The Merchants Trust PLC

Annual Report

31 January 2021

aic DIVIDEND HERO

aic Shareholder Communication Awards 2020 WINNER

INTEGRATED ESG iESG

Allianz Global Investors

Why invest in The Merchants Trust?

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

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

Dividend growth
The trust has paid increasingly higher dividends to its shareholders year-on-year for the last 39 years – from 2.1p per share in 1982 to 27.2p in 2021.

Diversification
Merchants invests in a variety of large companies across a number of sectors, many with income derived internationally. This can help spread investment risk.

Cost-effective
Buying shares in an investment trust can be less costly than purchasing the underlying stocks individually – with an annual management fee of 0.35% (ongoing charges 0.61%*), Merchants provides a cost-effective way to access an active and expertly managed portfolio.

Longevity
Merchants has been providing active investment management since its launch in 1889. The trust can draw on reserves to help smooth dividend payments during short-term periods of difficult economic conditions, although income is not guaranteed and could go down as well as up.

Liquidity and gearing
With a market capitalisation of £600m and 121 million shares in issue, Merchants provides good liquidity to investors. Merchants is also able to employ gearing. This enhances the earnings per share, and potentially increases long term returns. However, losses are also amplified when markets fall.

* At 31 January 2021. See glossary on page 109.

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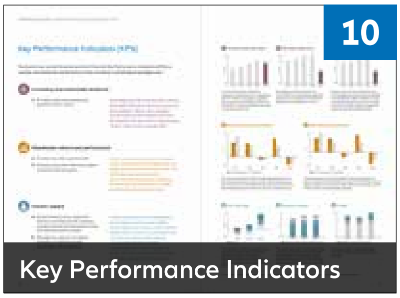
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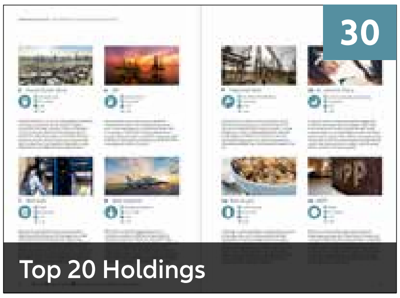
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Financial Highlights

As at 31 January 2021

Yield*

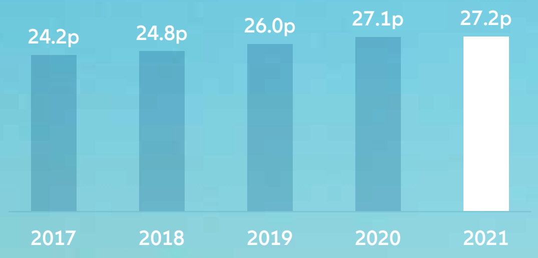
6.2%

2020 5.1%

Dividends in respect of the year

27.2p

+0.4%



Revenue earnings per ordinary share

18.5p

-37.7%

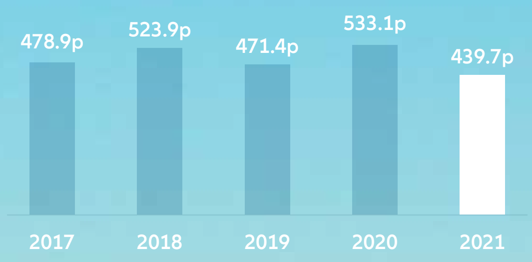
Mining was one of the best performing large sectors in the year under review. A surging copper price saw Chile-based mining group Antofagasta make a significant contribution to portfolio performance.

Net Asset Value Total Return*#	Share Price Total Return*	Benchmark Total Return*~
-12.4%	-12.5%	-7.5%
2020 +18.7%	2020 +18.6%	2020 +10.7%

Net Asset Value per ordinary share*#

439.7p

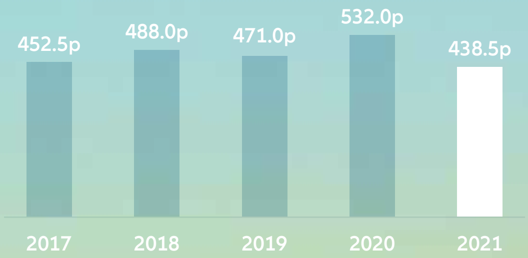
-17.5%



Share price

438.5p

-17.6%



* Alternative Performance Measure (APM). APMs are the board's preferred measures for the most meaningful information for shareholders. Total return figures include dividends paid.

\# Debt at market value.

~ Benchmark is the FTSE All-Share Index.

See Glossary on page 109.

Chairman's Statement

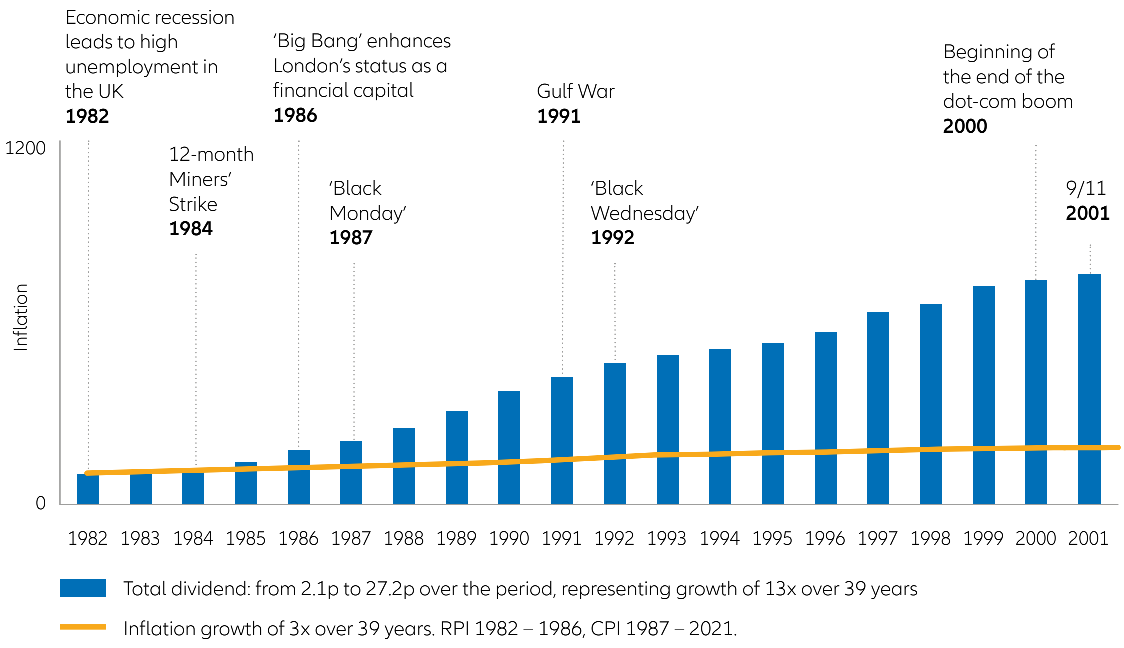
Dear Shareholder

When I wrote to shareholders a year ago for the 2020 annual report, we were just beginning a journey into the unknown resulting from the burgeoning global pandemic. We already knew then that the virus itself, and the measures to control it, were likely to be a threat to financial stability and to have a huge impact on economic activity. It also looked likely that there would be significant impact on companies in many industries. That has indeed been the way the year has played out and we now find ourselves reporting on a year where superlatives seem trite and do no justice to what we have all experienced. In addition to the economic impact, in human terms, the cost to physical and mental wellbeing across society has also been dramatic.

The second quarter of the year saw the largest recorded fall in UK GDP, followed by massive stimulus from governments across the globe to buoy faltering economies. The year saw volatile markets with huge early market falls as the pandemic took hold, followed by a strong subsequent bounce-back.

In addition to pronounced market volatility, there could have been additional strains on the investment manager's operating systems and processes. Especially during the early weeks of the pandemic, the board was focused on how the manager was responding to staff working from home and the 'virtual office' and the need to protect shareholder interests made this a priority for our risk agenda. Volatility provided both a challenge but also an opportunity for Merchants and our manager reports in some detail how the investment portfolio was repositioned during the year.

By the middle of the year shareholders will recall we were reporting on a period of underperformance as the first half of the year had been particularly difficult for the company. We started 2020 with a marginally pro-cyclical leaning in the portfolio post-election and gearing in the portfolio amplified negative returns in a falling market. By the year end, the situation had significantly improved. While there is still underperformance against the benchmark, the gap has narrowed considerably. This improved performance came partly as a result of improving economic conditions – I will stop short of calling it a recovery yet due to the current fragility and sensitivity to 'events' – and partly due to active repositioning of the portfolio by our investment manager.



Source: AllianzGI.

It was also a challenging year for income, with many companies cutting or postponing dividends either as a result of their own prudence given the uncertain environment, or under direction from the Government. However, prospects improved in the second half, as many companies had responded pro-actively to the downturn and focused on strengthening balance sheets, and many re-started dividend payments.

A year of contrasting performance

As described above this was a year of contrast between market falls and volatility in the first half of the year and signs of economic stabilisation with rapid market recovery in the second half.

For the year under review the trust's Net Asset Value total return with debt at market value (NAV) fell by 12.4% compared with a 7.5% decrease in our benchmark, the FTSE All-Share index, on a total return basis. Approximately half of the difference is accounted for by the gearing of the portfolio, which exacerbates market movements, in either direction. The board believes that over the long term, a prudent level of gearing should add value and enhance income for shareholders.

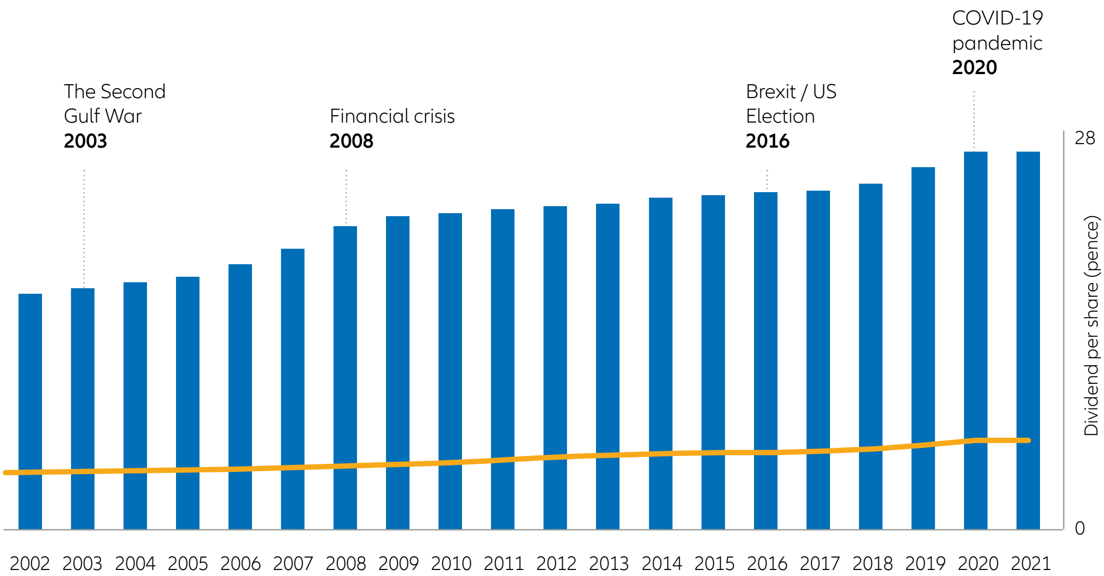
Whilst the near 5% underperformance for the 2021 financial year is disappointing, it should be viewed in the context of an extremely strong 2020 financial year where the NAV total return was 8% above the benchmark, and also in terms of the strong recovery in the second half of 2020. There are more details on the performance of the portfolio in the attribution table on page 12.

Pleasingly, against this background demand for our shares remained strong throughout the year and we were able to issue 8,106,423 new shares, or 7.2% of the issued capital, in aggregate over the year during periods when the trust was trading at a premium to Net Asset Value. Since the year end, a further 1,575,000 new shares were issued.

A full investment report containing an analysis of the company's performance is shown on page 40, and the portfolio performance attribution is explained by our investment manager Simon Gergel from page 13. I would also encourage you to read the interesting stock stories that have been included to further illustrate some of the key themes.

A question of style

In a very challenging year, the investment manager has continued to follow a consistent and disciplined value-based investment approach, looking only for quality companies with solid prospects, on reasonable valuations. The market has for several years favoured so-called growth companies, leading to what the investment manager notes is an extreme polarisation in valuations. However, this disciplined investment style has enabled our investment manager to deliver positive stock



selection results above the benchmark return, over the medium and long term, in a period where their style has been out of favour.

The continuing structural preference by investors for growth stocks over value stocks has provided both tailwinds and headwinds for the portfolio – in a positive sense there are more opportunities that the manager is able to find where the valuation does not reflect the intrinsic value of the company. On the negative side this style bias means that stocks may be slower to make progress towards a fair valuation, if indeed they can attain that at all under such conditions, and the valuation polarisation in the market remained high at the year end.

Income remains in sharp focus

As noted, the year saw a large number of dividend cuts in the market and this has inevitably impacted earnings per share which are down more than a third to 18.5p. The board recognises the importance of a growing dividend to shareholders. We can see a path to a covered dividend in the medium term. Absent any significant further deterioration in the outlook for income, the board plans to continue with its progressive dividend policy, and is willing to consider utilising reserves, built up over many years, to cover any shortfall from earnings. We propose a final quarterly dividend for shareholder approval of 6.8p which means for 2021 an increased full-year dividend of 27.2p. This includes a contribution from reserves of 9.9p, leaving 18.3p in reserves at the year end. Whilst this dividend represents a nominal increase of 0.4% over the 2020 dividend of 27.1p, close to but not in excess of the 2020 rate of inflation, we have now grown the dividend for 39 consecutive years at an annualised growth rate of just under 7%, well above the rate of inflation over that period which stands at 3.4% annually as measured by the Consumer Prices Index (CPI).

The ability to accumulate revenue reserves for use in just such a 'rainy day' remains one of the key features of an investment trust and one that the board is happy to consider using prudently on behalf of shareholders.

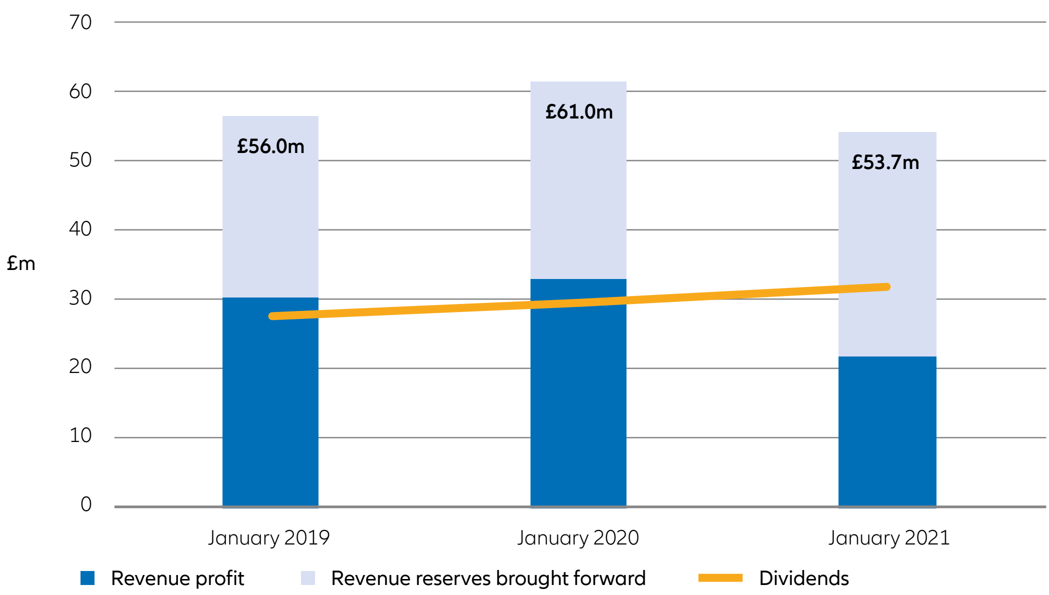
We are very pleased therefore to, once again, retain our AIC Dividend Hero status. 2021 has seen us continue to provide one of the highest yields in our peer group as part of an attractive total return for investors. We remain as focused on dividends as you are.

Recognition and demand...

We continue to receive generally positive coverage from investment analysts and in the media for the trust. The year has not been fully plain sailing in that respect though. Towards the middle of the year there was some negative commentary surrounding Merchants' investment approach and associated prospects given widespread dividend cuts. The investment manager made efforts to redress this in interviews with the press, giving a more optimistic view with a wider time horizon. As we

Dividend Capacity

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



saw dividends start to return towards the end of the period this started to sit better with the manager's own outlook, which had remained consistent throughout.

In the period we were awarded an AIC Shareholder Communications Award for last year's Annual Report. We hope that shareholders feel this year's report is as informative. We are also pleased to see that Merchants reached number four on the AIC's "Top 20 most viewed investment companies in 2020" list on www.theaic.co.uk.

We continue to believe that this recognises the positive performance that has been generated over the long term together with a high and rising dividend that is a key attraction for investors.

...lead to share issuance and the opportunity to grow

We have once again been in a position to issue new shares over the year. As I described last year there is advantage to be had from increasing the scale of the trust, not least from fixed costs being spread over a larger NAV. As scale increases, so does the attractiveness of the trust's shares to professional investors, who value liquidity in the company's shares. As issuance can only take place at a premium to NAV, it also adds value incrementally to NAV on each issuance to the additional benefit of all shareholders.

Through the year the company raised £32m with the issuance of new shares.

Due to the continuing demand we are seeing, as in previous years your board and investment manager will be seeking shareholder authority to issue up to 10% more shares in the coming year.

Gearing

Shareholders will be aware that the board of Merchants holds the view that an element of gearing of the trust can enhance investment returns and increase dividend generation and that this is consistent with a long-term investment horizon. The debt structure is now a mix of short-, medium- and long-term debt, giving a more flexible profile to the debt structure which our managers can use as needed.

In January 2020, the decision was made to reduce gearing to 15%. This was undertaken as a prudent measure as markets had had a very strong run and proved a worthwhile exercise in hindsight as it removed some of the amplification from gearing when markets fell

Our Response to COVID-19

Merchants' board, Investment Manager and suppliers reacted to the pandemic across a range of challenges:

Pandemic impact on markets
Frequent reports to the board by portfolio management team between regular board meetings on
- impact on the company's investments and outlook
- repositioning the portfolio to achieve the required returns.

Revenue forecasting
The portfolio manager provides frequently updated forecasts covering:
- impact of dividend cuts in the portfolio
- steps taken to manage revenues
- prospects for earnings recovery
- impact on distributable reserves

Business resilience and continuity
All major service providers implemented their business continuity plans and gave periodic updates on the resilience of their controls and ability to continue to provide the usual services using remote access capabilities resulting in minimum disruption:

AllianzGI, our manager:
- Investment management
- Company secretarial, accounting and administration
- Distribution and sales
- Marketing and PR

and other key service providers of
- custody
- banking
- registration services to shareholders

Cyber-security and fraud
Increased frequency of reports and updates to confirm that all systems are secure at key suppliers and are updated in response to new threats, such as phishing, as they arise through the COVID-19 pandemic.

