help understand the barriers to competition and the sustainability of returns. We also analyse the company's financial profile and consider all the relevant ESG factors.

*Grassroots[SM] is a division of Allianz Global Investors

Income bias

1
Target stocks yielding at least in line with the market within 18 months.

2
Yield alone is never a sufficient reason for buying a share

3
Purchase/sale driven by total return considerations

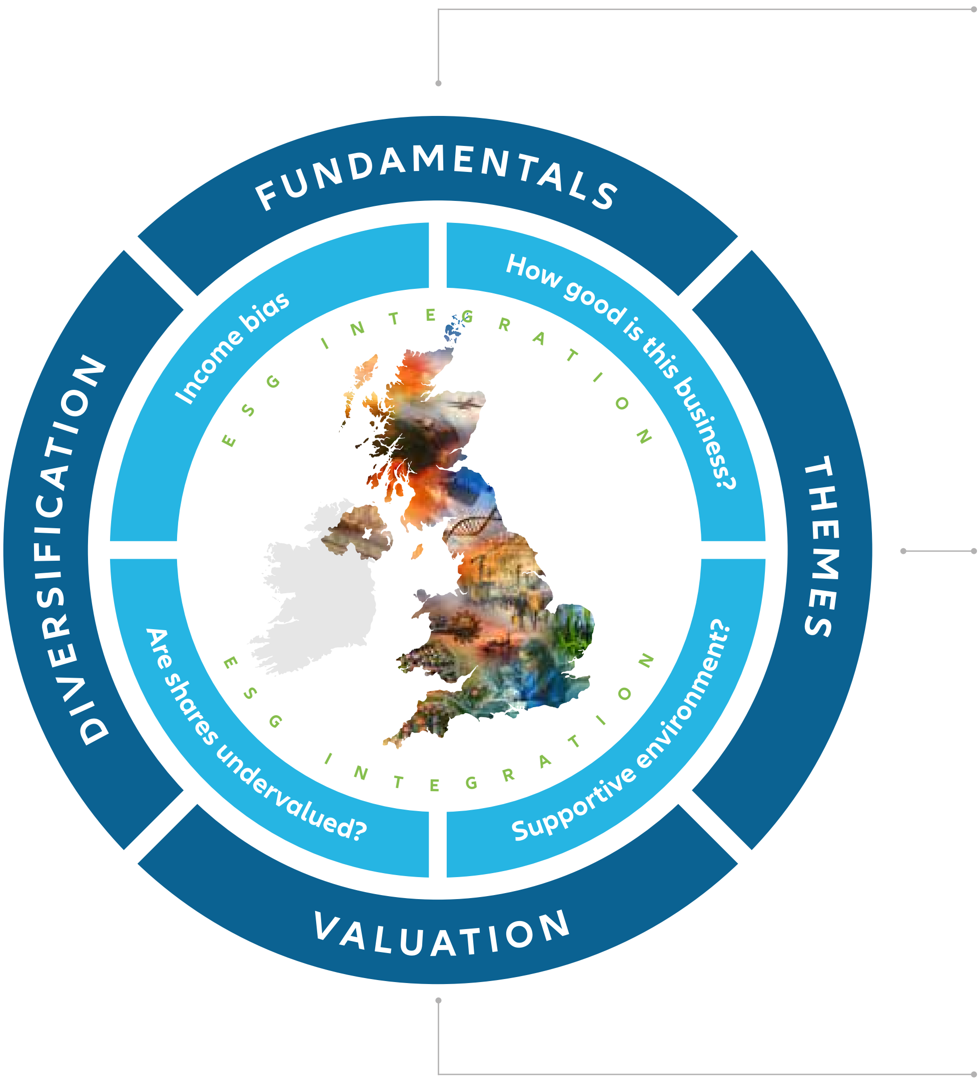
4
No automatic sale if yield drops below market level

(In exceptional cases we may buy a share with a yield below average if the share/sector represents both: a) a large part of the benchmark, and b) we believe the share/sector could perform well).

When considering valuation, our aim is to identify companies that are trading well below their intrinsic value. Whilst we invest in high yielding companies, our primary focus is on companies that are undervalued compared to their sustainable cash generation, but we also consider other measures such as earnings and asset values. We primarily apply an absolute return mindset when valuing companies. Understanding valuation also helps towards understanding risk, not primarily in terms of tracking error or volatility of returns, but in terms of the risk of loss of capital value.

The third aspect of the buy discipline is themes, which are critical due to the dynamic nature of businesses and industries. Themes describe the environment in which a business operates. Themes can be broad, across the whole economy, or specific to a particular industry or sector, and they can be structural or cyclical. Themes can be positive or negative factors. They help us to understand the likelihood of various scenarios happening in the future and they can provide insight into the timing and pace of change. Perhaps most importantly for a value investment discipline, themes can help us to identify and avoid "value traps", or shares that appear cheap, but where a low valuation is deserved due to structural challenges or disruptive threats to an industry.

Bringing these three criteria together we are able to understand the fundamental strengths of a business, what return and risk is reflected or discounted in its valuation and how supportive the thematic environment is for the business and how this might be expected to change in the future.



Fundamentals

- Competitive Positioning
- Financial Profile
- Business Model
- ESG Factors

Themes

- Structural trends/risks
- Industry cycle
- Economic cyclicality
- Identifying value traps

Valuation

- Cash/earnings based
- Asset backing
- DCF analysis
- Absolute return focus

Sell Discipline

Stocks will be sold from the portfolio for one or more of the following reasons:

A stock reaches its target price. Target prices are regularly reviewed in the context of the company's fundamentals and the wider market. We adopt a gradualist approach in most circumstances, reducing positions as shares approach fair value.

Sell Discipline
1. Achieves target price
2. Change of investment case
3. Better opportunities elsewhere

A change to the investment thesis on a stock. We carefully reassess our investment thesis in response to relevant news flow.

We can identify better alternative investment opportunities, or similar opportunities with a more attractive risk profile.

Portfolio Construction

The portfolio consists of a concentrated selection of typically between 40 – 60 shares, chosen on individual merits, but taking account of the overall exposure to different industries and cyclical and structural themes. The size of each holding will reflect the level of conviction in the investment view, the potential valuation upside and the specific risk profile of the shares. At the portfolio level, the aim is to provide a diversified income stream and attractively priced exposure to a broad range of sectors and geographic regions.

See the Portfolio Breakdown on pages 50 and 51 for the specific attributions of each stock.

Integration of ESG in the investment process

Companies do not exist in isolation. The environmental footprint of a business, and the impact of its operations on the wider community need to be analysed and taken into account. Also we need to understand social risks in a company, how it interacts with workers, suppliers and society generally.

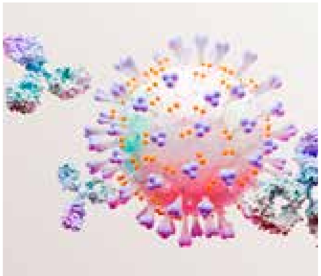
Equally important is the corporate governance framework, management track record and incentive structure. We integrate these ESG factors into our investment decisions. We do not exclude whole industries from the portfolio, but portfolio managers have to formally acknowledge any identified significant tail risks. We actively engage with investee companies on these risk factors to promote best practice.

AllianzGI has integrated the consideration of ESG factors into our company research process.

This process ensures:

- Formal consideration of Environmental, Social and Governance factors for every investment
- Companies with a low score on any ESG factor, are sold or need a documented justification from the portfolio manager
- Process independently monitored with daily exception reporting
- Our long term risk assessment is enhanced.

Top Twenty Holdings



GSK

Sector: Pharmaceuticals & Biotechnology
Value of holding: £45,394,000
Percentage of portfolio: 5.2%
Benchmark weighting: 2.8%

GSK (formerly GlaxoSmithKline) is a global bio-pharmaceutical company. Following the demerger of its consumer health business, the company is focused on vaccines, speciality medicines (in areas such as HIV, respiratory illnesses and oncology), with some general medicines.

Our investment case is based upon the underappreciated improvement in the operational performance of the business, after a period of rationalisation, and some promising new product developments. For example, the company is developing new treatments and prevention therapies in its key HIV franchise, which are securing its long-term future. GSK also sees good growth prospects from a new RSV vaccine and its Shingrix (shingles) vaccine which dominates that large market. GSK has recently significantly increased its long term projection for sales in 2031, demonstrating higher confidence in the business transformation.

Shell

Sector: Oil, Gas & Coal
Value of holding: £35,579,000
Percentage of portfolio: 4.1%
Benchmark weighting: 7.1%

Shell is a globally integrated energy company. By reallocating part of the profits from its legacy oil & gas activities towards lower carbon solutions, Shell is playing a key role in delivering the energy transition. Shell has a leading position in gas and liquified natural gas, which has lower emissions than oil or coal-based energy alternatives.

Under its "Powering Progress" strategy, Shell is increasing its capital expenditure into renewables and energy solutions. These include electrical charging platforms, wind power generation and nature-based carbon offsetting. The company believes its own emissions peaked in 2018, and it was the first energy major in Europe to sign up to the Science-Based Targets Initiative (SBTI) for reaching net zero.

Our investment case has been based upon Shell's improving efficiency and profitability, a sound capital allocation strategy, which includes both financial returns and carbon emission criteria, and a modest valuation.

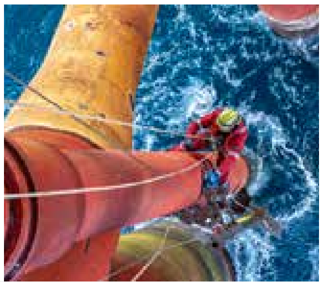

British American Tobacco

Sector: Tobacco
Value of holding: £32,973,000
Percentage of portfolio: 3.8%
Benchmark weighting: 2.3%

British American Tobacco (BAT) is one of the world's largest tobacco companies. BAT generates the majority of its profits from traditional cigarettes, but also has a fast-growing portfolio of next-generation and non-combustible products. These potentially offer reduced risk to consumers. These amounted to c 17% of revenues in 2023 and have been growing rapidly, as the company prioritises investment in this area. These products have also achieved a profit contribution two years ahead of the original target.

BAT has an impressive record of profit and dividend growth, with strong positions in a number of emerging markets, as well as a large share of the US market.

In 2017, we sold out of tobacco investments completely, as the sector was highly valued and did not allow for the risks of structural decline in smoking, competition from new products and changing investor attitudes to the sector. With share prices considerably lower than they were at their 2017 heights, the sector offers value, especially given its economically defensive characteristics. We are encouraged by how the companies are addressing important social issues in their supply chain, as well as the development of less harmful products.

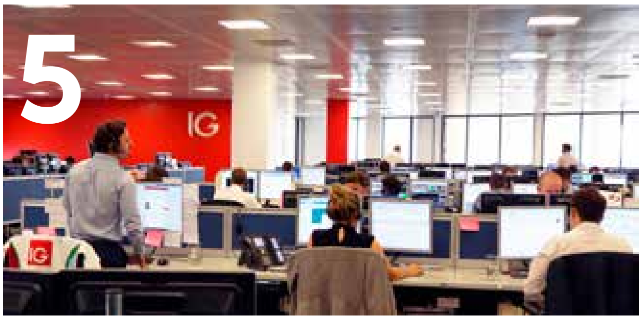



BP

Sector: Oil, Gas & Coal
Value of holding: £28,774,000
Percentage of portfolio: 3.3%
Benchmark weighting: 3.4%

The investment case in BP is similar to Shell. BP is one of the global 'Oil Majors' – the largest and most influential multinational energy producers, with a blend of traditional energy assets and a growing focus on renewable energy. BP has a robust portfolio in oil and gas, providing strong cash flow generation and a solid financial foundation. It is vertically integrated, meaning it explores for hydrocarbon deposits, extracts this oil and gas, and then carries out various downstream activities. These include trading, refining, distribution and marketing (i.e. petrol stations) as well as power generation.

We increased investment in BP at depressed prices three years ago, to take advantage of an improving outlook, and in recognition of BP's shift in strategy towards clean energy, mobility, and other services. BP plans to have approximately 50% of its capital investment in its "Transition Growth Engines" by 2030, in activities like renewable power, EV charging and bioenergy.



IG Group

Sector: Investment Banking & Brokerage
Value of holding: £27,548,000
Percentage of portfolio: 3.1%
Benchmark weighting: 0.1%

IG is a leading global provider of financial derivatives contracts to the retail market. It is a growing and high return digital business, serving the demands of sophisticated investors. Offering exposure to a broad selection of assets, IG benefits from financial market volatility. It is exposed to positive themes such as rising wealth and increased disposable income to invest, and digital trends allowing people to trade in more assets, in more places at more times of the day.

DCC

Sector: Industrial Support Services
Value of holding: £27,129,000
Percentage of portfolio: 3.1%
Benchmark weighting: 0.3%

DCC is a distribution business with an excellent track-record of growth. The company currently operates across three areas: energy, healthcare, and technology. Having started in Ireland and the UK, DCC acts as a consolidator in fragmented markets in Europe and the USA, reducing inefficiencies and boosting margins. The valuation is modest for a company with such a strong track record.

SSE

Sector: Electricity
Value of holding: £26,539,000
Percentage of portfolio: 3.0%
Benchmark weighting: 0.8%

SSE is a diversified energy company largely focused on electricity transmission and distribution networks in Scotland and England, and electricity generation assets. The company has built a leading UK portfolio of renewable power assets which has created significant shareholder value. The investment case for SSE is based upon the long-term growth opportunities in both of its main businesses and a modest valuation.

Barclays

Sector: Banks
Value of holding: £25,751,000
Percentage of portfolio: 2.9%
Benchmark weighting: 1.0%

Barclays is a diversified provider of financial services, spanning retail banking, wealth management, credit cards and investment banking. Having taken large, precautionary provisions during the pandemic, Barclays is seeing a strong improvement in profits and is increasing dividend payments as the economy recovers. Investment banking operations provide diversification benefits, and the balance sheet is strong, as banking regulations have been tightened since the financial crisis.

Inchcape

Sector: Industrial Support Services
Value of holding: £25,347,000
Percentage of portfolio: 2.9%
Benchmark weighting: 0.1%

Inchcape is the world's largest independent car distribution company. It is consolidating a fragmented market and growing through M&A. Car manufacturers increasingly need stronger partners in smaller markets to provide digital capabilities and industry best practice, allowing Inchcape to expand rapidly. We see additional opportunities to significantly increase earnings from services over the lifecycle of the vehicle, including used car sales, spare parts distribution and financial services.

WPP

Sector: Media
Value of holding: £25,263,000
Percentage of portfolio: 2.9%
Benchmark weighting: 0.4%

WPP is a leading advertising and media agency group, with a broad span of businesses, covering creative work and communications. The company has been restructured from a conglomerate into a smaller number of more integrated businesses. This is increasing the focus on higher growth sectors of technology, e-commerce, and experiences, to address an evolving marketplace. WPP's modest valuation does not reflect the repositioning of the business.

Tate & Lyle

Sector: Food Producers
Value of holding: £24,215,000
Percentage of portfolio: 2.8%
Benchmark weighting: 0.1%

Tate & Lyle is a business in transition. The company has divested most of its more commoditised operations, focusing instead on the production of higher value food and beverage ingredients and solutions. These are designed to reduce calories, add dietary fibre, or improve nutritional qualities and taste. Tate's improving returns profile and growth prospects are not recognised in the company's valuation.

Rio Tinto

Sector: Industrial Metals & Mining
Value of holding: £24,213,000
Percentage of portfolio: 2.8%
Benchmark weighting: 2.6%

Rio Tinto is a leading global metals and mining company, with activities spanning Iron Ore, Aluminium, Copper, and Minerals. Rio has world-class, low-cost assets capable of generating strong financial returns. Our investment case is based on attractive long term industry fundamentals, strong financial returns, and high dividends, which we did not believe were fully reflected in the shares at the time of purchase.

Drax Group

Sector: Electricity
Value of holding: £23,659,000
Percentage of portfolio: 2.7%
Benchmark weighting: 0.1%

The shares are cheaply valued in the context of current profitability, particularly as demand for clean energy grows. Longer-term, the development of bioenergy carbon capture and storage technology has the potential to become a meaningful growth driver for the company.

Redrow

Sector: Household Goods & Home Construction
Value of holding: £23,226,000
Percentage of portfolio: 2.7%
Benchmark weighting: 0.1%

Redrow is a housebuilder operating at the premium end of the market. There is long term structural growth in demand for housing, a shortage of supply and favourable competitive industry dynamics. With limited technological risk, this is an attractive, though cyclical, industry. Despite short term economic risks, we see good value in the company, backed by a large and valuable land bank, and strong balance sheet.

Lloyds Banking Group

Sector: Banks
Value of holding: £22,544,000
Percentage of portfolio: 2.6%
Benchmark weighting: 1.2%

Lloyds is the leading UK retail bank with a broad branch network and market share of around 20% in most retail products. With a focus on digital transformation Lloyds is enhancing operational efficiency, aiming for cost reduction and improved service delivery. Lloyds has traditionally earned a premium return on equity by prioritising margin over volumes, and through economies of scale. The bank has considerable interest rate tailwinds, a strong balance sheet and is starting to convert earnings into cash for shareholders.

Imperial Brands

Sector: Tobacco
Value of holding: £21,599,000
Percentage of portfolio: 2.5%
Benchmark weighting: 0.7%

Imperial Brands is a major global producer of cigarettes, tobacco, and nicotine products. The investment case is similar to British American Tobacco, although Imperial is further behind in next generation products. Under new management, the business has delivered improved operational performance. Having reduced its debt, it has now also started to buy back shares, helping the shares' performance.

National Grid

Sector: Gas, Water & Multiutilities
Value of holding: £21,364,000
Percentage of portfolio: 2.4%
Benchmark weighting: 1.7%

National Grid is a British multinational electricity and gas utility company. National Grid has pivoted its portfolio away from gas towards electricity, aligning towards the global shift towards electrification of the energy supply, capitalising on growth from the UK electricity network transition and the US. With a very defensive business model, National Grid benefits from inflation protection in revenues and offers a steady dividend yield.

Unilever

Sector: Personal Care, Drug & Grocery Stores
Value of holding: £19,850,000
Percentage of portfolio: 2.3%
Benchmark weighting: 4.2%

Unilever is one of the world's largest consumer goods companies. With 2023 revenues of over €59bn, the business is currently split across five divisions: Beauty & Wellbeing, Personal Care, Home Care, Nutrition and Ice-Cream. Unilever's products span over 400 brands in over 190 countries, including Dove, Cif and Magnum. The shares overly discount recent challenging performance, despite the longer-term growth potential of its brands and its presence in emerging markets.

Energean

Sector: Oil, Gas & Coal
Value of holding: £19,360,000
Percentage of portfolio: 2.2%
Benchmark weighting: 0.1%

Energean is an international predominantly gas-based hydrocarbon exploration and production company, that has developed a large platform in the Eastern Mediterranean. This asset has now moved to almost full production and will supply around half of Israel's domestic gas demands. With a strong ESG profile, low commodity risk and inflation linked contracts it is starting to generate an attractive free cash flow yield.

Legal & General

Sector: Life Insurance
Value of holding: £18,870,000
Percentage of portfolio: 2.2%
Benchmark weighting: 0.7%

Legal & General is one of the UK's largest life insurance companies, a market-leading asset manager and provider of pension solutions. The company is also a major investor in UK infrastructure, and urban regeneration projects. L&G has achieved significant growth in areas such as individual and bulk annuities, and the expansion of its asset management division, which underpins a rising dividend and an attractive yield.

Portfolio Breakdown

at 31 January 2024

Name	Principal Activities	Value £'000s	% of listed holdings	Benchmark weighting
GSK	Pharmaceuticals & Biotechnology	45,394	5.2	2.8
Shell	Oil, Gas & Coal	35,579	4.1	7.1
British American Tobacco	Tobacco	32,973	3.8	2.3
BP	Oil, Gas & Coal	28,774	3.3	3.4
IG Group	Investment Banking & Brokerage	27,548	3.1	0.1
DCC	Industrial Support Services	27,129	3.1	0.3
SSE	Electricity	26,539	3.0	0.8
Barclays	Banks	25,751	2.9	1.0
Inchcape	Industrial Support Services	25,347	2.9	0.1
WPP	Media	25,263	2.9	0.4
Tate & Lyle	Food Producers	24,215	2.8	0.1
Rio Tinto	Industrial Metals & Mining	24,213	2.8	2.6
Drax Group	Electricity	23,659	2.7	0.1
Redrow	Household Goods & Home Construction	23,226	2.7	0.1
Lloyds Banking Group	Banks	22,544	2.6	1.2
Imperial Brands	Tobacco	21,599	2.5	0.7
National Grid	Gas, Water & Multiutilities	21,364	2.4	1.7
Unilever	Personal Care, Drug & Grocery Stores	19,850	2.3	4.2
Energean	Oil, Gas & Coal	19,360	2.2	0.1
Legal & General	Life Insurance	18,870	2.2	0.7
Land Securities Group	Real Estate Investment Trusts	17,892	2.1	0.2
Grafton Group	Industrial Support Services	17,425	2.0	0.1
Pets At Home Group	Retailers	17,372	2.0	0.1
Morgan Advanced	Electronic & Electrical Equipment	16,531	1.9	0.0
Man Group	Investment Banking & Brokerage	16,104	1.8	0.1
Tesco	Personal Care, Drug & Grocery Stores	15,763	1.8	0.9
Keller	Construction & Materials	15,215	1.7	0.0
Next	Retailers	14,819	1.7	0.5
Lancashire Holdings	Non-Life Insurance	14,774	1.7	0.1
SThree	Industrial Support Services	13,351	1.5	0.0
OSB Group	Finance & Credit Services	13,278	1.5	0.1
Bellway	Household Goods & Home Construction	13,156	1.5	0.1
Tyman	Construction & Materials	13,083	1.5	0.0
PZ Cussons	Personal Care, Drug & Grocery Stores	12,706	1.5	0.0

Name	Principal Activities	Value £'000s	% of listed holdings	Benchmark weighting
Haleon	Pharmaceuticals & Biotechnology	12,378	1.4	0.8
Conduit Holdings	Non-Life Insurance	12,125	1.4	0.0
Marshalls	Construction & Materials	11,671	1.3	0.0
Aena	Industrial Transportation	10,788	1.2	0.0
Close Brothers Group	Banks	9,919	1.1	0.0
Assura	Real Estate Investment Trusts	9,799	1.1	0.1
CRH	Construction & Materials	9,561	1.1	0.0
Entain	Travel & Leisure	9,534	1.1	n/a
SCOR	Non-Life Insurance	9,202	1.1	0.0
Atalaya Mining	Precious Metals & Mining	7,634	0.9	0.0
CLS Holdings	Real Estate Investment & Services	7,099	0.8	0.0
Admiral Group	Non-Life Insurance	7,030	0.8	0.3
DFS Furniture	Retailers	6,437	0.7	0.0
Diversified Energy Company	Oil, Gas & Coal	6,073	0.7	0.0
Norcros	Construction & Materials	5,667	0.6	0.0
XP Power	Electronic & Electrical Equipment	5,274	0.6	0.0
Duke Royalty	Investment Banking & Brokerage	3,811	0.4	0.0
	% of Total Invested Funds	**874,668**	**100.0**	

The portfolio has been broken down into three categories to provide shareholders with a greater insight into the investment rationale for different shareholdings. These are:

Classic Value: These are valuation-driven investments. Typically, the shares of a company will trade at a substantial discount to their intrinsic value because the business is misunderstood or out of favour with the market. While there need not be long-term growth, the business model is structurally sound and financial risk is limited.

Franchise: These are business model driven investments. Our investment cases are always premised on attractive absolute valuations. However, a franchise investment has the added advantage of delivering long-term growth with the potential to compound value. These are quality companies with sustainable advantages where either the market has lost sight of the fact or has yet to recognise it.

Special Situations: These are catalyst driven investments. Each business within this category will face a unique set of circumstances that has caused the value of the shares to weaken significantly. These can include business turnarounds, spin-offs or balance sheet restructurings. For us to invest in such an event, the market's perception of this weakness needs to be overstated in the share price. Conversely, the market is also likely to be slow in recognising any ensuing recovery.

Written Call Options

As at 31 January 2024, the market value of the open option positions was £(57,000) (2023: £(20,000)), resulting in an underlying exposure to 1.9% of the portfolio (valued at strike price).

