Allianz Global Investors

The Merchants Trust PLC

Half-Yearly Financial Report, 31 July 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 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 3.1% 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 £890m and new issuances, Merchants provides good liquidity to investors. Merchants is also able to employ gearing which can enhance returns.

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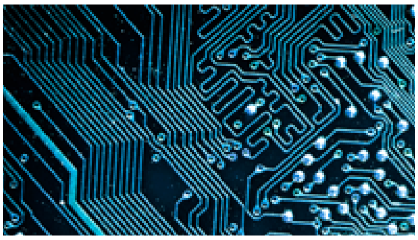


Half Year Results

As at 31 July 2024

Specialist manufacturer Morgan Advanced Materials outperformed during the period. The company is gradually refocusing into faster-growing markets such as semiconductors.

Dividend yield [1]

4.8%

31.1.24 **5.2%**

Dividend growth

+2.1%

31.7.24 **14.5p**
31.7.23 **14.2p**

Revenue earnings per ordinary share

-1.7%

31.7.24 **17.1p**
31.7.23 **17.4p**

Net Asset Value Total Return [1,2]

+14.5%

31.7.23 **-2.2%**

Share price Total Return [1]

+13.1%

31.7.23 **-3.4%**

Benchmark Total Return [1,3]

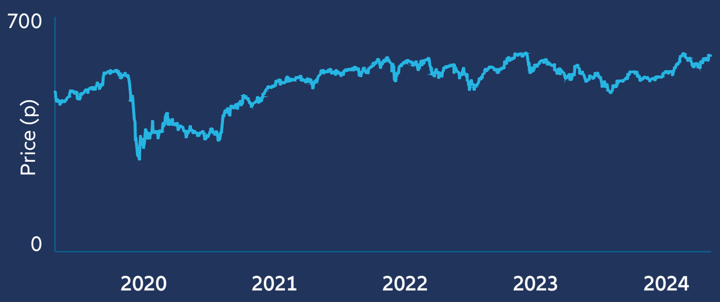
+12.3%

31.7.23 **+0.8%**

Net Asset Value per ordinary share [1,2]

602.7p

+11.9%



Share price

600.0p

+10.5%

[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 in the period.
[2] Debt at market value.
[3] Benchmark is the FTSE All-Share Index.
See Glossary of Alternative Performance Measures on page 28.

Chairman's Statement

Colin Clark

Backdrop – optimism returns

I am pleased to report a positive first half to our current financial year, both in terms of sentiment driving the stock market and the performance of Merchants.

Since the Brexit vote in 2016, instability and uncertainty have characterised the UK economic and political scene and made investors wary. With five conservative Prime Ministers during this period and a Labour alternative led by Jeremy Corbyn, many domestic and overseas investors regarded other markets more predictable and secure for their long term savings, even though UK valuations looked attractive throughout. In recent years the Labour party under Sir Keir Starmer moved towards the political centre ground and Labour secured a long anticipated election victory towards the end of the period under review. These developments have reassured some and have de-risked the UK in the eyes of many investors. Accordingly thus far the new government has been greeted with an element of optimism in markets. The devil will undoubtedly be in the detail, however, and we will watch Labour's management of the economy and other developments with interest over the coming months and years.

In terms of other positive drivers over the period, it is important to note and welcome to see headline inflation return to the Bank of England's target of 2% as well as positive indicators of a recovery in economic growth.

An improved political picture cannot be claimed for all regions however. A record number of countries either have, or will have, elections in 2024 and many of the possible resulting outcomes are far from benign. The whole world is watching developments in the US as they lead up to the Presidential election in November. There has been no shortage of drama already in that race and it is a battle that still has a long way to run. Sadly the conflicts in Ukraine and the Middle East continue to cause loss of life and distress, and of course have an economic impact. Whilst companies in the defence sector are benefiting from increasing national defence budgets around the world, the cost to humanity and general sensibility is high.

As I have written many times before, while our investment manager and your board look with interest at macroeconomic and geopolitical developments and how they may impact our portfolio companies, they are not factors which drive wholesale portfolio or sector decisions. Rather, the resulting exposure to particular sectors are generally a by-product of the stocks which are chosen on their individual merit.

Performance

I am pleased to report that over the six-month review period Merchants outperformed the FTSE All-Share Index, the broad measure of the UK stock market, as well as being the company's performance benchmark.

The more upbeat backdrop over the period was supportive both of the UK market in general, which returned 12.3%, and of our portfolio of stocks specifically, which ended the period up 13.5%, comfortably ahead of the market. Counting in the effects of gearing, Merchants returned a Net Asset Value (NAV) total return of 14.5% for the period. Portfolio manager Simon Gergel provides an in-depth analysis of the drivers of the period's positive performance within the Investment Manager's Review starting on page 9.

> I am pleased to report that over the six-month review period Merchants outperformed the company's performance benchmark.

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Demand for our strategy continued to be strong, best illustrated by the trust trading at one of the narrowest discounts in the peer group during the period, including on occasions, trading at a small premium to Net Asset Value.

UK market valuation

Our portfolio manager continues to see significant value available in the UK market and we regularly discuss possible catalysts for a larger-scale market re-rating. Over the period, we have seen substantial buying back of shares by companies themselves, as well as an increased number of bids from other businesses or private equity consortiums. Each of these suggest that some investors believe current valuations are ‘low’, but even with the calmer political backdrop mentioned above, none of this has been the catalyst for a more significant re-rating. The UK market therefore continues to trade at suppressed multiples, in the main.

There are other positive indicators for the UK economy. Demand drivers such as possible government policy changes to stimulate more investment in the UK stock market, may also prove influential. Whether any measure in isolation or all these factors taken together will prompt a sea change remains to be seen, but it is at least a positive that policy makers are increasingly making it clear that they understand the importance of a healthy domestic UK stock market.

Market demand

Demand for our strategy continued to be strong over the period. This is best illustrated by the trust trading at one of the narrowest discounts in the peer group during the period, including on occasions, trading at a small premium to Net Asset Value. Not only do we see this as a positive when compared with our investment trust peers, but it is even more pleasing compared to UK Equity Income open-ended funds, which have continued to suffer net outflows over the period – albeit the pace of that outflow has slowed recently.

During the period there was no share issuance as our premium criteria for issuance was not met sustainably at any point. We had issued shares in January of this year, prior to the period under review starting, and have recently issued shares after the period end. Since the end of the period up to the publication of this report, 100,000 new shares were issued at an aggregate value of £578,800. Merchants is therefore one of very few investment trusts to have issued shares so far during 2024. Shares are always issued at a premium to the prevailing Net Asset Value, to make the process accretive to existing shareholders. After issuing new shares, all shareholders benefit from increased scale with the company’s fixed costs spread over a wider base.

Our strong and consistent long-term performance and our income generation, illustrated by our 42-year Dividend Hero status as defined by the Association of Investment Companies (AIC), are in our view the key factors behind ongoing shareholder and investor demand for Merchants’ shares.