Sales and distribution
Using web access:
- Meetings for professional shareholders
- Virtual conferences with large online retail audiences
- Podcasts and portfolio manager interviews
- All physical meetings were suspended

Debt servicing and covenants
Monthly stress tests and increased testing and assurance for the board and lenders when markets had large falls and gearing was elevated.

throughout the first half of 2020. The gearing level ended the year higher at 16.8% due to the overall reduction in asset value of the portfolio however it remains within the range the board are comfortable with and we feel appropriately positioned given the market outlook.

Strategy

Our annual strategy day takes a more in-depth look at the matters we consider at each board meeting, including our objectives and key performance indicators and this took place towards the end of the year under review. The Strategic Report can be found on page 41. We reviewed the investment philosophy, including the value style of investing, and once again found this to be appropriate for our objectives. We examined the structure of the portfolio and style exposures in detail. This year we spent additional time discussing sources of income in the portfolio and alternatives available, including considering a limited amount of investment outside of the UK. The board has decided to allow the fund manager to invest up to 10% of the portfolio into shares listed overseas, in order to provide a greater diversification of investment opportunities and income, at a time when the opportunity for higher yielding shares in the UK market is more concentrated than usual. The reason we want to place additional focus here as a board is to understand the potential viability of all sources of income in a post COVID world as well as reviewing our policy towards income generation for our shareholders as a long-standing AIC dividend hero.

The integration of ESG within the investment process is a key component and we are pleased to report that the Merchants portfolio and investment process has received an IESG (Integrated ESG) rating from AllianzGI's internal ESG oversight team. In short this means that all ESG risks are being fully considered within the investment process. This is covered by Simon Gergel in his report on page 25.

From a sales and marketing perspective the pandemic has highlighted the importance of a digital strategy and we considered various digital opportunities including the use of social media. Our strategy for distribution via wealth managers and retail investment platforms remains fit for purpose.

Post-Brexit arrangements

As we have mentioned previously, the FCA's Temporary Permissions Regime following Brexit will in due course end. We would like to assure our shareholders that the board and AllianzGI are discussing the ways in which the company might organise its contractual relationships in order that we discharge our regulatory responsibilities and our outsourced arrangements such as portfolio management, distribution, financial reporting and custody. We will be sure to update shareholders on any new arrangements in due course.

Board

Our board meetings have been virtual since March last year. We welcomed Karen McKellar to the board last May and her experience as a director of the company has been exceptional since there have been no in-person board or shareholder meetings since then. Karen answers a few questions about her background and experience on page 9. The board effectiveness review conducted since the year end examined the impact of the pandemic on boardroom behaviour and experience. More details are reported on page 7.

Annual General Meeting

In view of the current remaining restrictions in place on travel and meetings, as last year, the Annual General Meeting of the company to be held on Thursday 13 May 2021 will be held as a closed meeting and shareholders will not be able to attend in person. We are proposing a change to the Articles to permit hybrid or virtual-only shareholder meetings in future. There is further information about this on pages 58 and 107. The board will always hold physical shareholder meetings when possible, however these provisions may be used when physical meetings are not possible (such as in the current pandemic circumstances) and the board will consider shareholders' best interests before deciding to hold such a hybrid or virtual-only meeting.

To give you the opportunity to communicate with the board and investment managers you are invited to view a video presentation which will be posted on the website www.merchantstrust.co.uk two weeks before the AGM and 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 (further details are available on page 57) and we will publish questions and answers on the website. We encourage all shareholders to exercise their votes in advance of the meeting by completing and returning the form of proxy.

Given that restrictions should be relaxed in the next few months we would ideally like to ensure the year does not pass without the opportunity to once again greet shareholders in person. Should this opportunity present itself then we will aim to create a shareholder event in the Autumn or at such time that the presiding rules and safety factors allow.

Outlook

Last year I signed off by noting the impact of the pandemic was a very present shadow. Unfortunately, a year on, while there is some light at the end of the tunnel, we are not yet completely free of that shadow. We are seeing the signs of recovery and advancing vaccination programmes will undoubtedly spur that along. However, we have already seen the demonstration of how setbacks can occur, particularly with emerging mutant strains of the virus.

Even as the recovery progresses, many factors will be in play – enlarged government debt may require taxes to be raised, economic stimulus will not simply be quickly removed and increasing inflation is also a possibility. The road ahead is unlikely to be smooth.

We have at least seen an end to uncertainty surrounding post-Brexit trading agreements with the EU – some finer points are still manifesting themselves, but the main elements of the relationship are clear in outline and give the markets much needed clarity. Uncertainty can have a much more negative impact on markets than the actual trade arrangements ever would have done regardless of direction once the market can digest. The hope is that in time this will make the UK more investible once again, and therefore drive a re-rating of many undervalued stocks.

From an investment perspective we remain focused on the long term. Although the early '20s' will likely live in our minds for a long time, we hope that in investment terms we will be able to see the period as a temporary blip and on that basis our investment manager continues the core task of seeking out strong, structurally well positioned companies, paying above-average dividend yields, and trading on attractive valuations.

I would encourage you to read on through this report. Many of the elements I have briefly outlined here are nuanced and they are given more focus in the Investment Management Report and in the other descriptive sections.

Colin Clark
Chairman
13 April 2021

New Director Q&A

We asked Karen McKellar, who joined in May 2020, about herself and her impressions in her first year on the board:

Tell us about your background and experience?
I spent 28 years as an Investment Director at Aberdeen Standard Investments. I managed approximately £5bn of assets invested in UK equities, across a range of different risk mandates. I also ran both the Standard Life UK Equity High Income fund, and also the Standard Life UK Equity Income investment trust, which I managed for 5 years up until 2012. I also sit on the Board of the Scottish Wildlife Trust, which I find particularly interesting from an ESG perspective.

What did you know about Merchants before?
The Merchants Trust was one of my key competitor trusts when I managed the ASI trust, and therefore, I have been familiar with it for many years. I was aware of its longevity, that it had a strong long term track record, an experienced investment manager in Simon Gergel and also the backing of a strong management company in terms of AllianzGI.

How are you bringing your experience?
My investment experience, particularly that gained from managing a competitor trust, allows me to constructively challenge yet also support the broader management team in all the various aspects of running the trust.

What are your impressions of Merchants and its appeal to investors?
Clearly in this low return environment, income trusts are attractive, and Merchants also has a long track record of dividend growth. I also believe the long term outlook for UK equities is positive given a combination of low valuations, attractive dividend yields, and scope for corporate earnings to grow as economies gradually recover from the pandemic.

How has the past year been for you as a director?
It has certainly been an interesting year for income investment trusts as the COVID-19 pandemic led to significant dividend cuts across the UK equity market. I have also appreciated the diversity of the board, in that each director has a different background and experience and therefore brings different perspectives to board discussions. In addition, since I joined as a director, due to COVID-19, all our board meetings have had to be held on Microsoft Teams, so I look forward to actually meeting everyone in person!

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

After steady growth in recent years, income fell significantly due to revenue cuts during the pandemic. This has also impacted revenue reserves and 9.9p per share is to be utilised in the year under review, leaving 18.3p in reserves at 31 January 2021.

Shareholder returns and performance

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

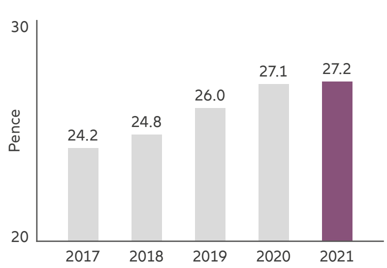
After a very strong prior year, in the year under review the portfolio return was very slightly behind that of the benchmark. The NAV return was also behind the benchmark after the impact of gearing (borrowings). Gearing tends to amplify portfolio returns in both directions.

Investor appeal

4. Position Merchants to outperform its peers, ensuring that the company remains relevant and attractive to new and existing investor groups
5. Manage the costs of running the company so that they remain reasonable and competitive

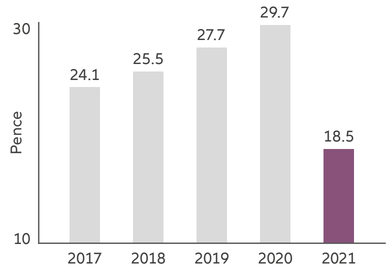
Performance was in the third quartile of the peer group over one year, slightly below median over three years but above median over five years, as at the year end. Last year and this year the ongoing charges were 0.59% and 0.61%, respectively, due to lower average net assets. The chart shows Merchants' costs are below average in the peer group.

Dividend record per share



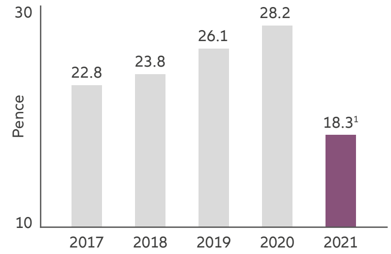
The board has a policy of paying a progressive dividend each year, taking into account inflation and subject to general earnings growth and dividends received in the portfolio. Ordinary dividends have risen in every year since 1982.

Earnings progression



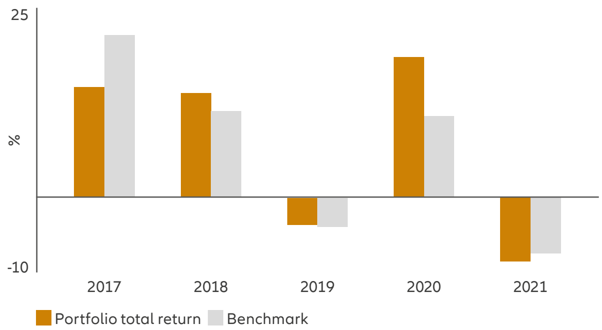
Earnings per share (EPS) shows the income that the company generates each year which can be used to fund dividend payments to shareholders, over time.

Revenue reserves per share



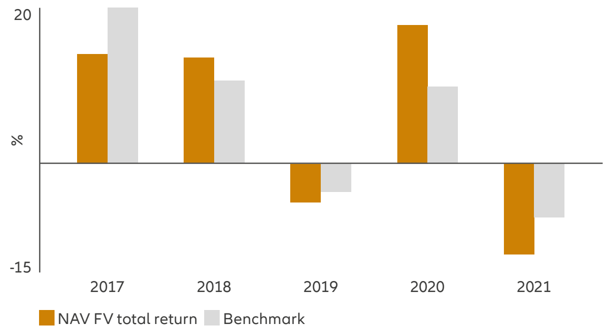
Revenue reserves can be used to ensure that dividend payments can be maintained through difficult market conditions. Income is put aside in good years and can be used to maintain a steady increase in dividends when income is less readily available.

Portfolio return vs benchmark



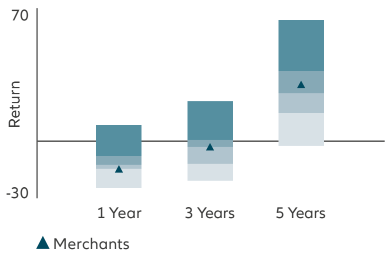
The board uses this KPI to monitor investment performance. As the company's policy is to invest mainly in higher yielding large UK companies, the FTSE All-Share Index has been chosen as the benchmark index against which we measure our performance.

NAV return vs benchmark



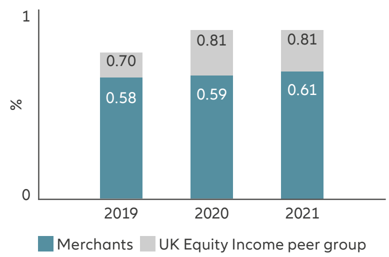
The board seeks a return that is better than the benchmark over various time periods. The benchmark was the FTSE 100 Index until 31 January 2017, but was revised to better reflect the changing structure of the portfolio over the preceding decade.

Peer rankings[2]



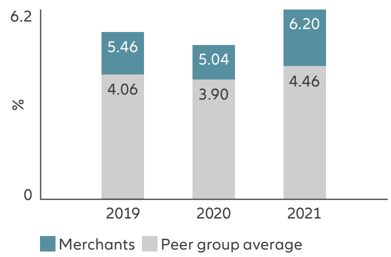
The board also monitors the performance relative to a broad range of competitor investment trusts. The chart shows Merchants' position in UK Equity Income peer group quartiles over a range of time periods.

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 109).

Yields[3]



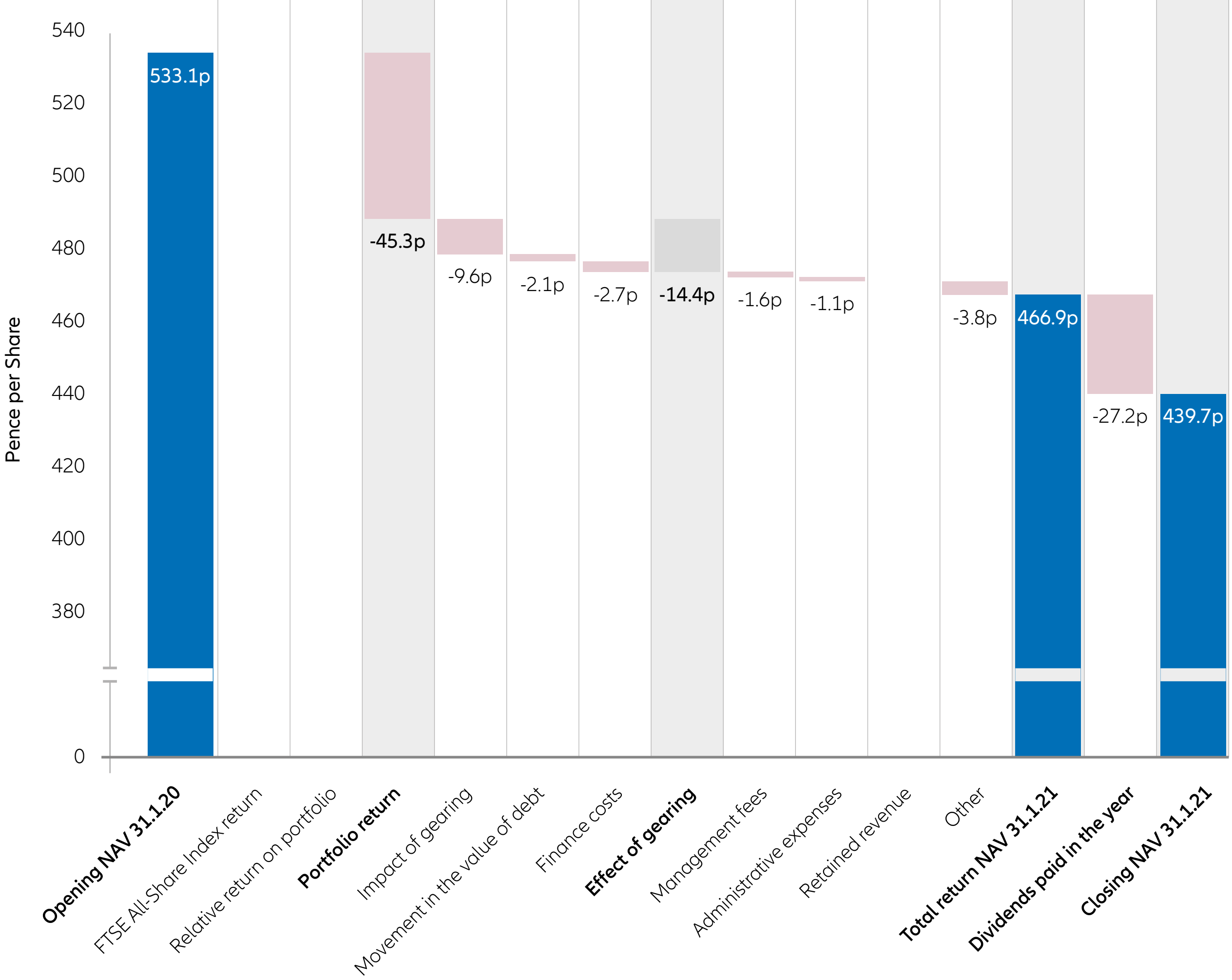
Merchants' yield is consistently higher than the UK Equity Income peer group average.

[1] At the year end before payment of third and final quarterly dividends. [2] Source: JP Morgan Cazenove. [3] Source: Morningstar/AllianzGI.

Attribution Analysis

Movement in Capital Return with Debt at Market Value for Year Ended 31 January 2021

	FTSE All-Share Index return	Relative return on portfolio	**Portfolio return**	Impact of gearing	Movement in the value of debt	Finance costs	**Effect of gearing**	Management fees	Administrative expenses	Retained revenue	Other	**Total return NAV 31.1.21**	**Dividends paid in the year**	**Capital return NAV 31.1.21**
Capital return	-10.2%	-2.0%	-12.2%	-2.6%	-0.4%	-0.3%	-3.3%	-0.2%	0.0%	-1.5%	-0.3%	-	-	**-17.5%**
Revenue return	2.7%	1.0%	3.7%	0.8%	0.0%	-0.2%	0.6%	-0.1%	-0.2%	1.5%	-0.4%	-	**5.1%**	-
Total return	-7.5%	-1.0%	**-8.5%**	-1.8%	-0.4%	-0.5%	**-2.7%**	-0.3%	-0.2%	0.0%	-0.7%	**-12.4%**	-	-



The total return reflects both the change in net asset value, from 533.1p to 439.7p and the ordinary dividends paid in the year. The total return NAV of 466.9p as at 31 January 2021 is derived from the NAV with debt at market value of 439.7p plus dividends paid in the year of 27.2p.

A Glossary of Alternative Performance Measures (APMs) is on page 109.

NAV total return reflects both the change in the net asset value per ordinary share and the net ordinary dividends paid.

Investment Manager's Review

Global pharmaceutical giant GSK remains the portfolio's largest holding. In March 2021 the company announced a partnership with US firm Novavax to manufacture up to 60m doses of its COVID-19 vaccine in the UK.

Investment Manager's Review

Simon Gergel is Chief Investment Officer, UK Equities, Allianz Global Investors, based in London.

Economic & Market Background

The year has been dominated by the coronavirus COVID-19 pandemic, which spread to Europe and became a major crisis worldwide. This was primarily a health and humanitarian disaster and we would like to send our sympathies to everyone affected. The pandemic caused severe economic disruption, prompting unprecedented and sustained government support packages. Financial markets were rocked by high volatility in asset prices and extreme polarisation within a falling stock market, but this was followed by a sharp recovery later in the year, encouraged by the early success of vaccine trials.

In the first month of the year, hospitalisations from the pandemic accelerated in Italy, followed by rising infections, and tragically deaths, across the rest of Europe, in the subsequent weeks and months. Governments introduced severe restrictions on movement and activity, in order to stem the spread of infections. Whilst restrictions varied from country to country, in the UK this included closing schools, most of the leisure and travel industry, and initially much of manufacturing, in order to bring in social distancing procedures. The UK economy recorded its worst ever contraction in the second quarter of 2020, with a 20% drop in gross domestic product.

However, the government also introduced a massive stimulus package, including furlough support for up to 9m people, VAT deferrals, rates holidays, and emergency loan packages, whilst the Bank of England cut interest rates to a record low of 0.1%. These support packages, coupled with the easing of the tightest restrictions amid lower infection rates in the summer, led to a rapid bounce back in economic activity in the third quarter. Later in the year, the government was forced to reintroduce restrictions on activity, although these were not as draconian as the earlier ones, in response to a second wave of infections and illness, as well as more infectious mutations of the virus.

The corporate sector responded swiftly to the change in circumstances, with a focus on protecting employees and the financial position of businesses, which took precedence over investing for growth. There were widespread dividend cuts, re-sets or cancellations, and also equity raisings, whilst many companies also

We have been engaging with British American Tobacco on ESG issues and were pleased to see the commitments made in its human rights report.