Distribution of Total Assets

at 31 January 2024

	2024 Total %	2024 Composite Benchmark Sector Weighting	2023 Total %
Financials			
Banks	6.8	9.0	5.7
Finance & Credit Services	1.6	2.0	1.3
Investment Banking & Brokerage	5.5	2.9	8.4
Life Insurance	2.2	2.4	1.7
Non-Life Insurance	5.0	0.8	5.3
	21.1	**17.1**	**22.4**
Industrials			
Aerospace & Defence	-	3.3	2.4
Construction & Materials	6.5	0.4	6.3
Electronic & Electrical Equipment	2.5	1.0	1.5
General Industries	-	1.6	-
Industrial Engineering	-	0.6	-
Industrial Support Services	9.8	3.6	7.1
Industrial Transportation	1.3	1.2	-
	20.1	**11.7**	**17.3**
Consumer Staples			
Beverages	-	3.1	-
Food Producers	2.8	0.7	2.7
Personal Care, Drug & Grocery Stores	5.7	7.6	6.1
Tobacco	6.4	3.0	7.1
	14.9	**14.4**	**15.9**
Consumer Discretionary			
Automobiles & Parts	-	0.1	1.3
Consumer Services	-	1.6	-
Household Goods & Home Construction	4.2	1.3	4.1
Leisure Goods	-	0.2	-
Media	3.0	4.1	2.7
Personal Goods	-	0.3	-
Retailers	4.5	1.5	4.9
Travel & Leisure	1.1	3.5	2.5
	12.8	**12.6**	**15.5**
Energy			
Oil, Gas & Coal	10.6	10.8	10.9
	10.6	**10.8**	**10.9**

	2024 Total %	2024 Composite Benchmark Sector Weighting	2023 Total %
Utilities			
Electricity	5.9	0.9	4.2
Gas, Water & Multiutilities	2.5	2.7	1.8
Waste & Disposal Services	-	-	
	8.4	**3.6**	**6.0**
Health Care			
Pharmaceuticals & Biotechnology	6.7	10.7	6.6
Health Care Providers	-	-	-
Medical Equipment & Services	-	0.6	-
	6.7	**11.3**	**6.6**
Telecommunications			
Telecommunications Equipment	-	-	-
Telecommunications Service Providers	-	1.1	1.1
	-	**1.1**	**1.1**
Basic Materials			
Chemicals	-	0.6	-
Industrial Materials	-	-	-
Precious Metals & Mining	0.9	6.3	0.6
Industrial Metals & Mining	2.8	0.2	4.0
	3.7	**7.1**	**4.6**
Real Estate			
Real Estate Investment Trusts	3.3	2.3	2.2
Real Estate Investment & Services	0.8	0.4	1.0
	4.1	**2.7**	**3.2**
Technology			
Software & Computer Services	-	1.4	-
Technology Hardware & Equipment	-	-	-
	0.0	**1.4**	**0.0**
Not classified	-	6.2	-
Total Investments	**102.4**	**100.0**	**103.5**
Net Current Liabilities	**(2.4)**	**-**	**(3.5)**
Total Assets*	**100.0**	**100.0**	**100.0**

The classifications and prior year comparatives have been updated, where required, to reflect recent changes in the Industry Classification Benchmark (ICB) standard.

* Total Assets (less creditors due within one year) £854,388,000 (2023: £879,184,000).

Performance – Review of the Year

Review of the Year

Revenue

	2024	2023	% change
Income (£'000s)	49,563	42,821	+15.7
Revenue earnings attributable to ordinary shareholders (£'000s)	44,509	38,626	+15.2
Revenue earnings per ordinary share	30.5p	28.7p	+6.3
Dividends per ordinary share in respect of the year[1]	28.4p	27.6p	+2.9

Assets

	2024	2023	Capital return % change	Total return[2] % change
Net asset value per ordinary share with debt at par	530.9p	579.7p	-8.4	-3.6
Net asset value per ordinary share with debt at market value (capital)[1]	538.6p	585.1p	-7.9	-3.1
Ordinary share price	543.0p	591.0p	-8.1	-3.4
FTSE All-Share	4,173.1	4,255.7	-1.9	+1.9
Premium of ordinary share price to net asset value (debt at par)[1]	2.3%	1.9%	n/a	n/a
Premium of ordinary share price to net asset value (debt at market value)[1]	0.8%	1.0%	n/a	n/a
Ongoing charges[1, 3]	0.55%	0.56%	n/a	n/a

[1] Inclusive of third and final dividends.
[2] NAV total return reflects both the change in net asset value per ordinary share and the net ordinary dividends paid.
[3] The ongoing charges percentage is calculated in accordance with the explanation given on page 130.
A Glossary of Alternative Performance Measures (APMs) can be found on page 129.

Strategic Report

Housing product manufacturer Tyman was another strong performer. Tyman holds a leading position in the North American market, where it estimates more than 17 million new homes will be needed by 2030.

PHOTO © TYMAN

Our Strategy

Business Model

The Merchants Trust carries on business as an investment company and follows the investment policy described below. The company is governed by an independent board of non-executive directors and has no employees or premises of its own. Like other investment companies, it outsources investment management, accounting, company secretarial and other administration services to an investment management company – Allianz Global Investors UK Limited (AllianzGI UK) – and other third parties to provide shareholders with an efficient, competitive, cost-effective way to gain wide investment exposure through a single investment vehicle.

The company has a premium listing on the London Stock Exchange. In addition to annual and half-yearly financial reports, the company announces net asset values per share daily and provides more detailed information monthly to the Association of Investment Companies (AIC), of which the company is a member, in order for brokers and investors to compare its performance with its peer group.

A review of the company's business, activities and prospects is given in the Chairman's Statement starting on page 7, and in the Investment Manager's Review starting on page 17.

Strategy Review

Every year we hold a Strategy Meeting outside the regular timetable of board meetings. At the most recent meeting the topics covered included:

- Market background and portfolio positioning
- UK equity team resourcing and long term succession
- Marketing and the evolution of the trust's digital strategy
- Gearing and a refinancing review

The financing and refinancing of borrowings would continue to be kept under review to ensure the gearing structure was appropriate and to manage debt maturities.

The board would receive reports on digital developments in the year ahead to understand its audience of retail, platform and wealth management investors. This would enable Merchants to promote and stimulate retail investor demand through compelling and authentic communications from the trust and reaffirm Merchants as a core income vehicle for investors in UK equities.

Investment Policy

Objective

The Merchants Trust aims to provide an above average level of income and income growth together with long term capital growth through a policy of investing mainly in higher yielding large UK companies.

Performance is benchmarked against the FTSE All-Share Index, reflecting the emphasis within the portfolio. The company's investment performance is also assessed by comparison with other investment trusts within the UK Equity Income sector.

Gearing

The company's policy is to remain substantially fully invested. The company has the facility to gear – borrow money – with the objective of enhancing future returns. Gearing is in the form of a short term revolving credit facility and fixed rate longer term borrowings. The board monitors the level of gearing and makes decisions on the appropriate action based on the advice of the manager and the future prospects of the company's portfolio.

The company's authorised borrowing powers set out in the Articles state that the company's borrowings may not exceed its called up share capital and reserves. The board's policy is to maintain gearing (borrowings as a percentage of net assets) in the range of 10 - 25%, (measured at the time that any increase in total borrowing facilities is agreed). Gearing averaged 13.8% in the year to 31 January 2024 (2023: 12.1%).

Depending on equity market conditions, gearing may be outside this range from time to time but it is not the board's intention to increase total borrowing facilities if gearing is above the range.

Risk Diversification

The company aims to achieve a spread of investments, with no single investment representing more than 15% of assets. The company seeks to diversify its portfolio into at least five market sectors, with no one sector comprising more than 35% of the portfolio.

Strategic Aims

The company's aims, as reflected in the KPIs reporting on page 14, continue to be to:

Dividends

- Provide a high and progressively growing income stream. The chart on page 6 shows dividend increases every year since 1982 and the KPI chart on page 15 shows the contribution to dividend reserves in the past five years.

Shareholder return

- Provide long term capital growth
- Provide a long term total return above the benchmark and peers
- The KPI chart on page 15 shows the returns against the benchmark.

Investor appeal

- Position Merchants to outperform peers, ensuring that the company remains relevant and attractive to new and existing investor groups
- Manage the costs of running the company so that they remain reasonable and competitive
- The KPI charts on page 15 include a comparison of ongoing charges against the peer group.

Investment Strategy

We aim to achieve our objective through a strategy of investing in a portfolio of mainly higher yielding large UK companies and by using appropriate gearing to enhance returns. This strategy is designed for those investors who require a single investment in a diversified and professionally managed portfolio.

More detail on the investment philosophy and stock selection process is set out in the investment manager's review from page 40, which will help shareholders understand how and why the manager invests the way he does and sets the background for individual investment decisions.

Marketing

The company's marketing activity promotes Merchants to investors looking for exposure to capital growth in large UK equities and an above average level of dividend. The policy is to reach out to private investors managing their own investments as well as wealth managers and institutional fund managers. The work with our partners to do this is discussed in the table of stakeholder engagement on page 58.

The company undertakes joint marketing initiatives with a number of market-leading investment platforms and this has proved to be a highly successful strategy. The portfolio manager, Simon Gergel, speaks at investor conferences and events and records interviews and podcasts available through our website.

Discount/premium

The discount/premium of the share price to net asset value is closely monitored. When shares are trading at a premium, the policy is to be prepared to issue shares to meet natural demand in the market. Conversely, when shares are trading at a significant discount, shares may be bought back and cancelled or held in treasury.

Section 172 Report

Engagement with Key Stakeholders

The company's shareholders are its primary stakeholders. Other stakeholders include service providers and the companies in which it invests.

The board's strategy is facilitated by interacting with a wide range of stakeholders through meetings, seminars, presentations and publications and through contacts made through our suppliers and intermediaries.

Engagement with the company's stakeholders enables the company to fulfil its strategies and to promote the success of the company for the benefit of the shareholders as a whole.

Below are some examples of the ways that Merchants has interacted with stakeholders to demonstrate how the board and its agents have considered stakeholders in pursuit of the success of the company and the promotion of that success for the long term:

Shareholders

Why we engage:
Shareholders receive relevant information to enable them to evaluate whether their investment interests are aligned with the strategy of the company.

The directors get feedback and views on shareholder priorities such as sustainability of income, risks and gearing levels which inform the board's strategy discussions and decisions.

How we engage and what we do:
We communicate through the annual and half-yearly reports, monthly fact sheets, website, press articles, podcasts and LinkedIn posts. Meetings are held with professional shareholder groups. The AGM provides a focus for interaction with shareholders. The AGM is a live event, with the opportunity for shareholders to meet the board and managers and for live questions as well as those submitted in advance.

Actions:
The board discussed and approved a budget for a marketing and communications programme which would extend information available to shareholders and potential new investors. The website was regularly updated with new podcasts and interviews with the portfolio manager. The trust is working with a media partner to ensure Merchants and information about the trust is easily accessible online.

Service providers

Why we engage:
The board works with AllianzGI who provide investment management, accounting and secretarial services as well as expertise in sales and marketing for a competitive management fee. The board has appointed HSBC as depositary and custodian and Link Group as registrar to provide specialist services. Another key service provider is State Street who provide middle office and fund accounting services through a contractual arrangement with AllianzGI.

How we engage and what we do:
Our manager maintains regular contact and ensures service levels are satisfactory and appropriate controls are in place with Merchants' service providers. In the past year the manager has been reporting how it has continued to adjust the portfolio response to the challenges of the geopolitical and economic environment.

Actions:
During the year the board worked with the manager to oversee the further improved processes and controls at AllianzGI's outsourced third-party provider of middle office services. A detailed due diligence exercise took place in the Autumn and the board obtains regular updates from the manager.

Portfolio companies

Why we engage:
The board approves the manager's active, stock picking approach and believes in good stewardship.

How we engage and what we do:
On the company's behalf the manager engages with investee companies, including on ESG matters and exercises its votes at company meetings. There are details of engagement and proxy voting on page 32.

Actions:
Merchants actively votes at portfolio company meetings. Reports on engagement and case studies are in the Portfolio Manager's Report which starts on page 18.

Distribution and media partnerships

Why we engage:
To reach a wider audience of investors, the company works with firms providing access to platforms and wealth managers, as well as public relations advisers. The board receives detailed feedback to confirm wide and growing interest in the company's shares.

How we engage and what we do:
The manager together with our distribution partners arranges presentations about Merchants at virtual and real life events and has employed research publications to reach investors through share trading platforms, wealth managers and through websites. The board is now considering the value of this to the end user and is now likely to be focusing resources on partnerships with financial publications and making Merchants more accessible online.

Actions:
Merchants participated in events such as the AIC Showcase 2023 and a recent in-person AJ Bell conference. Spikes in website hits and new investment in the company on retail platforms after press coverage and distribution partner events. 7.2 million shares were added to the holdings across direct-to-consumer platforms in the year.

Risk Report

Risk policy

The board operates a risk management policy to ensure that the level of risk taken in pursuit of the board's objectives and in implementing its strategy is understood. The principal risks identified by the board are listed below, together with the actions taken to mitigate them, and set out in the Risk Map on page 61.

A more detailed version of the chart is reviewed and updated by the audit committee at least twice yearly. This sets out risk types, key risks identified and their status, the controls and mitigation in place to address these risks, together with the evidence of controls and gives an assessment of the risk using a traffic-light system, as shown at the bottom of the chart, to confirm the outcome of the assessment of the risk.

The board has carried out a robust assessment of the principal and emerging risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity and emerging risks and how they monitor and manage them and disclose them in the annual report. The process by which the directors monitor risk is described in the Audit Committee Report on page 84.

Investment and Portfolio Risks

1.1 Market decline

Risk: Macro-economic shocks to the portfolio if the board and manager fail to predict changes to the investment environment; significant market movements may adversely impact the investments held by the company increasing the risk of loss or challenges to the investment strategy; reduction of dividends across the market affecting the portfolio yield and the ability to pay in line with dividend policy.

Response: Macro-economic and political risks are taken into account during portfolio construction, although stock selection is predominantly "bottom up" driven. The portfolio is diversified across industries and stocks to mitigate the impact of individual share price volatility. Whilst the portfolio is mainly invested in UK listed companies, the end market exposures of these businesses are spread around the world. The portfolio is stress-tested at least monthly.

1.2 Market liquidity and pricing

Risk: Failure of investments, for example, due to poor oversight and monitoring.

Response: Detailed reports on stock selection and other investment management processes are received from the manager by the board. Liquidity is monitored closely by the manager and any concerns are raised with the board for agreed action to be taken.

1.3 Counterparty

Risk: Risk of non-delivery of stock by a counterparty leading to interest claim or buy-in.

Response: The manager operates on a delivery versus payment system, reducing the risk of counterparty default. Any issues or systemic problems would be discussed with the board and remedial actions agreed.

1.4 Currency

Risk: Exposure to exchange rate movements which can affect, for example, dividend income.

Response: The portfolio is mainly invested in UK listed companies, with shares predominantly priced in sterling. Exposure is therefore primarily indirect, but well diversified. Board papers monitor the income split by currency to assess risks to the revenue account.

Business and Strategy Risks

2.1 Shareholder relations

Risk: The investment objectives, or views on decisions such as gearing, discount management , dividend policy, of existing shareholders may not coincide with those of the board leading investors to sell the ordinary shares.

ESG risks

ESG risks are covered and described in the Portfolio ESG Risk Assessment on page 30. SuSIE provides a tool to identify risks in ESG engagements and how they fit in the investment process - see page 34.

Principal risks

The principal risks are now considered to be emerging risks, followed by risks relating to investment strategy and investment performance. Those identified as having the highest impact and the greatest likelihood are the following:

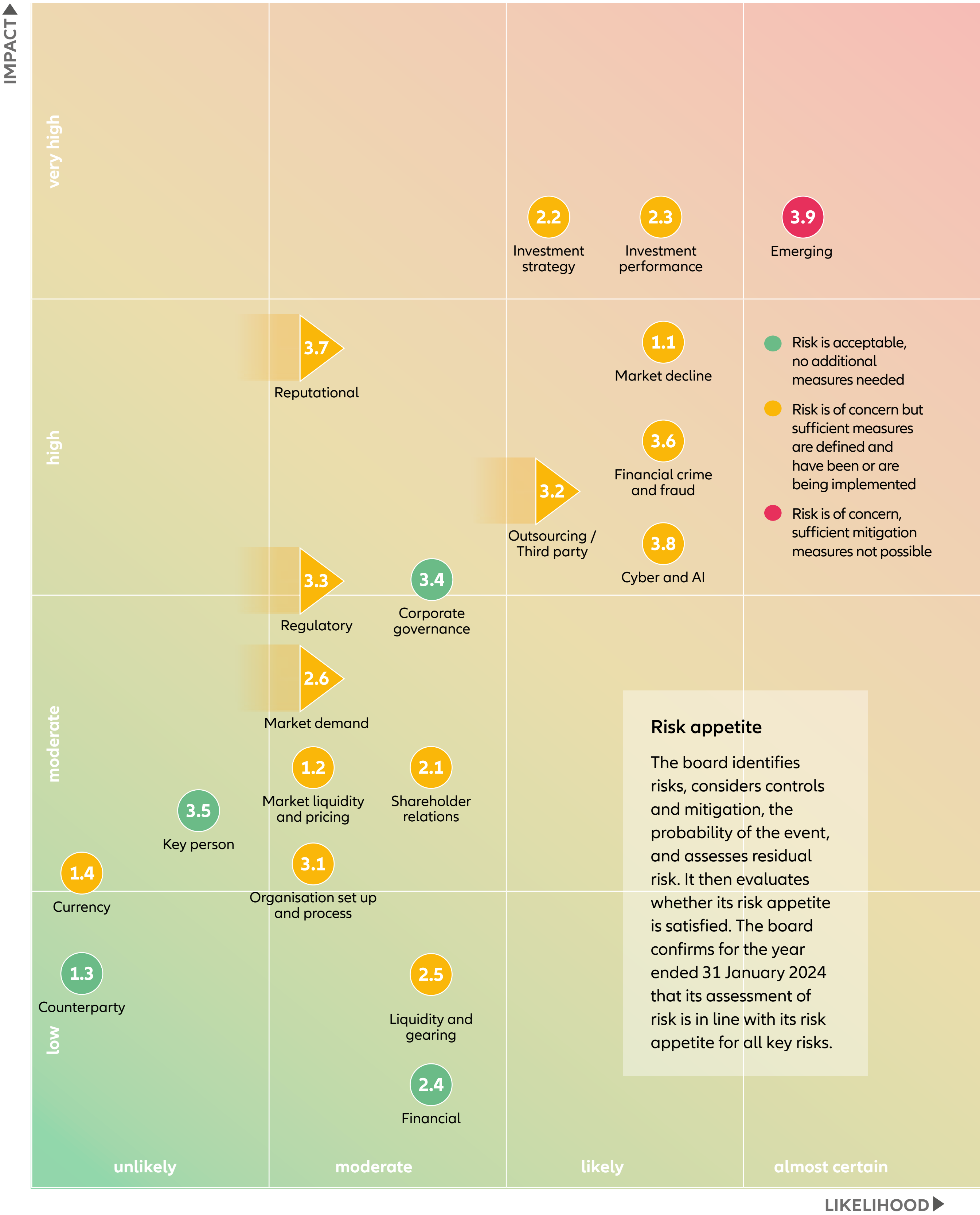
3.9 **Emerging** risks, such as significant geopolitical and economic risks.

Some principal risks have been assessed as being as likely to occur as last year.

2.2 **Investment strategy**: for example, asset allocation or the level of gearing may lead to a failure to meet the company's objectives, such as income generation and dividend growth.

2.3 **Investment performance**: for example, poor stock selection for the portfolio leads to decline in the rating and attraction of the company.

Risk Analysis



Risk appetite

The board identifies risks, considers controls and mitigation, the probability of the event, and assesses residual risk. It then evaluates whether its risk appetite is satisfied. The board confirms for the year ended 31 January 2024 that its assessment of risk is in line with its risk appetite for all key risks.

Response: Reports on shareholder sentiment are received from the manager and brokers and reviewed by the board. Shareholders are actively encouraged to make their views known.

2.2 Investment strategy

Risk: Inappropriate investment strategy for example asset allocation or the level of gearing may lead to a failure to meet the company's objectives, such as income generation and dividend growth, and capital growth, or lead to underperformance against the company's benchmark index or against peer group companies. This may lead to the company's shares trading on a wider discount.

Response: Board policies restrict the size of investments in individual companies and sectors. The board closely monitors the income projections for the portfolio, and the level of risk and diversification of this income, to ensure the company can meet its income objectives. The board also reviews the suitability of the investment strategy and the stock selection process regularly, and considers its gearing policy frequently. All of these topics are considered in depth at the annual strategy review.

2.3 Investment performance

Risk: Persistent poor performance against benchmark or peers leads to decline in rating and attraction of the company to investors.

Response: The investment manager attends all board meetings to discuss performance with the directors. The board manages these risks by giving investment guidelines which are monitored at each meeting. The board reviews the investment performance of the company against the benchmark and peer group. The board regularly discusses composition and succession planning to ensure that sufficient board members have the appropriate background and knowledge to evaluate performance.

2.4 Financial

Risk: Various factors might include title to investment holdings may not be good, net asset value calculations are calculated incorrectly, written options are not covered, inaccurate revenue forecasts, incorrectly calculated management fees, incorrectly identified expense payments.

Response: A rolling income forecast (including special dividends), balance sheet and expenses are reviewed at every board meeting. Reporting from the custodian covering internal controls in place over custody of investments and over appointment and monitoring of sub-custodians is produced and reviewed at least annually.

The board's investment restrictions are input in trading systems to impose a pre-trade check. The manager discusses derivative activity during a monthly risk call. Any overdue dividend debtors are monitored by the manager and variance analyses of income from meeting to meeting are provided to the board. The board annually reviews and approves the accounting policy for the income/capital split.

2.5 Liquidity and gearing

Risk: Insufficient income generated by the portfolio and due to stock market falls gearing increases to levels unacceptable to shareholders and the market which in extreme circumstances results in a breach of loan covenants.

Response: The board meets with the portfolio managers and considers asset allocation, stock selection and levels of gearing on a regular basis. Investment restrictions and guidelines are monitored and reported on by AllianzGI. Regular compliance information is prepared on covenant requirements.

2.6 Market demand

Risk: The level of discount of the share price to the NAV moves to unacceptable levels, threatening confidence in the company's shares.

Response: The board regularly reviews the level of premium and discount and new shares can be issued or existing shares can be bought back by the company at discounts greater than an agreed level when there is demand to do so.

Operational Risks

3.1 Organisation set up and process

Risk: Failure or other issues in the operational set up of the company, through people, processes, systems or external events, examples including changes in management company structure, oversight issues, appropriate governance of processes could result in financial loss to the company or its inability to operate.

Response: The manager and the other key service providers report on business continuity plans and the resilience of their response to extreme situations. Third party internal controls reports are also received from these service providers.

3.2 Outsourcing and third party

Risk: Inadequate procedures for the identification, evaluation and management of risks at outsourced providers and roles of the third party are not clear and gaps in the service appear.

Response: The board receives formal assurance reports from all of its direct service providers and the manager carries out regular monitoring of outsourced administration functions, this includes compliance visits and risk reviews where necessary. Results of these reviews are supplied to the board.

3.3 Regulatory

Risk: Failure to be aware of or comply with legal, accounting and regulatory requirements which could result in censure, financial penalty or loss of investment company status.

Response: The board maintains close relations with its advisers and makes preparations for mitigation of these risks as and when they are known or can be anticipated.

3.4 Corporate governance

Risk: Weak adherence to best practice in corporate governance can result in shareholder discontent and potential reputational damage to the company.

Response: The board takes regular advice on best practice. The board is highly experienced and knowledgeable about corporate governance best practice, and the board includes directors who are board members of other large UK plcs and other investment companies.

3.5 Key person

Risk: Departure of the portfolio manager, certain professional individuals, and/or board members, may impact the management of the portfolio, the achievement of the company's investment objective and/or disruption to its operations.

Response: Manager and board succession plans are in place. Cover is available for core members of the relevant teams of the manager, and work can be carried out by other team members should the need arise.

3.6 Financial crime and fraud

Risk: That the company and the manager's firm, its employees, or clients are subject to financial crime or breach elements of the Bribery Act.