Costs disclosure update

The investment trust industry, led by the Association of Investment Companies (AIC), has been tireless in lobbying for investment trusts, which are closed-ended investment vehicles, not to be disadvantaged by cost disclosure rules that have been built specifically around open-ended investment vehicles. Many of the disputed regulations and requirements come from European investment regulation and the industry has argued for some time that the disclosures required as a result can actually be misleading for investors when comparing against open-ended funds. In particular, the way costs are currently mandated to be disclosed gives the appearance of an additional investor charge, which is not the case, and the crux of the industry’s argument has been that the costs of running a closed-ended investment company are already in theory accounted for within the share price, which is the trade price for an investor. The board was therefore pleased to hear about the planned legislative reforms to UK retail disclosure requirements. This should hopefully enable investors to be better informed before making decisions. The interim exemption for investment trusts from the much-criticised costs disclosure regime is welcomed as the Government plans for a consultation and new Consumer Composite Investments legislation in the first half of next year. In terms of our own disclosures, we intend to take a conservative approach and continue with current disclosures until additional guidance or industry consensus is available.

Earnings

We continued to see solid corporate earnings from the companies we invest in over the period. Whilst it was not a completely positive picture across all sectors, in aggregate the trusts’ earnings generated a total income of £28.1m. This was 1.1% above the £27.8m generated for the first half of the previous fiscal year. In terms of earnings per share (EPS), issuance of new shares over the equivalent period last year meant that

> Merchants has raised its dividend for 42 consecutive years and we remain well positioned for the future.

the EPS reduced by 1.7% to 17.1p (2023: 17.4p). More details on the specifics of income earned by the investment portfolio can be found on page 15.

Dividends

The positive earnings picture noted above has given the board confidence to announce an increased Merchants dividend whilst allowing us to continue rebuilding revenue reserves that were partially utilised during the pandemic. As a reminder, at the start of this financial year, revenue reserves per share stood at 18.1p. Not all trusts can or will provide such income support and smoothing, which is why Merchants is one of a handful of companies to be awarded the AIC's coveted Dividend Hero status from a universe of well over 400 listed companies.

With the final dividend of the 2024 financial year approved by shareholders at the AGM, Merchants has raised its dividend for 42 consecutive years and, with the increased dividend noted in this report, we remain well positioned for the future.

The board has declared a second quarterly dividend for the current financial year of 7.3p per ordinary share, payable on 15 November 2024 to shareholders on the register at close of business on 11 October 2024. A Dividend Reinvestment Plan ('DRIP') is available for this dividend for which the relevant Election Date is 25 October 2024 and the ex-dividend date is 10 October 2024. This means that for the first half of the financial year ending January 2025, the aggregated dividend will be 14.5p compared with 14.2p for the same period last year, a 2.1% year-on-year rise.

Shareholder contact

It was a pleasure for the Board to be able to once again host a sizeable number of shareholders at the AGM in May 2024. The Board was pleased to see the event so well supported and there were many interesting questions which the board and the manager did their best to answer. I would like to thank those shareholders who managed to attend, but for those who didn't, I should remind them that a video of my introduction and portfolio manager, Simon Gergel's investment update is available on Merchants' website under the 'Videos, Podcasts & Reading' tab.

As you will hopefully be aware we spend considerable effort ensuring our reporting is informative and interesting for shareholders. It was a pleasure therefore to once again be shortlisted in the 'Best Report and Accounts, Generalist' award at the Association of Investment Companies' recent Shareholder Communication awards.

We continued to have positive press coverage during the period, including in publications such as Investors' Chronicle, The Times, The Telegraph, Citywire, The Daily Mail, Shares Magazine and Trustnet.

We continue to try to bring the Merchants' strategy alive for both shareholders and potential investors through regular podcasts, videos and articles – many of these can be found on our website.

Outlook

It has been pleasing to see a reduction of political uncertainty in the UK, generally improving economic data and the easing of inflation which is leading to lower interest rates. However, the potential for shocks to the economic, financial and geopolitical system still feels real and it would seem unwise to assume we are facing a future of plain sailing.

In terms of the domestic market, it is positive to see the external factors such as politics that have turned in its favour and we can only hope that similar positive drivers persist. It would be good to see a greater level of recognition of the potential of the businesses in the UK market, and some subsequent re-rating from such low valuations. How much of this can be stimulated by policy and changing regulation remains to be seen, but hopefully a realisation of the value available will see additional buying interest and a return of the market to greater favour.

In the interim and as we have pointed out before, investor avoidance of the UK market does provide a greater opportunity for keen stock pickers – where great companies trading on attractive valuations are being overlooked simply because of their listing location. This remains an opportunity for Merchants' value-based investment thesis – and our manager continues to buy companies that have solid long-term potential for making money for shareholders, and which for whatever reason currently have their prospects undervalued by the market. On that basis we continue to see an optimistic future for your Company. Thank you, as always for your support.

Colin Clark
Chairman
26 September 2024

Principal Risks and Uncertainties

As identified in the Annual Report, the principal risks are now considered to be emerging risks, followed by the risks of market decline.

The principal risks and uncertainties facing the company, together with the board's controls and mitigation, are those described in the Annual Report for the year ended 31 January 2024 published in April 2024 and are listed below:

- Emerging risks, such as significant geopolitical risks and climate change risks.
- 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.
- Investment performance, for example poor stock selection for the portfolio leads to decline in the rating and attraction of the company.

The board's approach to mitigating these risks and uncertainties is set out in the explanation with the Risk Map in the Annual Report. In the board's view these will remain the principal risks and uncertainties for the six months to 31 January 2025.

Going Concern

The directors have considered the company's investment objective and capital structure both in general terms and in the context of the current macro-economic background. Having noted that the portfolio is liquid as it consists mainly of securities which are readily realisable, and through continuous assessment of the company's financial covenants, the directors have concluded that the company has adequate resources to continue in operational existence for the foreseeable future. The directors have also considered the continuing risks and consequences of macroeconomic and unanticipated shocks on the operational aspects of the company and have concluded that the company has the ability to continue in operation and meet its objectives in the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

Responsibility Statements

The directors confirm to the best of their knowledge that:

The condensed set of financial statements contained within the half-yearly financial report has been prepared in accordance with FRS102 and FRS104, as set out in Note 2, the Accounting Standards Board's Statement 'Half-Yearly Financial Reports'; and

The interim management report includes a fair review of the information required by The Financial Conduct Authority's (FCA) Disclosure Guidance and Transparency Rule 4.2.7 R of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

The interim management report includes a fair review of the information concerning related parties transactions as required by the Disclosure Guidance and Transparency Rule 4.2.8 R.