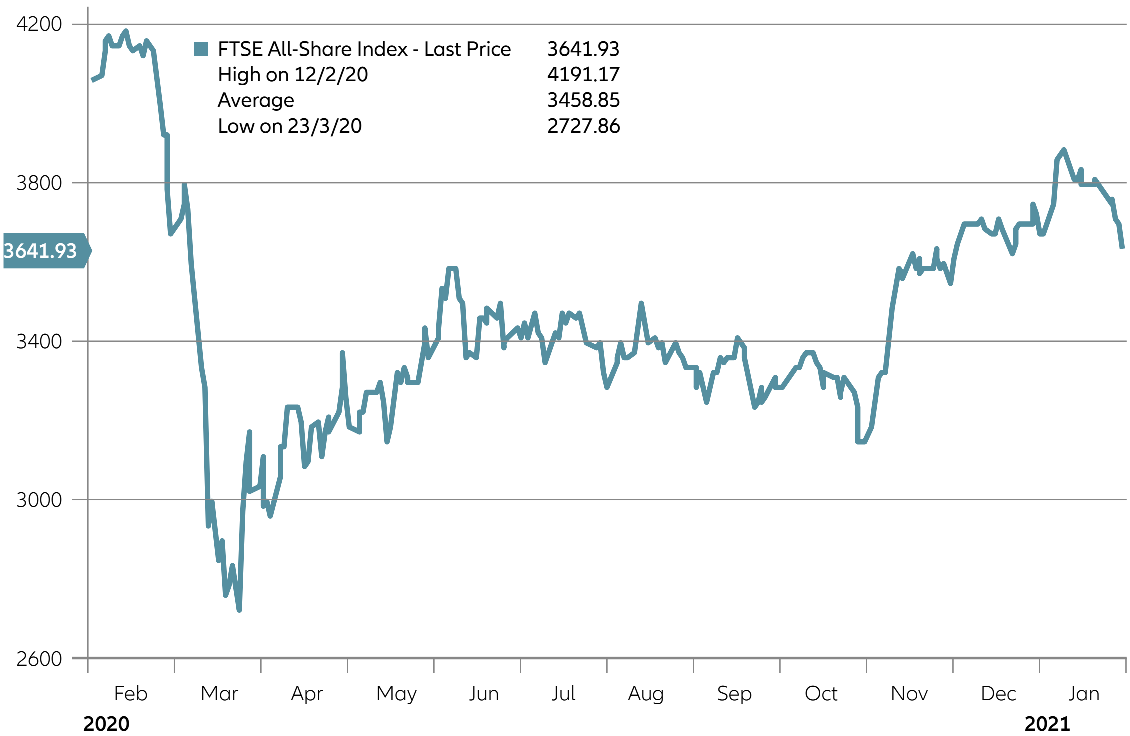
raised new debt finance, or took advantage of government loan guarantee schemes. In general, businesses did a good job of shoring up their finances, and this allowed some companies to restart dividend payments, or even reinstate deferred payments later in the year.

The pandemic overshadowed the ongoing Brexit negotiations. However, after four and a half years of uncertainty, the UK finally agreed a future trading relationship with the EU on Christmas Eve, and began a new relationship at the start of January.

FTSE-All Share Index

The stock market reacted sharply to the economic disruption, and the uncertainty of the pandemic. The FTSE All-Share index fell by a third, amid huge volatility, in the first seven weeks of the year. This was followed by a gradual recovery, which gained pace in November, on news of successful vaccine trials. By the end of the year, the index was down just 10%, with a total return, including dividends of -7.5%. International equities generally performed better than the UK, most notably in the USA, where many of the big technology companies benefited from an acceleration of digital trends such as remote working, subscription TV and online shopping. Bond markets also moved violently, rallying sharply, as UK government 10 year bond yields fell to under 0.1% in early August, before reversing partially by year end. There was also significant volatility in sterling, with the pound falling sharply early in the year, but rallying significantly in the last few months, especially against a weak US dollar.

Within the stock market, there was an enormous spread of returns between different sectors and stocks. Companies most affected by the restrictions on activity, such as airlines and leisure, and those exposed to general economic trends, fell the most. The worst performing major sectors included aerospace & defence, oil producers, banks and travel & leisure. Conversely, certain other companies benefited from changes in behaviour, such as online retailers and grocers. The best performing large sectors included mining, as commodity prices rallied in response to Chinese fiscal stimulus, and food retailers.



FTSE All-Share 31.1.20 - 31.1.21. Source: AllianzGI/Datastream.

In the first half of the year, there was another notable theme, as we reported in the interim report. There was a major polarisation within the stock market, exacerbated by uncertainty and low interest rates, between companies that are perceived to offer higher and more dependable growth compared to those with that are more cyclical or face other challenges. There is always, rightly, a premium in the market for "quality" or "growth" companies over "value" companies. But this gap widened appreciably, and exceeded the extreme levels seen during the tech bubble in 1999, according to Morgan Stanley research. This trend was visible in the underperformance of certain sectors that are less cyclical than the broad economy, and which would normally be expected to outperform in a recession, such as telecommunications and tobacco. Polarisation was also evident in a particularly wide range of individual stock performances. This trend reversed somewhat in the second half of the year, most notably in November, as promising vaccine news prompted investors to look through the pandemic towards a more normal economic environment.

Investment Performance

A full attribution of performance is shown on page 12. In this section we concentrate on the performance of the investment portfolio and compare it to the benchmark, the FTSE All-Share Index. The portfolio return of -8.5% was slightly below the benchmark return of -7.5%, after strong outperformance in the prior year. It was a year of two very distinct halves, with the portfolio value falling much more than the weak stock market in the first half, but gaining significantly more than the strong market in the second half. The underperformance of more cyclical and lower valued companies in the first half explained much of the underperformance. There was a strong reversal of this trend in the second half, and performance also benefited from a number of portfolio changes made during the year.

The table shows the top ten positive and negative contributors to performance compared to the benchmark. The impact of the pandemic on businesses is very notable in this table. Several of the best performers were companies that traded strongly through periods of lockdown. Entain, which owns Ladbrokes and Coral bookmakers and financial trading company IG, benefited from rapid growth among people gambling and investing online. PZ Cussons, maker of Carex hand sanitisers and soaps as well as other household and beauty brands, saw strong demand, whilst Stock Spirits reported good profits growth in its core spirits brands in eastern Europe. Less obvious was Tyman, a manufacturer of door and window products, which benefited from a turnaround in operational performance and a recovery

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

	Positive contribution	Performance impact %	Negative contribution	Performance impact %
Overweight (holding larger than index weight)	Entain	1.0	Vistry	-1.0
	Stock Spirits	0.9	Hammerson	-0.9
	Tyman	0.9	Landsec	-0.8
	PZ Cussons	0.7	National Express	-0.7
	Antofagasta	0.7	Senior	-0.7
	IG Group	0.7	Meggitt	-0.7
	RSA Insurance	0.6	Natwest	-0.6
Underweight (zero holding or weight lower than index weight)	HSBC	1.0	Rio Tinto	-1.0
	Lloyds	0.6	AstraZeneca	-0.5
	Royal Dutch Shell	0.6	Scottish Mortgage Investment Trust	-0.4

We added to our position in food ingredients producer Tate & Lyle. Its PROMITOR® corn-based soluble fibre has more than twice the digestive tolerance of inulin and is used by numerous food and beverage manufacturers to boost fibre whilst reducing sugar and calorie content.

Photo: Daria Shevtsova / Pexels

CASE STUDY: INVESTMENT PERFORMANCE DRIVER

Sector Travel & Leisure
Value of holding 11,660,000
% of portfolio 1.8

Entain Plc

Entain is one of the world's leading sports betting and gaming businesses, operating through brands such as Ladbrokes, Coral, bwin, partypoker and Gala Bingo. The investment in Entain, formerly known as GVC, first came through the takeover of Ladbrokes in 2018, just one of a number of highly successful acquisitions that the company has made, as it has consolidated a fragmented industry. Our continued investment was based on the benefits to be derived from prior acquisitions, and the excellent growth opportunity in online gambling.

In many ways, Entain's performance encapsulated the key trends of this financial year. The disruption of lockdowns, the growth in online activities, wild swings in investor sentiment and volatility in share prices, which disciplined investors could take advantage of, and even some takeover interest.

Like many retail businesses, trading was severely disrupted during the first lockdown in the spring, by the closure of betting shops in the UK and Europe, and by cancellation of most sporting events. This caused the share price to fall precipitously, by almost two thirds, from over 900p to a low of 324p on 19th March.

We believed that this was an over-reaction by investors, as the business was not structurally impaired by lockdowns, so that trading would recover relatively quickly once restrictions eased, and that the online gambling activities would hold up well through the pandemic. This should allow dividend payments to return to a level commensurate with our stock selection requirements. We therefore added to the position at depressed prices in March.

If anything, we underestimated just how strong online trading would be, and the company subsequently saw exceptional online results, helped by the resumption of Premier League football and horseracing. Over the full calendar year, the company reported online revenue growth of 27%, and total group profits above 2019's level, despite further retail closures later on. Like many online businesses, Entain has seen a step change in customer activity, much of which we expect to be a persistent benefit.

On top of the trends in their traditional markets, Entain has also benefited from the progressive legalisation of online sports and other gambling in several US states, where they have a significant presence via their 50/50 joint venture with MGM Resorts. This business more than doubled revenue in the year. It has enormous potential, and we have seen high valuations placed on other operators in the market, including Caesers Entertainment buying out their joint venture partner William Hill.

These factors combined, caused Entain's shares to bounce back rapidly, reaching £10 in late September, and spiking up to a high of £14.75, over four times its low point, when MGM Resorts made a takeover approach for the whole company, although this bid was rejected by the board and MGM decided against pursuing it any further.

We took advantage of the share price rally, taking profits as the shares reached a more reasonable valuation, including selling part of the holding in the spike on the bid approach. This disciplined approach to portfolio management, adding to the investment when it was clearly undervalued, and taking profits at higher levels, added considerably to the stock's performance impact in the year, and made Entain the biggest single contributor to the portfolio's relative return.

in spending on homes. Also, copper miner Antofagasta rose sharply, on the back of a surging copper price. Elsewhere, RSA Insurance received a takeover approach.

Relative performance also benefited from not owning certain stocks that performed poorly and contributed to the fall in the benchmark. Most notable were HSBC and Lloyds, which fell heavily, as banks suffered from cyclical concerns and a dividend ban by the regulator. Also, having less invested in Royal Dutch Shell than its weighting in the index helped relative performance.

Among the negative performance contributors, the impact of the pandemic was very evident. Housebuilder Vistry fell sharply early in the year, on fears over the outlook for the industry. Extreme challenges in the retail industry and fears over demand for office space, hit landlords Hammerson and Landsec hard. National Express saw demand for school and other bus and coach travel severely curtailed, whilst the aerospace companies, Senior and Meggitt, were impacted by the collapse in air travel and the knock-on effects on aircraft orders. Natwest Bank was also weak, along with the rest of the banking sector.

The other key negative contributors were strong performing shares, which were not owned in the portfolio, but helped support the index return. Most notable was the miner Rio Tinto, which rallied with the rest of the commodity sector. Pharmaceutical company AstraZeneca benefited from strong growth in its new oncology drugs and defensive appeal. Finally, the Scottish Mortgage Investment Trust share price more than doubled, due to its high exposure to the surging technology sector.

Portfolio Changes

There was a higher level of portfolio activity than in recent years, as we responded to changing economic and corporate prospects, due to the pandemic, as well as opportunities created by extreme share price fluctuations. In periods of high volatility, it is critically important to stick to a core investment philosophy and process. For us that means investing in attractively priced, strong businesses, with supportive long-term themes and capable of paying an above average dividend yield.

Investment decisions broadly took place in three phases. First, during the market shakeout in the early months, we repositioned the portfolio. Second, over the summer, we took advantage of major pricing anomalies in the market. Finally, in the last few months, we used the sharp recovery to exit a number of lower conviction holdings at reasonable prices. Over the full year, we added 9 new companies to the portfolio and exited 10, although much of the

PZ Cussons, maker of Carex hand sanitisers and soaps as well as other household and beauty brands, was a strong performer.

Photo: Yau Ming Low / Shutterstock.com

CASE STUDY: NEW INVESTMENT

Sector Retailers
Value of holding 6,571,000
% of portfolio 1.0

Next PLC

Next Plc has been one of Britain's most successful retailers over recent decades. The business has successfully spread from fashion clothing to childrenswear and homeware, from physical retail to online, and from domestic sales to international, whilst consistently earning high returns on capital. The company's financial reporting is exemplary, with a clarity of explanation and a level of disclosure that is rare, and the company has an excellent record of capital allocation.

Despite these qualities, we did not have an investment in Next until last year. The valuation had not been attractive enough in recent years. Indeed, in the 5 years up to January 2020, Next's earnings per share had flatlined, with the share price being quite volatile, but making little progress.

However, beneath the surface of flat earnings, there was a considerable transformation taking place. Between the years ending January 2017 and 2020, store profitability fell by more than half, whilst online profits grew significantly. In the 2020 year, before the pandemic, the company passed an inflection point with total group profits growing, despite store profitability declining. Store profits only accounted for 22% of profits. Next was becoming an online retailer first and foremost, and it looked as if profits growth would accelerate in the future.

The pandemic brought the opportunity to invest. The share price fell heavily, along with many consumer facing companies, just as the long-term investment case was improving. As well as building a strong online presence to sell Next and third party brands, Next was also building a capability called Total Platform, where Next can do much more than just selling product for their partner brands. Next can operate the brand's website, handle customer accounts, offer credit, manage logistics and more. This is an exciting development with significant potential.

In June, we made an investment in Next, at an attractive valuation. Although short term profitability was under severe pressure, due to store closures, and dividends had been cancelled to preserve cash, we were confident that Next would emerge stronger from the downturn, with a fast growing online business, and would return to dividend payments within a reasonable timeframe. Even at the trough of the downturn, unlike many other businesses, Next did not withdraw guidance. Instead it provided a range of scenarios for how profitability and cash generation would pan out for the year, demonstrating the depth of planning taking place within the business. This guidance proved to be conservative. Next raised its central case guidance several times, in subsequent trading updates, and the shares had appreciated meaningfully by year end.

activity involved adding to or reducing existing holdings in response to changes to the outlook, valuation movements or, in some cases, fund raisings.

In the early months of the year, the priority was to adjust the portfolio to the changing circumstances of the pandemic. Having entered the year with a modestly pro-cyclical positioning, in anticipation of a stronger economy, we made the portfolio more economically defensive as the outlook deteriorated, and supplemented its income generation, at a time when many dividends were being cut. We bought Vodafone and BT in the telecommunications sector, a US gas producer, Diversified Gas and Oil, and added to the food ingredients producer Tate & Lyle, and several utilities and tobacco companies.

At the same time we sold selective cyclical or financial companies which were still trading on full valuations, in particular Prudential and Sirius Real Estate, as well as the exhibition company Informa, where we had concerns over structural change in the industry, brought on by travel restrictions.

During the summer, the stock market was highly polarised. We were able to find many strong businesses trading on unusually depressed valuations, due to short term uncertainties. We focused particularly on companies and industries that we expected to recover quickly from pandemic disruptions, due to pent up demand or changes in consumer behaviour. We made a new investment in Next Plc, which has a successful and fast-growing online retail business. We also purchased Close Brothers, a specialist bank, and one of the few banks to pay a dividend last year, partially funded by selling the remaining position in Natwest. Among housebuilders, we bought Bellway, and added to Redrow, partially financed by selling sector peer Vistry, which had more debt. We also added to several holdings at depressed prices, including supporting fund raisings at DFS Furniture and Hammerson.

In the last few months, there was a major change in stock market leadership, in response to promising vaccine news. Many of the more depressed shares rallied significantly. This gave us the opportunity to sell, at a fair price, those businesses that faced medium term challenges, and were likely to see constrained dividend payments for some time. We sold the bus and coach company National Express and the aerospace company Senior, although we reinvested much of the proceeds in its sector peer, Meggitt, which has a more diversified end market exposure. As well as these sales, we sold Pennon and Balfour Beatty, which had been strong performers and were fully valued.

The proceeds of sales were reinvested into sensibly priced companies where we had higher conviction, including several new holdings. In the insurance sector we bought RSA insurance, a diversified and modestly valued business. However, we were not the only ones to spot this opportunity, and within a few weeks, RSA received a takeover bid, at a full price, so we subsequently sold the investment. We also invested in a newly established reinsurance company, Conduit Re, set up to take advantage of rising reinsurance rates, after a very tough

Large Net Purchases	£m	Largest Net Sales	£m
Vodafone	18.2	Pennon	-16.5
DCC	13.4	Balfour Beatty	-13.7
BP	13.2	Prudential	-12.8
Imperial Brands	11.6	Antofagasta	-11.4
Tate & Lyle	11.1	Standard Life Aberdeen	-10.9
Conduit	10.3	National Express Group	-10.3
British American Tobacco	9.6	CRH	-9.7
BT	9.1	Natwest	-7.9
Bellway	8.8	Entain	-6.6
Redrow	7.9	BHP	-5.4

CASE STUDY: DISPOSAL

Sirius Real Estate

Sector Real Estate Investment & Services
Value of holding N/A
% of portfolio N/A

Sirius Real Estate is a specialist investor in German industrial property. Since 2006, the company has built a large portfolio of properties, with over 5,000 tenants, typically on the outskirts of German cities. The management team has an excellent record of adding value from acquisitions.

The company usually buys assets with a significant amount of vacant space, which it can pick up at a discount to fully let assets. Where necessary, it then improves the assets through active management, sometimes adding self- storage space or flexible office space. Once the properties are in good shape, Sirius markets the space aggressively through their highly efficient central marketing team, as well as working with existing tenants to optimise space to their requirements.

By this process the company has been able to consistently reduce the empty space in their properties. This not only increases the income from the assets but also improves the overall valuation as it reduces the discount for empty space. On top of the organic improvements, the business has benefited from a significant revaluation of industrial property in Germany, as demand has risen from small companies and last-mile delivery networks.

A combination of strong operational performance, rising property valuations and an element of financial gearing enabled the company to deliver spectacular shareholder returns and strong dividend growth. Over 5 years to end February 2020, the share price rose by over 150%.

We decided to sell the investment in early March, as the pandemic was taking hold in Europe. At that point, the shares were still trading above the company's asset value, and the valuation of the underlying assets was relatively full, especially compared to historic norms. Furthermore, there was a risk that economic disruption from the pandemic might spread through the industrial heartland of Germany, and this could have led to a spike in tenant failures. The sale of Sirius helped us reduce the economic cyclicality of the overall portfolio, which was an important consideration at that stage.

period for the industry. Near the year end, we bought into DCC, which has an excellent track record of growing profits and dividends through consolidating fragmented distribution markets in sectors such as healthcare, technology and Liquid Petroleum Gas.

Income

There were an exceptional number of dividend cuts and cancellations in the UK stock market. The impact was particularly acute in the first half of the year, during the initial economic lockdown, but the situation gradually improved in the second half, as the economy recovered and businesses strengthened their financial positions. Several companies that deferred 2019 final dividends, paid them later in the year, and many companies reintroduced payments after a pause. However, a number of businesses rebased dividends to a lower level, most notably the large energy companies, so total dividends in the UK market will not recover to their previous level in the near future.