Response: AllianzGI has anti-fraud, anti-bribery policies and robust procedures in place. The board is alert to the risks of financial crime and reviews how third party service providers handle these. These reports confirm that all systems are secure and are updated in response to any new threats as they arise.

3.7 Reputational

Risk: Examples include unforeseen changes, oversight issues, appropriate governance of processes in the management company structure; association with poor governance in portfolio companies; and operational issues in service providers, all of which can affect the reputation of the company.

Response: Service providers are monitored and the manager provides oversight and timely and detailed information on any reputational issues and communicates actions being taken with the board for discussion.

3.8 Cyber security and AI

Risk: Risk of increased cyber attacks. Risk from traditional and generative Artificial Intelligence (AI) in respect of malicious AI, its rapid growth and the lack of regulation.

Response: The board is alert to the threat of and risks from cyber attacks and reviews how third party service providers handle these threats and risks. These reports confirm that all systems are secure and are updated in response to any new threats as they arise. The board asks for and receives assurance from key suppliers on AI developments and threats.

3.9 Emerging

Risk: Unpredictable consequences of political and macro-economic shocks such as the attack on Ukraine by Russian armed forces, inflation, cost of living increases, threat to income, increase in gearing and climate-related risks.

Response: The board carries out horizon scanning by keeping informed through its manager and advisers on the political, economic and legal landscape, and reviews updates received on regulatory changes that affect the company. Examples include:

Reviewing industry and manager thematic outlook and insights research publications;

The board is fully engaged with its management company, AllianzGI, and its other advisers to keep informed about the ongoing changes and is ready to adapt its strategies in order to achieve its objectives;

Climate-related risks are noted in the reporting on page 38.

Viability Statement

The Merchants Trust is an investment company and has operated as an investment vehicle since 1889 with the aim of offering a return to investors over the long term. The board has confidence in the future of the company. Over its 135 year history, the company has survived numerous external crises and economic events; it has a solid portfolio of blue chip stocks and has built up substantial revenue reserves. The directors have formally assessed the company's prospects for a period longer than the one year required by the Going Concern principle. The directors believe that five years is an appropriate outlook period for this review as this is broadly equivalent to the portfolio's investment cycle. Whilst acknowledging the difficulty of forecasting prospects for markets beyond a relatively short horizon, the board believes that this should give investors assurance that there is a realistic prospect that the company will continue to be viable and continue to seek to achieve its aim to provide an above average level of income and income growth together with long term capital growth.

The board has assessed the long-term viability of the company against the principal risks faced by the company, outlined in the reporting under Risk in the Strategic Report. The chief risks that could pose a threat to the future prospects of the company are Investment strategy, Investment performance, Emerging risks and Market Decline, as described in the Risk reporting from page 60.

The board considered the following in its assessment:

1. The company's investment strategy and the long term performance of the company, together with the board's view that it will continue to provide long term returns to shareholders as well as an attractive income as it has done in the past.
i. The board examines performance with the investment managers at each board meeting and strategy meeting. Performance is reviewed against the company's stated strategy and the continuing relevance of the company as a provider of a vehicle for investors looking for a portfolio invested in leading companies with strong balance sheets and the ability to pay attractive dividends.
ii. The board receives reports at every board meeting of the transactions in the company's shares. The company is a member of the FTSE 250 and there is liquidity in its shares.

2. The financial position of the company, including the impact of foreseeable market movements on cash flows - the board monitors the financial position in detail at each board meeting and at least twice each year it stress-tests the portfolio against significant market falls. The methods used are:
i. Loan and RCF covenants stress testing

ii. Stress testing the portfolio
iii. The assessment of future portfolio income and the impact of the payment of dividends on reserves.

3. The company's ability to meet interest payments and debt redemptions as they fall due. The RCF runs until 2025 with the potential for an extension. The next scheduled repayment of debt is in 2029 and the board continues to monitor how and when is best to fund this repayment.

The board continues to consider its gearing strategy on an ongoing basis, having partly refinanced the company's debt in 2017 and 2019, and lowered the cost of debt in that time, and fully drawn down the RCF in 2022.

4. The liquidity of the portfolio, and the company's ability to pay growing dividends and to meet the budgeted expenses of running the company, which is examined at each board meeting.

i. Liquidity testing is carried out on Merchants' portfolio by AllianzGI on an ongoing basis. Stocks are listed on major exchanges. There are no unlisted investments in the portfolio.

ii. Portfolio income is reviewed by the board at each meeting and conservative assumptions are made in estimated revenue accounts in the board meeting papers (based on historic portfolios, assuming no dividend increases).

iii. Ongoing charges are operating expenses incurred in the running of the company (excluding financing costs). The ongoing charges figure is calculated by dividing operating expenses, i.e., the management fee and all administration expenses, by the company's net asset value. This calculation is carried out formally each year and published in the annual report (in accordance with the AIC's recommendations). The expenses of running the company have been calculated at 0.55% of net assets in the latest year (2023: 0.56%). These charges are low and should be met by the company without difficulty in each of the five years under review.

5. The company's resilience in facing the risks and consequences of an unanticipated macroeconomic shocks and grave geopolitical events and its ability to continue to maintain its objectives and provide the required shareholder returns.

The board has received detailed reports and periodic updates from AllianzGI and its other key service providers on the resilience of their controls environment and ability to continue to deliver their services when necessary with usage of remote access capabilities, including for portfolio management activities. The board has received assurances that AllianzGI operates to standards for business continuity management and resilience which reflect market standards, such as ISO22301. This resulted in minimum disruption through the pandemic and in the post-pandemic environment.

The portfolio manager has provided forecasts to demonstrate the reasonable prospect of, having utilised revenue reserves in the prior year, returning to a covered dividend and building reserves against future requirements. This supports the continuation of the company's objectives to provide a high level of income and income growth together with long term capital growth for its shareholders and which supports the viability of the company for the five year period contemplated.

The directors have evaluated the risks and consequences of global events and have considered the company's ability to maintain its objectives and provide shareholder returns in the five year horizon for viability and believe that the company is well placed to be able to achieve this.

Based on the results of this assessment and on the assumption that the risks above are managed or mitigated effectively, the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the five year period of their review.

Going Concern

Following all the investigations made in the Viability review above, the directors have concluded that the company has adequate resources to continue in operational existence. The directors have also considered the risks and consequences of macroeconomic and other unanticipated shocks on the company and have concluded that the company has the ability to continue in operation and meet its objectives for twelve months after the approval of the annual report. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

The Future

As we set out on the inside of the front cover of this annual report there are many reasons to invest and stay invested in The Merchants Trust. Merchants has experience of providing active investment management through many difficult environments and over time provides long-term capital growth and an above average income and income growth to investors.

Some of the trends likely to affect the company in the future are common to many investment companies, such as the future attractiveness of investment companies as investment vehicles. The outlook for economic growth, interest rates, inflation and asset returns will also be important factors. In particular for Merchants, the availability of attractive income producing UK equities and their future returns are central to the investment proposition. The board continues to believe that the continuing evolution of the investment platforms market offer many opportunities for the self-directed investor. The longevity of the trust and its importance to investors continues to be a key concern of the board. I give my view of the outlook in my Chairman's Statement on page 13 and the portfolio manager discusses his view of the outlook for the company's portfolio in his review on page 35.

On behalf of the board.

Colin Clark
Chairman
3 April 2024

Governance

New investment XP Power designs and manufacturers power supply units, critical components in most electronic machinery, allowing XP to make high margins and good returns.

PHOTO © XP POWER

Directors

Colin Clark
Chairman

Joined the board in June 2019 and became Chairman in September 2019. Colin is Chairman of the boards of AXA Investment Managers UK Ltd and AXA Investment Managers GS Ltd and a non-executive director of AXA IM SA global board. Colin has had a 40 year career in asset and wealth management. His most recent executive roles were from 2010 at Standard Life Investments and as an executive director of Standard Life Plc. Prior to this he was with Mercury Asset Management, Merrill Lynch Investment Managers and S.G.Warburg & Co.

Experience:
Senior leadership roles in the asset management industry and an experienced Chairman.

Reasons for the recommendation for re-election:
Colin's senior expertise and asset management knowledge are valued for their input into the board's governance and the response by the board to challenging external events.

Karen McKellar
Senior Independent Director

Joined the board in May 2020. Karen is a non-executive director and Chair of the Management Engagement Committee of JPMorgan European Investment Trust PLC. Karen has had a long career as an investment manager at Standard Life, managing the Standard Life Equity Income Investment Trust as well as several large UK equity open-ended funds. Karen was appointed as Senior Independent Director following the retirement of Sybella Stanley on 21 March 2024.

Experience:
An asset management professional with senior management, money management and investment trust board experience.

Reasons for the recommendation for re-election:
Karen brings to the board a deep understanding of portfolio management.

Timon Drakesmith
Chair of the Audit Committee

Joined the board in November 2016. Timon is Chief Financial Officer of Carbon Trust. Timon was formerly the Chief Financial Officer of Hammerson plc, and prior to that the Finance Director of Great Portland Estates plc and Group Director of Financial Operations of Novar plc. He is a Chartered Accountant and has held previous financial roles at Credit Suisse, Barclays and Deloitte Haskins and Sells.

Experience:
Finance Director of large UK corporates and a chartered accountant.

Reasons for the recommendation for re-election:
Timon has professional skills as a financial expert and brings understanding and knowledge of company financing. He also has insight into environmental sustainability.

Lisa Edgar

Joined the board in January 2024. Lisa is the founder and Chief executive of Big Window Consulting, a consumer and B2B insight agency and was recently Chief Customer Officer on the Executive Leadership Team at Saga PLC. Lisa's career began as a brand planner and market research analyst and she developed customer insight agencies and her own companies in this field over the past twenty years.

Experience:
A market research expert, with experience of working at a senior level with large clients in the financial services sector.

Reasons for the recommendation for election:
Lisa's brings a wealth of retail market research experience to the board's understanding and direction of the marketing and distribution of the company's investment proposition.

Mal Patel

Joined the board in March 2024. Mal is Head of Investor Relations at Spirax Group plc and has held senior roles in IR and corporate development in a number of large UK companies. His early career was as an equities analyst in investment banking. He is a chartered accountant.

Experience:
A senior leader in a wide range of investor relations, corporate development and finance roles across a variety of businesses.

Reasons for the recommendation for election:
With a strong corporate background and financial expertise, Mal brings experience and skills in many areas including transactions, corporate finance and treasury, debt and equity raising and also external reporting and investor relations.

Committee memberships
All directors are non-executive and independent of the manager. All directors are members of the Management Engagement Committee. All directors, with the exception of the Chairman, Colin Clark, are members of the Audit Committee. Further details can be found from page 78.

Investment Manager and Advisers

The Manager or Alternative Investment Fund Manager (AIFM)

Allianz Global Investors UK Limited (AllianzGI UK) is incorporated in the UK and its registered office is at 199 Bishopsgate, London EC2M 3TY. It is authorised by the Financial Conduct Authority (FCA). AllianzGI UK delegates some functions to Allianz Global Investors GmbH (AllianzGI).

AllianzGI is an active asset manager operating across nineteen markets with specialised in-house research teams around the globe, managing assets for individuals, families and institutions worldwide.

As at 30 September 2023, AllianzGI had €516 billion of assets under management worldwide.

Through its predecessors, AllianzGI has a heritage of investment trust management expertise in the UK reaching back to the nineteenth century and as at 31 December 2023 had £2.8 billion assets under management in a range of investment trusts.

Website: allianzgi.co.uk

Head of Investment Trusts

Stephanie Carbonneil
Email: stephanie.carbonneil@allianzgi.com

Investment Manager

Simon Gergel, Lead Portfolio Manager,
Richard Knight, Portfolio Manager,
Andrew Koch, Portfolio Manager.
Representing Allianz Global Investors UK Limited, 199 Bishopsgate, London EC2M 3TY (the manager).

Company Secretary and Registered Office

Kirsten Salt ACG
199 Bishopsgate, London EC2M 3TY
Telephone: 020 3246 7513
Email: kirsten.salt@allianzgi.com

Registered Number

28276

Bankers and Custodian

HSBC Bank plc,
Barclays Bank plc

Depositary

HSBC Securities Services

Solicitors

Dickson Minto W.S.
Herbert Smith Freehills LLP

Custodian

HSBC Bank plc

Independent Auditors

BDO LLP

Registrars

Link Group (full details on page 124)

Stockbrokers

J.P. Morgan Securities Limited

Depositary

HSBC Securities

Directors' Report

The directors present their report and the audited financial statements of the company for the year ended 31 January 2024.

Revenue

The revenue earnings attributable to ordinary shareholders for the year amounted to £44,509,000 or 30.5p per share (2023: £38,626,000, 28.7p per share).

The first quarterly dividend of £10,412,000, or 7.1p per share, and the second quarterly dividend of £10,442,000, or 7.1p per share, have been paid during the year. Since the year end the third quarterly dividend of £10,531,000, or 7.1p per share, was paid on 14 March 2024. A proposed final dividend of 7.1p will be paid on 22 May 2024. In accordance with FRS 102 Section 32: 'Events after the end of the reporting period', the third and final quarterly dividends are not recognised as liabilities within the financial statements on the basis that at the year end the third and final quarterly dividends had not been paid.

Invested Funds

Sales of investments during the year resulted in net gains based on historical costs of £536,000* (2023: gains of £20,871,000). Provisions contained in the Finance Act 2010 exempt approved investment trusts from corporation tax on their chargeable gains.

Share issuance and buy back

During the year there were share issuances totalling 8,190,000 shares and no share buybacks. No further shares have been issued since the year end. Further details are on page 111.

* Alternative Performance Measure (APM). A Glossary of APMs can be found on page 129.

Statement of the Depositary's Responsibilities in Respect of the Company

"The Depositary must ensure that the company is managed in accordance with the Financial Conduct Authority's Investment Funds Sourcebook, ("the Sourcebook"), the Alternative Investment Fund Managers Directive ("AIFMD") (together "the Regulations") and the company's Articles of Association.

The Depositary must in the context of its role act honestly, fairly, professionally, independently and in the interests of the company and its investors.

The Depositary is responsible for the safekeeping of the assets of the company in accordance with the Regulations.

The Depositary must ensure that:

- the company's cash flows are properly monitored and that cash of the company is booked into the cash accounts in accordance with the Regulations;
- the sale, issue, repurchase, redemption and cancellation of shares are carried out in accordance with the Regulations;
- the assets under management and the net asset value per share of the company are calculated in accordance with the Regulations;
- any consideration relating to transactions in the company's assets is remitted to the company within the usual time limits;
- that the company's income is applied in accordance with the Regulations; and
- the instructions of the Alternative Investment Fund Manager ("the AIFM") are carried out (unless they conflict with the Regulations).

The Depositary also has a duty to take reasonable care to ensure that the company is managed in accordance with the Articles of Association in relation to the investment and borrowing powers applicable to the company.

Report of the Depositary to the Shareholders of The Merchants Trust PLC (the company) for the year ended 31 January 2024.

Having carried out such procedures as we consider necessary to discharge our responsibilities as Depositary of the company, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the company, acting through the AIFM has been managed in accordance with the rules in the Sourcebook, the Articles of Association of the company and as required by the AIFMD."

HSBC Bank plc
14 February 2024

Further information about the relationship with the Depositary is on page 122.

Future Development

The future development of the company is dependent on the success of the company's investment strategy against the economic environment and market developments. The Chairman's Statement on page 7 sets out the outlook for the company and the investment manager also discusses his view of the outlook for the company's portfolio in his report on page 18. The future is also discussed in the Strategic Report on page 64.

Section 992 of the Companies Act 2006

The following information is disclosed in accordance with Section 992 of the Companies Act 2006.

Capital Structure

The company's capital structure is summarised in Note 11 on page 111. The details of the 4% Perpetual Debenture Stock and the 3.65% Cumulative Preference Stock are provided in Notes 10(ii) and 10(iii) respectively on page 111.

Voting Rights in the Company's Shares

The voting rights to 3 April 2024 were:

Share class	Number of shares issued	Voting rights per share	Total voting rights
Ordinary shares of 25p	148,324,887	1	148,324,887
3.65% Cumulative Preference Stock of £1	1,178,000	1	1,178,000
Total	**149,502,887**		**149,502,887**

Every member on a show of hands has one vote. On a poll every member who is present in person or by proxy or representative has one vote for every £1 in nominal amount of preference stock or one vote for every ordinary share of 25p. The Perpetual Debenture Stock and Bonds carry no voting rights.

Interests in the Company's Share Capital

As at 31 March 2024 the company has received no declarations of notifiable interests in the company's issued share capital.

Common Reporting Standards (CRS)

CRS is a global standard for the automatic exchange of information commissioned by the Organisation for Economic Cooperation and Development and incorporated into UK law by the International Tax Compliance Regulations 2015. CRS requires the company to provide certain additional details to HMRC in relation to UK resident foreign investment holders. The reporting obligation began in 2016 and will be an annual requirement going forward. The Registrars, Link Group, have been engaged to collate such information and file the reports with HMRC on behalf of the company.

The Board and Gender Diversity Reporting

The board is supportive of the FCA's updated Listing Rules (LR 9.8.6R(9)) to encourage greater diversity on listed company boards and has implemented the FCA's disclosure requirements. The board recognises the importance of having a range of skilled, experienced individuals with the right knowledge represented on the board. The board will continue to ensure that all appointments are made on the basis of merit against the specification prepared for each appointment. The board has chosen to align its diversity reporting reference date with the company's financial year end and proposes to maintain this alignment for future reporting periods. The company has met one of the targets on board diversity and at its chosen reference date, 31 January 2024 at least 40% of the individuals on its board of directors are women. The board did not at the reference date have any directors from a minority ethnic background, however, since the year end there have been changes to the board composition which will amend this disclosure for the future. Further details on the company's appointment process can be found under The Board and Board Composition on page 75. As required under LR 9.8.6R(10), further detail in respect of the targets outlined above as at 31 January 2024 is disclosed in the tables below.

As an externally managed investment company, the company has no executive directors, employees or internal operations. Therefore columns relating to executive management have been removed from the tables below. The roles of chief executive and chief financial officer are not applicable to the company, however, the company considers the roles of the Senior Independent Director and Chair of the Audit Committee to be senior board positions and the following disclosure is made on this basis.

As at 31 January 2024:

	Number of Board members	Percentage of the Board	Number of Senior Positions on the Board (CEO, CFO, SID and chair)*
Men	2	40%	2
Women	3	60%	1
Other	-	-	-
Not specified/prefer not to say	-	-	-

	Number of Board members	Percentage of the Board	Number of Senior Positions on the Board (CEO, CFO, SID and chair)*
White British or other White (including minority-white groups)	5	100%	3
Mixed/Multiple Ethnic Groups	-	-	-
Asian/Asian British	-	-	-
Black/African/Caribbean/Black British	-	-	-
Other ethnic group, including Arab	-	-	-
Not specified/prefer not to say	-	-	-

Since the reference date and the date that the Annual Report was approved the following changes have occurred.

As at 3 April 2024:

	Number of Board members	Percentage of the Board	Number of Senior Positions on the Board (CEO, CFO, SID and chair)*
Men	3	60%	2
Women	2	40%	1
Other	-	-	-
Not specified/prefer not to say	-	-	-

	Number of Board members	Percentage of the Board	Number of Senior Positions on the Board (CEO, CFO, SID and chair)*
White British or other White (including minority-white groups)	4	80%	3
Mixed/Multiple Ethnic Groups	-	-	-
Asian/Asian British	1	20%	-
Black/African/Caribbean/Black British	-	-	-
Other ethnic group, including Arab	-	-	-
Not specified/prefer not to say	-	-	-

* The company only has two of the senior roles specified by the Listing Rules, that is the position of chair and SID. One of these roles is occupied by a man and one by a woman. However, the company considers that the chair of the audit committee, nomination committee and remuneration committee is a senior position. Of these three senior roles, two are performed by a man and one by a woman.

Directors

Biographical details of the current directors at the date of the signing of this report are shown on pages 66 and 67.

All of the directors are retiring at the annual general meeting and each offers themself for election or re-election. The board considers each director to be independent of the manager and each has the full support of the board in standing for re-election.

Related Party Transactions

During the financial year no transactions with related parties have taken place which would materially affect the financial position or the performance of the company.

Management Contract and Management Fee

The management contract with Allianz Global Investors UK Limited (AllianzGI UK) provides for a fee of 0.35% per annum (2023: 0.35%) of the value of the assets, calculated quarterly, after deduction of current liabilities, short term loans with an initial duration of less than one year and any funds within the portfolio managed by AllianzGI. The management contract is terminable at one year's notice (2023: one year). Under the contract, other than a year's fees which may be paid in lieu of notice, there are no compensation payments due on termination.

The manager's performance under the contract and the contract terms are reviewed at least annually by the Management Engagement Committee. This committee consists of the directors not employed by the management company in the past five years and therefore includes the entire board. During the year, the committee met the manager to review the current investment framework, including the company's performance, marketing activity and ongoing charge.

The committee also reviewed the terms of the management contract and considered the level of the management fee. The committee was satisfied with its review and believes that the continuing appointment of the manager is in the best interests of shareholders as a whole.

Special Rights Disclosure

There are no restrictions concerning the transfer of securities in the company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the company; no agreements which the company is party to that might affect its control following a takeover bid; and no agreements between the company and its directors concerning compensation for loss of office.

The company is not aware of any agreements between holders of securities with regard to control of the company which may result in restrictions on voting rights.

Financial Reporting

The Statement of Directors' Responsibilities in respect of the financial statements is on page 88. The Independent Auditors' Report begins on page 90.

Auditors' Information

Each of the persons who is a director at the date of approval of this report confirms that:

(a) in so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

(b) the director has taken all the steps he or she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Relations with Shareholders

The board strongly believes that the annual general meeting should be an event which private shareholders are encouraged to attend. The annual general meeting is attended by the Chairman of the board, the Chairmen of the board's committees and the directors, and the investment manager makes a presentation at the meeting. The number of proxy votes cast in respect of each resolution will be made available at the annual general meeting.

The manager meets with institutional shareholders on a regular basis and reports to the board on matters raised at these meetings. The Chairman and, where appropriate, other directors, are available to meet with shareholders to discuss governance and strategy and to understand their issues and concerns. All correspondence with shareholders is reviewed by the board.

Shareholders who wish to communicate directly with the Chairman, the Senior Independent Director or other directors may write care of the Company Secretary, The Merchants Trust PLC, 199 Bishopsgate, London EC2M 3TY.

The notice of meeting sets out the business of the meeting and special resolutions are explained more fully later in the Directors' Report. Separate resolutions are proposed for each substantive issue.

Social, Community and Human Rights Issues

As an investment trust, the company has no direct social or community responsibilities. However, the board shares the manager's view that it is in shareholders' interests to be aware of and consider human rights issues, together with environmental, social and governance factors when selecting and retaining investments. Details of the company's policy on socially responsible investment are set out above.

Criminal Finances Act 2017

The company has a commitment to zero tolerance towards the criminal facilitation of tax evasion.

Modern Slavery Act 2015

The company does not provide goods or services in the normal course of business, and as a financial investment vehicle does not have customers. The directors therefore consider that the company is not required to make a statement under the Modern Slavery Act 2015 in relation to slavery or human trafficking.

Bribery Act 2010

The board has a zero tolerance policy in relation to bribery and corruption and has received assurance through internal controls reporting from the company's main third party service providers that adequate safeguards are in place to protect against any such potentially illegal behaviour by employees or agents.

Stewardship and Exercise of Voting Powers

The company's investments are held in a nominee name. The board has delegated discretion to discharge its responsibilities in respect of investments, including the exercise of voting powers on its behalf to the manager, AllianzGI. AllianzGI monitors our portfolio holdings and proactively engages with investee companies in line with the principles set out in the UK Stewardship Code and consistent with our investment objectives. AllianzGI subscribes to the ISS Proxy Voting Services. ISS manages the voting process and recommends actions based upon AllianzGI's Global Proxy Voting Policy Guidelines.

Where directors hold directorships on the boards of companies in which the company is invested, they do not participate in decisions made concerning those investments, such as Sybella Stanley (Tate & Lyle).

ESG and Climate-related reporting

The integration of ESG into the portfolio management process is covered in the Investment Manager's review in detail. As an investment company with all of its activities outsourced to third parties, the company's own direct environmental impact is minimal. The Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. For the same reasons, the Company considers itself to be a low energy user under the Streamlined Energy & Carbon Reporting ("SECR") regulations and therefore is not required to disclose energy and carbon information.