Colin Clark
Chairman
26 September 2024

Performance – half-year review

Revenue

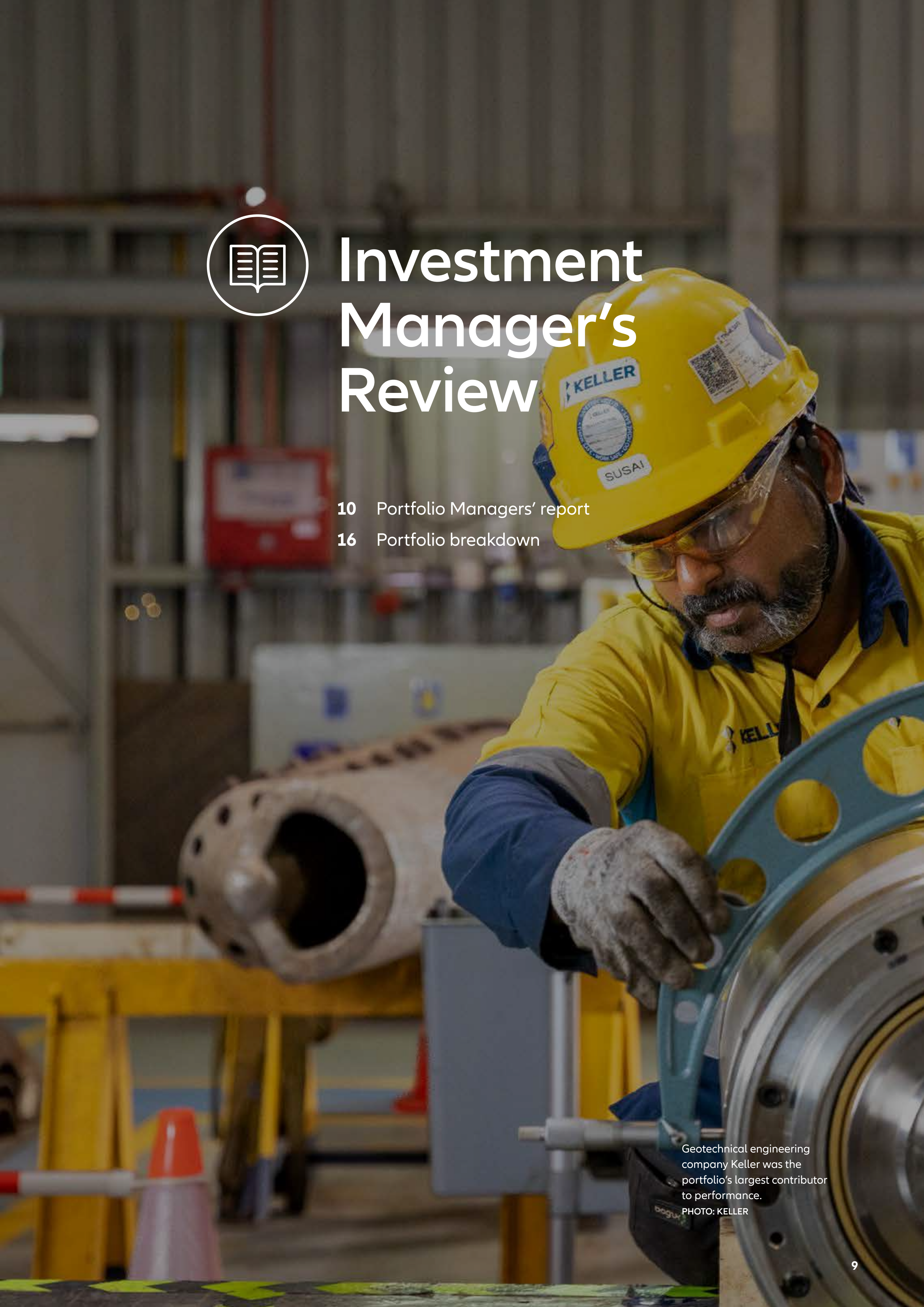
Six months ended 31 July	2024	2023	% change
Income (£m)	28.1	27.8	+1.1
Revenue earnings attributable to ordinary shareholders (£m)	25.4	25.0	+1.6
Revenue earnings per ordinary share	17.1p	17.4p	-1.7
Dividends per ordinary share in respect of the period[1]	14.5p	14.2p	+2.1

Assets

	31 July 2024	31 January 2024	Capital return % change	Total return[1] % change
Net asset value per ordinary share with debt at par	594.6p	530.9p	+12.0	+14.7
Net asset value per ordinary share with debt at market value (capital)[1]	602.7p	538.6p	+11.9	+14.5
Ordinary share price	600.0p	543.0p	+10.5	+13.1
FTSE All-Share	4,588.3	4,173.1	+10.0	+12.3
Premium of ordinary share price to net asset value (debt at par)	0.9%	2.3%	n/a	n/a
(Discount) premium of ordinary share price to Net Asset Value (debt at market value)	(0.4%)	0.8%	n/a	n/a

[1] NAV total return reflects both the change in Net Asset Value per ordinary share and the net ordinary dividends paid.
A Glossary of Alternative Performance Measures (APMs) can be found on page 28.

Investment Manager's Review



Geotechnical engineering company Keller was the portfolio's largest contributor to performance.
PHOTO: KELLER

Portfolio Managers' report

Simon Gergel

Richard Knight

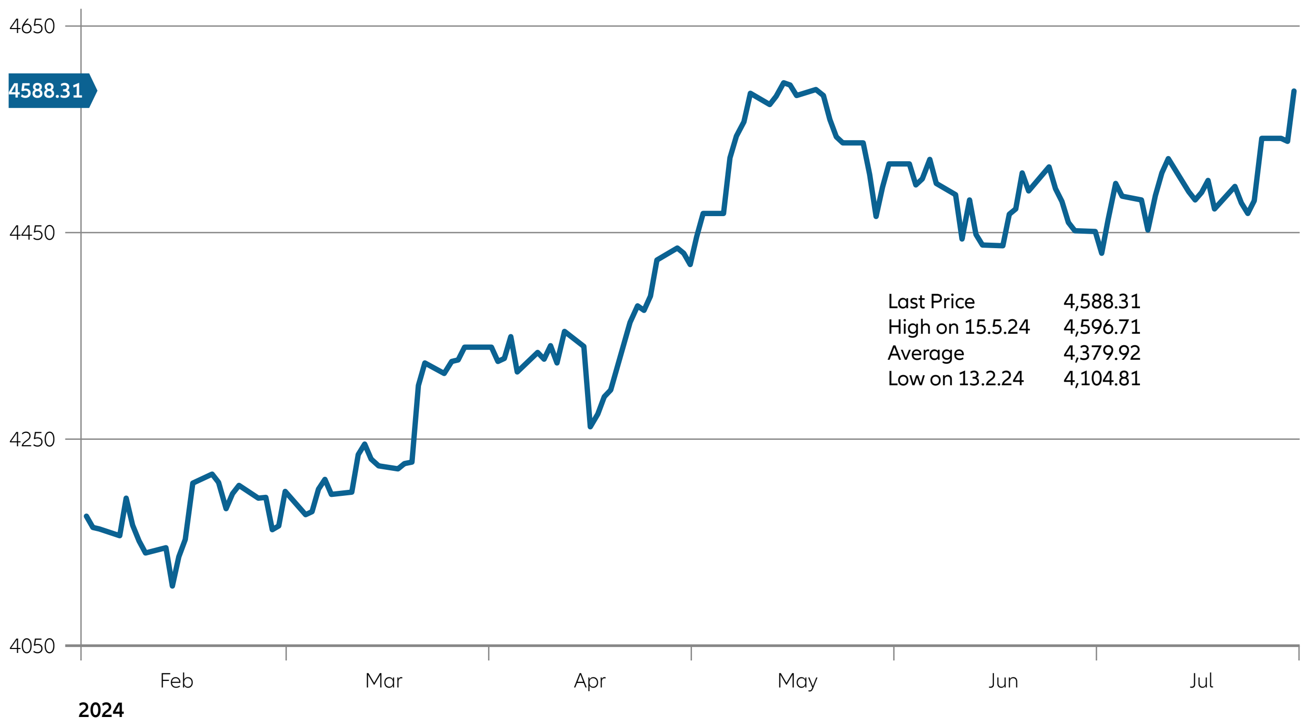
Andrew Koch

Economic & market background

The UK stock market has had a strong six months. Many of the issues that had previously concerned investors have faded away. Economic growth picked up, from near stagnation in late 2023, whilst inflation returned to the Bank of England's 2% target, after the shock of the last few years. This allowed the Bank to follow the European Central Bank and cut interest rates for the first time this cycle, on 1st August. This was later than had been anticipated, but expectations of falling borrowing costs have supported markets, due to the beneficial impact on companies, consumers and the broader economy.