We sought to partially mitigate the income decline through portfolio transactions, where these were consistent with our investment process. We also increased the level of covered call overwriting, as explained below. The impact on income from market trends and portfolio activity can be seen in Merchants' revenue account. Earnings per share for the year fell by 38% from 29.7p to 18.5p, in line with the drop in income across the UK stock market in 2020. However there was a marked improvement in the second half, with earnings down 29% from 13.6p to 9.6p, compared to the first half, when earnings fell 45% from 16.1p to 8.9p.

At the start of the year, the company had revenue reserves of 28.2p, accounting for just over one year's total dividends. By the year end, reserves had reduced to 18.3p. Looking forwards, absent another major shock to the system, we expect to see a gradual improvement in the income level generated by the portfolio, as company profitability recovers. The current financial year, to January 2022, will still be impacted by restrained final dividends at many businesses for their fiscal years ending in 2020 or early 2021. We therefore expect that the year to January 2023 will be the first year that total income returns closer to a more normal level. It should be noted that Merchants' dividend in the year to January 2020 was covered 110% by earnings, so it is not necessary for earnings to recover fully to the previous peak to cover the dividend again.

Derivatives

Over the full year, we generated an additional income of £1.05m (2020: £0.27m) from writing covered call options, on shares that we were willing to sell at specific strike prices. A sharp

We purchased telecommunications provider BT to supplement the portfolio's income generation at a time when many dividends were being cut.

Integrated ESG

During the year Allianz Global Investors 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 by a separate team within AllianzGI, with daily exception reporting.
- Our long term risk assessment is enhanced.

Shareholder pressure and engagement over a long period have influenced the renewable energy plans of market-leading companies including Royal Dutch Shell.

rally in some of these shares, led to an increased level of option exercises and a net opportunity cost of -£0.93m (£0.15m profit).

Integrated ESG & Stewardship

In our research process, we integrate environmental, social and governance (ESG) factors as well as more traditional operational and financial considerations. By analysing how a business interacts with the environment, treats its employees and deals with customers and suppliers, we can learn valuable insights into its future prospects, and we can assess long term risks, which might not be evident in financial metrics.

But our investment process does not end with purchases of shares. We believe that we have an important duty to engage with the boards and executive management teams of the companies in the portfolio. This is not purely about holding management to account, but also about influencing company strategy and promoting effective governance, to help improve long term performance. Working with investee companies, sometimes in conjunction with other shareholders, we can help engender real change and make a positive difference to society. Allianz Global Investors is a founder member of the Investor Forum which fosters collective engagement with businesses that have diverse shareholder bases.

There were several examples of where engagement has brought about change in the last year. At Barclays, we worked with the Investor Forum to help the company formulate plans to become a net zero emission business by 2050 and to establish a policy for reducing emissions from the companies they finance. At British American Tobacco, we have been engaging on health and safety issues and child labour issues in the tobacco supply chain for several years. We were very pleased to see the company publish its human rights report, including a commitment to having its tobacco supply chain free of child labour by 2025. Significantly improved disclosure on these, and many other issues provides metrics than can be closely tracked in the future, to hold the company to account.

The big energy companies, BP and Royal Dutch Shell, have also announced major changes to the way they address the energy transition, with plans to develop substantial renewable energy operations and to reduce carbon emissions. This represents a significant shift within the industry and has been heavily influenced by shareholder pressure and engagement over a long period.

Aerospace & defence holding Meggitt has a has a more diversified end market exposure than its sector peers. For example, Its sensing and monitoring systems protect the Bieudron/Nendaz hydroelectric power station downstream of the tallest gravity dam in the world, the 935ft high Grande Dixence dam in Switzerland. The power stations fuelled by the dam generate enough electricity to supply 400,000 homes.

CASE STUDY: ESG ENGAGEMENT

Sector Construction & Materials
Value of holding 18,444,000
% of portfolio 2.9

Tyman

Our environmental, social and governance (ESG) engagements with Tyman illustrate the importance of the integration of ESG considerations into a broader investment case. The case study also shows some of the risks that can arise with smaller companies and the importance of addressing these head on.

Tyman is a building products company that supplies a range of specialist products such as window seals and balances, locks and basement hatches. The products are relatively niche and Tyman has a high market share, particularly in the US market. These attributes have allowed the company to earn consistently strong returns on capital. Over two thirds of the company's business is in the US, with the rest coming from the UK and a number of smaller international markets.

The Trust has held shares in Tyman for over 6 years. The investment initially performed well as sales and profits continued their recovery from the financial crisis and management undertook an aggressive and largely successful acquisitive expansion strategy. However, from 2016 Tyman began to lose market share in the important US market. In 2018 the long-standing CEO retired and the CFO left shortly afterwards.

We engaged extensively with the Chairman in order to understand how the Board viewed the challenges the business faced in the US market. It was clear from our discussions that the Board viewed the problem as an operational one, rather than anything fundamental to the business. This tallied with our own view. We were also encouraged to hear that this was the key consideration in determining the choice of the next CEO, Jo Hallas, a leader with substantial operational expertise in the US manufacturing industry.

Shortly after joining as CEO, we engaged with the company on health & safety, a risk factor highlighted by our ESG research. Tyman is still a relatively small company and a significant portion of its growth has come via acquisitions. This can lead to a situation where there is a lack of common standards and practices, especially when the business has been managed in a very decentralised manner, as was the case with Tyman. Encouragingly, one of the first actions the new CEO took was to hire a group health and safety specialist to address precisely this issue. It was clear that this new hire had been given a wide remit to raise the standard on health and safety. Indeed, this initiative is part of the CEO's broader objective to foster and grow a company culture of operational excellence across every part of the business.

More recently, the company have engaged directly with us to provide an update on their progress in this area. They were also keen to hear our views on what we regard as best practice, particularly amongst some of their larger competitors. This desire to develop further, a constant focus on improvement for its own sake, is an important characteristic of successful growth businesses, particularly amongst smaller companies such as Tyman. We are optimistic about the progress that has been made under the new leadership team. We believe it provides the foundation for Tyman to grow into a larger and more successful business in the years to come.

"The health and safety of our people is our top priority. Since 2019, we have focused on developing a behavioural-based safety culture, through a campaign "safety is our first language" and capability development across all levels. Not only does this support our drive for an industry-leading safety record, but it also acts as a beachhead for the positive, open culture we want to develop, where everyone feels empowered to speak up and take proactive action. This will give us the basis for broader operational excellence, including lean, and is essential for the next phase of Tyman's growth."
Jo Hallas (CEO)

Economic & Market Outlook

The economic and corporate outlook is likely, once again, to be dominated by the coronavirus pandemic. Hopefully, as vaccines are rolled out progressively around the world, levels of infections and hospitalisations will reduce and restrictions on activity can be gradually lifted. But this will not happen in a smooth progression. There may well be reversals of policies along the way, in response to virus mutations and as infections flare up. Also, some industries, such as international travel, will take longer than others to recover, as they require regional or global levels of infection to decline.

Whilst investors are likely to take encouragement from gradually improving circumstances, the cost of dealing with the pandemic will be a burden for many years to come, given a huge increase in government debt levels, a rise in unemployment and the collapse of many businesses. Governments will have to tread a careful line between raising taxes to balance the books and stimulating economic activity. An acceleration in inflation is quite possible after massive monetary stimulus, and destruction of capacity in the economy. This could force bond yields and interest rates higher, putting the brakes on economic recovery and potentially impacting asset prices.

We expect corporate profits to rebound in 2021 and beyond, although not in a uniform manner. In our company research, we are carefully considering where the pandemic has changed behaviour in a structural way or accelerated trends, such as in the growth of online shopping or the use of digital technologies. There will be profound implications for certain industries and specific businesses. Change will continue to create opportunities and threats for businesses, which underscores the need for careful analysis and active portfolio management.

The UK stock market remains one of the cheapest major markets. Investors hate uncertainty, and now that a Brexit deal has finally been agreed and implemented with the European Union, that uncertainty has receded, and we expect international money flows to be attracted back to the UK. This should start to close the valuation discount. Furthermore, within the stock market there remains an unusually high polarisation between valuations, even if the extreme levels of last autumn have moderated. As a generalisation, companies offering higher growth and those often referred to as higher quality - making high and more stable returns on capital - trade at a substantial premium to the rest of the stock market. This creates excellent stock picking opportunities, as many perfectly sound companies are significantly under-priced. The low valuations of these UK businesses is encouraging a step up in corporate activity, with an increased number of takeover approaches being launched by corporate or private equity bidders.

The portfolio holds a balance between cyclical or financial companies, that should benefit from a recovering economy, such as those in the building, banking or media sectors, and those that are more resilient in tough economic conditions, such as utilities, pharmaceutical producers, and food and household goods manufacturers. Whilst we assess companies individually, there are also several broader themes represented within the portfolio.

People are spending more on improving their home environment, partly due to being stuck at home during the pandemic, but we think this will be an enduring trend, after years of subdued spending on repairs, maintenance and improvement. The portfolio includes housebuilders, furniture retailer DFS and building products companies Tyman and Norcros. Another theme is exposure to companies that benefit from the shift to online trading, including retailer Next, and financial trading company IG Group. Where we can gain exposure to other structural growth trends at sensible valuations, we are keen to do so. The portfolio includes businesses like SThree, benefiting from strong growth in the recruitment market for contractors in the IT, life sciences and other STEM markets, and Stock Spirits, with leading positions in the growing Polish and Czech spirits markets.

Other themes include companies where the business mix is transitioning to higher growth and more valuable activities, such as WPP in the media sector, and Inchcape in car distribution, and also businesses that benefit from the trend towards generation and distribution of cleaner energy, including SSE and National Grid.

In conclusion, The Merchants Trust owns a collection of modestly priced yet fundamentally strong companies, exposed to supportive end market themes. It is a high conviction portfolio, yet diversified across industries, geographic exposures and economic cyclicality. We believe that this portfolio is well positioned to deliver a combination of above average income, income growth and total returns, in line with Merchant's objectives.

Investment Philosophy and Stock Selection

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.

Income Bias

- Target stocks yielding at least in line with the market within 18 months.
  (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.)
- Yield alone is never a sufficient reason for buying a share
- Purchase/sale driven by total return considerations
- No automatic sale if yield drops below market level

Research intensive, focus on cash flow

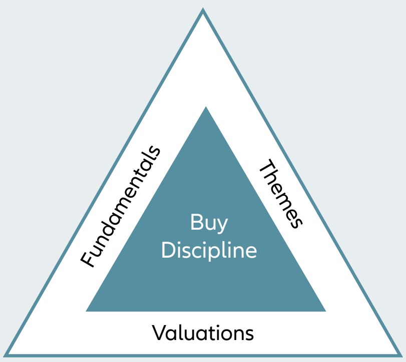
Allianz Global Investors' research platform combines a large global team of investment professionals, including credit research analysts and environmental, social and governance specialists and our own Grassroots* market research organisation to provide our fund managers with in-depth analysis of businesses 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. (*Grassroots℠ is a division of Allianz Global Investors)

Fundamentals

Industry Structure

Competitive Position

Financials



Themes

Industry/secular themes

Macroeconomic outlook

Business cycle

Valuation

Absolute – cash generation or asset value

Relative to history, peers, market

Dividend yield

Sell Discipline

Achieves full valuation

Change of investment case

Better opportunities elsewhere

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.

The focus in company valuation is to compare a wide range of valuation metrics in absolute terms and relative to the company's history and the wider sector and market, to understand what expectations are being priced into a stock and what return an investor is likely to achieve from this point forward. 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.

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.

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.

Integrated ESG

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.

Sell Discipline

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

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 table on pages 36 and 37 for the specific attributions of each stock.

Top 20 Holdings

1 GSK

Pharmaceuticals & Biotechnology
37,735,000
5.9%
3.1%

GSK is a global science-led healthcare company, with revenues in 2020 of £34bn and a stable of important treatments for a broad range of conditions, including HIV, cancer and asthma.

The business is organised into three divisions: pharmaceuticals, vaccines, and consumer health. The investment case is firstly based around improving the performance of the pharmaceuticals division, for example via targeted investments. This included the purchase of Tesaro in 2019, which brought in a treatment for ovarian cancer, other pipeline assets and oncology capabilities. And secondly, by demonstrating the considerable value in the other two major divisions.

GSK's vaccines division researches, manufactures and markets vaccines for 40% of the world's children. The business is growing fast, helped by a novel shingles vaccine, and makes high returns, making it valuable for shareholders.

The consumer health division has a world leading portfolio of brands helping consumers to stay healthy and fit across a broad spectrum of categories, such as toothpaste ('Sensodyne'), vitamins ('Centrum') and pain relief ('Panadol'). The company plans to demerge this business, which should command a high valuation, in 2022.

2 Imperial Brands

Tobacco
31,752,000
5.0%
0.6%

Imperial Brands is a major global producer of cigarettes, tobacco, and nicotine products. There are three parts to the investment case, which explain why we have increased the investment over the last year.

First, this is a highly cash generative business, trading on a depressed valuation, paying high dividends and with very resilient profits, even during economic downturns. The company should be able to keep growing traditional tobacco cash flows, even as volumes decline, thanks to strong pricing power.

Second, new product areas, such as electronic cigarettes and heated-tobacco, offer the opportunity of materially lower health risks, with a strong economic return. The company has announced a more targeted and disciplined approach to addressing this market.

Third, a new management team has a set out a new strategy to significantly improve the operational performance of the business and has provided much better disclosure than previously available. We welcome a new commitment to publish KPIs for climate and energy, farmer livelihoods, human rights and waste.

3 British American Tobacco

Tobacco
30,428,000
4.8%
2.8%

British American Tobacco is one of the world's largest tobacco companies. The company generates the majority of profits from traditional cigarettes, but also has a well-rounded and fast-growing portfolio of next-generation-products which offer a potentially reduced risk to consumers. These are already generating 10% of sales, and the company aims to quadruple sales by 2025 from 2019 levels.

The company has an impressive record of profit and dividend growth, and has strong positions in a number of emerging markets, as well as a large position in the attractive US market. Like Imperial Brands, the shares trade at an attractive valuation for an economically defensive business.

Three years ago, we had no tobacco investments, 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 investment in the sector. With share prices halving from the summer of 2017, the sector now offers exceptional value, whilst the companies are addressing important social issues in the industry, as well as developing less harmful product categories.

4 SSE

Electricity
25,599,000
4.0%
0.7%

SSE is a diversified energy company, primarily focused on electricity transmission and distribution networks in Scotland and central southern England, and electricity generation assets. The company has built a leading UK portfolio of renewable power assets, primarily wind farms, but they also own valuable hydro generation and pumped storage assets. Many of the wind farms have been built with attractive contracts, which reduce exposure to electricity price volatility.

SSE has substantially transformed the business to address the energy transition, over a number of years, completely exiting from coal fired power generation. The investment in renewable assets has created significant shareholder value, with the company able to sell stakes in wind farms at a considerable profit.

A combination of regulated and renewable assets provides strong cash generation and future growth opportunities at scale, with low economic sensitivity. The investment case for SSE is based upon the attractive dividend yield, long term growth opportunities, and the rising valuation of clean power generation assets.

5 Royal Dutch Shell

Oil, Gas & Coal
£ 24,214,000
3.8%
2.2%

Royal Dutch Shell is one of the leading global integrated oil and gas companies, with the business roughly evenly split three ways, between oil, gas and activities such as power and chemicals. The company should benefit from tightening supply, as investment has been slashed across the industry, improving cash generation and a progressive move away from dependence upon hydrocarbons, as it addresses the energy transition.

6 BP

Oil, Gas & Coal
£ 24,075,000
3.8%
2.5%

The investment case in BP is similar to Shell. We increased investment in BP at depressed prices last year, to take advantage of an improving outlook, and in recognition of BP's shift in strategy towards clean energy, mobility and other services. BP is targeting a 40% reduction in hydrocarbon production by 2030, one of the most aggressive shifts in the sector.

7 Barclays

Banks
£ 23,370,000
3.7%
1.1%

Barclays is a diversified financial services provider, spanning retail banking, wealth management, credit cards and investment banking. After taking large, precautionary provisions during the pandemic, Barclays should see a strong improvement in profits and rising 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.

8 BAE Systems

Aerospace & Defence
£ 22,153,000
3.4%
0.7%

BAE Systems is the UK's biggest defence and aerospace company, involved in the development and manufacturing of military aircraft, surface ships, submarines, electronics and communications equipment, as well as providing cyber-security services. BAE's largest region is the USA, the world's largest and most sophisticated defence market. The investment rationale is based upon strong order books, proprietary technology and limited cyclicality, coupled with a low valuation.

Sector £ Value of holding Percentage of portfolio Benchmark weighting

9 National Grid

Gas, Water & Multiutilities
21,463,000
3.4%
1.4%

National Grid is a major owner and operator of gas and electricity infrastructure in the UK and USA. The business is underpinned by long term growth in energy infrastructure needs, whilst regulated returns provide a high degree of visibility. The investment case has been partly based upon the scope for revaluation as uncertainty subsides over a new regulatory regime in the UK.

10 St. James's Place

Investment Banking & Brokerage
20,528,000
3.2%
0.3%

St. James's Place is a major UK wealth manager with £129bn of client assets at end December 2020. It has a very strong track record of growth through a large network of partners, financial advisors, who invest client assets in the St. James's Place platform and product suite. The business model has proven resilient through varying market and macroeconomic conditions, and the shares offer an attractive and growing yield.

11 Tate & Lyle

Food Producers
20,142,000
3.2%
0.2%

Tate & Lyle is a food ingredients company that processes commodities like corn, to make products that add functionality to food, beverages and other products. Tate's focus is evolving from relatively commoditised products, that typically go into carbonated drinks, into higher value-added ingredients, such as those that reduce calories, add nutrients or add dietary fibre. The improving quality and growth profile has not been recognised in the company's valuation.

12 WPP

Media
19,719,000
3.1%
0.4%

WPP is one of the world's largest advertising and media agency groups, with a broad span of businesses, covering creative work and communications. Under new management, the company has been restructured into a smaller number of more integrated businesses, with an increasing focus on higher growth sectors of technology, e-commerce and experiences, to address an evolving market place. WPP's modest valuation does not reflect the repositioning of the business.

13 Vodafone

Telecommunications Service Providers
18,750,000
2.9%
1.6%

Vodafone has Europe's largest mobile telecommunications network, a growing fixed broadband offering, and a strong position in Africa. The company pays a high dividend, and is delivering profits growth from an inflection in revenue trends and substantial efficiency improvements. Further upside can come from the listing of its mobile towers business and growth in its African mobile data network, with its M-Pesa financial services product.

14 Tyman

Construction & Materials
18,444,000
2.9%
0.0%

Tyman is a leading manufacturer and distributor of fittings and fixtures for doors and windows, with operations in the UK, Europe, and the USA. A majority of profits are generated in the US, where Tyman enjoys strong market positions in its product niche, and the company is rationalising its operations for greater efficiency. Tyman is well-exposed to a continuing recovery in spending on the home environment.

15 Legal & General

Life Insurance
18,422,000
2.9%
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.

16 IG Group

Investment Banking & Brokerage
18,295,000
2.9%
0.1%

IG is a fast growing and high returning digital business, a leading global provider of financial derivatives contracts to the retail market, serving client demand for leveraged trading on a broad selection of assets. IG helps diversify the portfolio, as it benefits from financial market volatility. During the pandemic IG's business performed exceptionally well and attracted a substantial new client base, which supports its future growth prospects.