As a listed investment company, Merchants is not required to provide a report under the TCFD ("Task Force on Climate-related Financial Disclosures"). However, the company has discussed with the manager, AllianzGI, its own activities in this area and this was covered in a reported discussion in last year's Annual Report.

In accordance with the requirements of the TCFD, AllianzGI UK as AIFM is preparing a product level report for the company. It is expected that the TCFD report for the company will be available in June 2024 on the company's website www.merchantstrust.co.uk. The board receives a detailed report on ESG matters at every board meeting and discusses activities in the investment process: interactions with the companies in the portfolio and the outcome of these engagements; proxy voting; and performance against industry data. The portfolio managers give an account of the engagement activities in the year on page 33, with many examples.

Annual General Meeting

As the Chairman explains in his Statement on page 13, the Annual General Meeting (AGM) of the Company will be held at 12.00 pm on Thursday 16 May 2024 at Grocers' Hall, Princes Street, London, EC2R 8AD.

Shareholders may and are strongly encouraged to participate in the business of the AGM by exercising their votes in advance of the meeting by completing and returning the form of proxy. Shareholders may also submit their proxy electronically using the Share Portal service at www.signalshares.com or via the registrars' LinkVote+ shareholder App. Further details on voting via the LinkVote+ App or online through the registrars' Share Portal are contained within the Notice of Meeting Notes on page 127. The deadline for you to submit your proxy votes to the registrars is 12.00 pm on Tuesday 14 May 2024.

Shareholders are invited to send any questions for the board and manager care of the company secretary at investment-trusts@allianzgi.com or in writing to the registered office, 199 Bishopsgate, London EC2M 3TY. Questions and answers will be published on the website.

At the AGM resolutions will be put to shareholders to cover ordinary business including the election, re-election and remuneration of the directors and the re-appointment of the auditors, and special business such as the authority for the allotment and buyback of shares.

AGM special business

1. Allotment of New Shares

Approval is sought in Resolution 11 for the renewal of the directors' authority to allot relevant securities, in accordance with section 551 of the Companies Act 2006, up to a maximum number of 49,441,629 ordinary shares, representing approximately one third of the existing ordinary share capital. This authority is renewable annually and will expire at the conclusion of the annual general meeting in 2025.

2. Disapplication of Pre-emption Rights

A resolution was passed at the annual general meeting held on 18 May 2023 in accordance with section 570 of the Companies Act 2006, to authorise the directors to allot ordinary shares for cash other than pro rata to existing shareholders. The authority is renewable annually and expires at the conclusion of the annual general meeting in 2024. Special Resolution 12 is therefore proposed under special business at the forthcoming annual general meeting to renew this authority until the conclusion of the annual general meeting in 2025 or 15 August 2025 if earlier. This power is limited to a maximum number of 14,832,488 ordinary shares, being approximately 10% of the issued ordinary share capital of the company as at the date of this report, provided that there is no change in the issued share capital between the date of this report and the annual general meeting to be held on 16 May 2024.

Authority will also be sought in Resolution 12, which will be proposed as a Special Resolution, to disapply pre-emption rights in respect of the allotment of shares by the sale and reissue of shares held by the company as treasury shares. The directors may allot shares under these authorities to take advantage of opportunities in the market as they arise but only if they believe it would be advantageous to the company's existing shareholders to do so. The directors confirm that no allotment of new shares will be made unless the lowest market offer price of the ordinary shares is at least at a premium to net asset value, valuing debt at market value.

3. Purchase of Own Shares

The board is proposing that the company should be given renewed authority to purchase ordinary shares in the market to hold in treasury or for cancellation. The board believes that such purchases in the market at appropriate times and prices are a suitable method of enhancing shareholder value. The company would make either a single purchase or a series of purchases, when market conditions are suitable, with the aim of maximising the benefits to shareholders and within guidelines set from time to time by the board.

Under the Companies Act 2006, the company is allowed to hold its own shares in treasury following a buy back, instead of having to cancel them. This gives the company the ability to reissue treasury shares quickly and cost effectively (including pursuant to the authority under Resolution 12, see above) and provides the company with additional flexibility in the management of its capital base. Such shares may be resold for cash but all rights attaching to them, including voting rights and any right to receive dividends are suspended whilst they are in the treasury. If the board exercises the authority conferred by Resolution 13, which will be proposed as a Special Resolution, the company will have the option of either holding in treasury or of cancelling any of its shares purchased pursuant to this authority and will decide at the time of purchase which option to pursue.

Where purchases are made at prices below the prevailing net asset value of the ordinary shares, this will enhance net asset value for the remaining shareholders. It is therefore intended that purchases would only be made at prices below net asset value, with the purchases to be funded from the capital reserves of the company (which are currently in excess of £495 million). The rules of the UK Listing Authority (Listing Rules) limit the price which may be paid by the company to 105% of the average middle-market quotation for an ordinary share on the five business days immediately preceding the date of the relevant purchase. The minimum price to be paid will be 25p per ordinary share (being the nominal value). Overall, this proposed share buy back authority, if used, could help to reduce the discount to net asset value when the company's shares trade at a discount.

The board considers that it will be most advantageous to shareholders for the company to be able to continue to make such purchases as and when it considers the timing to be most favourable and therefore does not propose to set a timetable for making any such purchases.

Under the Listing Rules, the maximum number of its own shares which a listed company may purchase through the market pursuant to a general authority such as this is equivalent to 14.99% of its issued share capital. For this reason, the company is limiting its renewed authority to make such purchases to 22,233,900 ordinary shares, representing 14.99% of the issued share capital, provided that there is no change in the issued share capital between the date of this report and the annual general meeting to be held on 16 May 2024.

In addition to renewing its powers to buy back and cancel shares, the board will seek shareholder authority to reissue shares from treasury.

The authority in accordance with section 701 of the Companies Act 2006, will last until the annual general meeting of the company to be held in 2025 or the expiry of 15 months from the date of the passing of this resolution, whichever is the earlier. The authority will be subject to renewal by shareholders at subsequent annual general meetings.

The board and the Annual Report

The board reviewed the entire annual report and noted all the supporting information received. It then considered whether the annual report satisfactorily reflected a true picture of the company and its activities and performance in the year, with a clear link between the relevant sections of the report. The directors were then able to confirm that the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

By order of the board

Kirsten Salt
Company Secretary
3 April 2024

Corporate Governance Statement

The directors are responsible for good and effective governance and our approach is to ensure that we abide by the principles of the governance framework for investment companies and check these are embedded in our culture to give our stakeholders and the wider community confidence in our decision making and communications. In particular, the board believes in providing as much transparency for investors as is reasonably possible to ensure investors can clearly understand the prospects of the business.

The board has considered the Principles and Provisions of the AIC Code of Corporate Governance (AIC Code) issued in February 2019. The AIC Code addresses the Principles and Provisions set out in the UK Corporate Governance Code (the UK Code), as well as setting out additional Provisions on issues that are of specific relevance to the company.

The board considers that reporting against the AIC Code, which has been endorsed by the Financial Reporting Council (FRC), provides more relevant information to shareholders.

The company has complied with the Principles and Provisions of the AIC Code.

The AIC Code is available on the AIC website (www.theaic.co.uk). It includes an explanation of how the AIC Code adapts the Principles and Provisions set out in the UK Code to make them relevant for investment companies.

The board

The board is responsible for the effective stewardship of the company's affairs and aims to provide effective leadership so that the company has the platform from which it can achieve its investment objective. Its role is to guide the overall business strategy to achieve long term success and value for the benefit of shareholders. A fuller description of the company's strategy can be found on pages 56 and 57. Strategic issues and all operational matters of a material nature are considered at its meetings.

Board Composition

Both at the year end and at the date of signing this report there were five directors on the board. The optimum number of directors is five, but the number could fall to four and go as high as six to cover periods of recruitment and retirement.

The board's policy is for the Chairman to serve on the board for up to nine years, and if beyond then the company will explain why this continued appointment is in the best interests of shareholders. The chairman is to be independent and the other directors, led by the Senior Independent Director, discuss and report back on the performance and continuing independence of the Chairman on an annual basis.

The board has a plan for the tenure and retirement of directors to ensure that an orderly process of recruitment can take place and that the board's balance of skills and relevant experience is maintained. The biographies of the directors are set out on pages 66 and 67 together with the skills and experience each director brings to the board for the long-term sustainable success of the company. No contracts of significance in which directors are deemed to have been interested have subsisted during the year under review. Contracts of employment are not entered into with the directors, who hold office in accordance with the company's Articles.

All directors attended all board and relevant committee meetings during the year, as set out in the table on page 77.

Directors' and Officers' Liability insurance cover is held by the company. As permitted by the company's Articles, the company has granted indemnities to the directors.

Board effectiveness review

The board was subject to an externally facilitated formal board effectiveness review after the year end. This was conducted by means of a series of questionnaires completed by each director. The results of these surveys in a report produced by Lintstock Ltd were reviewed by the nomination committee and the outcome of the exercise was discussed by the board. The review did not identify any concerns but did identify some areas to work on in 2024: embedding the new board, focusing on marketing challenges and the oversight of service provision from third parties. Succession is considered on an ongoing basis but was also identified as a particular item in the board evaluation exercise which took place in March 2023 and there is more information on board succession in the Nomination Committee Report on page 79. The Senior Independent Director received the results of the survey relating to the evaluation of the effectiveness of the Chairman and reported this to the Nomination Committee. Upon receiving the reports, the board's Nomination Committee recommended to the board that each of the directors be nominated for election or re-election at the forthcoming Annual General Meeting.

Training and development

On joining the board new directors receive a comprehensive programme of induction. During the year, the directors received periodic guidance and updates on regulatory and compliance changes.

Board Diversity

At the year end two of the directors were male and three were female and at the date of the signing of this report there were three male and two female directors. The ethnicity composition of the board has changed since the year end (which is the official reporting date) and there is more information in the tables on page 71. As the company is an investment trust, all of its activities are outsourced and it does not have any employees. In its brief on board succession the board looks to add to the diversity of approach and thinking as well as taking other factors into account.

The board has noted the Parker review which looked at how to improve the ethnic and cultural diversity of UK boards. As a FTSE-250 company, Merchants responded to the request for voluntary information on its current board membership from BEIS (Department for Business, Energy, and Industrial Strategy) in 2022 and 2023. As an investment company Merchants does not have any employees, therefore it has nothing further to report in respect of gender and ethnic representation within the company.

Conflicts of Interest

The Companies Act 2006 provides that a director must avoid a situation where he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the company's interests. Directors are able to authorise these conflicts and potential conflicts. The board reports annually to shareholders on the company's procedures for ensuring that its powers of authorisation of conflicts are operated effectively and that the procedures have been followed.

Statements by the directors

Each of the directors provides a statement of all conflicts of interest and potential conflicts of interest relating to the company on appointment and subsequently in the event of any change or potential change to this statement. The statements made by each director are considered and approved by the board. The directors have undertaken to notify the Chairman and Company Secretary of any proposed new appointments and new conflicts or potential conflicts for consideration, if necessary, by the board.

The Merchants board follows good practice by having directors' interests as an agenda item at every scheduled board meeting, and a report of all directors' interests is tabled for consideration by the board. This means that any changes to the directors' interests can be noted and recorded, and any potential conflicts identified and dealt with by the board.

Procedure for assessing conflicts and potential conflicts

A director with a potential conflict might be asked to step out of the meeting room, or be permitted to remain in the room but not participate in the discussion or take part in a vote on a course of action. The Merchants board composition has always included directors who sit on the boards of trading companies in which the portfolio manager may be invested, and also includes from time to time directors who sit on the boards of public bodies.

The board has agreed that only directors who have no interest in the matter being considered will be able to take the relevant decision on approval of any conflicts or potential conflicts, and that in taking the decision the directors will act in a way they consider, in good faith, will be most likely to promote the company's success.

The board is able to impose limits or conditions when giving authorisation if it thinks this is appropriate, such as ensuring that a director who also serves on the board of a company in the portfolio does not participate in any discussions on the investment decision.

Directors' Interests Register

The Merchants directors' interests register covers directors' outside interests (e.g., directorships, significant holdings) and where the directors use the services of suppliers to the company (e.g., accountancy firms) in their own capacity. The register also contains notes of any hospitality and gifts received from service providers, including the management company.

Confirmation to shareholders

The board confirms that the detailed procedures have been followed during the year and that its powers of authorisation are operating effectively.

Board Committees

Audit Committee

The Audit Committee meets at least twice each year and is chaired by Timon Drakesmith. The committee assists the board in relation to the reporting of financial information, the review of financial controls and the management of risk. The Audit Committee Report starts on page 84.

Nomination Committee

The nomination committee meets as needed – at least once each year – and makes recommendations on board succession planning and the appointment of new directors and considers the composition and balance of the board. The committee is chaired by Colin Clark, the Chairman of the board, and met once in the last year when it considered the contribution and effectiveness of the board and formally considered the proposal for re-election of each director at the annual general meeting and noted the progress on the board's succession plans. All directors serve on the nomination committee and consider nominations made in accordance with an agreed procedure.

It is the board's policy to use external agencies to draw up lists of candidates as part of the recruitment of new directors. The brief to the recruitment consultant includes the request that the shortlist should include a diverse range of candidates.

The Nomination Committee Report is on page 79.

Management Engagement Committee

The management engagement committee met once in the year to review the Management and Administration Agreement and the manager's performance and a report of management fees. It has defined terms of reference and consists of all the directors. It is chaired by Colin Clark the Chairman of the board.

The Management Engagement Committee Report is on page 78.

Remuneration Committee

The remuneration committee met once in the year. The committee consists of all the directors and during the year was chaired by Sybella Stanley. Karen McKellar was appointed as Chair of the Committee on the retirement of Sybella Stanley on 21 March 2024. All directors serve on the committee and the Chair of the board's remuneration and the additional sum payable to the Chair of the Audit Committee are discussed without the involvement of the directors concerned. The committee determines the company's remuneration policy and determines the remuneration of each director within the terms of that policy. The Directors' Remuneration Report starts on page 80.

The terms of reference for each of the committees may be viewed by shareholders on request and are published on the company's website merchantstrust.co.uk.

Internal Control

The directors have overall responsibility for the company's system of internal control. Whilst acknowledging their responsibility for the system of internal control, the directors are aware that such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable but not absolute assurance against material misstatement or loss.

The board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the company. This process has been fully in place throughout the year under review and up to the date of the signing of this Annual Report.

The key elements of the process are as follows:

- In addition to the review of the key risks (see page 60), the directors regularly review all the risks on the Internal Risk Matrix and every six months the board receives from the manager a formal report which details any known internal controls failures, including those that are not directly the responsibility of the manager.
- Allianz Global Investors UK Limited (AllianzGI), as the appointed manager, provides investment management, accounting and company secretarial services to the company. The manager therefore maintains the internal controls associated with the day-to-day operation of the company. These responsibilities are included in the Management and Administration Agreement between the company and the manager. The manager's systems of internal control are regularly evaluated by its management and monitored by the manager's internal audit function.
- There is a regular review by the board of asset allocation and any risk implications. There are also regular and comprehensive reviews by the board of management accounting information, including revenue and expenditure projections, actual revenue against projections and performance comparisons.
- Authorisation and exposure limits are set and maintained by the board.
- The board meets with senior representatives of AllianzGI and also receives an Internal Controls Report from the manager, together with a report on compliance with the manager's anti-bribery policy.
- The audit committee on behalf of the board reviews the Internal Controls Reports of other third party service providers, including those of AllianzGI and all other providers of administrative and custodian services to AllianzGI or directly to the company.

The directors confirm that the audit committee has reviewed the effectiveness of the system of internal control, which it has found to be appropriate. During the course of its review of the system of internal control, the board has not identified nor been advised of any failings or weaknesses which it has determined to be significant.

Board Attendance

Attendance by the directors at formal board and committee meetings during the year was as follows:

Director	Board	Board Strategy Meeting	Audit Committee	Remuneration Committee	Nomination Committee	Management Engagement Committee
Colin Clark	6/6	1/1	2/2[1]	1/1	1/1	1/1
Timon Drakesmith	6/6	1/1	2/2	1/1	1/1	1/1
Karen McKellar	6/6	1/1	2/2	1/1	1/1	1/1
Mary Ann Sieghart[2]	6/6	1/1	2/2	1/1	1/1	1/1
Sybella Stanley	6/6	1/1	2/2	1/1	1/1	1/1
Lisa Edgar[3]	1/1	-	-	-	-	1/1

[1] Invited to attend meetings, although not a committee member.
[2] Retired from the board on 25 January 2024.
[3] Appointed to the board on 1 January 2024.

Management Engagement Committee Report

Colin Clark

Role of the Committee

The Management Engagement Committee reviews the investment management agreement and monitors the performance of the Manager for the investment, secretarial, financial, administration, marketing and support services that it provides under that agreement. It also reviews the terms of the agreement including the level and structure of fees payable, the length of notice period and best practice provisions generally.

Composition of the Committee

All the directors are members of the committee. The terms of reference can be found on the website at merchantstrust.co.uk.

Manager evaluation process

The Committee met once during the year for the purpose of the formal evaluation of the manager's performance. For the purposes of its ongoing monitoring, the board receives detailed reports and views from the portfolio manager on investment policy and strategies, asset allocation, stock selection, attributions, portfolio characteristics, gearing and risk. The board also assesses the manager's performance against the investment controls set by the board.

Portfolio performance information is set out on page 19.

AIFM

Details of the current AIFM are on page 122. The board announced that with effect from 30 May 2023, the company changed its Alternative Investment Fund Manager ('AIFM') from Allianz Global Investors GmbH, UK Branch ('AllianzGI GmbH') to Allianz Global Investors UK Limited ('AllianzGI UK'). AllianzGI UK is an affiliate of, and has the same ultimate parent company as, AllianzGI GmbH. There has been no change to the portfolio management or fee arrangements. AllianzGI UK is authorised and regulated by the Financial Conduct Authority, with its registered office at 199 Bishopsgate, London EC2M 3TY.

Manager reappointment

The annual evaluation that took place in March 2024 included the noting of a presentation from AllianzGI's Head of Investment Trusts and the portfolio manager. This covered the work done with the board on strategy and the integrated sales and marketing activity, including the work with investment platforms and wealth managers. During the year the manager had also provided updates to its succession plans. The evaluation of the management arrangements had also considered the manager's fee in relation to the peer group.

The result of a detailed questionnaire evaluating the manager completed by the directors was also reviewed by the board. The board concluded that the manager was performing well against the requirements set by the board and that it was satisfied with the performance of the investment manager, the support from the management company and the interaction of the management company with the board. Actions agreed for 2024 included meeting more senior management at the management company and learning about marketing and promotion innovations in AllianzGI.

The board then met and concluded that in its opinion the continuing appointment of the manager on the terms agreed was in the interests of shareholders as a whole and recommended this to the board.

Note 2 to the Accounts on page 105 provides detailed information in relation to the management fee.

Committee evaluation

The activities of the Management Engagement Committee were considered as part of the board evaluation process completed in accordance with standard governance arrangements as summarised on page 75. The conclusion from the process was that the committee was operating effectively, with the right balance of membership and skills.

Colin Clark
Chair of the Management Engagement Committee
3 April 2024

Nomination Committee Report

Colin Clark

Role of the Committee

The Nomination Committee leads the process for board appointments and makes nomination recommendations to the board. The Committee reviews and makes recommendations on board structure, size and composition, the balance of knowledge, experience, skill ranges and diversity and considers succession planning and tenure policy.

Composition of the Committee

All directors are members of the committee, and its terms of reference can be found on the website at merchantstrust.co.uk. Individual directors are not involved in decisions connected with their own appointments.

Activities of the Committee

The committee met during the year and considered, in accordance with its terms of reference the structure, size and composition of the board and satisfied itself regarding succession planning, making recommendations to the board. The committee also discussed the results of the board and committee evaluation exercise, which covered the structure and size of the board and its composition particularly in terms of succession planning and the experience and skills of the individual directors and the topic of board diversity.

The committee notes that all the directors are independent of the manager. In the opinion of the board, each of the directors is independent in character and judgement and there are no relationships or circumstances relating to the company that are likely to affect their judgement.

Recruitment of new directors follows procedures for board succession including the appointment of external consultants and a specification to draw as wide a shortlist as possible taking account of the wish to retain a diverse and balanced board. New directors follow a detailed induction programme.

The latest board effectiveness review exercise took place in March 2024 and was externally facilitated by Lintstock Ltd. An effectiveness review was last previously conducted through an external service provider in 2021. Detailed online surveys covering a wide number of topics relating to the board, the Chairman, the directors individually and the board committees were completed by each of the directors and the outcome was provided by Lintstock to the Chairman and reported to the committee, except for the report relating to the Chairman which was reported to the Senior Independent Director. The exercise also covered a review of the relationship and interaction with the manager, AllianzGI UK. The report from Lintstock also included a peer review against over 50 other investment trusts (made anonymous for the report). The results of this review were that the board, its directors and its committees are effective. The review identified the continuing importance of the following topics: embedding the new board, focusing on marketing challenges and the oversight of service provision from third parties. The results of the review of the Chairman were reported to the committee, and this concluded that the Chairman continued to be highly rated..

Succession planning: retirements and recruitment

Last year the committee had noted the planned retirement dates of directors over the next two years: Mary Ann Sieghart and Sybella Stanley were both due to retire following completion of nine years' service in November 2023. During the summer of 2023 the board commenced a recruitment exercise and appointed Spencer Stuart to search for two new directors. The board had carefully considered and the skills and experience required to maintain the balance of the board and the committee, with the lead taken by the three directors remaining on the board, began the process by specifying the roles and reviewing candidates put forward and conducting interviews. In December 2023 the committee made recommendations for the two appointments which were announced by the board on 21 December and Lisa Edgar joined the board on 1 January 2024 and Mal Patel was appointed with effect from 1 March 2024. The new directors each shadowed the director they were replacing for their first board meetings; following this Mary Ann Sieghart retired from the board on 25 January 2024 and Sybella Stanley retired after the board meeting on 21 March 2024.

Colin Clark
Chair of the Nomination Committee
3 April 2024

Remuneration Committee Report

Karen McKellar

I am pleased to present the report of the Remuneration Committee.

I would like to thank Sybella Stanley for her excellent chairing of the committee. Sybella stepped down from the board on 21 March and I was appointed to take her place as Chair of the Remuneration Committee. Before she left Sybella had led the review of directors' fees and the results of the review are set out in the report which follows.

Composition

All the independent directors are members of the committee and its terms of reference can be found on the website at www.merchantstrust.co.uk.

Role

The committee leads the process for fixing directors' remuneration and makes recommendations to the board.

Activities

The committee's activities are set out in the report from the committee which follows.

The Directors' Remuneration Report

This is the Directors' Remuneration Report for the year. The report is submitted in accordance with the Large and Medium- sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 for the year ended 31 January 2024.

An ordinary resolution for the approval of the Directors' Remuneration Policy Report was first put to a binding shareholder vote at the annual general meeting in 2014 and was placed before shareholders for approval at the AGMs in 2017, 2020 and 2023. It will next be put to shareholders at the AGM in 2026.

The results of the vote at the 2017 AGM for this resolution were as follows: In favour 94.9%, against 5.1% and 693,409 were withheld (in aggregate, 31,770,124 votes) The results of the vote at the 2020 AGM for this resolution were as follows: In favour 98.51%, against 1.49% and 184,371 shares were withheld (in aggregate, 15,100,700 votes). The results of the vote at the 2023 AGM for this resolution were as follows: In favour 98.52%, against 1.48% and 95,270 shares were withheld (in aggregate, 14,421,950 votes).

The results of the advisory vote at the 2023 AGM for the resolution to approve the Implementation Report were as follows: In favour 98.49%, against 1.51% and 87,883 shares were noted as votes withheld (in aggregate 14,421,950 votes). The Directors' Remuneration Implementation Report is to be put to the AGM, annually, as an advisory shareholder vote.

The information provided in this part of the Directors' Remuneration Report is not subject to audit unless specified below.

The Board

The board of directors is composed solely of non-executive directors and the determination of the directors' fees is guided by the remuneration policy (see below) and the recommendations of the remuneration committee which is made up of the independent directors and, as noted above, was was chaired by Sybella Stanley from its inception in 2019 until her retirement from the board on 21 March 2024. The board has not been provided with advice or services by any person to assist it to make its remuneration decisions, although the directors carry out reviews from time to time of the fees paid to the directors of other investment companies in the peer group and review annual data on non-executive directors' pay in the investment trust industry.