There was also resolution to the political uncertainty, that has been a feature of the UK ever since the Brexit referendum in 2016. Prime Minister Rishi Sunak called a general election for 4th July and Sir Keir Starmer's Labour party won a large majority of the seats, with a fairly centrist manifesto. A return to greater political stability in the UK stood in sharp contrast to events elsewhere. European Union election results showed a swing to more populist parties, prompting President Macron of France to call a surprise election to try to stem the rise of the far-right National Rally party. In the US, the electorate is polarised. Under enormous pressure, the Democrat president Joe Biden agreed to stand aside in November's presidential election, to allow his Vice President Kamala Harris to take on Republican Donald Trump.

FTSE All-Share Index for the six months to 31 July 2024



FTSE All-Share 31.1.24 – 31.7.24. Source: AllianzGI/Datastream.

The stock market made steady progress during the period, with a total return of 12.3%, supported by a large number of company share buy-backs, and a resurgence in takeover activity. According to Peel Hunt, there were 17 takeover bids launched for companies in the FTSE 350 index of leading companies in the first 6 months of 2024, compared to only 2 in the whole of 2023.

International equity markets were also generally strong, but with significant divergence between sectors. The continuing excitement about Generative Artificial Intelligence drove the influential US stock market, with stand-out performance from chip maker Nvidia, along with other giant technology stocks in the so-called 'Magnificent 7'. These large stocks dominated the US stock market until the last month or so when there was a rotation back towards some of the smaller companies.

Although the UK stock market does not contain many technology companies, there was still a high level of volatility between different sectors. Medium sized companies lagged their larger peers for much of the period, until a strong rally in July left them slightly ahead overall. Some of the best performing sectors were cyclical and financial sectors, that should benefit from a recovering economy. Banks performed well, as higher profitability on the back of benign credit conditions and higher interest rates, led to substantial cash returns to shareholders. The construction & materials sector also rallied, from depressed levels, on hopes for an improvement in the building industry as the effects of interest rate cuts come through. The aerospace & defence sector benefited from a sharp recovery at Rolls Royce and strong defence spending. Amongst more defensive areas, the tobacco sector was strong, with some favourable regulatory developments in the large US market.

The weakest sectors were quite diverse. Beverages underperformed, as spirits manufacturer Diageo warned of difficult trading conditions. Travel & leisure was weak, on waning enthusiasm when set against the strong conditions a year ago, as travel had picked up in the wake of the Covid pandemic. This was exacerbated by weak results from several leisure companies. The life insurance sector was also weak, with Prudential falling back on concern about the Chinese economy which drives much of its business.

Performance

The total return on the investment portfolio of 13.5% was ahead of the return on the FTSE ALL Share Index benchmark of 12.3%. Sector selection was generally a positive factor, although in our investment process, sector allocation is usually a consequence of stock selection decisions rather than primarily a specific view on a sector. A large exposure to the construction & materials sector was particularly helpful, as was having no exposure to the weak beverages sector. The top ten positive and negative individual contributors to the outperformance are shown in the table.

Online trading provider IG Group was a significant performer.

PHOTO: IG GROUP

The largest positive contributor was **Keller**, which rallied by 75%. Keller is a good example of the type of investment we like to make. Keller has a strong market position in providing geotechnical engineering services in the USA and many other countries. The shares had been heavily discounted, due to difficult trading conditions and some operational issues, which led to them offering excellent value to investors. The management team have now significantly strengthened the commercial execution and operational processes in the business. This has coincided with a strong recovery in the key US market, leading to a substantial increase in profitability and a strong re-rating of the shares.

Another company with exposure to the US building industry is the housing products business **Tyman**, which received a takeover bid from its US peer Quanex. Tyman was one of three portfolio companies bid for during the period. The others were housebuilder **Redrow**, which agreed a merger proposal with larger rival Barratt Developments, and power supply manufacturer **XP Power**, where the board rejected an opportunistic bid, in the wake of recent profits warnings.

Elsewhere, two banks, **Barclays** and **Lloyds** were among the top ten performers, in a strong sector, although the benefit was partly offset by not owning HSBC and Nat West. Several mid-caps performed well, with total returns of over 25%. **Inchcape** benefited from solid trading performance, and the announced sale of its remaining car retailing businesses in the UK, to focus exclusively on its attractive car distribution franchises around the world. **IG Group** re-rated from a low valuation, with the shares receiving a boost from the appointment of a new Chief Executive with a good reputation. **Drax** shares responded well to resilient trading and improved market understanding of the breadth and quality of the company's asset base. Finally, **Morgan Advanced Materials** outperformed, as investors started to appreciate the improving profitability of the company and its gradual refocusing into faster growing markets like semiconductors and renewable power equipment.

Relative performance also benefited from not owning a few large companies that underperformed and held back the benchmark return. The largest was Diageo, the spirits company, which has encountered challenging trading conditions, most notably in the North America and Latin America regions. Reckitt Benckiser shares also fell heavily, after a large award was made against a subsidiary in a lawsuit in America, concerning the use of their infant formula for premature babies.

Looking at the largest negative performance contributors, apart from not owning certain banks, as discussed above, there were no over-riding themes. **PZ Cussons**, the manufacturer of Carex soaps, shower gels and other brands, warned about the impact of a further devaluation of the Nigerian currency, after an initial devaluation and some other trading issues last year. Nigeria is an important region

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)	Keller	0.9	PZ Cussons	-0.5
	Barclays	0.8	DCC	-0.4
	IG Group	0.6	Entain	-0.4
	Inchcape	0.5	SCOR	-0.4
	Lloyds	0.4	WPP	-0.3
	Drax	0.4	GSK	-0.3
	Morgan Advanced Materials	0.3		
	Tyman	0.3		
Underweight (zero holding or weight lower than index weight)	Diageo	0.8	HSBC	-0.5
	Reckitt Benckiser	0.7	AstraZeneca	-0.5
			Rolls Royce	-0.4
			NatWest	-0.3

for the business, and this additional pressure prompted the company to cut its dividend.

Whilst further trading difficulties are disappointing, the business has some strong market positions in the UK, Australia and elsewhere. We have had several meetings with board and management representatives to keep a close eye on the situation. The distribution business **DCC** shares were weak, but there was little major news in the period. The business continues to make good progress building out its services platform to help customers deal with the energy transition away from fossil fuels. The gambling company **Entain**, which owns the Ladbrokes and Coral brands in the UK as well as an online joint venture with MGM Resorts in the USA, also underperformed. The business has had disappointing trading results in the US, UK and some other markets, partly on the back of tightening regulations. The company has recently appointed a new chief executive and has adopted a strategy to improve its operational execution.