Sector Value of holding Percentage of portfolio Benchmark weighting

17 Redrow

Household Goods & Home Construction
15,776,000
2.5%
0.1%

There are two housebuilders in the portfolio. With long term structural demand growth, favourable competitive industry dynamics and limited technological risk, housebuilding is an attractive, though cyclical industry, with recovery potential coming out of the pandemic. Redrow has a strong growth record with a premium positioning, which benefits from customers seeking more space in their home environment. A modest valuation made the company particularly attractive.

18 BHP

Industrial Metals & Mining
15,325,000
2.4%
1.9%

BHP Billiton is a world leading mineral exploration and production company, with a focus on iron ore, oil, copper and other natural resources. The investment case in BHP is based on a positive view of the copper and oil & gas fundamentals, in particular. BHP has a strong balance sheet and robust cash generation. It benefits from stronger economic growth and higher investment spending.

19 Man Group

Investment Banking & Brokerage
13,965,000
2.1%
0.1%

Man is a diversified fund management group, with a number of investment management businesses, sharing a common platform and sales team. Man specialises in alternative assets, such as hedge funds, which are seeing strong demand growth. This focus also makes Man less correlated to equity markets, providing diversification benefits. Volatility in the share price, provided an opportunity to increase the position in the company at attractive levels.

20 DCC

Industrial Support Services
12,687,000
2.0%
0.3%

DCC is a distribution business, with an excellent record of growth, through consolidating fragmented markets, initially in Ireland and the UK, but now stretching into the rest of Europe and the USA. It currently operates across four areas, LPG, healthcare, technology and fuel & oil. We were able to buy at an attractive level, near the year end, after weakness in the share price.

Portfolio Holdings

at 31 January 2021

Listed Equity Holdings

Merchants Trust Portfolio Breakdown by Category

					Investment Attributes			
Name	Principal Activities	Value (£)	% of listed holdings	Benchmark weighting	High Yield	Cyclical Growth	Defensive Growth	Special Situations
GSK	Pharmaceuticals & Biotechnology	37,735,322	5.9	3.1			●	
Imperial Brands	Tobacco	31,752,000	5.0	0.6	●			
British American Tobacco	Tobacco	30,428,375	4.8	2.8	●			
SSE	Electricity	25,599,000	4.0	0.7			●	
Royal Dutch Shell B	Oil, Gas & Coal	24,213,783	3.8	2.2	●			
BP	Oil, Gas & Coal	24,075,173	3.8	2.5	●			
Barclays	Banks	23,369,500	3.7	1.1				●
BAE Systems	Aerospace & Defence	22,152,613	3.4	0.7			●	
National Grid	Gas, Water & Multiutilities	21,462,500	3.4	1.4			●	
St. James's Place	Investment Banking & Brokerage	20,527,500	3.2	0.3		●		
Tate & Lyle	Food Producers	20,141,550	3.2	0.2			●	
WPP	Media	19,719,350	3.1	0.4	●			
Vodafone Group	Telecommunications Service Providers	18,750,460	2.9	1.6	●			
Tyman	Construction & Materials	18,444,200	2.9	0.0		●		
Legal & General	Life Insurance	18,422,000	2.9	0.7		●		
IG Group Holdings	Investment Banking & Brokerage	18,295,310	2.9	0.1		●		
Redrow	Household Goods & Home Construction	15,776,250	2.5	0.1		●		
BHP	Industrial Metals & Mining	15,325,277	2.4	1.9	●			
Man Group	Investment Banking & Brokerage	13,964,973	2.1	0.1		●		
DCC	Industrial Support Services	12,686,800	2.0	0.3			●	
Keller	Construction & Materials	12,648,000	2.0	0.0		●		
Stock Spirits Group	Beverages	12,620,800	2.0	0.0			●	
Meggitt	Aerospace & Defence	12,396,875	1.9	0.1		●		
SThree	Industrial Support Services	12,007,971	1.9	0.0		●		
Entain	Travel & Leisure	11,660,266	1.8	0.3		●		
PZ Cussons	Personal Care, Drug & Grocery Stores	11,385,000	1.8	0.0			●	
Bellway	Household Goods & Home Construction	11,157,750	1.7	0.2		●		
Inchcape	Industrial Support Services	10,906,000	1.7	0.1		●		
ITV	Media	10,378,200	1.6	0.2		●		
Conduit Holdings	Non-Life Insurance	10,004,000	1.6	0.0	●			

Name	Principal Activities	Value (£)	% of listed holdings	Benchmark weighting	Investment Attributes: High Yield	Cyclical Growth	Defensive Growth	Special Situations
BT Group	Telecommunications Service Providers	9,792,900	1.5	0.5	●			
DFS Furniture	Retailers	9,683,133	1.5	0.0		●		
Landsec	Real Estate Investment Trusts	8,928,093	1.4	0.2	●			
Diversified Gas & Oil	Oil, Gas & Coal	7,935,000	1.2	0.0	●			
Morgan Advanced	Electronic & Electrical Equipment	7,656,484	1.2	0.0		●		
Standard Life Aberdeen	Investment Banking & Brokerage	7,374,672	1.2	0.3	●			
Close Brothers Group	Banks	7,332,000	1.1	0.1		●		
Kin and Carta	Software & Computer Services	6,904,747	1.1	0.0				●
Next	Retailers	6,570,500	1.0	0.5		●		
CRH	Construction & Materials	4,986,300	0.8	0.0		●		
Norcros	Construction & Materials	4,487,230	0.7	0.0		●		
Hammerson	Real Estate Investment Trusts	3,516,970	0.6	0.0				●
Antofagasta	Industrial Metals & Mining	3,287,850	0.5	0.2		●		
M&G	Investment Banking & Brokerage	1,767,795	0.3	0.2	●			
	% of Total Invested Funds	**638,230,472**	**100.0**					

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

High Yield: Companies which we believe to be undervalued, with a high dividend yield. The return is expected to come from dividends and a revaluation.

Cyclical Growth: Companies that should grow over the economic cycle but which may have economic or market sensitivity. The return is expected to come from a revaluation of the shares and a compounding of growth, in addition to the dividend yield.

Defensive Growth: Companies that should grow over time, with limited economic sensitivity. The return is expected to come from dividends, compounding growth and potentially, a revaluation of the shares.

Special Situations: Companies where the investment case is typically based around a turnaround or restructuring of the business. These may have a low initial yield, if significant dividend growth is expected. The return will principally come from capital appreciation as shares are revalued.

Unlisted Equity Holdings

Name	Value (£)	% of unlisted holdings	Principal activities
Fintrust Debenture*	4,486	100.0	Financial Services
	4,486	**100.0**	**% of Total Invested Funds**

Written Call Options

As at 31 January 2021, the market value of the open option positions was £(53,365) (2020: £(28,300)), resulting in an underlying exposure to 3.12% of the portfolio (valued at strike price).

*The company was the lender of the company's Fixed Rate Interest Loan 2023 which was repaid during the prior year. More details are available in Note 9 on page 89.

Distribution of Total Assets

at 31 January 2021

	Percentage of total assets* at 31 January 2021	Percentage of total assets* at 31 January 2020
Financials#		
Banks	5.0	6.1
Investment Banking & Brokerage	9.9	10.0
Life Insurance	3.0	5.3
Non-Life Insurance	1.6	-
	19.5	**21.4**
Industrials#		
Aerospace & Defence	5.6	7.8
Construction & Materials	6.5	8.8
Electronic & Electrical Equipment	1.2	2.0
Industrial Support Services	5.7	3.5
	19.0	**22.1**
Consumer Staples#		
Beverages	2.0	1.9
Food Producers	3.2	1.4
Personal Care, Drug & Grocery Stores	1.8	1.8
Tobacco	10.0	7.9
	17.0	**13.0**
Consumer Discretionary#		
Media	4.9	5.4
Retailers	2.7	0.8
Travel & Leisure	1.9	4.2
Household Goods & Home Construction	4.3	3.1
	13.8	**13.5**
Energy		
Oil, Gas & Coal	9.1	7.9
	9.1	**7.9**

	Percentage of total assets* at 31 January 2021	Percentage of total assets* at 31 January 2020
Utilities		
Electricity	4.1	3.1
Gas, Water & Multiutilities	3.4	5.4
	7.5	**8.5**
Health Care		
Pharmaceuticals & Biotechnology	6.1	5.8
	6.1	**5.8**
Telecommunications		
Telecommunications Service Providers	4.6	-
	4.6	**-**
Basic Materials		
Industrial Metals & Mining	3.0	4.1
	3.0	**4.1**
Real Estate#		
Real Estate Investment Trusts	2.0	4.8
	2.0	**4.8**
Technology#		
Software & Computer Services	1.1	1.0
	1.1	**1.0**
Total Investments	**102.7**	**102.1**
Net Current Liabilities	**(2.7)**	**(2.1)**
Total Assets	**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.

\# Prior year comparatives restated.

* Total Assets (less creditors due within one year) £621,420,776 (2020: £689,185,949).

Performance – Review of the Year

Revenue	2021	2020	% change
Income	£24,909,267	£36,236,313	-31.3
Revenue earnings attributable to ordinary shareholders	£21,847,806	£32,643,236	-33.1
Revenue earnings per ordinary share	18.5p	29.7p	-37.7
Dividends per ordinary share in respect of the year	27.2p	27.1p	+0.4

Assets	2021	2020	Capital return % change	Total return % change[1]
Net asset value per ordinary share with debt at par	458.5p	551.5p	-16.9	-11.9
Net asset value per ordinary share with debt at market value (capital)	439.7p	533.1p	-17.5	-12.4
Ordinary share price	438.5p	532.0p	-17.6	-12.5
FTSE All-Share	3,641.9	4,057.5	-10.2	-7.5
Discount of ordinary share price to net asset value (debt at par)	-4.4%	-3.5%	n/a	n/a
Discount of ordinary share price to net asset value (debt at market value)	-0.3%	-0.2%	n/a	n/a
Ongoing charges[2]	0.61%	0.59%	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.
2 The ongoing charges percentage is calculated in accordance with the explanation given on page 110.

A Glossary of Alternative Performance Measures (APMs) is on page 109.

Strategic Report

Oil and gas company BP is targeting a 40% reduction in hydrocarbon production by 2030, one of the most aggressive shifts in the sector.

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 GmbH, UK Branch (AllianzGI) – 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 4, and in the Investment Manager's Review on pages 13 to 39.

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:

- Sources of income and alternatives: how certain are the sources of income post COVID? Consider investments from outside the UK contributing to income
- Dividend Hero status – review the board's objective and wish to maintain the position on the AIC's dividend hero list, discussing the path to a covered dividend once again
- The research model at AllianzGI and how it works in practice with the portfolio managers and the use of conviction lists
- The integration of ESG within the investment process
- Marketing opportunities in a pandemic year: website refresh, digitilisation opportunities to be explored and more use of social media – i.e., LinkedIn.

Following our strategic review it was agreed that the company's objectives were correctly identified and that Merchants' progressive dividend continues to be the key differentiator, providing a substantial part of its appeal to investors.

We reaffirmed that Merchants can be regarded as a core income vehicle for investors in UK equities, being able to provide investors with real returns on their savings, and we agreed to continue to amplify this message through a continuation of our cost-effective marketing and advertising programme.

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 18.8% in the year to 31 January 2021 (2020: 18.9%).

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 continue to be to:

Dividends

- Provide a high and progressively growing income stream. The chart in the Chairman's Statement on page 4 shows dividend increases every year since 1982 and the KPI chart on page 11 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.

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.

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 on pages 28 and 29 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 44.

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 key stakeholders are its investors, its 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. Through the global COVID-19 pandemic our interactions have become virtual and not in person, but we have taken this as an opportunity to engage in new and efficient ways with many of our stakeholders. 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. Set out below are examples of the ways in which Merchants has interacted with key stakeholders in line with section 172 of the Companies Act.

Stakeholders	Why we engage	How we engage and what we do	Actions - examples
Shareholders	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, ESG risks and gearing levels which inform the board's strategy discussions and decisions.	We communicate through the annual and half- yearly reports, monthly fact sheets, website, press articles and podcasts. Meetings are held with professional shareholder groups. The AGM provides a focus for interaction with shareholders. This year there will be no physical meeting but Q&As will be published on the website. The board looks forward to live interaction when it is safe to arrange this.	The board discussed and approved a budget for a marketing and communications programme which would address investor concerns about the impact of dividend cuts on the company's revenue and the company's dividend policy, for example, in many podcasts and press interviews throughout the year and published on the website.
The manager	The board works with Allianz Global Investors who provide investment management, accounting and secretarial services as well as expertise in sales and marketing for a competitive management fee.	In the past year the manager has been reporting how it has adjusted the portfolio in response to the challenges of the COVID-19 pandemic and also how it has adapted its sales and marketing activities to maintain and improve its reach.	The board held virtual meetings to receive updates from the manager between regular board meetings to learn how the investment and management team and support had adapted to provide business as usual services whilst working from home.
Service providers	The board has appointed a depositary, a custodian and a registrar to provide specialist services.	Our manager maintains regular contact and ensures service levels are satisfactory and appropriate controls are in place with Merchants' service providers.	The audit committee requested detailed reports from the service providers to get assurance that sound and effective internal controls continued to be in place. In the year additional and regularly updated reports were requested on cyber security and operational resilience to ensure the impact of the pandemic was being managed.
Portfolio companies	The board approves the manager's active, stock picking approach and believes in good stewardship.	On the company's behalf the manager engages with investee companies, including on Environmental, Social and Governance (ESG) matters and exercises its votes at company meetings.	Merchants actively votes at portfolio company meetings. Reports on engagement and case studies are in the Investment Manager's Report from page 13.
Brokers	The board and manager work with the brokers, including their research and sales teams to provide access to the market and liquidity in the company's shares. There is high demand for the company's shares which often trade at a premium to their net asset value.	The sales team works with the corporate brokers and helps the company to participate in exchange volume and provide liquidity for investors, including through issuance of new shares.	The board has an active share issuance programme with the broker and issues shares to meet market demand. The Chairman explains on page 5 that the share capital increased by 7.2% over the year.
Media partnerships	The company works with public relations advisers to ensure information about the company, its strategies and performance can reach a wide audience of potential investors through press articles and online media coverage.	Regular communication with public relations partners to raise the company's profile through press and media activity.	The board had reports showing spikes in website hits and new investment in the company on retail platforms after press articles and media events. 8.5 million shares were added to the holdings across platforms in the year.
Distribution partnerships	To reach a wider audience of investors the company works with firms providing access to platforms and wealth managers. The board receives detailed feedback to confirm wide and growing interest in the company's shares.	The managers together with our distribution partners arrange presentations about Merchants at virtual events and research publications to reach investors through share trading platforms, wealth managers and through websites.	Edison published research notes 'The opportune reduction in gearing in early 2020' (May 2020), 'Distinguished history of dividend growth ' (November 2020); 'Meaningful improvement in relative performance' (March 2021).
Lenders	A feature of investment companies is that they are able to raise financing to support its strategy and objectives. Merchants employs gearing with the aim of enhancing returns to shareholders.	The company provides regular business updates to its lenders to demonstrate the headroom of the covenants for its borrowings and that the company is performing in line with expectations.	Gearing had been reduced before the start of the year and the board has looked at whether any other opportunities were available to reduce borrowing costs further. No change was planned but this will be visited again during 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 47.

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 69.

Principal risks

The principal risks continue to be influenced by the impact of COVID-19. Those identified as having the highest impact and the greatest likelihood are the following:

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.

Some risks have been assessed as being as likely to occur as last year but with slightly less impact this year as they are better understood and mitigated:

3.8 **Emerging** risks, such as virus variants causing new lockdown measures.

1.1 **Market decline** adversely affecting investments and returns.

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.

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.

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; communication gaps resulting from a switch from in person meetings to virtual dialogue as a result of restrictions imposed by local government in response to COVID.
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, 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

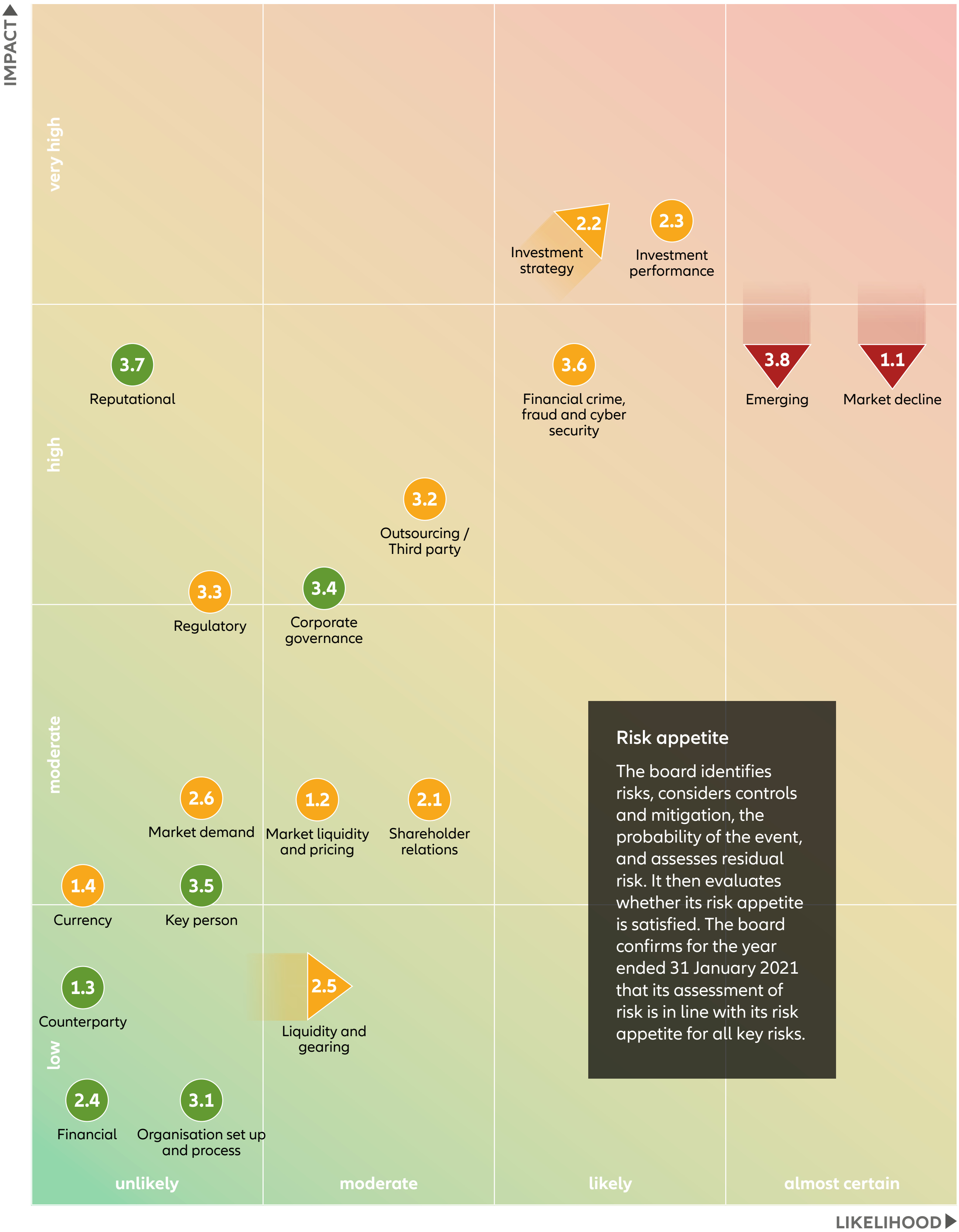
3.1 Organisation set up and process
Risk: Failure in the operational set up of the company, through people, processes, systems or external events could result in financial loss to the company or its inability to operate.
Response: The manager and the other key service providers report on business continuity 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

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 2021 that its assessment of risk is in line with its risk appetite for all key risks.