Directors' Shareholdings and Share Interests (Audited)

The interest of the directors at the year end in the ordinary share capital of the company are set out below:

	2024	2023
Colin Clark	10,000	10,000
Timon Drakesmith	15,000	15,000
Lisa Edgar[1]	998	-
Karen McKellar	8,000	8,000
Mary Ann Sieghart[2]	1,000	1,000
Sybella Stanley	3,114	3,114

[1] Appointed to the board 1 January 2024
[2] Retired from the board 25 January 2024

The company's Articles provide for directors to hold qualifying shares in the nominal amount of £100, i.e., currently 400 shares.

Directors' Remuneration Policy

No director has a service contract with the company. The company's policy is for the directors to be remunerated in the form of fees, payable quarterly in arrears. There are no long term incentive schemes, bonuses, pension benefits, share options or other benefits and fees are not related to the individual director's performance, nor to the performance of the board as a whole.

The company's Articles limit the aggregate fees payable to the board of directors to a total of £250,000 per annum. Subject to this overall limit, it is the board's policy to determine the level of directors' fees having regard to the level of fees payable to non-executive directors in the investment trust industry generally, the role that individual directors fulfil, and the time committed to the company's affairs. The board believes that levels of remuneration should be sufficient to attract and retain non-executive directors to oversee the company.

Directors are entitled to be reimbursed for any reasonable expenses properly incurred by them in connection with the performance of their duties and attendance at meetings. In the year under review no such payments were made. There are no agreements between the company and its directors concerning compensation for loss of office.

The company's Articles also provide that additional discretionary payments can be made for services which in the opinion of the directors are outside the scope of the ordinary duties of a director. In the year under review no such payments were made.

This Directors' Remuneration Policy is the same in all material respects as that currently followed by the board and summarised in the last Directors' Remuneration Report and approved by the shareholders at the annual general meeting held on 18 May 2023.

The company has no employees and consequently has no policy on the remuneration of employees.

The board will consider, where raised, shareholders' views on directors' remuneration. No comments have been received on this subject in the past year.

Annual Statement and Directors' Remuneration Implementation Report

Directors' Emoluments (Audited)

The policy is to review directors' fee rates from time to time, but reviews will not necessarily result in a change to the rates.

In the year under review the directors were paid at a rate of £28,000 per annum, with an additional £6,000 for the Chair of the Audit Committee, and the Chairman was paid at a rate of £42,000per annum. The current fees have applied since 1 February 2023.

The fees were reviewed in March 2024. In the context of industry data reviewed, the committee considered the current level of directors' fees and the work undertaken during the year by the directors. Having considered these factors, the committee agreed that a modest increase would be appropriate and it has been agreed to increase the fees with effect from 1 February 2024. The Chairman will be paid £42,500 p.a., the directors will be paid £28,500 p.a., and an additional fee of £6,500 p.a. will be paid to the Chair of the Audit Committee.

The directors' emoluments during the year and in the previous year, all of which were in the form of fixed remuneration with no additional variable pay in 2024 or 2023, and were in the form of fees, were as follows:

Directors' fees	2024 £	2023 £
Colin Clark	42,000	40,500
Timon Drakesmith	34,000	33,000
Lisa Edgar	2,333	-
Karen McKellar	28,000	27,000
Mary Ann Sieghart	27,713	27,000
Sybella Stanley	28,000	27,000
	162,046	154,500

	2024 £	% change from 2023 to 2024	2023 £	% change from 2022 to 2023	2022 £	% change from 2021 to 2022	2021 £	% change from 2020 to 2021	2020 £
Chairman	42,000	3.7	40,500	1.9	39,750	0.0	39,750	3.9	38,250
Audit Chair	34,000	3.0	33,000	2.3	32,250	0.0	32,250	4.0	31,000
Independent Director	28,000	3.7	27,000	1.9	26,500	0.0	26,500	3.9	25,500

Any increase in pay was effective from 1 February in any given year.

There are no other benefits requiring reporting.

Analysis of Pay against Distributions

A table showing actual expenditure by the company on remuneration and distributions to shareholders for the year and the prior year is below:

Expenditure by the company on remuneration and distributions to the shareholders

	2024 £	2023 £
Remuneration paid to all directors	162,046	154,000
Distributions to shareholders	40,638,000	36,248,000

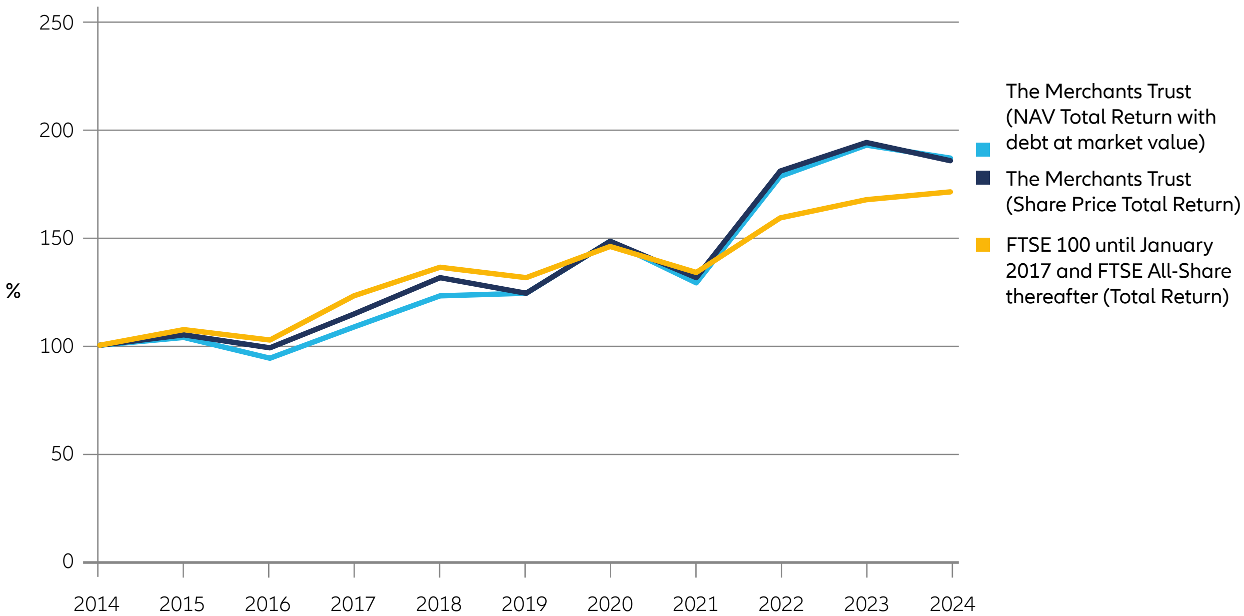
The disclosure is a statutory requirement, however the directors do not consider that the comparison of directors' remuneration with distributions to shareholders is a meaningful measure of the company's overall performance.

Performance Graph

The graph below measures the company's share price and net asset value performance against its benchmark index of the FTSE All-Share Index and is re-based to 100.

The company's performance is measured against the FTSE All-Share Index as this is the most appropriate comparator in respect of its asset allocation. An explanation of the company's performance is given in the Chairman's Statement and the Investment Manager's Review.

Total shareholder return for the ten years to 31 January 2024



Source: AllianzGI / Datastream in GBP

Figures have been rebased to 100 as at January 2014

Signed on behalf of the board

Karen McKellar
Chair of the Remuneration Committee
3 April 2024

Audit Committee Report

Timon Drakesmith

I am pleased to present the report of the audit committee for the year ended 31 January 2024.

Composition

The audit committee consists of all of the independent non-executive directors, with the exception of the Chairman of the board. The committee considers that, collectively, its members have sufficient recent and relevant financial experience to discharge their responsibilities fully. I am a chartered accountant and have recent previous experience as Chief Financial Officer of a large public company as well as holding positions of a similar capacity in other large companies.

Role

The principal role of the Audit Committee is to assist the board in relation to the reporting of financial information, the review of financial controls and the management of risk. The committee has defined terms of reference and duties and the terms of reference are published on the company's website. These include:

- responsibility for the review of the Annual Report and the Half-yearly Report;
- consideration of the nature and scope of the external audit and the findings therefrom; and
- consideration of the terms of appointment of the auditors, including their remuneration and the provision of any non-audit services by them.

Activities

During the year the committee had two regular meetings during which the Annual Report and the Half-yearly Report respectively were reviewed in detail. The regular meetings were attended by representatives of the manager, including its compliance and risk departments. At each regular meeting the committee received reports on the operation of financial controls relating to the company and the proper conduct of its business in accordance with the regulatory environment in which both the company and the manager operate. At the meeting following the year end the committee also considered the Auditor's report on the audit findings, the process of the audit and the auditor's independence and objectivity. The audit committee reviews the company's accounting policies with the manager and considers their appropriateness. The committee also reviews the terms of appointment of the auditors together with their remuneration.

Significant issues considered by the audit committee in the year

Area of focus	Activity
Controls oversight	During the year, two capital NAV errors were brought to the board's attention. The company's NAVs are calculated by AllianzGI's third party service provider and reported to the market in daily NAV announcements. It was noted that this did not impact the cum-income NAV announced throughout the period concerned. Since then, the manager, AllianzGI, has reported to the board and audit committee on the due diligence performed with the service provider, the corrective actions taken and the plans now in place to prevent recurrence. Service enhancements that resulted from this included lower tolerance thresholds for additional reporting of daily NAV movements, quicker responses to requests for information, a new escalation protocol and service industry benchmarking. The manager has confirmed its belief that the service will stabilise as these remediations take effect. The audit committee will continue to monitor this progress closely.

Area of focus	Activity
Cyber and Artificial Intelligence (AI) risks	As part of our risk management responsibilities we have worked with AllianzGI and our other key suppliers such as HSBC, State Street and Link to assess continuing business resilience from cyber attacks and data breaches and also from AI threats including malicious AI, its rapid growth and the lack of regulation.
Capital structure assessment	The Audit Committee constantly monitors Merchants equity and debt capital structure to ensure that returns are optimised whilst retaining flexibility and resilience. We to continue to analyse different capital management scenarios in the context of market movements and the company's appetite for gearing. During the year we continued to review the potential for refinancing the company's 2029 bonds prior to their maturity date.
The risk that income from the portfolio of investments was not correctly recognised and accounted for	The committee noted that the board receives income forecasts throughout the year and is able to compare these against actual income received. The committee has also received assurances from the manager that the company's stated accounting policies, which are set out on pages 102 and 103, were noted and adhered to, for example, each special dividend received is considered by the board at its meetings and is treated as a capital or revenue item depending on the facts or circumstances of each dividend. The board also receives reports on the impact of currency movements on the portfolio revenue.
Risks around the valuation and the ownership of investments and risks of management override	The company's assets are principally invested in large UK listed equities traded on major exchanges. The committee notes that investments are valued using stock exchange prices provided by third party financial data vendors. During the year the committee reviewed internal controls reports from the manager concerning the systems and controls around the pricing and valuation of securities.

Risk

Although the board has ultimate responsibility for the management of risk, the audit committee assists by monitoring the formal reports from the manager and third party service providers' reports on internal controls.

The committee reviewed its approach to the risk management process and concluded that existing processes were adequate to ensure that its assessment of risk is robust and of sufficient frequency.

A Risk Map is reviewed at each of the committee's meetings. We consider whether new risks should be added or existing risks removed, assess their likelihood of occurring and potential scale, review the mitigating actions and assess the residual risk against what we regard as acceptable 'risk appetite'.

Assurance over mitigating actions in relation to these risks is provided in a series of reports from all the third party service providers.

Resulting from the work of the audit committee, certain key risks are identified for disclosure and discussion in our annual report. We have also assessed residual risks after controls and mitigating actions have been applied and have evaluated if our risk appetite has been satisfactorily addressed. The principal risks are in relation to Portfolio, Business and Operational Matters. The risks identified together with mitigating actions are set out in the Strategic Report from page 60.

Viability Statement

Based on the above review of risk, including the chief risks around Investment Performance and Market Volatility and the arrangements in place to manage and mitigate these risks, the committee reviewed a paper that supported the board's conclusion, set out on page 63 in the strategic report, of their reasonable expectation that the company is viable in the longer term, assessed as the next five years.

Internal audit

The audit committee continues to believe that the company does not require an internal audit function of its own as it delegates its day to day operations to third parties from whom it receives internal controls reports.

Assessment of Fair, Balanced and Understandable

The audit committee and then the whole board reviewed the entire annual report and noted all the supporting information received. It then considered whether the annual report satisfactorily reflected a true picture of the company and its activities and performance in the year, with a clear link between the relevant sections of the report and concluded that it did so. The directors were then able to confirm that the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

Review of Disclosure and Communication

At our meetings the audit committee reviews whether we are following best practice in our disclosure and whether we believe we are communicating clearly. In order to assist us we receive reports on current and future changes to regulatory and accounting reporting from the manager and auditor.

During the year we carried out further reviews of the format and content to refresh and invigorate the annual report to continue to ensure it is appealing and informative to readers.

Financial Reporting Council

During the second half of the year, we received a letter from the Financial Reporting Council Corporate Reporting Review team as part of its ongoing monitoring of UK corporate reporting. This letter informed us that it had carried out a review of our 2023 Annual Report and Financial Statements, and the review had not raised any further questions or queries which required a substantive response. A small number of disclosure points were also noted as part of the review which we have considered for adoption in the disclosures in this and future Annual Reports.

The Financial Reporting Council (FRC) requested that it be made clear the inherent limitations of the review; in particular it noted in its letter that its review provides no assurance that the 2023 Annual Report and Financial Statements are correct in all material respects and that the FRC's role is not to verify the information provided but to consider compliance with reporting requirements. The FRC also noted its review did not benefit from detailed knowledge of the company's business or an understanding of the underlying transactions entered into.

Whistleblowing

As the company has no employees it does not have a formal policy concerning the raising, in confidence, of any concerns about improprieties, whether in matters of financial reporting or otherwise, for appropriate independent investigation. The audit committee has, however, received and noted the manager's policy on this matter. Any matters concerning the company may be raised with the Chairman or the Senior Independent Director.

Financial Report and review with Auditors

The audit committee met with the auditors at the half-year point to discuss the audit plan for the year and identify the significant issues to be dealt with in the review of the year end results. The committee then met with the auditors following the year end to discuss the results of the audit.

These and other matters, identified as posing lesser risk, were considered and discussed with the manager and the auditors as part of the year end process.

We also agreed the degree of materiality that the auditors would apply in their work, which is £7.9 million, or about 1% of net assets, although the auditors would bring to the audit committee's attention any significant misstatements below that level.

Auditor Tenure and Auditor Reappointment

This is BDO LLP's sixth year as the company's independent auditor. The company is subject to mandatory auditor rotation requirements and so will put the external audit out to tender at least every ten years and change auditor at least every twenty years. The next tender will therefore be required no later than 2028. The auditor is required to rotate partners every five years and last year we thanked Peter Smith for his five years leading the audit and welcomed Chris Meyrick as the new Audit Partner.

The audit and its effectiveness

The committee reviewed the terms of appointment of the auditor, monitored the audit process, assessed the auditor's independence, objectivity and the effectiveness of the audit process, including the provision of non-audit services by the firm, and determined that they have had no impact on the auditor's independence and objectivity.

As part of the review of the auditor, the members of the committee and those representatives of the manager involved in the audit process reviewed and considered a number of areas including: the reputation and standing of the audit firm; the audit processes, evidence of partner oversight and external information about the firm; the skills, experience and specialist knowledge of the audit team, particularly relating to investment trusts; audit communication including details of planning, information on relevant accounting and regulatory developments, and recommendations on corporate reporting; the reasonableness of audit fees; and the Financial Reporting Council's Audit Quality Report on BDO LLP for 2022/23.

The committee was satisfied that the audit process was effective for the year under review.

The committee considered the representations made by the auditor and sought comments from representatives of the manager on the provision of services by the auditors and the effectiveness of the external audit. The audit committee believes that the performance of the auditors was satisfactory.

Non-audit services

Non-audit services relate to certificates supplied in connection with the covenants under the debenture trust deeds and the audit committee agreed that it was appropriate that the company's auditors should be asked to provide these services.

Fees accrued in the year that related to non-audit services were £5,000 (2023: £5,000).

Timon Drakesmith
Chair of the Audit Committee
3 April 2024

Statement of Directors' Responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK Accounting Standards have been followed, comprising FRS 102, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors each have a duty to make themselves aware of any "relevant audit information" and ensure that the auditors have been made aware of that information. A disclosure stating that each director has complied with that duty is given in the Directors' Report on page 72.

The directors are responsible for ensuring that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

The financial statements are published on www.merchantstrust.co.uk, which is a website maintained by the company's investment manager, AllianzGI. The directors are responsible for the maintenance and integrity of the company's website. The work undertaken by the auditors does not involve consideration of the maintenance and integrity of the website and, accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement under Disclosure and Transparency Rule 4.1.12

The directors at the date of approval of this report, each confirm to the best of their knowledge that:

- the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the company;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.

For and on behalf of the board

Colin Clark
Chairman
3 April 2024

Financial Statements

During the year, we added to our position in renewable energy company Drax Group. The sustainable biomass producer continues to be a high conviction holding.

PHOTO © DRAX GROUP

Independent Auditor's Report to the members of The Merchants Trust PLC

Opinion on the financial statements

In our opinion the financial statements:

– give a true and fair view of the state of the Company's affairs as at 31 January 2024 and of its profit for the year then ended;
– have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
– have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of The Merchants Trust PLC (the 'Company') for the year ended 31 January 2024 which comprise Income Statement, Statement of Changes in Equity, Balance Sheet, Cash Flow Statement and Notes to the Financial Statements, including Statement of Accounting Policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

Independence

Following the recommendation of the audit committee, we were appointed by shareholders on 16 May 2018 to audit the financial statements for the year ended 31 January 2019 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 6 years, covering the years ended 31 January 2019 to 31 January 2024. We remain independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Company.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

– Evaluating the appropriateness of the Directors' method of assessing the going concern in light of economic and market conditions by reviewing the information used by the Directors in completing their assessment;
– Assessing the appropriateness of the Directors' assumptions and judgements made by comparing the prior year forecasted costs to the actual costs incurred to check that the projected costs are reasonable;
– Assessing the projected management fees for the year to check that it was in line with the current assets under management levels and the projected market growth forecasts for the following year;
– Assessing the appropriateness of the Directors' assumptions and judgements made in their base case and stress tested forecasts including consideration of the available cash resources relative to forecast expenditure and committments; and
– Challenging the Directors' assumptions and judgements made in their forecasts including performing an independent analysis of the liquidity of the portfolio.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the Company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

		2024	2023
Key audit matters	Valuation and ownership of investments	✔	✔
	Revenue recognition	✔	✔
Materiality	*Company financial statements as a whole* £7.87m (2023: £8.12m) based on 1% (2023: 1%) of Net assets		

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Company and its environment, including the Company's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Key audit matter</th><th></th><th>How the scope of our audit addressed the key audit matter</th></tr>
<tr><td>Valuation and ownership of investments
(Note 8 on Page 109)</td><td>The investment portfolio at the year-end comprised of listed equity investments held at fair value through profit or loss.

We considered the valuation and ownership of investments to be a significant audit area as investments represent the most significant balance in the financial statements and underpins the principal activity of the entity.

There is a risk that the bid price used as a proxy for fair value of investments held at the reporting date is inappropriate. Given the nature of the portfolio is such that it comprises solely of listed investments, we do not consider the use of bid price to be subject to significant estimation uncertainty.

There is also a risk of error in the recording of investment holdings such that those recording do not appropriate reflect the property of the Company.

For these reasons and the materiality to the financial statements as a whole, they are considered to be a key area of our overall audit strategy and allocation of our resources and hence a Key Audit Matter.</td><td>We responded to this matter by testing the valuation and ownership of the whole portfolio of listed equity investments. We performed the following procedures:
– Confirmed the year-end bid price was used by agreeing to externally quoted prices;
– Assessed if there were contra indicators, such as liquidity considerations, to suggest bid price is not the most appropriate indication of fair value by considering the realisation period for individual holdings;
– Recalculated the valuation by multiplying the number of shares held per the statement obtained from the custodian by the valuation per share; and
– Obtained direct confirmation of the number of shares held per equity investment from the custodian regarding all investments held at the balance sheet date.

Key observations:
Based on our procedures performed we did not identify any matters to suggest the valuation or ownership of the listed equity investments was not appropriate.</td></tr>
</table>

Key audit matter		How the scope of our audit addressed the key audit matter
Revenue Recognition (page 102 and Note 1 on Page 105)	Revenue is a key indicator of performance of the Company, as such there may be an incentive to recognise income as revenue where it is more appropriately of a capital nature. Judgement may be required by management in determining the allocation of dividend income to revenue or capital for certain corporate actions or special dividends. For this reason we considered revenue recognition to be a key audit matter.	We assessed the treatment of dividend income from corporate actions and special dividends and where material we challenged if these had been appropriately accounted for as income or capital by reviewing the underlying reason for issue of the dividend and whether it could be driven by a capital event. We analysed the whole population of dividend receipts to identify items for further discussion that could indicate a capital distribution, where a dividend represents a particularly high yield. In these instances we performed a combination of inquiry with management and our own independent research, including inspection of financial statements and public information of investee companies, to ascertain whether the underlying event was indeed of a capital nature. In addition, we formed our own expectation of dividend income for the whole portfolio using the entity's investment holdings and dividend announcements from independent sources. We vouched a sample of dividend receipts to bank. **Key observations:** Based on our procedures performed we found the judgements made by management in determining the allocation of income to revenue or capital to be appropriate.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Company financial statements	
	2024 £m	2023 £m
Materiality	7.87	8.12
Basis for determining materiality	1% of Net Assets	
Rationale for the benchmark applied	As an investment trust, the net asset value is the key measure of performance for users of the financial statements.	
Performance materiality	5.90	6.09
Basis for determining performance materiality	75% of materiality	
Rationale for the percentage applied for performance materiality	The level of performance materiality applied was set after having considered a number of factors including the expected total value of known and likely misstatements and the level of transactions in the year.	

Specific materiality

We also determined that for items impacting revenue return, a misstatement of less than materiality for the financial statements as a whole, specific materiality, could influence the economic decisions of users. As a result, we determined materiality for these items to be £2.26m (2023: £1.96m), based on 5% (2023: 5%) of revenue return before tax. We further applied a performance materiality level of 75% (2023: 75%) of specific materiality to ensure that the risk of errors exceeding specific materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £113,000 (2023: £98,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Corporate governance statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit.

Going concern and longer-term viability	– The Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified; and – The Directors' explanation as to their assessment of the Company's prospects, the period this assessment covers and why the period is appropriate.
Other Code provisions	– Directors' statement on fair, balanced and understandable; – Board's confirmation that it has carried out a robust assessment of the emerging and principal risks; – The section of the annual report that describes the review of effectiveness of risk management and internal control systems; and – The section describing the work of the Audit Committee.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	In our opinion, based on the work undertaken in the course of the audit: – the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and – the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.
Directors' remuneration	In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.
Corporate governance statement	In our opinion, based on the work undertaken in the course of the audit the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Guidance and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in this information. In our opinion, based on the work undertaken in the course of the audit information about the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules. We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the Company.

Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: – adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or – the financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or – certain disclosures of Directors' remuneration specified by law are not made; or – we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. We considered the significant laws and regulations to be the Companies Act 2006, the FCA listing and DTR rules, the principles of the AIC Code of Corporate Governance, industry practice represented by the AIC SORP, the applicable accounting framework, and qualification as an Investment Trust under UK tax legislation as any non-compliance of this would lead to the Company losing various deductions and exemptions from corporation tax.

Non-compliance with laws and regulations

We focused on laws and regulations that could give rise to a material misstatement in the Company financial statements. Our tests included, but were not limited to:

- agreement of the financial statement disclosures to underlying supporting documentation;
- enquiries of management and those charged with governance relating to any instances of any non-compliance with laws and regulations;
- reviewing minutes of meeting of those charged with governance throughout the period for instances of non-compliance with laws and regulations; and
- reviewing the calculation in relation to Investment Trust compliance to check that the Company was meeting its requirements to retain their Investment Trust Status.

Fraud

We assessed the susceptibility of the financial statement to material misstatement including fraud.