Elsewhere, the French reinsurance company **SCOR** had a profits warning, based upon technical longevity assumptions in its US life insurance business. This was disappointing, as it came against a generally positive trading environment for reinsurance, which has benefited the other portfolio holdings in the subsector. The last two portfolio stocks in the list of top underperformers were **WPP** and **GSK**, which both moved broadly sideways over the period, causing relative underperformance. The media services company WPP was held back by weak trading, particularly among their US technology clients. The biopharmaceutical business GSK generally performed well as a business, but there were investor concerns about the growth prospects for a couple of their vaccines and some ongoing litigation.

In addition, relative performance was also impacted by strong performance from AstraZeneca and Rolls Royce, which are not owned in the portfolio but helped to lift the index return.

Portfolio changes

The combination of a modestly valued UK stock market, a wide dispersion of valuations and considerable swings in sentiment towards different sectors, provided many opportunities to make new investments or add to existing positions at attractive levels. These were funded by reducing or selling other positions, typically after outperformance had taken shares closer to fair value.

There were four new investments and two compete sales. One of the purchases is listed overseas: **Bank of Ireland**. We had been gradually building exposure to the banks sector as the industry has been completely restructured since the Global Financial Crisis and is operating under much tighter leverage restrictions. The industry is also benefitting from interest rates recovering from near zero levels, allowing banks to earn higher interest margins. Bank of Ireland operates in a particularly consolidated Irish banking market, with only two major banks. It adds some diversification away from the UK economy into Ireland. Bank

Housebuilder Redrow agreed a merger proposal with larger rival Barratt Developments.

PHOTO: REDROW

of Ireland was attractively priced compared to the return on capital it generates, with a dividend yield of over 7%.

We bought **Dowlais**, a supplier of components and powdered metals for the automotive industry, working with around 95% of global manufacturers. Dowlais is world leader in sideshafts and propshafts that help provide power to the wheels of vehicles, as well as making many other products. Concerns about the transition from internal combustion engines to electric vehicles have depressed the shares of Dowlais, but we believe these concerns are overdone. This provided an opportunity to buy shares at an exceptionally low valuation, which does not reflect the long-term prospects for Dowlais.

We also bought shares in **Unite Group**, the largest owner and operator of student accommodation in the UK. Unite and its joint venture partners own and rent out about 70,000 rooms, and it has long term relationships with many of the UK's leading universities. Unite has a development pipeline of new rooms, whilst the shortage of accommodation in the UK provides a favourable environment. Like many real estate companies, rising interest rates have impacted property values. This brought the shares down to a level which, in our view, does not reflect the company's growth opportunities, its income generation and a rising dividend yield.

The final new addition to the portfolio, was **Burberry**, a British luxury goods business older than The Merchants Trust. Burberry is best known for trench coats, scarves and certain check patterned fabrics, operating from over 400 stores worldwide. Whilst the company has some notable strengths, the business has struggled in recent years. It had a poorly executed move into highly priced accessories and higher fashion ranges. This coincided with a slowdown in luxury sales globally. The company had several profits warnings and the shares had lost about two thirds of their value in just over a year. Despite difficult trading, the company has no debt, other than leases, and we believe it has strong potential. The fall in the share price created an opportunity for us to make a modest investment. Subsequently, the company had another weak trading update, and announced an immediate change in leadership, a reversal of its strategy and a suspension of dividends. Whilst we did not expect an immediate dividend cut, it was a possibility we had considered before investing. We are prepared to hold strong business franchises through a restructuring period, where we can see significant value.

There were two complete sales from the portfolio. The building materials company **CRH** represents a good example of our sell discipline. We bought CRH (for the second time) in 2022, since when the share price has doubled. The company has delivered strong operational performance, but the shares were significantly re-rated as well. The valuation was further helped by moving CRH's listing to the USA (where most of its activities are based) from the more lowly priced UK stock

New holding Dowlais, a specialist engineering group, works with around 95% of global manufacturers.

PHOTO: DOWLAIS / GKN

market. However, we believe the share price fully reflected the high quality and good prospects of the business, so we sold it to finance other investments where we have higher conviction.

We also sold **Admiral**, the car and home insurer. The shares had performed very well since our purchases in late 2022 and early 2023, as strong insurance price increases had started to feed through to a recovery in profitability. Having reached our assessment of fair value, we decided to sell the shares to reinvest into other portfolio stocks. Whilst we invest in shares on a medium term view, typically 3-5 years, we will sometimes sell out much sooner than that, if the valuation moves up quickly to what we believe to be a fair level.

Apart from these new investments and complete sales, there were a large number of additions to existing holdings where we saw particularly good value. The largest transactions included adding to real estate company **Assura**, the media services business **WPP**, the miner **Rio Tinto**, supporting the rights issue at **National Grid**, and switching money from **Imperial Brands** to its industry peer **British American Tobacco**. We also reduced several positions. In most cases this reflected profit taking after strong performance as positions had become too large compared to our level of conviction. These included **Drax**, **Next**, **Tesco**, **Keller**, **Barclays** and several others.

Income

Income generation has been resilient during the period. The total income of £28.1m was slightly above the £27.8m generated last year. However, with the increased share count, the revenue earnings per share reduced to 17.1p (17.4p).

Most companies paid flat or rising dividends. Many of the major income producers like the large banks and energy companies delivered solid dividend growth. But there were dividend cuts in the housebuilders, reflecting the cyclical downturn in profitability as interest rates have risen. There were also a small number of dividend cuts for company specific reasons. These included PZ Cussons, mentioned above, the specialist bank **Close Brothers**, which is facing a potential uncertain liability on legacy commission payments, and US gas producer **Diversified Energy**, where falling gas prices put pressure on the financial position.

The outlook for income generation in the second half continues to look solid and the directors have declared an increase in the first two interim dividends, as set out in the chairman's statement.

Outlook

The UK stock market has had a positive six months, but there are still reasons to be optimistic about the future outlook. As we discussed above, the UK should now be in a period of political stability, inflation has returned close to the Bank of England's target, economic growth has picked up, even if it is not strong, and interest rates have started to come down. This will moderate mortgage bills and corporate debt costs in due course. The UK stock market remains lowly priced, especially compared to other leading markets and we are seeing a large number of share buybacks from companies, as well as a high level of takeover activity.

The one area that has been stubbornly negative has been investor flows into UK equities, although even here there are some encouraging signs. The government (both Conservative and Labour) and financial regulators have started to talk about the importance of a thriving domestic stock market. The FCA has introduced changes to the UK listing rules to attract more companies to list, and the government is looking at ways to encourage UK pension funds to allocate more money to domestic equities, such as mandating disclosure of their current exposure. Even a small change in allocation from the large UK pension funds could make a meaningful difference to the demand-supply balance in the market. There have also been tentative signs of returning retail investor interest, although these flows can be fickle.

Of course, the UK does not exist in a vacuum. There are many uncertainties in the world, not least conflicts in Eastern Europe and the Middle East, that could escalate at any moment. Politics is deeply polarised in much of Europe and the USA, raising uncertainty over the direction of future policy. Global economic growth is muted, with China, which has been the engine of growth for many years, notably weak. It is important to remember that UK listed companies derive the majority of their sales and profits from overseas, so the global economic outlook is as influential as the UK's. Likewise, many stock market trends are driven by overseas markets, especially by what is happening in the USA.