No change from previous year **Change from previous year**

- Risk is acceptable, no more measures needed
- Risk is of concern but sufficient measures are defined and being implemented
- Risk is of concern, sufficient mitigation measures not possible or not yet in place

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, fraud and cyber security
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. Risk of increased cyber attacks due to COVID-19, with attackers taking advantage of the situation and harder conditions for suppliers to maintain robust systems due to large scale working from home.
Response: AllianzGI has anti-fraud, anti-bribery policies and robust procedures in place. The board is alert to the risks of financial crime and threat of cyber attacks and reviews how third party service providers handle these threats. These reports confirm that all systems are secure and are updated in response to any new threats as they arise and more frequent assurances have been sought and received through the COVID-19 pandemic.

3.7 Reputational
Risk: Examples include association with poor governance in portfolio companies and operational issues in service providers which can affect the reputation of the company.
Response: The portfolio management team is in constant interaction with AllianzGI's Environmental, Social and Governance (ESG) and Stewardship function and actively engages with investee companies on ESG issues and makes investments incorporating ESG factors in the decision process. Service providers are monitored and the manager provides oversight.

3.8 Emerging - including COVID-19
Risk: Unpredictable consequences of new virus variants; political and macro-economic shocks causing for example significant market falls, threat to income, increase in gearing.
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
- COVID-19 continues to cause changes across the company's investment universe and some adaptations to its engagements with its suppliers and other stakeholders. 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.
- Keeping informed on the impact of Brexit by the manager and providers.

Brexit – Risks and Implications

The board has considered the likely impact of the changes to the UK's relationship with The European Union. The UK government enshrined all existing EU law into UK law at the date of withdrawal. The German regulator, BaFin, and the FCA in the UK have reached a formal understanding and a Temporary Permissions Regime is in place. The board and AllianzGI are discussing the ways in which the company might organise its contractual relationships in order that we carry out our regulatory responsibilities and our outsourced arrangements such as portfolio management, distribution, financial reporting and custody. Shareholders will be updated on any new arrangements in due course.

The board has concluded that although there may be some changes to the way the company operates now that the UK has left the European Union, that it is well prepared for what is foreseeable.

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 132 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, as set out above. 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 45.

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 company has been in existence as an investment company for more than 130 years. The board receives reports at every board meeting of the transactions in the company's shares. The company is a member of the FTSE All -Share 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 2022, unless it is renegotiated and rolled over. The next scheduled repayment of debt is in 2029 and the board will 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 partially repaid the RCF in 2020.

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 (other than the shareholding in the former loan vehicle, Fintrust Debenture PLC, in voluntary liquidation).
   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 0.61% of net assets in the latest year (2020: 0.59%). 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 global pandemic 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 their response to the COVID-19 pandemic. These reports include 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 has resulted in minimum disruption.

   The portfolio manager has reported to the board frequently during the pandemic on the impact on the economic environment, the company's markets and forecasts, and has reported on mitigating actions taken, such as repositioning the portfolio to achieve the required returns. The portfolio manager has provided forecasts to demonstrate the reasonable prospect of, having utilised revenue reserves in the proposed dividend for the year ending 31 January 2021, returning to a covered dividend. 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 the global COVID-19 pandemic and its likely aftermath 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 for the foreseeable future. The directors have also considered the risks and consequences of the COVID-19 pandemic on 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.

COVID-19 and the future

As we set out on the first page 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.

The board has considered the challenges faced and the adaptations and changes needed to flourish in a post-pandemic world and having evaluated the risks and consequences believes that Merchants is equipped to survive and continue to be viable for the five year period here under review.

The Future

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 pension freedoms and 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 9 and the investment manager discusses his view of the outlook for the company's portfolio in his review on page 27.

On behalf of the board.

Colin Clark
Chairman
13 April 2021

Governance

We added to our position in Redrow during the year, making it our largest home construction holding.

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, a non-executive director of AXA IM SA global board and a non-executive director of Rathbone Brothers Plc. Colin has had a 35 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 where he was responsible for the Global Client Group. 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 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.

Timon Drakesmith

Chairman 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 in depth knowledge of company financing, leading the board's exploration of refinancing.

Karen McKellar

Joined the board in May 2020. 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.

Experience:
An asset management professional with senior management and money management experience.

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

Mary Ann Sieghart

Joined the board in November 2014. Mary Ann is Chair of the Social Market Foundation and a non-executive director of Pantheon International Plc. She is a trustee of the Kennedy Memorial Trust and a trustee and Investment Committee Chair of The Scott Trust, the owner of the Guardian and the Observer newspapers. Mary Ann also holds various other voluntary posts. She was previously senior independent director of The Henderson Smaller Companies Investment Trust plc. Mary Ann is a political journalist and broadcaster and was formerly Assistant Editor of The Times, a Lex Columnist at the Financial Times and City Editor of Today. She was a Visiting Fellow of All Souls College, Oxford for the academic year 2018-2019.

Experience:
Communications background with experience as a journalist and broadcaster and investment trust board experience.

Reasons for the recommendation for re-election:
In addition to knowledge and understanding of investment trusts Mary Ann has insight into marketing and promotion, providing guidance on media engagement to raise the profile of the company.

Sybella Stanley

Senior Independent Director

Joined the board in November 2014. She is Director of Corporate Finance at RELX Group plc, where she manages RELX Group's global mergers and acquisitions programmes, and is a non-executive director of Tate & Lyle PLC. Sybella is also a Member of the Department of Business, Energy and Industrial Strategy's Industrial Development Advisory Board and Co-chair of the Development Board of Somerville College, Oxford. Before joining RELX Group in 1997, Sybella was a member of the M&A advisory teams at, successively, Citi and Barings. Sybella is a barrister.

Experience:
A lawyer with wide corporate finance experience at a senior level in industry and FTSE 100 non-executive director experience.

Reasons for the recommendation for re-election:
Sybella's legal knowledge and expertise at a high level across industries invested in by the portfolio are valuable to the board.

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 63.

Investment Manager and Advisers

The Manager or Alternative Investment Fund Manager (AIFM)

Allianz Global Investors GmbH is an investment company with limited liability incorporated in Germany and registered in the UK as a branch with establishment number BR009058 and with an establishment address of 199 Bishopsgate, London EC2M 3TY. It is authorised and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and is subject to limited regulation by the Financial Conduct Authority (FCA).

Allianz Global Investors are active asset managers operating across 19 markets with specialised in-house research teams around the globe, managing assets for individuals, families and institutions worldwide.

As at 31 December 2020, Allianz Global Investors had €582 billion of assets under management worldwide.

Through its predecessors, Allianz Global Investors has a heritage of investment trust management expertise in the UK reaching back to the nineteenth century and as at 31 December 2020 had £2.3 billion of assets under management in a range of investment trusts. Website: www.allianzgi.co.uk

Head of Investment Trusts

Stephanie Carbonneil
Email: stephanie.carbonneil@allianzgi.com

Investment Manager

Simon Gergel, representing Allianz Global Investors GmbH, UK Branch, 199 Bishopsgate, London EC2M 3TY.

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

Independent Auditors

BDO LLP

Bankers

HSBC Bank plc,
Barclays Bank plc

Registrars

Link Asset Services
(full details on page 103)

Solicitors

Dickson Minto W.S.
Herbert Smith Freehills LLP

Stockbrokers

J.P. Morgan Securities Limited

Custodian

HSBC Bank plc

Depositary

HSBC Securities Services

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 2021.

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
12 February 2021

Further information about the relationship with the Depositary is on page 102.

Directors' Report

The directors present their report and the audited financial statements of the company for the year ended 31 January 2021.

Revenue

The revenue earnings attributable to ordinary shareholders for the year amounted to £21,847,806 or 18.5p per share (2020: £32,643,236, 29.7p per share).

The first quarterly dividend of £8,084,852, or 6.8p per share, and the second quarterly dividend of £8,084,852, or 6.8p per share, have been paid during the year. Since the year end the third quarterly dividend of £8,226,972, or 6.8p per share, was paid on 16 March 2021. A proposed final dividend of 6.8p will be paid on 18 May 2021. 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 losses based on historical costs of £18,016,024 (2020: gain on £17,831,454). 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 8,106,423 shares and no share buybacks. Since the year end a further 1,575,000 new shares were issued. Further details are on page 91.

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 9 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 27. The future is also discussed in the Strategic Report on page 50.

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 12 on page 91. The details of the 4% Perpetual Debenture Stock and the 3.65% Cumulative Preference Stock are provided in Notes 11(i) and 11(ii) respectively on page 91.

Voting Rights in the Company's Shares

The voting rights to 12 April 2021 were:

Share class	Number of shares issued	Voting rights per share	Total voting rights
Ordinary shares of 25p	122,559,887	1	122,559,887
3.65% Cumulative Preference Stock of £1	1,178,000	1	1,178,000
Total	**123,737,887**		**123,737,887**

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 12 April 2021 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 Asset Services, have been engaged to collate such information and file the reports with HMRC on behalf of the company.

Directors

Biographical details of the current directors at the date of the signing of this report are shown on pages 52 and 53.

All of the directors are retiring at the annual general meeting and each offers themself for 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 GmbH, UK Branch (AllianzGI) provides for a fee of 0.35% per annum (2020: 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 (2020: 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 71. The Independent Auditors' Report can be found on pages 74 to 78.

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.

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).

An extract from the company's voting record in the previous year will be available for inspection at the annual general meeting each year.

Streamlined energy and carbon 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 regulations and therefore is not required to disclose energy and carbon information.

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.

Annual General Meeting

As the Chairman explains in his Statement on page 8, in view of the current restrictions in place on travel and meetings in connection with COVID-19 the Annual General Meeting of the Company to be held on Thursday 13 May 2021 will be a closed meeting and shareholders will not be able to attend in person.

Given the risks posed by the spread of COVID-19 and in accordance with Government guidance, the directors will impose entry restrictions on attendance at the Annual General Meeting in order to ensure the health, wellbeing and safety of the company's shareholders and officers as well as compliance with the venue's security requirements.

The board therefore urges shareholders to comply with the UK Government's instructions to stay safe and not undertake unnecessary travel. However, shareholders may and are strongly encouraged to participate in the business of the Annual General Meeting by exercising their votes in advance of the meeting by completing and returning the form of proxy. The board and the company's manager will ensure that a quorum of two shareholders is present at the AGM to allow it to take place and for the proxy votes to be exercised. The closing date for you to submit your proxy votes to the registrars is 12.00 noon on Tuesday 11 May 2021.

Shareholders are invited to view a video presentation which will be posted on the website www.merchantstrust.co.uk two weeks before the AGM and 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 and 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 40,853,295 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 2022.

2. Disapplication of Pre-emption Rights
A resolution was passed at the annual general meeting held on 23 June 2020 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 2021. 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 2022 or 12 August 2022 if earlier. This power is limited to a maximum number of 12,555,988 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 13 May 2021. 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 £417 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 18,371,727 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 13 May 2021.

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 2022 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.

4. Adoption of new Articles of Association
Resolution 14, which will be proposed as a special resolution, seeks shareholder approval to adopt new Articles of Association (the 'New Articles') in order to update the company's current Articles of Association (the 'Existing Articles'). The proposed amendments being introduced in the New Articles are primarily to reflect changes in law and regulation, and developments in market practice, enabling the company to hold virtual shareholder meetings using electronic means (as well as

physical shareholder meetings or hybrid meetings); and changes in response to the introduction of international tax regimes requiring the exchange of information.

The principal changes introduced in the New Articles are summarised in the notes following the AGM Notice (pages 105 to 108 of this document). Other changes, which are of a minor, technical or clarifying nature, have not been noted in the notes beginning on page 107.

While the New Articles would permit shareholder meetings to be conducted using electronic means, the directors have no present intention of holding a virtual-only meeting when it is possible to hold physical shareholder meetings. These provisions will only be used where the directors consider it is in the best interests of shareholders for virtual-only meetings to be held. Nothing in the New Articles will prevent the company from continuing to hold physical shareholder meetings.

The full terms of the proposed amendments to the Company's articles of association are available at 199 Bishopsgate, London EC2M 3TY. A copy of the New Articles, together with a copy showing all of the proposed changes to the Existing Articles, will also be available for inspection on the Company's website, www.merchantstrust.co.uk from the date of the AGM Notice until the close of the AGM, and will also be available for inspection at the venue of the AGM from 15 minutes before and during the AGM.

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
13 April 2021

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 42 and 43. Strategic issues and all operational matters of a material nature are considered at its meetings.

Board Composition

There are 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. In the year under review Paul Yates retired from the board on 1 May 2020 and Karen McKellar joined as director on 1 May 2020.

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 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 52 and 53 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 62.

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 Lintstock Limited in a bespoke assignment by means of a series of online questionnaires completed by each director. The results of these surveys in a report produced by Lintsock were reviewed by the nomination committee and the outcome of the exercise was discussed by the board. The survey had considered the impact of the pandemic year on the board and its activities, including the board changes that had taken place during the year. The review did not identify any concerns but did identify some areas to work on in 2021. These included focusing on the dividend; engaging with the manager on distribution, website redesign and social media initiatives; and refreshing board cohesion , when possible, after a year of virtual meetings.

Succession is considered as part of the board evaluation exercise and there is more detail in the Nomination Committee Report on page 64.

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 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 training on regulatory and compliance changes, including sessions on relevant issues in an event for investment company directors run by the manager, AllianzGI.

Board Diversity

At the year end two of the directors were male and three were female. 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 and will give consideration of how to address this in its future succession plans.

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.

Conflicts of interest

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 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 Report is on pages 68 to 70.

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 re-election of directors 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 64.

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 63.

Remuneration Committee

The remuneration committee met once in the year. The committee consists of all the directors and is chaired by Sybella Stanley. 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 is on pages 65 to 67.

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 Financial Report.

The key elements of the process are as follows:

- In addition to the review of the key risks (see page 45), 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 GmbH, UK Branch (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
No. of meetings	6	1	2	1	1	1
Colin Clark	6	1	2[1]	1	1	1
Timon Drakesmith	6	1	2	1	1	1
Karen McKellar[2]	4	1	1	1	-	1
Mary Ann Sieghart	6	1	2	1	1	1
Sybella Stanley	6	1	2	1	1	1
Paul Yates[3]	2	-	1	-	1	-

[1] Invited to attend meetings, although not a committee member.
[2] Appointed 1 May 2020.
[3] Retired 1 May 2020.

Management Engagement Committee Report

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 16.

Manager reappointment

The annual evaluation that took place in March 2021 included 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. The evaluation also considered the manager's fee in relation to the peer group. The committee met in a private session following the presentation 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 85 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 60. The conclusion from the process was that the committee was operating effectively, with the right balance of membership and skills.

Colin Clark
Management Engagement Committee Chairman
13 April 2021

Nomination Committee Report

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

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 with regard to 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.

Succession planning

Paul Yates, who had completed nine years' service, retired on 1 May 2020. Karen McKellar was appointed to the board with on 1 May 2020 and was elected as a director by shareholders at the AGM in June 2020. Karen's biographical details are on page 52. Spencer Stuart was appointed to carry out the board search.

Colin Clark
Nomination Committee Chairman
13 April 2021

Remuneration Committee Report

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

Composition

All the 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 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 2021. 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 and 2020. 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) and the results of the vote at the 2020 AGM for this resolution were as follows: In favour 98.51%, against 1.49% and 184,731 shares were withheld (in aggregate, 15,100,700 votes). The results of the advisory vote at the 2020 AGM for the resolution to approve the Implementation Report were as follows: In favour 98.44%, against 1.56% and 128,458 shares were withheld (in aggregate 15,100,700 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 has been chaired by Sybella Stanley since its inception in 2019. 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 trusts.

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:

	2021	2020
Colin Clark	10,000	5,000
Timon Drakesmith	15,000	15,000
Karen McKellar (joined the board on 1 May 2020)	5,000	-
Mary Ann Sieghart	1,000	1,000
Sybella Stanley	3,114	3,114
Paul Yates (retired from the board on 1 May 2020)	-	20,133

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 £200,000 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 23 June 2020.

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 £26,500 per annum with an additional £5,750 for the Chairman of the Audit Committee and the Chairman at a rate of £39,750 per annum. The current fees have applied since 1 February 2020.

The fees were reviewed In January 2021 and it had been agreed to hold the fees at the current rates as it was noted they were reasonably in line with the market.

The directors' emoluments during the year and in the previous year, all of which were in the form of fees, were as follows:

Directors' fees	2021 £	2020 £	% change
Colin Clark	39,750	20,258	+96.2
Simon Fraser (retired from the board on 1 September 2019)	-	22,313	-100.0
Timon Drakesmith	32,250	31,000	+4.0
Karen McKellar	19,875	-	+100.0
Mary Ann Sieghart	26,500	25,500	+3.9
Sybella Stanley	26,500	25,500	+3.9
Paul Yates	6,625	25,500	-74.0
Total	**151,500**	**150,071**	

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

	2021 £	2020 £
Remuneration paid to all directors	151,500	150,071
Distributions to shareholders	31,612,732	29,160,972

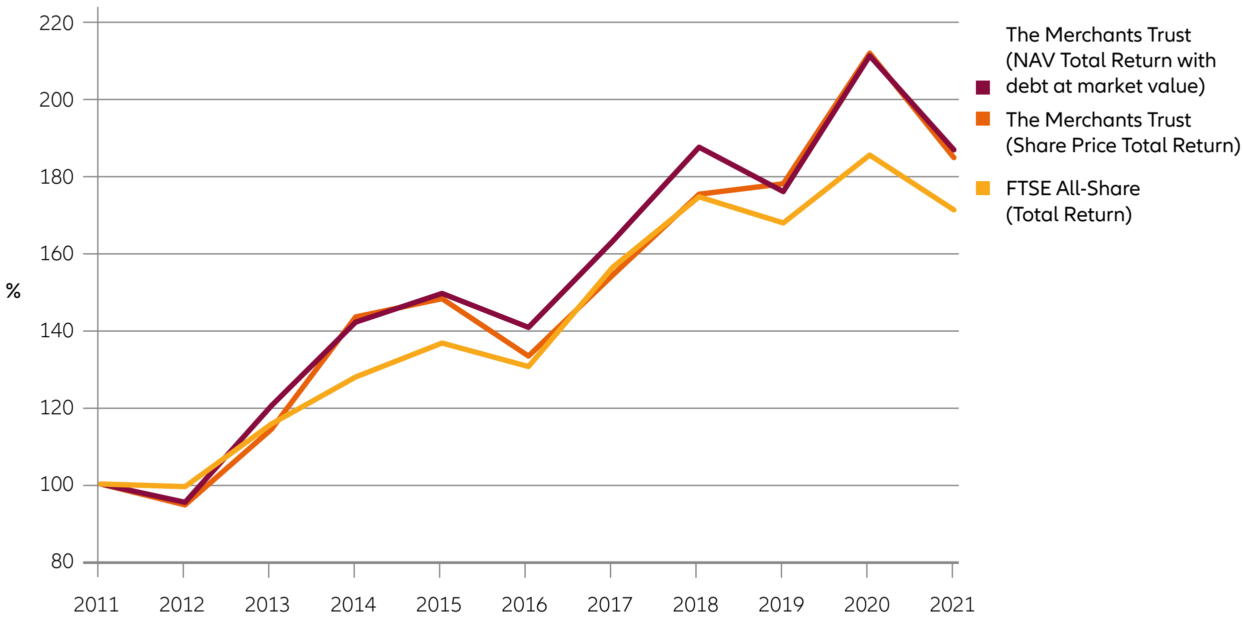
The disclosure is a statutory requirement, however the directors do not consider that the comparison of directors' remuneration with distributions to shareholders is a meaningful measure of the company's overall performance.