Our risk assessment procedures included:

- Enquiry with the Investment Manager, the Administrator and those charged with governance regarding any known or suspected instances of fraud;

- Review of minutes of meeting of those charged with governance for any known or suspected instances of fraud; and
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements.

Based on our risk assessment, we considered the areas most susceptible to be management override of controls.

Our procedures in respect of the above included:

- In addressing the risk of management override of control, we:
  - Performed a review of estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias;
  - Considered the opportunity and incentive to manipulate accounting entries and target tested relevant adjustments made in the period end financial reporting process; and
  - Reviewed for significant transactions outside the normal course of business; and
  - Performed a review of unadjusted audit differences, if any, for indications of bias or deliberate misstatement.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Chris Meyrick (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Edinburgh, UK
United Kingdom
3 April 2024

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Income Statement

for the year ended 31 January 2024

	Notes	2024 Revenue £'000s	2024 Capital £'000s	2024 Total Return £'000s	2023 Revenue £'000s	2023 Capital £'000s	2023 Total Return £'000s
(Losses) gains on investments held at fair value through profit or loss	8	-	(69,095)	(69,095)	-	5,499	5,499
(Losses) gains on derivatives	8	-	(20)	(20)	-	538	538
Losses on foreign currencies		-	(58)	(58)	-	(64)	(64)
Income	1	49,563	-	49,563	42,821	-	42,821
Investment management fee	2	(1,093)	(2,031)	(3,124)	(1,031)	(1,915)	(2,946)
Administration expenses	3	(1,229)	(4)	(1,233)	(1,171)	(3)	(1,174)
Profit (loss) before finance costs and taxation		**47,241**	**(71,208)**	**(23,967)**	**40,619**	**4,055**	**44,674**
Finance costs: interest payable and similar charges	4	(1,954)	(3,549)	(5,503)	(1,388)	(2,495)	(3,883)
Profit (loss) on ordinary activities before taxation		**45,287**	**(74,757)**	**(29,470)**	**39,231**	**1,560**	**40,791**
Taxation	5	(778)	-	(778)	(605)	-	(605)
Profit (loss) after taxation attributable to ordinary shareholders		**44,509**	**(74,757)**	**(30,248)**	**38,626**	**1,560**	**40,186**
Earnings (loss) per ordinary share (basic and diluted)	7	**30.53p**	**(51.28p)**	**(20.75p)**	**28.70p**	**1.16p**	**29.86p**

Dividends in respect of the financial year ended 31 January 2024 total 28.40p (2023: 27.60p), amounting to £41,916,000 (2023: £38,018,000). Details are set out in Note 6 on page 108.

The total return column of this statement is the profit and loss account of the company. The supplementary revenue return and capital return columns are both prepared under the guidance published by the Association of Investment Companies.

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

The net profit for the year disclosed above represents the company's total comprehensive income.

The Statement of Accounting Policies and Notes on pages 102 to 120 form an integral part of these Financial Statements.

Statement of Changes in Equity

for the year ended 31 January 2024

	Notes	Called up Share Capital £'000s	Share Premium Account £'000s	Capital Redemption Reserve £'000s	Capital Reserve £'000s	Revenue Reserve £'000s	Total £'000s
Net assets at 1 February 2023		35,034	184,239	293	569,912	22,897	812,375
Revenue profit		-	-	-	-	44,509	44,509
Dividends on ordinary shares	6	-	-	-	-	(40,638)	(40,638)
Unclaimed Dividends		-	-	-	-	51	51
Capital loss		-	-	-	(74,757)	-	(74,757)
Shares issued during the year	11	2,047	43,935	-	-	-	45,982
Net assets at 31 January 2024		**37,081**	**228,174**	**293**	**495,155**	**26,819**	**787,522**
Net assets at 1 February 2022		31,926	118,047	293	568,352	20,432	739,050
Revenue profit		-	-	-	-	38,626	38,626
Dividends on ordinary shares	6	-	-	-	-	(36,248)	(36,248)
Unclaimed Dividends		-	-	-	-	87	87
Capital profit		-	-	-	1,560	-	1,560
Shares issued during the year	11	3,108	66,192	-	-	-	69,300
Net assets at 31 January 2023		**35,034**	**184,239**	**293**	**569,912**	**22,897**	**812,375**

The Statement of Accounting Policies and Notes on pages 102 to 120 form an integral part of these Financial Statements.

Balance Sheet

at 31 January 2024

	Notes	2024 £'000s	2024 £'000s	2023 £'000s
Fixed assets				
Investments held at fair value through profit or loss	8		874,668	909,638
Current assets				
Other receivables	9	1,923		1,899
Cash at bank and in hand		22,886		11,465
		24,809		**13,364**
Current liabilities				
Other payables	9	(45,032)		(43,798)
Derivative financial instruments	8	(57)		(20)
		(45,089)		**(43,818)**
Net current liabilities			(20,280)	(30,454)
Total assets less current liabilities			**854,388**	**879,184**
Creditors: amounts falling due after more than one year	10		(66,866)	(66,809)
Total net assets			**787,522**	**812,375**
Capital and reserves				
Called up share capital	11		37,081	35,034
Share premium account	12		228,174	184,239
Capital redemption reserve	12		293	293
Capital reserve	12		495,155	569,912
Revenue reserve	12		26,819	22,897
Equity shareholders' funds	13		**787,522**	**812,375**
Net asset value per ordinary share	13		**530.9p**	**579.7p**

The financial statements of The Merchants Trust PLC on pages 98 to 101 were approved and authorised for issue by the Board of Directors on 3 April 2024 and signed on its behalf by:

Colin Clark
Chairman

The Statement of Accounting Policies and Notes on pages 102 to 120 form an integral part of these Financial Statements.

Cash Flow Statement

for the year ended 31 January 2024

	Notes	2024 £'000s	2023 £'000s
Operating activities			
(Loss) profit before finance costs and taxation*		(23,967)	44,674
Add (Less): Losses (gains) on investments held at fair value		67,949	(7,305)
Add (Less): Losses (gains) on derivatives		20	(538)
Add: Special dividends credited to capital**		-	3,472
Add: Losses on foreign currency		58	64
Purchase of fixed asset investments held at fair value through profit or loss		(242,189)	(300,664)
Sales of fixed asset investments held at fair value through profit or loss		211,377	208,995
Transaction costs		(1,146)	(1,806)
(Increase) decrease in other receivables		(24)	383
Increase in other payables		60	67
Less: Overseas tax suffered		(778)	(605)
Net cash inflow (outflow) from operating activities		**11,360**	**(53,263)**
Financing activities			
Interest paid		(5,233)	(3,641)
Drawdown on Revolving Credit Facility***		-	16,000
Dividend paid on cumulative preference stock		(43)	(43)
Dividends paid on ordinary shares	6	(40,638)	(36,248)
Unclaimed dividends over 12 years		51	87
Share issue proceeds		45,982	70,011
Net cash inflow from financing activities		**119**	**46,166**
Increase (decrease) in cash and cash equivalents		**11,479**	**(7,097)**
Cash and cash equivalents at the start of the year		11,465	18,626
Effect of foreign exchange rates		(58)	(64)
Cash and cash equivalents at the end of the year		22,886	11,465
Comprising:			
Cash at bank and in hand		22,886	11,465

* Cash inflow from dividends was £47,137,000 (2023: £40,877,000) and cash inflow from interest was £409,000 (2023: £90,000).
** Tate and Lyle Special dividend paid following the sale of a subsidiary.
*** Revolving Credit Facility drawdowns and repayments are presented on a net basis.

The Statement of Accounting Policies and Notes on pages 102 to 120 form an integral part of these Financial Statements.

Statement of Accounting Policies

for the year ended 31 January 2024

The company is incorporated in the United Kingdom under the Companies Act 2006.

The company is a public company limited by shares and is registered in England and Wales. The address of the company's registered office is shown on page 68. The company is an investment company as defined in section 833 of the Companies Act 2006.

The principal activity of the company and the nature of its operations are set out in the Strategic Report starting on page 56. The company conducts its business so as to qualify as an investment trust company within the meaning of sub-section 1158 of the Corporation Tax Act 2010.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

1 **Basis of preparation** –The financial statements have been prepared under the historical cost convention, except for the revaluation of financial instruments held at fair value through profit or loss and in accordance with applicable United Kingdom law and UK Accounting Standards (UK GAAP), including Financial Reporting Standard 102 – the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (FRS 102) and in line with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts "issued by the Association of Investment Companies (AIC SORP) in July 2022.

In order to better reflect the activities of an investment trust company, and in accordance with guidance issued by the AIC, supplementary information which analyses the Income Statement between items of revenue and capital nature has been presented alongside the Income Statement. In accordance with the company's Articles of Association, net capital returns may be distributed by way of dividend.

The directors believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements as the assets of the company consist mainly of securities, which are readily realisable and significantly exceed liabilities. Accordingly, the directors believe that the company has adequate financial resources, to continue in operational existence for the foreseeable future. The directors have also considered the risks and consequences of unanticipated shocks on the company, including geopolitical and macroeconomic events and have concluded that the company has the ability to continue in operation and meet its objectives for twelve months after the approval of the financial statements.

2 **Income** – Dividends received on equity shares are accounted for on an ex-dividend basis. Foreign dividends are grossed up at the appropriate rate of withholding tax.

Special dividends are recognised on an ex-dividend basis and treated as a capital or revenue item depending on the facts and circumstances of each dividend. The board reviews special dividends and their treatment at each meeting.

Where the company has elected to receive its dividends in the form of additional shares rather than in cash, the equivalent of the cash dividend is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend is recognised in capital reserves.

Deposit interest receivable is accounted for on an accruals basis.

3 **Investment management fees and administrative expenses** – The investment management fee is calculated on the basis set out in Note 2 to the financial statements and is charged to capital and revenue in the ratio 65:35 to reflect the Board's investment policy and prospective split of capital and revenue returns. The split is reviewed annually. Other administration expenses are charged in full to revenue, except custodian handling charges on investment transactions which are charged to capital. All expenses are recognised on an accrual basis.

4 **Investments** – As the company's business is investing in financial assets with a view to profiting from their total return in the form of increases in fair value, financial assets are designated as held at fair value through profit or loss in accordance with FRS 102 Section 11: 'Basic Financial Instruments' and Section 12: 'Other Financial Instruments'. The company manages and evaluates the performance of these investments on a fair value basis in accordance with its investment strategy, and information about the investments is provided on this basis to the board.

Investments held at fair value through profit or loss are initially recognised at fair value. After initial recognition, these continue to be measured at fair value, which for quoted investments is either the bid price or the last traded price depending on the convention of the exchange on which the investment is listed. Gains or losses on investments are recognised in the capital column of the Income Statement. Purchases and sales of the financial assets are recognised on the trade date, being the date which the company commits to purchase or sell the assets.

5 **Transaction costs** – In accordance with FRS 102 section 12.7, transaction costs are immediately expensed to the profit and loss account and are not included in the carrying value of investments as these are measured at fair value through the profit and loss account.

6 **Derivatives** – Options may be purchased or written over securities held in the portfolio for generating or protecting capital returns, or for generating or maintaining revenue returns. Where the purpose of the option is the maintenance of capital the premium is treated as a capital item. In accordance with FRS 102 Section 12: 'Other Financial Instruments', options are valued at fair value and are included in current assets or current liabilities in the balance sheet. When an option is closed out or exercised the gain or loss is accounted for as capital.

Where the purpose of the option is the generation of income, the premium is treated as a revenue item. Premiums received on written options are amortised to revenue over the period to expiry. If an option is exercised early unamortised premiums are taken to capital.

7 **Finance costs** – In accordance with the FRS 102 Section 11: 'Basic Financial Instruments' and Section 12 'Other Financial Instruments', long term borrowings are stated at the amortised cost being the amount of net proceeds on issue plus accrued finance costs to date. Finance costs are calculated over the term of the debt on the effective interest rate basis.

Where debt is issued at a premium, the premium is amortised over the term of the debt on the effective interest rate basis.

Finance costs net of amortised premiums are charged to capital and revenue in the ratio 65:35 to reflect the board's investment policy and prospective split of capital and revenue returns.

Dividends payable on the 3.65% cumulative preference stock are classified as an interest expense and are charged in full to revenue.

8 **Taxation** – Where expenses are allocated between capital and revenue, any tax relief obtained in respect of those expenses is allocated between capital and revenue on the marginal basis using the company's effective rate of corporation tax for the accounting period.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax or a right to pay less tax in the future have occurred. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements.

A deferred tax asset is recognised when it is more likely than not that the asset will be recoverable. Deferred tax is measured on a non-discounted basis at the rate of corporation tax that is expected to apply when the timing differences are expected to reverse.

9 **Foreign currency** – In accordance with FRS 102 Section 30: 'Foreign Currency Translation', the company is required to nominate a functional currency, being the currency in which the company predominately operates and in which its expenses are generally paid. The functional and reporting currency is pounds sterling. Transactions in foreign currencies are translated into pounds sterling at the rates of exchange ruling on the date of the transaction. Foreign currency monetary assets and liabilities are translated into sterling at the rates of exchange ruling at the balance sheet date. Profits and losses thereon are recognised in the capital column of the income statement and taken to the capital reserve.

10 **Dividends** – In accordance with FRS 102 Section 32: 'Events After the End of the Reporting Period', any final dividend proposed on ordinary shares is recognised as a liability when approved by shareholders. Interim dividends are recognised only when paid. Dividends are paid from the revenue reserve.

11 **Cash and cash equivalents** – Cash comprises cash in hand and on demand deposits.

12 **Shares repurchased for cancellation and for holding in treasury** – Share capital is reduced by the nominal value of the shares repurchased, and the capital redemption reserve is correspondingly increased in accordance with section 733 Companies Act 2006. The full cost of the repurchase is charged to the capital reserve within Gains (Losses) on Sales of Investments.

For shares repurchased for holding in treasury, the full cost is charged to the capital reserve.

13 **Shares sold (reissued) from treasury** – Proceeds received from the sale of shares held in treasury are treated as realised profits in accordance with Section 731 of the Companies Act 2006. Proceeds equivalent to the original cost, calculated by applying a weighted average price, are credited to the capital reserve to replenish the profits available for distribution; proceeds in excess of the original cost are credited to the share premium account.

14 **Shares issued** – Share capital is increased by the nominal value of shares issued. The proceeds in excess of the nominal value of shares net of expenses are allocated to the share premium account.

15 **Significant judgements, estimates and assumptions** – In the application of the company's accounting policies, which are described above, the directors are required to make judgements, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

There are no significant judgements, estimates, and assumptions. The investment portfolio currently consists of listed investments and therefore no significant estimates have been made in valuing those securities.

Estimates and underlying assumptions are reviewed on an ongoing basis. If required, revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Notes to the Financial Statements

for the year ended 31 January 2024

1. Income

	2024 £'000s	2023 £'000s
Income from Investments*		
Equity dividends from UK investments#	36,628	33,853
Unfranked dividends from UK investments	1,238	990
Equity dividends from overseas investments	10,364	6,934
	48,230	**41,777**
Other Income		
Deposit interest	446	103
Premiums on derivative contracts	887	941
	1,333	**1,044**
Total income	**49,563**	**42,821**

* All equity income is derived from listed investments
# Includes special dividends of £1,379,000 (2023: £1,302,000)

During the year, the company received premiums totalling £911,000 (2023: £895,000) for writing covered call options for the purpose of revenue generation. Premium income of £887,000 was amortised to income (2023: £941,000). All derivatives transactions were based on FTSE 100 stocks or the related index. At the year end there were three open positions with a net liability value of £57,000 (2023: £20,000).

2. Investment Management Fee

	2024 Revenue £'000s	2024 Capital £'000s	2024 Total £'000s	2023 Revenue £'000s	2023 Capital £'000s	2023 Total £'000s
Investment management fee	**1,093**	**2,031**	**3,124**	**1,031**	**1,915**	**2,946**

Under the terms of the Management and Administration Agreement the company's manager is Allianz Global Investors UK Limited. On 30 May 2023 the Agreement was novated from Allianz Global Investors GmbH to Allianz Global Investors UK Limited (AllianzGI UK). The agreement was restated in July 2014, with the appointment of AllianzGI as the Alternative Investment Fund Manager. In both cases the terms of the Agreement were unchanged: it provides for a management fee based on 0.35% (2023: 0.35%) per annum of the value of the assets after deduction of current liabilities, short-term loans with an initial duration of less than one year and other funds managed by AllianzGI. Under the contract, AllianzGI UK provides the company with investment management, accounting, company secretarial and administration services.

3. Administration Expenses

	2024 £'000s	2023 £'000s
Auditor's remuneration		
For audit services	43	39
Non-audit services - agreed upon procedures relating to loan covenants	5	5
VAT on auditor's remuneration	10	9
	58	**53**
Directors' fees	162	155
Directors' NI contributions	15	18
Marketing costs	428	325
Registrars' fees	153	148
Depositary fees	51	49
Professional and advisory fees	116	34
Printing and postage	58	70
Stock exchange fees	40	33
Stock exchange block listing fee	-	170
Custody fees	29	22
Other administration expenses	119	94
	1,229	**1,171**

(i) The above expenses include value added tax where applicable.
(ii) Directors' fees are set out in the Directors' Remuneration Report on page 82.
(iii) Custody handling charges of £4,000 were charged to capital (2023: £3,000).
(iv) AllianzGI received fees for the provision of marketing activities of £341,000 (2023: £229,000) during the year. At 31 January 2024 marketing costs payable were £291,00 (2023: 248,000).
(v) Non-audit services paid in the year were £5,000 (2023: £5,000).
(vi) Professional and advisory fees includes directors' search fees of £86,000.

4. Finance Costs: Interest Payable and Similar Charges

	2024 Revenue £'000s	2024 Capital £'000s	2024 Total £'000s	2023 Revenue £'000s	2023 Capital £'000s	2023 Total £'000s
On 4% Perpetual Debenture Stock repayable after more than five years	19	36	55	19	36	55
On 5.875% Secured Bonds repayable after more than five years	635	1,179	1,814	634	1,178	1,812
On 3.65% Preference Stock repayable after more than five years	43	-	43	43	-	43
On 2.96% Fixed Rate Notes repayable after more than five years	365	677	1,042	365	678	1,043
On Revolving Credit Facility	892	1,657	2,549	325	603	928
Future Debit Interest	-	-	-	2	-	2
	1,954	**3,549**	**5,503**	**1,388**	**2,495**	**3,883**

5. Taxation

	2024 Revenue £'000s	2024 Capital £'000s	2024 Total £'000s	2023 Revenue £'000s	2023 Capital £'000s	2023 Total £'000s
Overseas taxation*	778	-	778	605	-	605
Total tax	**778**	**-**	**778**	**605**	**-**	**605**
Reconciliation of tax charge						
Profit (loss) before taxation	45,287	(74,757)	(29,470)	39,231	1,560	40,791
Tax on profit (loss) at 24.03% (2023: 19.00%)	**10,882**	**(17,964)**	**(7,082)**	**7,454**	**296**	**7,750**
Effects of						
Non taxable income	(11,292)	-	(11,292)	(7,744)	-	(7,744)
Non taxable capital (losses) gains	-	16,608	16,608	-	(1,147)	(1,147)
Irrecoverable overseas tax	778	-	778	605	-	605
Losses on foreign currencies	-	14	14	-	12	12
Disallowable expenses	82	441	523	23	-	23
Excess of allowable expenses over taxable income	328	901	1,229	267	839	1,106
Total tax	**778**	**-**	**778**	**605**	**-**	**605**

* Irrecoverable overseas tax on Bayerische Motoren Werke, Diversified Energy Company, Sanofi, SCOR and Swiss Re.

The company's taxable income is exceeded by its tax allowable expenses, which include both the revenue and capital elements of the management fee and finance costs. As at 31 January 2024, the company had accumulated surplus expenses of £238.5 million (2023: £233.4 million).

The company has not recognised a deferred tax asset of £59.6 million (2023: £58.3 million) in respect of these expenses, based on a prospective corporation tax rate of 25% (2023: 25%) because there is no reasonable prospect of recovery. The increase in the standard rate of corporation tax was substantively enacted on 24 May 2021 and was effective from 1 April 2023. Provided the company continues to maintain its current investment profile, it is unlikely that these expenses will be utilised and that the company will obtain any benefit from this asset.

In May 2013 the company received confirmation from HM Revenue & Customs of its status as an approved investment trust for accounting periods commencing on or after 1 February 2012, subject to the company continuing to meet the eligibility conditions at Section 1158 Corporation Tax Act 2010 and the ongoing requirements for approved companies in Chapter 3 of Part 2 Investment Trust (Approved Company) Tax Regulations 2011 (Statutory Instrument 2011/2999). The company intends to retain this approval and self-assesses compliance with the relevant conditions and requirements and will do so on an annual basis.

6. Dividends on Ordinary Shares

	2024 £'000s	2023 £'000s
Dividends paid on ordinary shares		
Third interim dividend 6.9p paid 15 March 2023 (2022 - 6.85p)	9,669	8,758
Final dividend 7.0p paid 26 May 2023 (2022 - 6.85p)	10,115	8,950
First interim dividend 7.1p paid 24 August 2023 (2022 - 6.85p)	10,412	9,208
Second interim dividend 7.1p paid 10 November 2023 (2022 - 6.85p)	10,442	9,332
	40,638	**36,248**

Dividends payable at the year end are not recognised as a liability under FRS 102 Section 32 'Events After the End of the Reporting Period' (see page 103 - Statement of Accounting Policies). Details of these dividends are set out below.

	2024 £'000s	2023 £'000s
Third interim dividend 7.1p paid 14 March 2024 (2023: 6.9p)	10,531	9,669
Final proposed dividend 7.1p payable 22 May 2024 (2023: 7.0p)	10,531	9,809
	21,062	**19,478**

The declared final dividend accrued is based on the number of shares in issue at the year end. However, the dividend payable will be based on the numbers of shares in issue on the record date and will reflect any changes in the share capital between the year end and the record date.

All dividends disclosed in the tables above have been paid or are payable from the revenue reserves.

7. Earnings per Ordinary Share

	2024 Revenue £'000s	2024 Capital £'000s	2024 Total £'000s	2023 Revenue £'000s	2023 Capital £'000s	2023 Total £'000s
Profit (loss) after taxation attributable to ordinary shareholders	44,509	(74,757)	(30,248)	38,626	1,560	40,186
Earnings (loss) after taxation attributable to ordinary shareholders	30.53p	(51.28p)	(20.75p)	28.70p	1.16p	29.86p

The earnings per ordinary share is based on a weighted number of shares 145,769,940 (2023: 134,599,189) ordinary shares in issue.

8. Fixed Asset Investments

	2024 £'000s	2023 £'000s
Opening book cost	847,052	735,200
Opening book cost - derivatives	(201)	(144)
Opening investment holding gains	62,586	79,696
Opening investment holding gains (losses) - derivative	181	(471)
Opening market value	**909,618**	**814,281**
Additions at cost	244,339	299,968
Disposals proceeds received	(211,360)	(209,046)
Option premiums recognised in current year	(808)	(816)
Realised gains on investments	589	20,930
Realised gains on derivatives	967	759
Movement in unrealised gains (losses)	(68,538)	(17,110)
Movement in unrealised gains (losses) on derivatives	(196)	652
Market value of investments held at 31 January	**874,611**	**909,618**
Closing book cost	878,851	847,052
Closing book cost - derivatives	(42)	(201)
Closing investment holding (losses) gains	(4,183)	62,586
Closing investment holding (losses) gains - derivative	(15)	181
Closing market value	**874,611**	**909,618**

The company received £211,307,000 (2023: £208,995,000) from investments sold in the year. The book cost of these investments when they were purchased was £210,771,000 (2023: £188,125,000). These investments have been revalued over time and until they were sold any unrealised gains/losses were included in the fair value of the investments.

Transaction costs and stamp duty on purchases amounted to £1,093,000 (2023: £1,747,000) and transaction costs on sales amounted to £53,000 (2023: £59,000).