Our focus, as always, remains on identifying attractive individual companies to own in the portfolio. Whilst it is important to consider macro-economic risks, it is critical to maintain a longer-term focus. We want to own companies that we believe can deliver a high income yield and strong total returns for investors, over the next three to five years. We continue to find many compelling opportunities. Not only is the overall UK stock market lowly valued, but the dispersion between individual company valuations remains high. This environment has provided new opportunities, like Dowlais, Burberry and Unite, mentioned above, but we also see material further upside in most of the existing holdings in the portfolio.

In summary, given the favourable UK economic and market background described above, and the large number of attractive investment opportunities we can see, we remain optimistic about the medium-term outlook for income and capital growth in Merchants' portfolio.

Portfolio breakdown

at 31 July 2024

	Name	Principal activities	Value £'000s	% of listed holdings	Benchmark weighting
1	British American Tobacco	Tobacco	44,743	4.5	2.2
2	GSK	Pharmaceuticals & Biotechnology	43,758	4.4	2.5
3	Shell	Oil, Gas & Coal	41,436	4.2	7.4
4	Barclays	Banks	33,755	3.5	1.4
5	IG Group	Investment Banking & Brokerage	32,355	3.3	0.1
6	Inchcape	Retailers	31,022	3.1	0.1
7	SSE	Electricity	30,738	3.1	0.8
8	Lloyds Banking Group	Banks	30,505	3.1	1.5
9	BP	Oil, Gas & Coal	28,540	2.9	3.2
10	WPP	Media	28,373	2.9	0.3
11	Rio Tinto	Industrial Metals & Mining	28,140	2.9	2.2
12	Tate & Lyle	Food Producers	27,486	2.8	0.1
13	DCC	Industrial Support Services	25,145	2.6	0.2
14	Redrow	Household Goods & Home Construction	25,028	2.6	0.1
15	Unilever	Personal Care, Drug & Grocery Stores	24,830	2.5	4.8
16	National Grid	Gas, Water & Multiutilities	24,559	2.5	1.9
17	Drax Group	Electricity	23,087	2.4	0.1
18	Pets At Home Group	Retailers	20,765	2.1	0.1
19	Morgan Advanced Materials	Electronic & Electrical Equipment	20,462	2.1	0.0
20	Imperial Brands	Tobacco	20,154	2.1	0.8
21	Grafton Group	Industrial Support Services	19,364	2.0	0.1
22	Energean	Oil, Gas & Coal	19,222	2.0	0.1

Portfolio analysis

Sector	% held*	Benchmark weighting
Financials	22.4	18.7
Consumer Discretionary	17.1	11.0
Industrials	15.4	12.0
Consumer Staples	15.1	13.9
Energy	10.1	10.8
Utilities	8.3	3.8
Health Care	6.0	11.8
Real Estate	4.7	2.7
Basic Materials	3.9	6..6
Net current liabilities	(3.0)	

* Total assets include current liabilities

	Name	Principal activities	Value £'000s	% of listed holdings	Benchmark weighting
23	Legal & General	Life Insurance	19,046	1.9	0.6
24	LandSec	Real Estate Investment Trusts	16,981	1.7	0.2
25	Keller	Construction & Materials	15,582	1.6	0.0
26	Man Group	Investment Banking & Brokerage	15,500	1.6	0.1
27	Lancashire Holdings	Non-Life Insurance	15,432	1.6	0.1
28	Tyman	Construction & Materials	14,998	1.5	0.0
29	Assura	Real Estate Investment Trusts	14,758	1.5	0.0
30	Tesco	Personal Care, Drug & Grocery Stores	14,586	1.5	0.9
31	Marshalls	Construction & Materials	14,464	1.5	0.0
32	Bellway	Household Goods & Home Construction	13,661	1.4	0.1
33	OSB Group	Finance & Credit Services	13,642	1.4	0.1
34	Haleon	Pharmaceuticals & Biotechnology	13,460	1.4	1.0
35	SThree	Industrial Support Services	13,351	1.4	0.0
36	Conduit Holdings	Non-Life Insurance	13,336	1.4	0.0
37	Dowlais Group	Automobiles And Parts	13,217	1.3	0.0
38	Unite Group	Real Estate Investment Trusts	12,569	1.3	0.2
39	Bank of Ireland Group	Banks	12,343	1.3	0.0
40	PZ Cussons	Personal Care, Drug & Grocery Stores	11,334	1.2	0.0
41	Aena	Industrial Transportation	10,326	1.1	0.0
42	Burberry Group	Personal Goods	10,307	1.1	0.1
43	Close Brothers Group	Banks	9,317	1.0	0.0
44	Atalaya Mining	Precious Metals & Mining	9,181	0.9	0.0
45	Next	Retailers	8,161	0.8	0.4
46	Norcros	Construction & Materials	7,148	0.7	0.0
47	DFS Furniture	Retailers	6,648	0.7	0.0
48	CLS Holdings	Real Estate Investment & Services	6,610	0.7	0.0
49	Diversified Energy Company	Oil, Gas & Coal	6,541	0.7	0.0
50	SCOR	Non-Life Insurance	6,505	0.7	0.0
51	Entain	Travel & Leisure	5,620	0.6	0.1
52	XP Power	Electronic & Electrical Equipment	5,139	0.5	0.0
53	Duke Royalty	Finance And Credit Services	3,928	0.4	0.0
Total invested funds			**977,158**	**100.00**	

Financial Statements

Inchcape performed well, with total returns of over 25%. The company announced the sale of its remaining car retailing businesses in the UK, and will focus exclusively on its car distribution franchises around the world.

Income Statement

		For the six months ended 31 July 2024			For the six months ended 31 July 2023		
		Revenue £'000s	Capital £'000s	Total Return £'000s	Revenue £'000s	Capital £'000s	Total Return £'000s
	Notes			*1*			*1*
Gains (losses) on investments held at fair value through profit or loss		-	93,057	93,057	-	(45,784)	(45,784)
Losses on foreign currencies		-	(17)	(17)	-	(15)	(15)
Income from investments		27,523	-	27,523	27,147	-	27,147
Other income		597	-	597	655	-	655
Investment management fee		(574)	(1,067)	(1,641)	(556)	(1,033)	(1,589)
Administrative expenses		(549)	(1)	(550)	(603)	(2)	(605)
Profit (loss) before finance costs and taxation		**26,997**	**91,972**	**118,969**	**26,643**	**(46,834)**	**(20,191)**
Finance costs: interest payable and similar charges		(1,008)	(1,833)	(2,841)	(937)	(1,700)	(2,637)
Profit (loss) on ordinary activities before taxation		**25,989**	**90,139**	**116,128**	**25,706**	**(48,534)**	**(22,828)**
Taxation		(578)	-	(578)	(679)	-	(679)
Profit (loss) after taxation attributable to ordinary shareholders		**25,411**	**90,139**	**115,550**	**25,027**	**(48,534)**	**(23,507)**
Earnings (loss) per ordinary share (basic and diluted)		**17.13p**	**60.77p**	**77.90p**	**17.36p**	**(33.67p)**	**(16.31p)**