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 2021



Source: AllianzGI / Datastream in GBP
Figures have been rebased to 100 as at January 2011

Signed on behalf of the board

Sybella Stanley
Remuneration Committee Chair
13 April 2021

Audit Committee Report

I am pleased to present the report of the audit committee for the year ended 31 January 2021.

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 auditors' 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
Emerging risks – COVID-19 and cyber	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 in light of the COVID-19 pandemic. This follows on from our activities reported last year to review their ability to support Merchants' operations when challenged by reduced manpower, liquidity and other resources.
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 markets highly impacted by COVID-19.

Area of focus	Activity
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 83 and 84, 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 on pages 45 to 48.

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 48 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.

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 £5.4 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 third 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. Peter Smith is the audit partner and the auditor is required to rotate partners every five years.

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 2019/20.

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 paid for non-audit services were £2,000 in the year (2020: £4,000). These fees are considered by the audit committee to be proportionate to the fees for audit services of £24,000 (2020: £23,300). This non-audit work was found not to have a significant impact on the financial statements.

Timon Drakesmith
Audit Committee Chairman
13 April 2021

Statement of Directors' Responsibilities

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 56.

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
13 April 2021

Financial Statements

Telecommunications provider Vodafone was our largest net purchase during the year, further supplementing the portfolio's income generation capability.

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 2021 and of the Company's loss for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements 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 2021 which comprise the Income Statement, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement and notes to the financial statements, including a summary of significant 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 the Board of Directors 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 3 years, covering the years ending 31 January 2019 to 31 January 2021. 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 management's method of assessing the going concern in light of market volatility and the present uncertainties due to the COVID-19 pandemic;
- Assessing the liquidity position available to meet the future obligations and operating expense cover for the next twelve months;
- Challenging management's assumptions and judgements made with regards to stress-testing forecasts;
- Obtaining the loan agreements to identify the covenants and assess the likelihood of the them being breached based on management forecasts and sensitivity analysis; and
- Performing calculations assessing the net asset position of the Company to understand the reliance on loans and debentures.

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

		2021	2020
Key audit matters	Valuation and ownership of investments	✔	✔
	Revenue recognition	✔	✔
Materiality	£5.54m (2020: £6.22m)based on 1% (2020: 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.

Key Audit Matter	How the scope of our audit addressed the key audit matter
Valuation and ownership of investments (pages 83 and 84 and Note 8 on page 89) We considered the valuation and ownership of investments to be the most significant audit areas as investments represent the most significant balance in the financial statements and underpin the principal activity of the entity. We therefore considered this to be a key audit matter.	We responded to this matter by testing the valuation and ownership of 100% of the portfolio of investments. We performed the following procedures: In respect of investment valuations we have: – Confirmed the year end bid price was used by agreeing to externally quoted prices and for all of the investments, assessed if there were contra indicators, such as liquidity considerations, to suggest bid price is not the most appropriate indication of fair value. – Obtained direct confirmation from the custodian regarding all investments held at the balance sheet date. **Key observations:** Based on our procedures performed we did not identify any material exceptions with regards to valuation or ownership of investments or the related disclosures.
Revenue recognition: (page 84 and Note 1 on page 85) Income arises from the investment portfolio and is a key factor in demonstrating the performance of the portfolio. Revenue recognition is considered to be a significant audit risk as it is the key driver of dividend returns to investors and judgement is required in determining the allocation of income to revenue or capital.	We performed the following procedures: – We derived an independent expectation of total expected income based on the investment holding and records of distributions from independent sources. We also cross checked the portfolio against corporate actions and special dividends and challenged if these had been appropriately accounted for as income or capital. – We analysed the whole population of dividend receipts to identify any unusual items that could indicate a capital distribution, for example where a dividend represented a particularly high yield and investigated the rationale of those distributions. – We traced a sample of dividend income through from the nominal ledger to bank. – We agreed the option premiums with the broker's reports and vouched them from the bank statements. **Key observations:** Based on our procedures performed we did not identify any matters to indicate that revenue recognition was inappropriate.

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	
	2021 £m	**2020 £m**
Materiality	5.54	6.22
Basis for determining materiality	1% of Net Assets	1% of Net Assets
Rationale for the benchmark applied	As an investment trust, net asset value is considered to be the key measure of performance.	As an investment trust, net asset value is considered to be the key measure of performance.
Performance materiality	4.16	4.67
Basis for determining performance materiality	Performance materiality was deemed to be 75% is appropriate considering the expected value of misstatement based on history, management attitude towards proposed adjustments and accounts subject to estimation.	Performance materiality was deemed to be 75% is appropriate considering the expected value of misstatement based on history, management attitude towards proposed adjustments and accounts subject to estimation.

Specific materiality

We also determined that for transactions and balances that have an impact on the 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 £1,110,000 (2020: £3,260,000), based on 5% of net revenue returns before tax. We further applied a performance materiality level of 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 £56,000 (2020: £124,000). 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 Statement 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 its assessment of the entity'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.
Matters on which we are required to report by exception	In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.
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 statement of Directors' responsibilities, 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. These included but were not limited to compliance with Chapter 3 Part 6 of the Income Tax Act 2007, the Companies Act 2006, the FCA listing and DTR rules, the principles of the UK Corporate Governance Code, industry practice represented by the AIC SORP and FRS 102. We also considered the company's qualification as an Investment Trust under UK tax legislation with the relevant tests as follows:

- The business of the company consists of investing in shares, land or other assets with the aims of spreading investment risk and giving members the benefit of the results of the management of its funds; and
- The company must not retain >15% of its income.

We considered compliance with this framework through discussions with the Audit Committee and performed audit procedures on these areas as considered necessary. Our procedures involved enquiries with Management, review of the reporting to the directors with respect to compliance with laws and regulation, review of board meeting minutes and review of legal correspondence.

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;
- testing of journal postings made during the year to identify potential management override of controls
- review of minutes of board meetings throughout the period; and
- obtaining an understanding of the control environment in monitoring compliance with laws and regulations.

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.

Peter Smith (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom
13 April 2021

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

Income Statement

for the year ended 31 January 2021

	Note	2021 Revenue £	2021 Capital £	2021 Total Return £	2020 Revenue £	2020 Capital £	2020 Total Return £
(Losses) gains on investments held at fair value through profit or loss	8	-	(86,683,559)	(86,683,559)	-	80,844,082	80,844,082
Gains on foreign currencies		-	1,466	1,466	-	21,069	21,069
Income	1	24,909,267	-	24,909,267	36,236,313	-	36,236,313
Investment management fee	2	(703,149)	(1,305,847)	(2,008,996)	(829,367)	(1,540,251)	(2,369,618)
Administration expenses	3	(1,059,261)	(2,069)	(1,061,330)	(855,489)	(1,495)	(856,984)
Profit (loss) before finance costs and taxation		**23,146,857**	**(87,990,009)**	**(64,843,152)**	**34,551,457**	**79,323,405**	**113,874,862**
Finance costs: interest payable and similar charges	4	(1,222,439)	(2,180,161)	(3,402,600)	(1,884,565)	(15,610,679)	(17,495,244)
Profit (loss) on ordinary activities before taxation		**21,924,418**	**(90,170,170)**	**(68,245,752)**	**32,666,892**	**63,712,726**	**96,379,618**
Taxation	5	(76,612)	-	(76,612)	(23,656)	-	(23,656)
Profit (loss) after taxation attributable to ordinary shareholders		**21,847,806**	**(90,170,170)**	**(68,322,364)**	**32,643,236**	**63,712,726**	**96,355,962**
Earnings (loss) per ordinary share (basic and diluted)	7	**18.51p**	**(76.38p)**	**(57.87p)**	**29.67p**	**57.90p**	**87.57p**

Dividends in respect of the financial year ended 31 January 2021 total 27.20p (2020: 27.10p), amounting to £32,623,648 (2020: £30,239,315). Details are set out in Note 6 on page 88.

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 83 to 100 form an integral part of these Financial Statements.

Statement of Changes in Equity

for the year ended 31 January 2021

	Notes	Called up Share Capital £	Share Premium Account £	Capital Redemption Reserve £	Capital Reserve £	Revenue Reserve £	Total £
Net assets at 1 February 2020		28,219,616	54,092,585	292,853	508,109,225	31,819,957	622,534,236
Revenue profit		-	-	-	-	21,847,806	21,847,806
Dividends on ordinary shares	6	-	-	-	-	(31,612,732)	(31,612,732)
Unclaimed Dividends		-	-	-	-	47,140	47,140
Capital loss		-	-	-	(90,170,170)	-	(90,170,170)
Shares issued during the year		2,026,606	30,044,518	-	-	-	32,071,124
Net assets at 31 January 2021		**30,246,222**	**84,137,103**	**292,853**	**417,939,055**	**22,102,171**	**554,717,404**
Net assets at 1 February 2019		27,182,116	33,717,572	292,853	444,396,499	28,337,693	533,926,733
Revenue profit		-	-	-	-	32,643,236	32,643,236
Dividends on ordinary shares	6	-	-	-	-	(29,160,972)	(29,160,972)
Capital profit		-	-	-	63,712,726	-	63,712,726
Shares issued during the year		1,037,500	20,375,013	-	-	-	21,412,513
Net assets at 31 January 2020		**28,219,616**	**54,092,585**	**292,853**	**508,109,225**	**31,819,957**	**622,534,236**

The Statement of Accounting Policies and Notes on pages 83 to 100 form an integral part of these Financial Statements.

Balance Sheet

at 31 January 2021

Fixed Assets	Notes	2021 £	2021 £	2020 £
Investments held at fair value through profit or loss	8		638,234,958	704,446,268
Current Assets				
Other receivables	10	4,043,194		4,307,985
Cash and cash equivalents		6,623,461		10,546,075
		10,666,655		**14,854,060**
Current Liabilities				
Other payables	10	(27,427,472)		(30,086,079)
Derivative financial instruments	8	(53,365)		(28,300)
		(27,480,837)		**(30,114,379)**
Net current liabilities			(16,814,182)	(15,260,319)
Total assets less current liabilities			**621,420,776**	**689,185,949**
Creditors: amounts falling due after more than one year	11		(66,703,372)	(66,651,713)
Total net assets			**554,717,404**	**622,534,236**
Capital and Reserves				
Called up share capital	12		30,246,222	28,219,616
Share premium account	13		84,137,103	54,092,585
Capital redemption reserve	13		292,853	292,853
Capital reserve	13		417,939,055	508,109,225
Revenue reserve	13		22,102,171	31,819,957
Equity shareholders' funds	14		**554,717,404**	**622,534,236**
Net asset value per ordinary share	14		**458.5p**	**551.5p**

The financial statements of the Merchants Trust PLC on pages 79 to 82 were approved and authorised for issue by the Board of Directors on 13 April 2021 and signed on its behalf by:

Colin Clark
Chairman

The Statement of Accounting Policies and Notes on pages 83 to 100 form an integral part of these Financial Statements.

Cash Flow Statement

for the year ended 31 January 2021

	Notes	2021 £	2020 £
Operating activities			
(Loss) profit before finance costs and taxation*		(64,843,152)	113,874,862
Less: Losses (gains) on investments held at fair value		87,838,052	(80,003,262)
Less: Gains on foreign currency		(1,466)	(21,069)
Purchase of fixed asset investments held at fair value through profit or loss		(266,727,521)	(183,903,663)
Sales of fixed asset investments held at fair value through profit or loss		242,385,324	184,945,332
Transaction costs		(1,154,493)	(840,820)
Increase in other receivables		(562,908)	(1,004,094)
(Decrease) increase in other payables		(68,114)	155,284
Less: Overseas tax suffered		(76,612)	(23,656)
Net cash (outflow) inflow from operating activities		**(3,210,890)**	**33,178,914**
Financing activities			
Interest paid		(3,345,812)	(6,040,184)
Repayment of Fixed Rate Interest Loan 2023		-	(42,000,000)
Premium paid on Fixed Rate Interest Loan 2023		-	(13,603,800)
Proceeds from Revolving Credit Facility		-	42,000,000
Repayment of Revolving Credit Facility		-	(16,000,000)
Dividend paid on cumulative preference stock		(42,997)	(42,997)
Dividends paid on ordinary shares	6	(31,612,732)	(29,160,972)
Unclaimed dividends over 12 years		47,140	-
Share issue proceeds		34,241,211	21,412,513
Share issue proceeds receivable		-	(2,170,087)
Net cash outflow from financing activities		**(713,190)**	**(45,605,527)**
Decrease in cash and cash equivalents		**(3,924,080)**	**(12,426,613)**
Cash and cash equivalents at the start of the year		10,546,075	22,951,619
Effect of foreign exchange rates		1,466	21,069
Cash and cash equivalents at the end of the year		6,623,461	10,546,075
Comprising:			
Cash and cash equivalents		6,623,461	10,546,075

* Cash inflow from dividends was £23,099,828 (2020: £34,785,104) and cash inflow from interest was £5,357 (2020: £161,352).

The Statement of Accounting Policies and Notes on pages 83 to 100 form an integral part of these Financial Statements.

Statement of Accounting Policies

for the year ended 31 January 2021

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 54. 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 on pages 42 and 43. 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 October 2019.

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.

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. The directors also considered the risks and consequences of the COVID-19 pandemic on the company and have concluded that the company has the ability and adequate financial resources to continue in operational existence and meet its objectives for the foreseeable future. The company's business, the principal risks and uncertainties it faces, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 45 to 50.

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.

Commissions in respect of underwriting are recognised when the underwritten issue closes and are generally recognised within the Income Statement as revenue. Where, however, the company is required to take up a proportion of the shares underwritten, the same proportion of the shares underwritten is recognised as capital, with the balance recognised as revenue.

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.

Unlisted investments are valued by the Directors based upon the latest dealing prices, stockbrokers' valuations, net asset values, earnings and other known accounting information in accordance with the principles set out by the International Private Equity and Venture Capital Valuation Guidelines issued in December 2018.

After initial recognition unquoted stocks are valued by the board on an annual basis.

5 **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.

6 **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.

7 **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.

8 **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.

9 **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.

10 **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.

11 **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.

12 **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.

13 **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. 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 2021

1. Income

	2021 £	2020 £
Income from Investments*		
Equity dividends from UK investments[#]	22,317,746	32,765,292
Unfranked dividends from UK investments	220,292	1,857,238
Equity dividends from overseas investments	1,316,069	1,265,958
	23,854,107	**35,888,488**
Other Income		
Deposit interest	5,553	75,272
Premiums on derivative contracts	1,049,607	272,553
	1,055,160	**347,825**
Total income	**24,909,267**	**36,236,313**

* All equity income is derived from listed investments.
[#] Includes special dividends of £538,260 (2020: £nil).

During the year, the company received premiums totalling £1,177,193 (2020: £299,925) for writing covered call options for the purpose of revenue generation. Premium income of £1,049,607 was amortised to income (2020: £272,553). All derivatives transactions were based on FTSE 100 stocks or the related index. At the year end there were six open positions with a net liability value of £53,365 (2020: £28,300).

2. Investment Management Fee

	2021 Revenue £	2021 Capital £	2021 Total £	2020 Revenue £	2020 Capital £	2020 Total £
Investment management fee	**703,149**	**1,305,847**	**2,008,996**	**829,367**	**1,540,251**	**2,369,618**

Under the terms of the Management and Administration Agreement the company's manager is Allianz Global Investors GmbH, UK branch (AllianzGI). The agreement was restated in July 2014, with the appointment of AllianzGI as the Alternative Investment Fund Manager. The terms of the agreement were unchanged in 2021: it provides for a management fee based on 0.35% (2020: 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 provides the company with investment management, accounting, company secretarial and administration services.

3. Administration Expenses

Auditors' remuneration	2021 £	2020 £
For audit services	24,000	23,300
Non-audit services - for certification of loan covenants	1,500	6,500
VAT on auditor's remuneration	5,100	5,960
	30,600	**35,760**
Directors' fees	151,500	150,071
Directors' NI contributions	12,378	13,837
Marketing costs	302,217	264,933
Registrars' fees	139,014	122,898
Depositary fees	40,467	45,520
Professional and advisory fees	70,263	31,880
Printing and postage	82,159	74,369
Stock exchange fees	22,439	19,702
Stock exchange block listing fee	154,874	-
Other administration expenses	53,350	96,519
	1,059,261	**855,489**

(i) The above expenses include value added tax where applicable.
(ii) Directors' fees are set out in the Directors' Remuneration Report on page 66.
(iii) Custody handling charges of £2,069 were charged to capital (2020: £1,495).
(iv) 76% of marketing costs are payable to AllianzGI (2020: 71%).
(v) Non-audit services paid in the year were £2,000 (2020: £4,000).

4. Finance Costs: Interest Payable and Similar Charges

	2021 Revenue £	2021 Capital £	2021 Total £	2020 Revenue £	2020 Capital £	2020 Total £
On Fixed Rate Interest Loan repayable after more than five years	-	-	-	635,494	1,164,602	1,800,096
Administration fees related to Fixed Rate Interest Loan repayment	1,624	3,016	4,640	24,822	46,100	70,922
Premium paid on Fixed Rate Interest Loan repayment	-	-	-	-	12,206,279	12,206,279
On 4% Perpetual Debenture Stock repayable after more than five years	19,237	35,725	54,962	19,250	35,750	55,000
On 5.875% Secured Bonds repayable after more than five years	636,857	1,182,736	1,819,593	630,844	1,171,567	1,802,411
On 3.65% Preference Stock repayable after more than five years	42,997	-	42,997	42,997	-	42,997
On 2.96% Fixed Rate Notes repayable after more than five years	364,959	677,781	1,042,740	364,404	676,750	1,041,154
On Revolving Credit Facility	151,255	280,903	432,158	166,724	309,631	476,355
On Sterling overdraft	40	-	40	30	-	30
Future Debit Interest	5,470	-	5,470	-	-	-
	1,222,439	**2,180,161**	**3,402,600**	**1,884,565**	**15,610,679**	**17,495,244**

5. Taxation

	2021 Revenue £	2021 Capital £	2021 Total £	2020 Revenue £	2020 Capital £	2020 Total £
Overseas taxation*	76,612	-	76,612	23,656	-	23,656
Total tax	**76,612**	**-**	**76,612**	**23,656**	**-**	**23,656**
Reconciliation of tax charge						
Profit before taxation	21,924,418	(90,170,170)	(68,245,752)	32,666,892	63,712,726	96,379,618
Tax on profit at 19.00% (2020: 19.00%)	**4,165,639**	**(17,132,332)**	**(12,966,693)**	**6,206,709**	**12,105,418**	**18,312,127**
Effects of						
Non taxable income	(4,490,425)	-	(4,490,425)	(6,465,938)	-	(6,465,938)
Non taxable capital losses (gains)	-	16,469,876	16,469,876	-	(15,360,376)	(15,360,376)
Irrecoverable overseas tax	76,612	-	76,612	23,656	-	23,656
Gains on foreign currencies	-	(279)	(279)	-	(4,003)	(4,003)
Disallowable expenses	11,233	54,858	66,091	305,425	2,624,648	2,930,073
Excess of allowable expenses over taxable income	313,553	607,877	921,430	(46,196)	634,313	588,117
Total tax	**76,612**	**-**	**76,612**	**23,656**	**-**	**23,656**

* Withholding tax on CRH and Diversified Gas & Oil.