	2024 £'000s	2023 £'000s
(Losses) gains on investments		
(Losses) gains on investments held at fair value through profit or loss	(67,949)	3,820
Transaction costs	(1,146)	(1,806)
CSDR settlement receipts	-	7
Currency gains on foreign exchange	-	6
Special dividends credited to capital	-	3,472
	(69,095)	**5,499**
(Losses) gains on derivatives		
Gains (losses) on derivative financial instruments	771	1,411
Option premiums and fees	(791)	(873)
	(20)	**538**
Total (losses) gains	**(69,115)**	**6,037**

9. Other Receivables and Other Payables

		2024 £'000s	2023 £'000s
Other receivables			
Prepayments		38	37
Accrued income		1,885	1,862
		1,923	**1,899**
Other payables: amounts falling due within one year			
Purchases for future settlement		1,004	-
Other payables		1,293	1,233
Interest on borrowings		350	350
Revolving Credit Facility	(i)	42,385	42,215
		45,032	**43,798**
Interest on outstanding borrowing consists of:			
5.875% Secured Bonds 2029	(i)	208	208
4% Perpetual Debenture Stock		14	14
2.96% Fixed Rate Notes 2052		128	128
		350	**350**

(i) On 31 January 2022 the company renegotiated the Revolving Credit Facility agreement of £42m, to extend it for another three years. Under this agreement £21m was rolled over on 25 October 2023 with maturity 25 April 2024, £21m was rolled over on 25 January 2024 with maturity 25 July 2024. The rate of interest for the Revolving Credit Facility is made up of a fixed margin plus SONIA rate. The repayment date of the Revolving Credit Facility is the last day of its interest period and the termination date is 31 January 2025.

The Company pays a commitment fee of 0.3% p.a. on any undrawn amounts.

10. Creditors: Amounts Falling Due After More Than One Year

		2024 £'000s	2023 £'000s
5.875% Secured Bonds 2029	(i)	29,621	29,570
4% Perpetual Debenture Stock	(ii)	1,375	1,375
3.65% Cumulative Preference Stock	(iii)	1,178	1,178
Fixed Rate Notes 2052	(iv)	34,692	34,686
		66,866	**66,809**

(i) The £30,000,000 of 5.875% Secured Bonds is stated at £29,621,000 (2023: £29,570,000), being the net proceeds of £28,943,000 plus accrued finance costs of £678,000 (2023: £627,000). The Bonds are repayable on 20 December 2029 and carry interest at 5.875% per annum on the principal amount. Interest is payable in June and December each year. The effective interest rate of this loan is 6.23% per annum.

(ii) The 4% perpetual debenture stock of £1,375,000 is secured by a floating charge on the assets of the company, which ranks prior to any other floating charge. Interest is payable on 1 May and 1 November each year.

(iii) The 3.65% Cumulative Preference Stock is recognised as a creditor due after more than one year under the provisions of FRS 102 Section 11: 'Basic Financial Instruments' and Section 12: 'Other Financial Instruments'. The right of the preference stock holders to receive payments is not calculated by reference to the company's net return and, in the event of a return of capital is limited to a specific amount, being £1,178,000. Dividends on the preference stock are payable on 1 February and 1 August each year. The preference stock is non-redeemable

(iv) The £35,000,000 of Fixed Rate Notes is stated at £34,692,000 (2023: £34,686,000), being the net proceeds of £34,656,000 plus finance costs of £36,000 (2023: £30,000). The Bonds are repayable on 18 December 2052 and carry interest at 2.96% per annum on the principal amount. Interest is payable in June and December each year. The effective interest rate of this loan is 3.03% per annum.

11. Called up Share Capital

	2024 £'000s	2023 £'000s
Allotted and fully paid		
148,324,887 ordinary shares of 25p (2023 - 140,134,887)	**37,081**	**35,034**

	2024 Number	2024 £'000s	2023 Number	2023 £'000s
Allotted 25p ordinary shares				
Brought forward	140,134,887	35,034	127,704,887	31,926
Shares issued during the year	8,190,000	2,047	12,430,000	3,108
Carried forward	**148,324,887**	**37,081**	**140,134,887**	**35,034**

During the year 8,190,000 shares were issued (2023: 12,430,000) for a total consideration of £45,982,000 (2023: £69,300,000), net of issues costs of £83,000 (2023: £125,000). The directors are seeking authority at the Annual General Meeting on 16 May 2024 for an ordinary resolution to be passed to allot relevant securities, in accordance with section 551 on the Companies Act 2006, up to a maximum of 49,441,629 ordinary shares of 25p each.

No further shares have been issued since the year end.

12. Reserves

	Share Premium Account £'000s	Capital Redemption Reserve £'000s	Capital Reserve: Gains (losses) on sales of Investments £'000s	Capital Reserve: Investment Holding Gains (losses) £'000s	Revenue Reserve £'000s
Balance at 1 February 2023	184,239	293	510,694	59,218	22,897
Losses on sales of fixed asset investments	-	-	(4,418)	-	-
Gains on derivative financial instruments	-	-	176	-	-
Net movement in fixed asset investment holding losses	-	-	-	(63,531)	-
Movement in derivative holding losses	-	-	-	(196)	-
Transaction costs	-	-	-	(1,146)	-
Unclaimed dividends	-	-	-	-	51
Losses on foreign currencies	-	-	-	(58)	-
Transfer on sale of investments	-	-	5,007	(5,007)	
Issue of ordinary shares	43,935	-	-	-	-
Investment management fee	-	-	(2,031)	-	-
Finance costs of borrowings	-	-	(3,549)	-	-
Other capital expenses	-	-	(4)	-	-
Dividends appropriated in the year	-	-	-	-	(40,638)
Profit retained for the year	-	-	-	-	44,509
Balance at 31 January 2024	**228,174**	**293**	**505,875**	**(10,720)**	**26,819**

The Share Premium and Capital Redemption Reserve are not distributable reserves under the Companies Act 2006. In accordance with the Articles of Association, distributions can be made from both the revenue reserve and capital reserves to the extent they are realised. All paid or payable dividends for the year are payable from the revenue reserve (2023: same).

13. Net Asset Value per Share

The net asset value total return for the year is the percentage movement from the capital net asset value as at 31 January 2023 to the net asset value, on a total return basis as at 31 January 2024. The net asset value total return with debt at market value is -3.1% (2023: 7.6%) and the net asset value total return with debt at par is -3.6% (2023: 4.9%).

The net asset value per ordinary share is based on 148,324,887 ordinary shares in issue at the year end (2023: 140,134,887). The method of calculation of the net asset value with debt at market value is described in Note 15(c) on page 118.

The net asset value per ordinary share was as follows:

	Debt at fair value 2024	Debt at par 2024	Debt at fair value 2023	Debt at par 2023
Net asset value per ordinary share attributable	538.6p	530.9p	585.1p	579.7p
Dividends paid in the year	28.4p	28.4p	27.4p	27.4p
Net asset value total return	**567.0p**	**559.3p**	**612.5p**	**607.1p**
Net asset value attributable £'000s	**799,239**	**787,522**	**819,960**	**812,375**

14. Contingent Liabilities, Capital Commitments and Guarantees

At 31 January 2024 there were no contingent liabilities (2023: £nil).

15. Financial Risk Management Policies and Procedures

The company invests in equities and other investments in accordance with its investment objective as stated in the Strategic Report on page 56. In pursuing its investment policy, the company is exposed to certain inherent risks that could result in either a reduction in the company's net assets or a reduction in the profits available for distribution by way of dividends.

The main risks arising from the company's financial instruments are: market risk (comprising market price risk, market yield risk, foreign currency risk and interest rate risk), liquidity risk and credit risk. The directors' approach to the management of these risks, are set out below. The directors determine the objectives and agree policies for managing each of these risks, as set out below. The manager, in close cooperation with the directors, implements the company's risk management policies. The company's policy allows the use of derivative financial instruments to moderate risk exposure and to generate additional revenue. These policies have remained substantially unchanged during the current and preceding year.

(a) Market Risk

The manager assesses the exposure to market risk when making each investment decision, and monitors the risk on the investment portfolio on an ongoing basis. Market risk comprises market price risk (price and yield), foreign currency risk and interest rate risk.

(i) Market Price Risk

Market price risk arises mainly from the uncertainty about future prices of financial instruments held. It represents the potential loss the company might suffer through holding market positions in the face of price movements. An analysis of the company's portfolio is shown on pages 50 and 51.

Changes in stock market valuations lead to changes in gearing ratios. The board's procedure for monitoring the gearing of the company is set out in Note 16 on page 119. This takes into account the investment manager's view on the market, covenant requirements and the future prospects of the company's performance.

Market Price Risk Sensitivity

The value of the company's listed investments (i.e. fixed asset investments, excluding unlisted equities) which were exposed to market price risk as at 31 January 2024 was as follows:

	2024 £'000s	2023 £'000s
Listed investments held at fair value through profit or loss	874,668	909,638
Derivative financial instruments - written call options	(57)	(20)
Listed equity investments held at fair value through profit or loss	**874,611**	**909,618**

The following illustrates the sensitivity of the return and the net assets to an increase or decrease of 20% and 50% (2023: 20% and 50%) in the fair values of the company's listed investments. The 20% level of change is considered to be reasonably possible based on observation of market conditions in recent years. The 50% level demonstrates the impact in extreme conditions. The sensitivity analysis on the net return after tax is based on the impact of a 20% and 50% increase or decrease in the value of the company's listed equity investments at each balance sheet date and the consequent impact on the investment management fees for the year, with all other variables held constant.

	2024 20% increase in fair value £'000s	2024 20% decrease in fair value £'000s	2024 50% increase in fair value £'000s	2024 50% decrease in fair value £'000s	2023 20% increase in fair value £'000s	2023 20% decrease in fair value £'000s	2023 50% increase in fair value £'000s	2023 50% decrease in fair value £'000s
Revenue earnings								
Investment management fees	(214)	214	(536)	536	(223)	223	(557)	557
Capital earnings								
Gains (losses) on investments at fair value	174,922	(174,922)	437,306	(437,306)	181,924	(181,924)	454,809	(454,809)
Investment management fees	(398)	398	(995)	995	(414)	414	(1,035)	1,035
Change in net earnings and net assets	**174,310**	**(174,310)**	**435,775**	**(435,775)**	**181,287**	**(181,287)**	**453,217**	**(453,217)**

Management of Market Price Risk
The directors meet regularly to consider the asset allocation of the portfolio in order to minimise the risk associated with particular industry sectors. A dedicated fund manager has the responsibility for monitoring the existing portfolio selection in accordance with the company's investment objectives and to ensure that individual stocks meet an acceptable risk reward profile. Call options are only written on stock owned within the portfolio with a maximum exposure of 15% of gross assets at the time of writing the call.

(ii) Market Yield Risk
Market yield risk arises from the uncertainty about the company's ability to maintain its income objectives due to systematic decline in corporate dividend levels.

Where call options are sold (written), in all cases a sufficient position is maintained in the underlying equity to cover any potential option exercise. Whilst the option value can be volatile, price movements should to some extent be offset by opposing movements in the value of the underlying equity. If options are retained until expiry they will either expire worthless or be exercised. The effect of any option exercise is to sell the underlying shares at the strike price of the option. A schedule of the company's listed holdings is shown on pages 50 and 51. Where put options are purchased, the market value of such options can be volatile but the maximum loss on any contract is limited to the original investment cost. No put options were purchased in the year (see Note 1 on page 105 for detail of income received).

Further explanation of the derivatives strategy is included in the Glossary on page 129.

Management of Market Yield Risk
The directors regularly review the current and projected yield of the investment portfolio, and discuss with the manager the extent to which it will enable the company to meet its investment income objective.

(iii) Foreign Currency Risk
Foreign currency risk is the risk of the movement in the values of overseas financial instruments as a result of fluctuations in exchange rates.

Management of Foreign Currency Risk
The company invests predominantly in UK listed equities and although there is no direct impact there is implicit exposure as some of the companies in the portfolio generate income and cashflows in foreign currencies. (2023: same).

Any income denominated in foreign currency is converted into sterling on receipt. The company does not hedge against foreign currency exposure.

(iv) Interest Rate Risk

Interest rate risk is the risk of movements in the value of financial instruments as a result of fluctuations in interest rates.

Interest Rate Exposure

The table below summarises in sterling terms the financial assets and financial liabilities whose values are directly affected by changes in interest rates.

	2024 Fixed rate interest £'000s	2024 Floating rate interest £'000s	2024 Nil Interest £'000s	2024 Total £'000s	2023 Fixed rate interest £'000s	2023 Floating rate interest £'000s	2023 Nil Interest £'000s	2023 Total £'000s
Financial assets	-	22,886	876,591	899,477	-	11,465	911,537	923,002
Financial liabilities	(66,866)	(42,385)	(2,704)	(111,955)	(66,809)	(42,215)	(1,603)	(110,627)
Net financial (liabilities) assets	**(66,866)**	**(19,499)**	**873,887**	**787,522**	**(66,809)**	**(30,750)**	**909,934**	**812,375**

As at 31 January 2024, the interest rates received on cash balances or paid on bank overdrafts, was 2.75% and 6.25% per annum respectively (2023: 1.9% and 4.5% per annum).

The fixed rate interest bearing liabilities bear the following coupon and effective rates as at 31 January 2024 and 31 January 2023.

	Maturity date	Amount borrowed £'000s	Coupon rate	Effective rate since inception*
5.875% Secured Bonds 2029	20/12/2029	30,000	5.875%	6.23%
Fixed Rate Notes 2052	18/12/2052	35,000	2.96%	3.03%
4% Perpetual Debenture Stock	n/a	1,375	4.00%	4.00%
3.65% Cumulative Preference Stock	n/a	1,178	3.65%	3.65%
		67,553		

The details in respect of the above loans have remained unchanged since the previous accounting period.

* The effective rates are calculated in accordance with FRS 102 Section 12: 'Other Financial Instruments' as detailed in the Statement of Accounting Policies on page 103.

The weighted average effective rate of the company's fixed interest bearing liabilities (excluding the 3.65% Cumulative Preference Stock and the 4% Perpetual Debenture Stock) is 4.51% (2023: 4.51%) and the weighted average period to maturity of these liabilities is 18.3 years (2023: 19.3 years).

The above year end amounts are reasonably representative of the exposure to interest rates during the year, as the level of exposure does not change materially. Therefore the company's net return and net assets, are not significantly affected by changes in interest rates.

Management of Interest Rate Risk

The company invests predominantly in equities, the values of which are not directly affected by changes in prevailing market interest rates. In the year to 31 January 2024, the company held no fixed interest securities. The company's policy is to remain substantially fully invested and thus does not expect to hold significant cash balances. The financial assets have minimal exposure to interest rate risk.

The company finances its operations through a mixture of share capital, retained earnings and long term borrowings which are subject to fixed rates. Movement in interest rates will not have a material effect on the finance costs and financial liabilities of the company as all the borrowings of the company are subject to fixed rates of interest.

(b) Liquidity Risk

Liquidity risk relates to the capacity to meet liabilities as they fall due and is dependent on the liquidity of the underlying assets.

Maturity of Financial Liabilities

The table below presents the future cash flows payable by the company in respect of its financial liabilities.

Cash flows in respect of the principal and interest on the Fixed Rate Notes 2052 and 5.875% Secured Bonds 2029 reflect the maturity dates as set out in Notes 9 and 10 on pages 110 and 111. The loans are each governed by a trust deed. Only if the covenants are breached would early repayment be enforced. Therefore their repayment is not considered to be a likely short term liquidity issue. Cash flows in respect of the 4% Perpetual Debenture Stock and 3.65% Cumulative Preference Stock, which have no fixed repayment date, assumes maturity of 20 years from the balance sheet date. Cash flows have not been discounted.

2024	Three months or less £'000s	Between three months and one year £'000s	Between one and five years £'000s	More than five years £'000s	Total £'000s
Other payables					
Finance costs of borrowing	336	3,605	-	-	3,941
Revolving Credit Facility	21,000	21,000	-	-	42,000
Other payables	2,297	-	-	-	2,297
Derivative financial instruments	57	-	-	-	57
Creditors: amounts falling due after more than one year					
Amounts payable on maturity of borrowings	-	-	-	67,553	67,553
Finance cost of borrowings	-	-	11,587	28,132	39,719
	23,690	**24,605**	**11,587**	**95,685**	**155,567**

2023	Three months or less £'000s	Between three months and one year £'000s	Between one and five years £'000s	More than five years £'000s	Total £'000s
Other payables					
Finance costs of borrowing	429	3,869	-	-	3,942
Revolving Credit Facility	21,000	21,000	-	-	42,000
Other payables	1,233	-		-	1,233
Derivative financial instruments	20	-	-		20
Creditors: amounts falling due after more than one year					
Amounts payable on maturity of borrowings	-	-	-	67,553	67,553
Finance costs of borrowing	-	-	11,713	30,931	42,644
	22,682	**24,869**	**11,713**	**98,484**	**157,748**

Management of Liquidity Risk

Liquidity risk is not significant as the company's assets mainly comprise of realisable securities, which can be sold to meet funding requirements if necessary. Short term flexibility can be achieved through the use of overdraft facilities, where necessary. As at the 31 January 2024, the company had an undrawn committed borrowing facility of £nil (2023: £nil).

(c) Credit Risk

Credit risk is the risk of default by a counterparty in discharging its obligations under transactions that could result in the company suffering a loss. There were no impaired assets as of 31 January 2024 (2023: nil). The counterparties the company engages with are regulated entities and are of high credit quality.

Management of Credit Risk

Outstanding settlements are subject to credit risk. Credit risk is mitigated by the company through its decision to transact with counterparties of high credit quality. The company only buys and sells investments through brokers which are approved counterparties, thus minimising the risk of default during settlement. The credit rating of brokers are reviewed quarterly by the manager.

The company is also exposed to credit risk through the use of banks for its cash position. Bankruptcy or insolvency of banks may cause the company's rights with respect to cash held by banks to be delayed or limited. The company's cash balances are held by HSBC Bank PLC, rated A2 by Moody's rating agency and UBS, rated A1 by Moody's rating agency. The directors believe the counterparties the company has chosen to transact with are of high credit quality, therefore the company has minimal exposure to credit risk.

The table below summarises the credit risk exposure of the company as at 31 January:

	2024 £'000s	2023 £'000s
Other Receivables:		
Accrued income	1,885	1,862
Cash and cash equivalents	22,886	11,465
	24,771	**13,327**

Fair Values of Financial Assets and Financial Liabilities

With the exception of those financial liabilities measured at amortised cost, the 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. The financial liabilities measured at amortised cost, including interest on outstanding borrowings due within one year, have the following fair values*:

	2024 Book Value £'000s	2024 Fair Value £'000s	2023 Book Value £'000s	2023 Fair Value £'000s
Revolving Credit Facility	42,385	42,385	42,215	42,000
5.875% Secured Bonds 2029	29,829	31,739	29,778	32,976
4% Perpetual Debenture Stock	1,389	1,162	1,389	1,223
3.65% Cumulative Preference Stock	1,178	920	1,178	967
2.96% Fixed Rate Notes 2052	34,820	22,063	34,814	24,623
	109,601	**98,269**	**109,374**	**101,789**

The net asset value per ordinary share, with debt at fair value is calculated as follows:

	2024 £'000s	2023 £'000s
Net assets per balance sheet	787,522	812,375
Add: financial liabilities at book value [#]	109,601	109,374
Less: financial liabilities at fair value *	(98,269)	(101,789)
Net assets (debt at fair value)	**798,854**	**819,960**
Net asset value per ordinary share (debt at fair value)	**538.6p**	**585.1p**

[#] Book value, par value and amortised cost are used interchangeably throughout the Annual Report.
* The fair value has been derived from the closing market value as at 31 January 2024 and 31 January 2023. Fair value and market value are used interchangeably throughout the Annual Report.

The fair value of the long term debt is calculated with reference to the nearest relevant gilt based on repayment date. A margin is added to the yield of the relevant reference gilt to calculate the fair value. This margin is derived from the excess of UK corporate bond yields over gilt yields.

The net asset value per ordinary share is based on 148,324,887 ordinary shares in issue at 31 January 2024 (2023: 140,134,887).

The company's investments and derivatives financial instruments, as disclosed in the company's Balance Sheet, are valued at fair value.

The company has chosen to adopt sections 10 and 11 from FRS102 to account for its financial instruments.

Investments are designated as held at fair value through profit or loss in accordance with FRS 102 sections 10 and 11.

FRS 102 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 January the financial assets at fair value through profit and loss are categorised as follows:

2024	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Financial assets at fair value through profit or loss				
Equity investments	874,668	-	-	874,668
Derivatives financial instruments - written call options	-	(57)	-	(57)
	874,668	**(57)**	**-**	**874,611**

2023	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Financial assets at fair value through profit or loss				
Equity investments	909,638	-	-	909,638
Derivatives financial instruments - written call options	-	(20)	-	(20)
	909,638	**(20)**	**-**	**909,618**

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.

There were no transfers between levels for financial assets and financial liabilities during the year recorded at fair value as at 31 January 2024 and 31 January 2023.

16. Capital Management Policies and Procedures

The company's objective is to provide an above average level of income and income growth together with long term capital growth. It invests in high yielding stocks and receives premium income from options.

The company's capital at 31 January comprises:

	2024 £'000s	2023 £'000s
Debt		
Creditors: amounts falling due after more than one year	66,866	66,809
	66,866	**66,809**
Equity		
Called up share capital	37,081	35,034
Share premium account and other reserves	750,441	777,341
	787,522	**812,375**
Total Capital	**854,388**	**879,184**
Debt as a percentage of total capital	7.8%	7.6%

	Debt at par		Debt at fair value	
	2024 £'000s	2023 £'000s	2024 £'000s	2023 £'000s
Debt				
Revolving credit facility	42,385	42,215	42,385	42,000
Creditors: amounts falling due after more than one year	67,216	67,159	55,884	59,789
Gross debt	**109,601**	**109,374**	**98,269**	**101,789**
Total net assets	787,522	812,375	798,854	819,960
Gross gearing	**13.9%**	**13.5%**	**12.3%**	**12.4%**

Gross debt	109,601	109,374	98,269	101,789
Less: cash	(22,886)	(11,465)	(22,886)	(11,465)
Net debt	**86,715**	**97,909**	**75,383**	**90,324**
Total net assets	787,522	812,375	798,854	819,960
Net gearing	**11.0%**	**12.1%**	**9.4%**	**11.0%**

The board, with the assistance of the investment manager, monitors and reviews the broad structure of the company's capital on an ongoing basis. The level of gearing is monitored, taking into account the investment manager's view on the market and the future prospects of the company's performance. Capital management also involves reviewing the difference between the net asset value per share and the share price (i.e. the level of share price discount or premium) to assess whether to issue shares or repurchase shares for cancellation or for holding in treasury. Further details on the Revolving Credit Facility and the Fixed Rate Loan Notes 2052 can be found in Notes 9 and 10.

The company is subject to several externally imposed capital requirements; the banks borrowings under the overdraft facility are not to exceed £10m, and as a public company the minimum share capital is £50,000. The company's objective, policies and processes for managing capital are unchanged from the preceding accounting year, and the company has complied with them. The terms of the debenture trust deeds have various covenants which prescribe that moneys borrowed should not exceed the adjusted total value of the capital and reserves. These are measured in accordance with the policies used in the annual report. The company has complied with these.

17. Transactions with the Investment Manager and Related Parties

The amounts paid to the investment manager together with details of the investment management contract are disclosed in Note 2 on page 105. 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 FRS102 Section 33: Related Party Disclosures, the investment manager is not considered to be a related party.

The company's related parties are its directors. Fees paid to the company's board are disclosed in the Directors' Remuneration Report on page 81.

There are no other identifiable related parties at the year end, and as of 3 April 2024.

18. Post Balance Sheet Events

Since the year end no further shares have been issued, as at 3 April 2024.

Investor Information

In the banks sector, we switched out of NatWest into Lloyds, given the latter's leading position in UK consumer banking, and an improving cash generation profile.

Investor Information

AIFM and Depositary

Allianz Global Investors UK Limited (AllianzGI UK) is designated the Alternative Investment Fund Manager (AIFM). AllianzGI UK is authorised to act as an AIFM and to conduct its activities by the Financial Conduct Authority (FCA) in accordance with AIFMD an

FCA requirements. The management fee and the notice period are unchanged in the restated management and administration agreement (details in Note 2 on page 105).

The company appointed HSBC Bank PLC as its depositary and custodian in accordance with AIFMD under an agreement between the company, AllianzGI and HSBC. Depositary fees are charged in addition to custody fees and are calculated on the basis of net assets.

Leverage and Risk Policies under AIFMD

Details of leverage and risk policies required under AIFMD are published on the website www.merchantstrust.co.uk under Literature/Trust Documents/Disclosures to Investors under AIFMD. These policies represent no change to the board's policies in existence prior to AIFMD and are in place to ensure that these limits would not be breached under any foreseeable circumstances.