Statement of Changes in Equity

	Notes	Called up share capital £'000s	Share premium account £'000s	Capital redemption reserve £'000s	Capital reserve £'000s	Revenue reserve £'000s	Total £'000s
Six months ended 31 July 2024							
Net assets at 1 February 2024		37,081	228,174	293	495,155	26,819	787,522
Revenue profit		-	-	-	-	25,411	25,411
Dividends on ordinary shares	*3*	-	-	-	-	(21,062)	(21,062)
Capital profit		-	-	-	90,139	-	90,139
Net assets at 31 July 2024		**37,081**	**228,174**	**293**	**585,294**	**31,168**	**882,010**
Six months ended 31 July 2023							
Net assets at 1 February 2023		35,034	184,239	293	569,912	22,897	812,375
Revenue profit		-	-	-	-	25,027	25,027
Dividends on ordinary shares	*3*	-	-	-	-	(19,784)	(19,784)
Capital loss		-	-	-	(48,534)	-	(48,534)
Shares issued during the period		1,665	36,281	-	-	-	37,946
Net assets at 31 July 2023		**36,699**	**220,520**	**293**	**521,378**	**28,140**	**807,030**

Balance Sheet

	As at 31 July 2024 £'000s	As at 31 July 2023 £'000s	As at 31 January 2023 £'000s
Investments held at fair value through profit or loss	977,158	893,161	874,668
Net current liabilities	(28,250)	(19,293)	(20,280)
Total assets less current liabilities	**948,908**	**873,868**	**854,388**
Creditors: amounts falling due after more than one year	(66,898)	(66,838)	(66,866)
Total net assets	**882,010**	**807,030**	**787,522**
Called up share capital	37,081	36,699	37,081
Share premium account	228,174	220,520	228,174
Capital redemption reserve	293	293	293
Capital reserve	585,294	521,378	495,155
Revenue reserve	31,168	28,140	26,819
Equity shareholders' funds	**882,010**	**807,030**	**787,522**
Net asset value per ordinary share	**594.6p**	**549.8p**	**530.9p**

The net asset value as at 31 July 2024 is based on 148,324,887 ordinary shares.
The net asset value as at 31 July 2023 is based on 146,794,887 ordinary shares.
The net asset value as at 31 January 2024 is based on 148,324,887 ordinary shares.

Cash Flow Statement

	Six months ended 31 July 2024 £'000s	Six months ended 31 July 2023 £'000s
Operating activities		
Profit (loss) before finance costs and taxation	118,969	(20,191)
Less (Add): (Gains) losses on investments held at fair value	(93,956)	45,020
Add: Losses on derivatives	328	109
Add: Losses on foreign currency	17	15
Purchase of fixed asset investments held at fair value through profit or loss	(101,113)	(132,771)
Sales of fixed asset investments held at fair value through profit or loss	93,956	107,145
Transaction costs	(571)	(655)
Increase in other receivables	(839)	(2,473)
Increase (decrease) in other payables	188	(116)
Less: Overseas tax suffered	(578)	(679)
Net cash inflow (outflow) from operating activities	**16,401**	**(4,596)**
Financing activities		
Interest paid	(2,794)	(2,475)
Dividend paid on cumulative preference stock	(21)	(21)
Dividends paid on ordinary shares	(21,062)	(19,784)
Share issue proceeds	-	37,946
Net cash (outflow) inflow from financing activities	**(23,877)**	**15,666**
(Decrease) increase in cash and cash equivalents	**(7,476)**	**11,070**
Cash and cash equivalents at the start of the period	22,886	11,465
Effect of foreign exchange rates	(17)	(15)
Cash and cash equivalents at the end of the period	15,393	22,520
Comprising:		
Cash at bank and in hand	15,393	22,520

Notes to the Financial Statements

1. Financial Statements

The half-yearly financial report has been neither audited nor reviewed by the company's auditors. The financial information for the year ended 31 January 2024 has been extracted from the statutory financial statements which have been delivered to the Registrar of Companies. The auditors' report on those financial statements was unqualified and did not contain a statement under section 498 of the Companies Act 2006.

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

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

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

2. Accounting Policies

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

The condensed set of financial statements has been prepared on a going concern basis in accordance with FRS 102 and FRS 104, 'Interim Financial Reporting', the Companies Act 2006 and the Statement of Recommended Practice – 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (SORP) issued by the Association of Investment Companies in July 2022. The context of the current macro-economic background has been thoroughly considered and the directors have concluded that there are no material uncertainties related to going concern. They have also been prepared on the assumption that approval as an investment trust will continue to be granted.

The accounting policies applied in preparation of the condensed set of financial statements with regard to measurement and classification have not changed from those set out in the Company's annual report for the year ended 31 January 2024.

3. Dividends on Ordinary Shares

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

	Six months ended 31 July 2024 £'000s	Six months ended 31 July 2023 £'000s
Dividends on Ordinary Shares of 25p:		
Third interim dividend 7.1p paid 14 March 2024 (2023: 6.9p)	10,531	9,669
Final dividend 7.1p paid 22 May 2024 (2023: 7.0p)	10,531	10,115
	21,062	**19,784**

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

	Six months ended 31 July 2024 £'000s	Six months ended 31 July 2023 £'000s
First interim dividend 7.2p paid 22 August 2024 (2023: 7.1p)	10,679	10,412
Second interim dividend 7.3p payable 15 November 2024 (2023: 7.1p)	10,828	10,422
	21,507	**20,834**

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

4. Earnings per Ordinary Share

The earnings per ordinary share is based on a weighted number of ordinary shares 148,324,887 (31 July 2023: 144,134,526) in issue.

5. Fair Value Hierarchy

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

FRS 102 sets out three fair value levels.

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e., developed using market data) for the asset or liability, either directly or indirectly.
Level 3: Inputs are unobservable (i.e., for which market data is unavailable) for the asset or liability.

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

As at 31 July 2024, the financial assets at fair value through profit and loss of £976,724,000 (31 July 2023: £893,086,000; 31 January 2024: £874,611,000) are categorised as follows:

	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Financial assets at fair value through profit or loss at 31 July 2024				
Equity investments	977,158	-	-	977,158
Derivatives financial instruments – written call options	-	(434)	-	(434)
	977,158	**(434)**	**-**	**976,724**

	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Financial assets at fair value through profit or loss at 31 July 2023				
Equity investments	893,161	-	-	893,161
Derivatives financial instruments – written call options	-	(75)	-	(75)
	893,161	**(75)**	**-**	**893,086**

	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Financial assets at fair value through profit or loss at 31 January 2024				
Equity investments	874,668	-	-	874,668
Derivatives financial instruments – written call options	-	(57)	-	(57)
	874,668	**(57)**	**-**	**874,611**

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.