Remuneration Disclosure of the AIFM

The following table shows that total amount of remuneration granted to the employees of AllianzGI UK in the past financial year divided into fixed and variable components. It is also broken down by material risk takers, members of management/senior management function ('SMF') holders without control function, members of management/SMF with control function and other risk takers.

Number of employees: 290

	All employees	thereof material risk takers	thereof board members/SMF holders without control function	thereof board members/SMF holders with control function	thereof other material risk takers
Fixed remuneration	21,487,405	2,160,697	1,444,946	176,167	539,584
Variable remuneration	17,371,547	4,130,354	2,883,067	76,245	1,171,042
Total remuneration	**38,858,952**	**6,291,051**	**4,328,013**	**252,412**	**1,710,626**

Note: Operational start of AllianzGI UK Ltd on 30 May 2023, therefore only partial year is shown.

The information on employee remuneration does not include remuneration paid by delegated managers to their employees. AllianzGI UK does not pay remuneration to employees of delegated companies directly from the fund.

Setting the remuneration

AllianzGI UK is subject to certain requirements applicable to investment management companies with regard to structuring the remuneration system.

The board of directors of AllianzGI UK has set up a remuneration committee. It has the overall responsibility for overseeing the implementation of the remuneration policy and practices. Working in close cooperation with control functions as well as with external advisers and in conjunction with the management, the human resources department has developed AllianzGI UK's remuneration policy. The remuneration committee ensures that on a regular basis the implementation of the remuneration policy is subject to a central and independent internal review.

Remuneration structure

The primary components of monetary remuneration are the basic salary, which typically reflects the scope, responsibilities and experience required in a particular role, and an annual variable remuneration. The total amount of the variable remuneration payable throughout AllianzGI UK depends on the performance of the business and on the company's risk position and will therefore vary every year. In this respect, the allocation of specific amounts to particular employees will depend on the performance of the employee and their departments during the period under review. Variable remuneration includes an annual bonus paid in cash following the end of the financial year. In the case of employees whose variable remuneration exceeds a certain threshold, a substantial portion of the annual variable remuneration is deferred for a period of three years. The deferred portions increase in line with the level of the variable remuneration. Half of the deferred amount is linked to the performance of AllianzGI UK, and the other half is invested in the funds managed by AllianzGI UK. The amounts ultimately distributed depend on the company's business performance or the performance of shares in certain investment funds over several years. In addition, the deferred remuneration elements may be withheld under the terms of the plan.

Performance evaluation

The level of pay awarded to employees is linked to both quantitative and qualitative performance indicators. For investment managers, whose decisions make a real difference in achieving our clients' investment goals, quantitative indicators are geared towards sustainable investment performance. For portfolio managers in particular, the quantitative element is aligned with the benchmark of the client portfolios they manage or with the client's expected return, measured over a period of one year and three years. For client-facing employees, goals also include client satisfaction, which is measured independently. The remuneration of employees in controlling functions is not directly linked to the business performance of individual departments monitored by the controlling function.

Risk takers

The following groups of employees were qualified as risk takers: members of management/ Senior Management Function holders without control function, members of management/ Senior Management Function holders with control function and other risk takers.

Risk avoidance

AllianzGI UK has comprehensive risk reporting in place, which covers both current and future risks of our business activities. Risks which exceed the organisation's risk appetite are presented to the global remuneration committee, which will decide, if necessary, on the adjustments to the total remuneration pool. Individual variable compensation may also be reduced or withheld in full if employees violate our compliance policies or take excessive risks on behalf of AllianzGI UK.

Annual review and material changes to the remuneration system

The board of AllianzGI UK approved the remuneration policy which had been implemented in accordance with the remuneration regulations.

Key Information Document (KID)

The Key Information Document (KID) is a standardised pan-European document that contains product, risk, charges and other information. It is a regulatory requirement that you are provided with a KID before you invest, and you will be required to declare that you have seen the latest KID when you make your investment.

Merchants' KID is available from the Information/Documents pages at www.merchantstrust.co.uk. However, your chosen platform provider or stockbroker should provide you with a copy before accepting your investment instructions. Please note that existing investors do not need to review the KID unless planning to add to an investment. The KID's standardised format is intended to allow potential investors to compare funds easily, on a like-for-like basis. However, there are wider investment industry concerns that disclosures mandated for inclusion may prove to be unhelpful for investors. Investors should be aware that the performance and risk numbers in the KID are based on the last five years' experience and note that past experience is not always a guide to the future. Transaction costs quoted in the KID are based on the difference between the market price of the investment at the time the order is made and the actual price paid/received when the deal was completed. The transaction costs quoted on page 109 are the costs associated with the buying and selling of the underlying investments, such as dealing fees and stamp duty. Both are calculated as a percentage of the net asset value.

Financial Calendar

Year end 31 January.
Full year results announced and Annual Report posted to shareholders in April.
Annual General Meeting held in May.
Half-yearly Report posted to shareholders in September.

Ordinary Dividends

It is anticipated that dividends will be paid as follows:

1st interim	August
2nd interim	November
3rd interim	March
Final	May

Preference Dividends

Payable half-yearly 1 February and 1 August.

Benchmark

The company's benchmark is the FTSE All-Share Index.

Market and Portfolio Information

The company's ordinary shares are listed on the London Stock Exchange. The market price range, gross yield and net asset value are shown daily in the Financial Times and The Daily Telegraph under the headings 'Investment Companies' and 'Investment Trusts', respectively. The net asset value of the ordinary shares is calculated daily and published on the London Stock Exchange Regulatory News Service. The ten largest holdings are published monthly on the London Stock Exchange Regulatory News Service. They are also available from the manager's Investors' Helpline on 0800 389 4696 or via the company's website: merchantstrust.co.uk.

Website

Further information about The Merchants Trust PLC, including monthly factsheets, daily share price and performance, is available on the company's website: merchantstrust.co.uk.

How to Invest

Information is available from Allianz Global Investors either via Investor Services on 0800 389 4696 or on the company's website: www.merchantstrust.co.uk.

A list of providers can be found at the company's website: www.merchantstrust.co.uk/about-us/how-to-invest.

Dividend

The board is proposing a final dividend of 7.1p payable on 22 May 2024 to shareholders on the Register of Members at the close of business on 19 April 2024, making a total distribution of 28.4p per share for the year ended 31 January 2024, an increase of 2.9% over last year's distribution. The ex-dividend date is 18 April 2024. A Dividend Reinvestment Plan (DRIP) is available for this dividend and the relevant Election Date is 3 May 2024. Cash dividends will be sent by cheque to first-named shareholders at their registered address. Dividends may be paid directly into shareholders' bank accounts. Details of how this may be arranged can be obtained from Link Asset Services. Dividends mandated in this way are paid via Bankers' Automated Clearing Services (BACS).

Registrars

Link Group, Central Square, 29 Wellington Street, Leeds LS1 4DL. Telephone: 0371 664 0300. Lines are open 9.00 am to 5.30 pm (UK time) Monday to Friday.

Email: shareholderenquiries@linkgroup.co.uk

Website: www.linkgroup.com

Shareholder Enquiries

In the event of queries regarding their holdings of shares, lost certificates, dividend payments, registered details, etc., shareholders should contact the registrars on 0371 664 0300. Lines are open 9.00 am to 5.30 pm (UK time) Monday to Friday. Calls to the helpline number from outside the UK are charged at applicable international rates. Different charges may apply to calls made from mobile telephones and calls may be recorded and monitored randomly for security and training purposes.

Changes of name and address must be notified to the registrars in writing. Any general enquiries about the company should be directed to the Company Secretary, The Merchants Trust PLC, 199 Bishopsgate, London EC2M 3TY. Telephone: 020 3246 7513.

Dividend Reinvestment Plan for Ordinary Shareholders (DRIP)

The registrars offer a DRIP which gives ordinary shareholders the opportunity to use their cash dividend to buy further shares in the company under a low-cost dealing arrangement. Terms and Conditions and an application form are enclosed with each dividend payment. For more information please email shares@linkgroup.co.uk or call 0371 664 0381.

Share Dealing Services

Link Group operate an online and telephone dealing facility for UK resident shareholders with share certificates. Stamp duty and commission may be payable on transactions.

For further information on these services please contact: www.linksharedeal.com for online dealing or 0371 664 0445 for telephone dealing. Lines are open 8.00 am to 4.30 pm Monday to Friday (UK time). Calls to the helpline number from outside the UK are charged at applicable international rates. Different charges may apply to calls made from mobile telephones and calls may be recorded and monitored randomly for security and training purposes.

Share Portal

Link Group offer shareholders a free online service called Share Portal, enabling shareholders to access a comprehensive range of shareholder related information. Through Share Portal, shareholders can: view their current and historical shareholding details; obtain an indicative share price and valuation; amend address details; view details of dividend payments; and apply for dividends to be paid directly to a bank or change existing bank details.

Shareholders can access these services at www.signalshares.com. Shareholders will need to register for a Share Portal Account by completing an on-screen registration form. An email address is required.

International Payment Services

Link Group operate an international payment service for shareholders, whereby they can elect either for their dividend to be paid by foreign currency draft or they can request an international bank mandate. This service is only available for dividend payments of £10 or more and a small administration fee per dividend payment applies.

For further information on these services please contact: 0371 664 0300. Lines are open between 9.00 am and 5.30 pm, (UK time) Monday to Friday or email IPS@linkgroup.co.uk.

Shareholder Proxy Voting

Shareholders may submit their proxy electronically using the Share Portal service at www.signalshares.com. Or via the registrars' new LinkVote+ shareholder App. Further details on voting via the LinkVote+ App, online through the registrars' Share Portal, or by post using the personalised proxy card provided, are contained within the Notice of Meeting Notes on page 127.

CREST Proxy Voting

Shares held in uncertificated form (i.e., in CREST) may be voted through the CREST Proxy Voting Service in accordance with the procedures set out in the CREST manual. Voting via the Proxymity platform is also available to institutional shareholders. Further details are contained within the Notice of Meeting Notes on page 127.

Association of Investment Companies (AIC)

The company is a member of the AIC, the trade body of the investment trust industry, which provides a range of literature including fact sheets and a monthly statistical service. Copies of these publications can be obtained from the AIC, 9th Floor, 24 Chiswell Street, London EC1Y 4YY, or at www.theaic.co.uk.

AIC Category: UK Equity Income.

Notice of Meeting

Notice is hereby given that the annual general meeting of The Merchants Trust PLC will be held at Grocers' Hall, Princes Street, London, EC2R 8AD, on Thursday 16 May 2024 at 12.00 pm to transact the following business.

Ordinary Business

1. To receive and adopt the Directors' Report and the Financial Statements for the year ended 31 January 2024 together with the Auditors' Report thereon.
2. To declare a final dividend of 7.1p per ordinary share.
3. To re-elect Colin Clark as a director.
4. To re-elect Timon Drakesmith as a director.
5. To re-elect Karen McKellar as a director.
6. To elect Lisa Edgar as a director.
7. To elect Mal Patel as a director.
8. To approve the Directors' Remuneration Implementation Report.
9. To reappoint BDO LLP as Auditors of the company, to hold office until the conclusion of the next general meeting at which financial statements are laid before the company.
10. To authorise the directors to determine the remuneration of the Auditors.

Special Business

To consider and, if thought fit, to pass the following resolutions. Resolution 11 will be proposed as an ordinary resolution and Resolutions 12 and 13 as special resolutions:

11. That for the purposes of section 551 of the Companies Act 2006 the directors be generally and unconditionally authorised to exercise all the powers of the company to allot relevant securities (within the meaning of the said section) up to a maximum number of 49,441,629 ordinary shares provided that:

(i) the authority granted shall expire one year from the date upon which this resolution is passed but may be revoked or varied by the company in general meeting and may be renewed by the company in general meeting for a further period not exceeding one year; and

(ii) the authority shall allow and enable the directors to make an offer or agreement before the expiry of that authority which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of any such offer or agreement as if that authority had not expired.

12. That the directors be empowered in accordance with section 570 of the Companies Act 2006 (the Act) to allot equity securities (within the meaning of section 560 of the Act) either for cash pursuant to the authority conferred by Resolution 11 or by way of a sale of treasury shares as if sub-section (1) of section 561 of the Act did not apply to any such allotment provided that:

(i) the power granted shall be limited to the allotment of equity securities wholly for cash up to a maximum number of 14,832,488 ordinary shares;

(ii) the power granted shall (unless previously revoked or renewed) expire at the conclusion of the next annual general meeting of the company after this resolution is passed, or 15 August 2025 if earlier; and

(iii) the said power shall allow and enable the directors to make an offer or agreement before the expiry of that power which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if that power had not expired.

13. That the company be and is hereby generally and unconditionally authorised in accordance with section 701 of the Companies Act 2006 (the Act) to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 25p each in the capital of the company (ordinary shares), either for retention as treasury shares or for cancellation provided that:

(i) the maximum number of ordinary shares hereby authorised to be purchased shall be 22,233,900;

(ii) the minimum price which may be paid for an ordinary share is 25p;

(iii) the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average of the middle-market quotations for an ordinary share taken from the London Stock Exchange Official List for the five business days immediately preceding the day on which the ordinary share is purchased or such other amount as may be specified by the London Stock Exchange from time to time;

(iv) the authority hereby conferred shall expire at the conclusion of the annual general meeting of the company in 2025 or, if earlier, on the expiry of 15 months from the passing of this resolution, unless such authority is renewed prior to such time; and

(v) the company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares pursuant to any such contract.

By order of the board

Kirsten Salt
Company Secretary
199 Bishopsgate, London, EC2M 3TY
3 April 2024

Notes:

The following notes explain your general rights as a shareholder and your right to attend and vote at this Meeting or to appoint someone else to vote on your behalf.

1. To be entitled to attend and vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), shareholders must be registered in the Register of Members of the Company at close of trading on Tuesday 14 May 2024 (the record date). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the Meeting.
2. Shareholders are entitled to appoint another person as a proxy to exercise all or part of their rights to attend and to speak and vote on their behalf at the Meeting. A shareholder may appoint more than one proxy in relation to the Meeting provided that each proxy is appointed to exercise the rights attached to a different ordinary share or ordinary shares held by that shareholder. A proxy need not be a shareholder of the Company.
3. A personalised form of proxy which may be used to make such appointment and give proxy instructions accompanies this Notice. If you do not have a form of proxy and believe that you should have one, or if you require additional forms, please contact the registrar of the Company whose contact details are provided in note 6 below.
4. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's Register of Members in respect of the joint holding (the first named being the most senior).
5. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.
6. To be valid, any form of proxy or other instrument appointing a proxy, must be returned by no later than 12 noon on Tuesday 14 May 2024 through any one of the following methods:

i) by post, courier or (during normal business hours only) hand to the Company's registrar at: Link Group, PXS1, Central Square, 29 Wellington Street, Leeds, LS1 4DL
ii) electronically through the website of the Company's registrar at www.signalshares.com (see note 8 below).
iii) via LinkVote+ (see note 9 below).
iv) via Proxymity (see note 10 below).
v) in the case of shares held through CREST, via the CREST system (see note 13 below).

7. If you return more than one proxy appointment, either by paper or electronic communication, the appointment received last by the Registrar before the latest time for the receipt of proxies will take precedence. You are advised to read the terms and conditions of use carefully. Electronic communication facilities are open to all shareholders and those who use them will not be disadvantaged.
8. To submit your proxy instructions electronically through the company's registrar, please complete the online form of proxy by logging on to www.signalshares.com. If you have not previously registered for the share portal you will need your investor code (IVC) which is detailed on your share certificate or is available by calling our Registrar, Link Group on 0371 664 0300 or, if calling from overseas, on +44 (0) 371 664 0300. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. The Registrar is open between 09:00 - 17:30, Monday to Friday excluding public holidays in England and Wales.
9. LinkVote+ is a free app for smartphone and tablet provided by Link Group (the company's registrar). It offers shareholders the option to submit a proxy appointment quickly and easily online, as well as real-time access to their shareholding records. The app is available to download on both the Apple App Store and Google Play. QR codes to facilitate this are shown below. Your vote must be lodged by 12 noon on Tuesday 14 May 2024 in order to be considered valid or, if the meeting is adjourned, by the time which is 48 hours before the time of the adjourned meeting.

Apple App Store **GooglePlay**

10. If you are an institutional investor, you may be able to appoint a proxy electronically via the Proxymity platform, a process which has been agreed by the Company and approved by the Registrar. For further information regarding Proxymity, please go to www.proxymity.io. Your proxy must be lodged by 12 noon on Tuesday 14 May 2024 in order to be considered valid or, if the meeting is adjourned, by the time which is 48 hours before the time of the adjourned meeting. Before you can appoint a proxy via this process you will need to have agreed to Proxymity's associated terms and conditions. It is important that you read these carefully as you will be bound by them and they

will govern the electronic appointment of your proxy. An electronic proxy appointment via the Proxymity platform may be revoked completely by sending an authenticated message via the platform instructing the removal of your proxy vote.

11. The return of a completed form of proxy, electronic voting on the Share Portal or via the LinkVote+ app or any CREST Proxy Instruction (as described in note 13 below) will not prevent a shareholder from attending the Meeting and voting in person if he/she wishes to do so.

12. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Meeting (and any adjournment of the Meeting) by using the procedures described in the CREST Manual (available from www.euroclear.com). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

13. In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & International Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID RA10) by 12 noon on Tuesday 14 May 2024. For this purpose, the time of receipt will be taken to mean the time (as determined by the timestamp applied to the message by the CREST application host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

14. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & International Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

15. Unless otherwise indicated on the Form of Proxy, CREST voting or any other electronic voting channel instruction, the proxy will vote as they think fit or, at their discretion, withhold from voting.

16. Corporate representatives are entitled to vote on behalf of the corporate member in accordance with section 323 of the Companies Act 2006. Pursuant to the Companies (Shareholders' Rights) Regulations 2009 (SI 2009/1632), multiple corporate representatives appointed by the same corporate member can vote in different ways provided they are voting in respect of different shares.

17. Members have a right under section 319A of the Companies Act 2006 to require the company to answer any question raised by a member at the AGM, which relates to the business being dealt with at the meeting, although no answer need be given (a) if to do so would interfere unduly with the preparation of the meeting or involve disclosure of confidential information; (b) if the answer has already been given on the company's website; or (c) it is undesirable in the best interests of the company or the good order of the meeting.

18. Members satisfying the thresholds in section 527 of the Companies Act 2006 can require the company, at its expense, to publish a statement on the company website setting out any matter which relates to the audit of the company's accounts that are to be laid before the meeting. Any such statement must also be sent to the company's auditors no later than the time it is made available on the website and must be included in the business of the meeting.

19. As at 3 April 2024, the latest practicable date before this notice is given, the total number of ordinary shares and preference stock in the company in respect of which members are entitled to exercise voting rights was 148,324,887 ordinary shares of 25p each and 1,178,000 3.65% Cumulative Preference Stock of £1 each. Each carries the right to one vote and therefore, the total number of voting rights in the company is 149,502,887.

20. Further information regarding the meeting which the company is required by section 311A of the Companies Act 2006 to publish on a website in advance of the meeting (including this notice), can be accessed at www.merchantstrust.co.uk.

21. Contracts of service are not entered into with the directors, who hold office in accordance with the company's Articles.

Glossary

UK GAAP performance measures

Earnings per ordinary share is the profit after taxation, divided by the weighted average number of shares in issue for the period. For the year ended 31 January 2023 earnings per ordinary share was 30.5p (2023: 28.7p), calculated by taking the profit after tax of £44,509,000 (2023: £38,626,000), divided by the weighted average shares in issue of 145,769,940 (2023: 134,599,189).

Net Asset Value is the value of total assets less all liabilities. The Net Asset Value, or NAV, per ordinary share is calculated by dividing this amount by the total number of ordinary shares in issue. The debt in the company used in the calculation is measured at par value, that is, the net proceeds on issue plus accrued finance costs to date. As at 31 January 2024, the NAV with debt at par value was £787,522,000 (2023: £812,375,000) and the NAV per share was 530.9p (2023: 579.7p).

Derivatives

The company operates a covered call overwriting strategy on a limited proportion of the portfolio to generate additional income. In "writing" or selling an option, Merchants gives the purchaser the right to buy a specific number of shares in a company at an agreed "strike" price within a fixed period. In exchange Merchants receives an option premium, which is taken to the revenue account.

Merchants gets the full benefit of any move in the share price up to the strike price but not beyond. If the share price rises above the strike price, there is a potential "opportunity" (but not cash) cost, as the option holder can exercise their option to buy the shares at the strike price.

Merchants' selective approach to option writing is driven by the investment fundamentals on each stock we hold, rather than by a separate derivatives rationale. We write calls on portions of shareholdings that we are happy to sell at the strike price, provided that the premium income received is sufficiently attractive. The options written are typically short dated with most less than four months duration. The total exposure is closely monitored and is limited to 15% of the portfolio value with all option positions "covered" by shares owned. From a holistic view, it can be argued that the overall strategy slightly reduces the Trust's gearing to the equity market, neutralising a small part of the financial leverage. It tends to be more profitable in sideways or downwards markets but less profitable in rising markets.

Alternative Performance Measures (APMs)

Benchmark Total Return is the return on the benchmark, on a closing market price basis, assuming that all dividends received were reinvested into the shares of the underlying companies at the time their shares were quoted ex dividend (see page 5).

Discount or Premium is the amount by which the stock market price per ordinary share is lower (discount) or higher (premium) than the Net Asset Value, or NAV, with either debt at par or debt at market value, per ordinary share. The discount/premium is normally expressed as a percentage of the NAV per ordinary share (see page 54).

Dividend Yield represents dividends declared in the past year as a percentage of the share price. This is shown as 5.2% at 31 January 2024 in the highlights on page 5.

	2024	2023
Dividends declared for the year	28.4p	27.6p
Share price at year end	543.0p	591.0p
Annual dividend as a percentage of share price	**5.2%**	**4.7%**

Gearing is the amount of debt as a percentage of the net assets (see Note 16 on page 119).

Net Asset Value, debt at market value is the value of total assets less all liabilities, with the company's debt measured at the market value at the time of calculation. The Net Asset Value, or NAV, per ordinary share with debt at market value is calculated by dividing this amount by the total number of ordinary shares in issue (see page 118). As at 31 January 2024, the NAV with debt at market value was £798,854,000 (2023: £819,960,000) and the NAV per share with debt at market value was 538.6p (2023: 585.1p). (Further details can be found in Note 15(c) on page 117).

Net Asset Value per ordinary share, total return represents the theoretical return on NAV per ordinary share, assuming that dividends paid to shareholders were reinvested at the NAV per ordinary share at the close of business on the day the shares were quoted ex dividend (see Note 13 on page 112).

Net gains/losses based on historical costs are gains/losses from sales of investments of £589,000 (2023: £20,930,000) less transaction costs on sales of £53,000 (2023: 59,000).

Ongoing Charges are operating expenses incurred in the running of the company, whether charged to revenue or capital, but excluding financing costs. These are expressed as a percentage of the average net asset value during the year and this is calculated in accordance with guidance issued by the Association of Investment Companies (see page 15).

	2024 £	2023 £
Management fee	3,124	2,946
Administration expenses	1,229	1,171
Total expenses (A)	**4,353**	**4,117**
Average net asset value with debt at market value (B)	792,739	741,304
Ongoing charge (A/B)	**0.55%**	**0.56%**

The ongoing charge differs from the ongoing charge in the Company's KID, which is calculated in accordance with the PRIIPs regulations and includes finance costs.

Revenue Reserve per ordinary share of 18.1p (2023: 16.3p) is the revenue reserve per the balance sheet of £26,819,000 (2023: £22,897,000) divided by the total number of ordinary shares in issue of 148,324,887 (2023: 140,134,887).

Share Price Total Return is the theoretical return to a shareholder, on a closing market price basis, assuming that all dividends received were reinvested, without transaction costs, into the ordinary shares of the company at the close of business on the day the shares were quoted ex dividend (see page 5). The share price as at 31 January 2024 was 543.0p, a decrease of 48.0p from the price of 591.0p as at 31 January 2023. The change in share price of 48.0p plus the dividends paid in the year of 28.1p are divided by the opening share price of 591.0p to arrive at the share price total return for the year ended 31 January 2024 of -3.4% (2023: +7.9%).

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