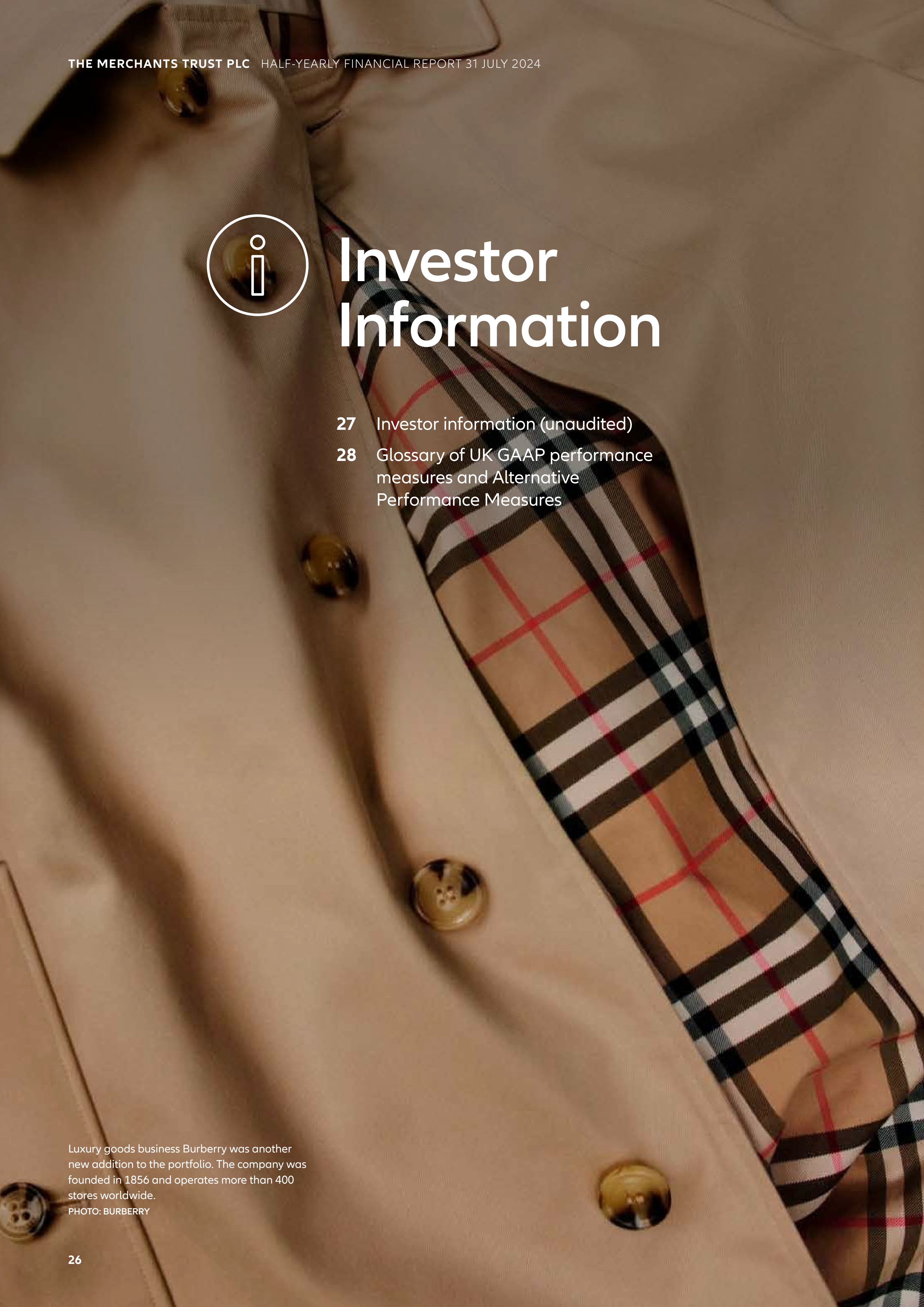
6. Status of the Company

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

7. Transactions with the Investment Manager and related parties

As disclosed in the annual report, the existence of an independent board of directors demonstrates that the company is free to pursue its own financial and operating policies and therefore, under FRS 8: Related Party Disclosures, the investment manager is not considered to be a related party. The company's related parties are its directors.

There are no other identifiable related parties as at 31 July 2024, 31 July 2023 and 31 January 2024.



Investor Information

Luxury goods business Burberry was another new addition to the portfolio. The company was founded in 1856 and operates more than 400 stores worldwide.

PHOTO: BURBERRY

Investor information (unaudited)

Directors
Colin Clark (Chairman)
Karen McKellar (Senior Independent Director)
Timon Drakesmith (Chairman – Audit Committee)
Lisa Edgar
Mal Patel

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.

Head of Investment Trusts
Stephanie Carbonneil
Email: stephanie.carbonneil@allianzgi.com

Secretary and Registered Office
Kirsten Salt ACG
199 Bishopsgate, London, EC2M 3TY
Telephone: +44 (0)20 3246 7513
Registered Number: 28276

Registrars
Link Group, Central Square, 29 Wellington Street, Leeds, LS1 4DL. Lines are open 9.00 am to 5.30 pm (UK time) Monday to Friday.

Website: www.linkgroup.com
Email: shareholderenquiries@linkgroup.co.uk
Telephone: 0371 664 0300.

Financial Calendar
Year end 31 January.
Full year announced in March.
Annual report posted to shareholders in April.
Annual general meeting held in May.
Half year results announced and half-yearly Financial Report posted to shareholders in September.

Ordinary Dividends

1st interim	August
2nd interim	November
3rd interim	February/March
Final	May

Website
Further information about The Merchants Trust PLC, including monthly factsheets, daily share price and performance, is available on the company's website: www.merchantstrust.co.uk.

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 factsheets 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.

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.

Shareholder Enquiries
In the event of queries regarding their holdings of shares, lost certificates, dividend payments, registered details, etc., shareholders should contact the registrar by email at shareholderenquiries@linkgroup.co.uk or by calling 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 registrar 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.

Net Asset Value
The net asset value of the ordinary shares is calculated and announced daily and the top ten holdings are announced monthly. They are published on the London Stock Exchange Regulatory News Service. They are also available from the Allianz Global Investors, via Investor Services on 0800 389 4696, or on the company's website: www.merchantstrust.co.uk.

Glossary of UK GAAP performance measures and Alternative Performance Measures

UK GAAP performance measures

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 and, if issued at a premium, the amortised premium to date. As at 31 July 2024, the NAV with debt at par value was £882,010,000 (31 January 2024: £787,522,000) and the NAV per share was 594.6p (31 January 2024: 530.9p).

Earnings per ordinary share is the profit after taxation, divided by the weighted average number of shares in issue for the period. For the period ended 31 July 2024 earnings per ordinary share was 17.1p (31 July 2023: 17.4p), calculated by taking the profit after tax of £25,411,000 (31 July 2023: £25,027,000), divided by the weighted average shares in issue of 148,324,887 (31 July 2023: 144,134,526).

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)

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. As at 31 July 2024, the NAV with debt at market value was £894,026,000 (31 January 2024: £798,854,000) and the NAV per share with debt at market value was 602.7p (31 January 2024: 538.6p).

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.

Share Price Total Return 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. The share price as at 31 July 2024 was 600.0p, an increase of 57.0p from the price of 543.0p as at 31 January 2024. The change in share price of 57.0p plus the dividends paid in the period of 14.2p are divided by the opening share price of 543.0p to arrive at the share price total return for the period ended 31 July 2024 of +13.1% (year ended 31 January 2023: -3.4%).

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.

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.

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 period and this is calculated in accordance with guidance issued by the Association of Investment Companies.

Yield represents dividends declared in the past year as a percentage of share price. This is shown as 4.8% at 31 July 2024 in the highlights on page 3.

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