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 2021, the company had accumulated surplus expenses of £222.4 million (2020: £217.9 million).

The company has not recognised a deferred tax asset of £42.3 million (2020: £37.1 million) in respect of these expenses, based on a prospective corporation tax rate of 19% (2020: 17%) because there is no reasonable prospect of recovery. The reduction in the standard rate of corporation tax was substantively enacted on 6 September 2016 and is effective from 1 April 2020. 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

	2021 £	2020 £
Dividends paid on ordinary shares		
Third interim dividend 6.8p paid 11 March 2020 (2019 - 6.5p)	7,648,536	7,067,350
Fourth interim dividend 6.8p paid 29 May 2020 (2019 - 6.6p)	7,794,492	7,205,779
First interim dividend 6.8p paid 19 August 2020 (2019 - 6.7p)	8,084,852	7,371,907
Second interim dividend 6.8p paid 12 November 2020 (2019 - 6.8p)	8,084,852	7,515,936
	31,612,732	**29,160,972**

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 84 - Statement of Accounting Policies). Details of these dividends are set out below.

	2021 £	2020 £
Third interim dividend 6.8p paid 16 March 2021 (2020: 6.8p)	8,226,972	7,675,736
Final proposed dividend 6.8p payable 18 May 2021 (2020: 6.8p)	8,226,972	7,675,736
	16,453,944	**15,351,472**

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

	2021 Revenue £	2021 Capital £	2021 Total £	2020 Revenue £	2020 Capital £	2020 Total £
Profit (loss) after taxation attributable to ordinary shareholders	21,847,806	(90,170,170)	(68,322,364)	32,643,236	63,712,726	96,355,962
Earnings (loss) per ordinary share (basic and diluted)	**18.51p**	**(76.38p)**	**(57.87p)**	**29.67p**	**57.90p**	**87.57p**

The earnings per ordinary share is based on a weighted number of shares 118,050,092 (2020: 110,037,230) ordinary shares in issue.

8. Fixed Asset Investments

	2021 £	2020 £
Opening book cost	666,794,237	647,437,215.00
Opening investments holding gain (loss)	37,617,023	(25,387,595)
Opening investments holding gains - derivatives	6,708	13,310
Opening market value	**704,417,968**	**622,062,930**
Additions at cost	264,174,896	186,456,288
Disposals proceeds received	(243,711,350)	(184,930,719)
(Losses) gains on investments	(87,854,414)	79,988,649
Transaction costs	1,154,493	840,820
Market value of investments held at 31 January*	**638,181,593**	**704,417,968**
Closing book cost	669,241,759	666,794,237
Closing investment holding (losses) gains	(31,131,236)	37,617,023
Closing investment holding gains - derivatives	71,070	6,708
Closing market value	**638,181,593**	**704,417,968**
(Losses) gains on investments		
(Losses) gains on investment	(87,854,414)	79,988,649
Gains on derivative financial instruments	16,362	14,613
Transaction costs	1,154,493	840,820
(Losses) gains on investments	**(86,683,559)**	**80,844,082**

The company received £243,297,350 (2020: £184,930,719) from investments sold in the year. The book cost of these investments when they were purchased was £261,074,301 (2020: £166,927,420). 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.

* Included within the value of investments is the unlisted holding of £4,486 (2020: £4,486).

9. Investments in Other Companies

The company held more than 3% of the share capital of the following company, which is incorporated in Great Britain and registered in England and Wales:

Company	Class of Shares held	Fair Value £	% Equity
Fintrust Debenture PLC (Fintrust)	Ordinary Shares	4,486	50.0
Total		**4,486**	

In the opinion of the directors, the company is not in a position to exert significant influence over the financial operating policies of Fintrust, either through voting rights or through agreement with the company's other shareholders, due to provisions in Fintrust's Articles of Association and in certain contracts between the company and Fintrust. Accordingly, Fintrust is not considered to be an Associate Undertaking as per FRS 102 Section 14 and is therefore included in the Balance Sheet at the director's valuation. Fintrust was the lender of the company's Fixed Rate Interest Loan 2023. The Fixed Rate Interest Loan 2023 was repaid on 7 August 2019. Fintrust was placed into liquidation on 25 November 2019. The company continues to own share capital in Fintrust and will continue to pay its share of any additional expenses borne out of the liquidation process.

10. Other Receivables and Other Payables

	Notes	2021 £	2020 £
Other receivables			
Sales for future settlement		1,342,388	-
Share issue		-	2,170,087
Prepayments		30,094	40,220
Accrued income		2,670,712	2,097,678
		4,043,194	**4,307,985**
Other payables: Amounts falling due within one year			
Purchases for future settlement		-	2,552,625
Other payables		969,765	1,037,879
Interest on borrowings		349,008	349,483
Revolving Credit Facility	10(i)	26,108,699	26,146,092
		27,427,472	**30,086,079**
Interest on outstanding borrowing consists of:			
5.875% Secured Bonds 2029	11(i)	207,105	208,243
4% Perpetual Debenture Stock		13,826	13,863
2.96% Fixed Rate Notes 2052		128,077	127,377
		349,008	**349,483**

(i) On 3 July 2019 the company entered into a revolving credit facility agreement of £42m. Under this agreement £13m was drawn down on 3 August 2020 at a rate of 1.12% with a maturity date of 3 February 2021. A further £13m was drawn down on 2 November 2020 at a rate of 1.06% with a maturity date of 2 May 2021. The rate of interest for the revolving credit facility is set at each roll-over date and is made up of a fixed margin plus LIBOR rate. The repayment date of the revolving facility is the last day of its interest period and the termination date is 2 July 2022.

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

11. Creditors: Amounts falling due after more than one year

	Notes	2021 £	2020 £
5.875% Secured Bonds 2029	11(i)	29,476,503	29,430,883
4% Perpetual Debenture Stock	11(ii)	1,375,000	1,375,000
3.65% Cumulative Preference Stock	11(iii)	1,178,000	1,178,000
Fixed Rate Notes 2052	11(iv)	34,673,869	34,667,830
		66,703,372	**66,651,713**

(i) The £30,000,000 of 5.875% Secured Bonds is stated at £29,476,503 (2020: £29,430,883), being the net proceeds of £28,942,800 plus accrued finance costs of £533,703 (2020: £488,083). 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 £34,673,869 (2020: £34,667,830), being the net proceeds of £34,655,594 plus finance costs of £18,275 (2020: £12,236). 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.

12. Called up Share Capital

	2021 £	2020 £
Allotted and fully paid		
120,984,887 ordinary shares of 25p (2020: 112,878,464)	**30,246,222**	**28,219,616**

	2021 Number	2021 £	2020 Number	2020 £
Allotted 25p ordinary shares				
Brought forward	112,878,464	28,219,616	108,728,464	27,182,116
Shares issued during the year	8,106,423	2,026,606	4,150,000	1,037,500
Carried forward	**120,984,887**	**30,246,222**	**112,878,464**	**28,219,616**

During the year 8,106,423 shares were issued (2020: 4,150,000) for a total consideration of £32,071,124 (2020: £21,412,513, net of issues costs of £57,832 (2020: £38,615). The directors are seeking authority at the Annual General Meeting on 13 May 2021 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 40,853,295 ordinary shares of 25p each.

Since the year end a further 1,575,000 shares have been issued, as at 12 April 2021.

13. Reserves

	Share Premium Account £	Capital Redemption Reserve £	Capital Reserve: Gains (losses) on sales of Investments £	Capital Reserve: Investment Holding Gains (losses) £	Revenue Reserve £
Balance at 1 February 2020	54,092,585	292,853	470,461,177	37,648,048	31,819,957
Losses on sales of fixed asset investments	-	-	(106,893,189)	-	-
Gains on derivative financial instruments	-	-	16,362	-	-
Net movement in fixed asset investment holding gains	-	-	-	18,974,413	-
Movement in derivative holding gains	-	-	-	64,362	-
Transaction costs	-	-	-	1,154,493	-
Unclaimed dividends	-	-	-	-	47,140
Gains on foreign currencies	-	-	-	1,466	-
Transfer on sale of investments	-	-	88,877,165	(88,877,165)	-
Issue of ordinary shares	30,044,518	-	-	-	-
Investment management fee	-	-	(1,305,847)	-	-
Finance costs of borrowings	-	-	(2,180,161)	-	-
Other capital expenses	-	-	(2,069)	-	-
Dividends appropriated in the year	-	-	-	-	(31,612,732)
Profit retained for the year	-	-	-	-	21,847,806
Balance at 31 January 2021	**84,137,103**	**292,853**	**448,973,438**	**(31,034,383)**	**22,102,171**

Distributions can be made from both the capital and revenue reserves. All paid or payable dividends for the year are payable from the revenue reserve (2020: same).

14. 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 2020 to the net asset value, on a total return basis as at 31 January 2021. The net asset value total return with debt at market value is -12.4% (2020: 18.7%) and the net asset value total return with debt at par is -16.9% (2020: 17.7%).

The net asset value per ordinary share is based on 120,984,887 ordinary shares in issue at the year end (2020: 112,878,464). The method of calculation of the net asset value with debt at market value is described in Note 16(c) on page 97.

The net asset value per ordinary share was as follows:

	Debt at market value 2021	Debt at par 2021	Debt at market value 2020	Debt at par 2020
Net asset value per ordinary share attributable	439.7p	458.5p	533.1p	551.5p
Dividends paid in the year	27.2p	27.2p	26.6p	26.6p
Net asset value total return	**466.9p**	**485.7p**	**559.7p**	**578.1p**
Net asset value attributable	**531,921,257**	**554,717,404**	**£601,788,076**	**£622,534,236**

15. Contingent Liabilities and Commitments

At 31 January 2021 there were no contingent liabilities (2020: £nil).

Details of the guarantee provided by the company as part of the terms of the Loans are provided in Notes 11(i) and 11(ii) Creditors: Amounts falling due after one year on page 91.

16. 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 42. 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, 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 co-operation 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 36 and 37.

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 17 on page 99. 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 2021 was as follows:

	2021 £	2020 £
Listed investments held at fair value through profit or loss	638,230,472	704,441,782
Derivative financial instruments - written call options	(53,365)	(28,300)
Total listed investments	**638,177,107**	**704,413,482**

The following illustrates the sensitivity of the return and the net assets to an increase or decrease of 20% and 50% (2020: 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 the 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.

	2021 20% Increase in fair value £	2021 20% Decrease in fair value £	2021 50% Increase in fair value £	2021 50% Decrease in fair value £	2020 20% Increase in fair value £	2020 20% Decrease in fair value £	2020 50% Increase in fair value £	2020 50% Decrease in fair value £
Revenue earnings								
Investment management fees	(156,366)	156,366	(390,916)	390,916	(172,588)	172,588	(431,471)	431,471
Capital earnings								
Gains (losses) on investments at fair value	127,635,421	(127,635,421)	319,088,554	(319,088,554)	140,882,696	(140,882,696)	352,206,740	(352,206,740)
Investment management fees	(290,395)	290,395	(725,987)	725,987	(320,521)	320,521	(801,303)	801,303
Change in net earnings and net assets	**127,188,660**	**(127,188,660)**	**317,971,651**	**(317,971,651)**	**140,389,587**	**(140,389,587)**	**350,973,966**	**(350,973,966)**

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 36 and 37. 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 85 for detail of income received).

Further explanation of the derivatives strategy is included in the Glossary on page 109.

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. (2020: 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.

	2021 Fixed rate interest £	2021 Floating rate interest £	2021 Nil Interest £	2021 Total £	2020 Fixed rate interest £	2020 Floating rate interest £	2020 Nil Interest £	2020 Total £
Financial assets	-	6,623,461	638,234,958	644,858,419	-	10,546,075	704,446,268	714,992,343
Financial liabilities	(66,703,372)	(26,108,699)	(53,365)	(92,865,436)	(66,651,713)	(26,146,092)	(28,300)	(92,826,105)
Net financial (liabilities) assets	**(66,703,372)**	**(19,485,238)**	**638,181,593**	**551,992,983**	**(66,651,713)**	**(15,600,017)**	**704,417,968**	**622,166,238**
Short term receivables and payables				**2,724,421**				**367,998**
Net assets per balance sheet				**554,717,404**				**622,534,236**

As at 31 January 2021, the interest rates received on cash balances or paid on bank overdrafts, was 0.00% and 1.10% per annum respectively (2020: 0.20% and 1.75% per annum).

The fixed rate interest bearing liabilities bear the following coupon and effective rates as at 31 January 2021 and 31 January 2020.

	Maturity date	Amount borrowed £	Coupon rate	Effective rate since inception*
5.875% Secured Bonds 2029	20/12/2029	30,000,000	5.875%	6.23%
Fixed Rate Notes 2052	18/12/2052	35,000,000	2.96%	3.03%
4% Perpetual Debenture Stock	n/a	1,375,000	4.00%	4.00%
3.65% Cumulative Preference Stock	n/a	1,178,000	3.65%	3.65%
		67,553,000		

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 84.

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% (2020: 4.51%) and the weighted average period to maturity of these liabilities is 21.3 years (2020: 22.3 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 2021, 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 10 and 11 on pages 90 and 91. 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.

2021	Three months or less £	Between three months and one year £	Between one and five years £	More than five years £	Total £
Other payables					
Finance costs of borrowing	75,446	3,108,990	52,471	-	3,236,907
Revolving Credit Facility	-	26,000,000	-	-	26,000,000
Other payables	969,765	-	-	-	969,765
Derivative financial instruments	53,365	-	-	-	53,365
Creditors - Amounts falling due after more than one year					
Amounts payable on maturity of borrowings	-	-	-	67,553,000	67,553,000
Finance cost of borrowings	-	-	11,587,188	36,528,404	48,115,592
	1,098,576	**29,108,990**	**11,639,659**	**104,081,404**	**145,928,629**

2020	Three months or less £	Between three months and one year £	Between one and five years £	More than five years £	Total £
Other payables					
Finance costs of borrowing	49,875	3,220,242	237,962	-	3,508,079
Revolving Credit Facility	-	26,000,000	-	-	26,000,000
Other payables	3,590,504	-	-	-	3,590,504
Derivative financial instruments	28,300	-	-		28,300
Creditors - Amounts falling due after more than one year					
Amounts payable on maturity of borrowings	-	-	-	67,553,000	67,553,000
Finance costs of borrowing	-	-	11,587,188	39,327,204	50,914,392
	3,668,679	**29,220,242**	**11,825,150**	**106,880,204**	**151,594,275**

Management of liquidity risk
Liquidity risk is not significant as the company's assets mainly comprise 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 31 January 2021 the company had an undrawn overdraft facility of £10m (2020: £10m) and £16m undrawn committed RCF (2020: £16m).

(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 2021 (2020: 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 ratings 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:

	2021 £	2020 £
Other Receivables:		
Accrued income	2,670,712	2,097,678
Cash and cash equivalents	6,623,461	10,546,075
Total	**9,294,173**	**12,643,753**

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*:

	2021 Book Value £	2021 Fair Value £	2020 Book Value £	2020 Fair Value £
Revolving Credit Facility	26,108,699	26,000,000	26,146,092	26,000,000
5.875% Secured Bonds 2029	29,683,608	41,706,000	29,639,126	41,427,000
4% Perpetual Debenture Stock	1,388,826	2,991,587	1,388,863	2,524,225
3.65% Cumulative Preference Stock	1,178,000	2,349,639	1,178,000	1,984,223
2.96% Fixed Rate Notes 2052	34,801,946	42,910,000	34,795,207	41,958,000
Total	**93,161,079**	**115,957,226**	**93,147,288**	**113,893,448**

The net asset value per ordinary share, with debt at fair value is calculated as follows:

	2021 £	2020 £
Net assets per balance sheet	554,717,404	622,534,236
Add: financial liabilities at book value#	93,161,079	93,147,288
Less: financial liabilities at fair value*	(115,957,226)	(113,893,448)
Net assets (debt at fair value)	**531,921,257**	**601,788,076**
Net asset value per ordinary share (debt at fair value)	**439.7p**	**533.1p**

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 2021 and 31 January 2020. 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 120,984,887 ordinary shares in issue at 31 January 2021 (2020: 112,878,464).

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 11 and 12 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 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 January the financial assets at fair value through profit and loss are categorised as follows:

2021	Level 1 £	Level 2 £	Level 3 £	Total £
Financial assets at fair value through profit or loss				
Equity investments	638,230,472	-	-	638,230,472
Financial instruments	-	-	4,486	4,486
Derivatives financial instruments - written call options	-	(53,365)	-	(53,365)
	638,230,472	**(53,365)**	**4,486**	**638,181,593**

2020	Level 1 £	Level 2 £	Level 3 £	Total £
Financial assets at fair value through profit or loss				
Equity investments	704,441,782	-	-	704,441,782
Financial instruments	-	-	4,486	4,486
Derivatives financial instruments - written call options	-	(28,300)	-	(28,300)
	704,441,782	**(28,300)**	**4,486**	**704,417,968**

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 2021 and 31 January 2020.

17. 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:

	2021 £	2020 £
Debt		
Creditors: amounts falling due after more than one year	66,703,372	66,651,713
	66,703,372	**66,651,713**
Equity		
Called up share capital	30,246,222	28,219,616
Share premium account and other reserves	524,471,182	594,314,620
	554,717,404	**622,534,236**
Total Capital	**621,420,776**	**689,185,949**
Debt as a percentage of total capital	**10.7%**	**9.7%**

	Debt at par		Debt at fair value	
	2021 £	2020 £	2021 £	2020 £
Debt				
Revolving Credit Facility	26,108,699	26,146,092	26,000,000	26,000,000
Creditors: amounts falling due after more than one year	67,052,380	67,001,196	89,957,226	87,893,448
Gross debt	**93,161,079**	**93,147,288**	**115,957,226**	**113,893,448**
Total net assets	554,717,404	622,534,236	531,921,257	601,788,076
Gross gearing	**16.8%**	**15.0%**	**21.8%**	**18.9%**
Gross debt	93,161,079	93,147,288	115,957,226	113,893,448
Less: cash	(6,623,461)	(10,546,075)	(6,623,461)	(10,546,075)
Net debt	**86,537,618**	**82,601,213**	**109,333,765**	**103,347,373**
Total net assets	554,717,404	622,534,236	531,921,257	601,788,076
Net gearing	**15.6%**	**13.3%**	**20.6%**	**17.2%**

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 10 and 11.

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 period, 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.

18. 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 85. 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 66.

There are no other identifiable related parties at the year end, and as of 12 April 2021.

19. Post Balance Sheet events

A further 1,575,000 shares have been issued since the year end as at 12 April 2021.

Investor Information

Near the year end we added new holding DCC plc, which has an excellent track record of growing profits and dividends in the energy, healthcare and technology sectors.

Investor Information

AIFM and Depositary

Allianz Global Investors GmbH (AllianzGI), is designated the Alternative Investment Fund Manager (AIFM). AllianzGI is authorised to act as an AIFM and to conduct its activities from its UK Branch by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), in accordance with AIFMD and Financial Conduct Authority requirements. The management fee and the notice period are unchanged in the restated Management and Administration Agreement (details in Note 2 on page 85).

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

Employee remuneration of Allianz Global Investors GmbH for the financial year ending 31 December 2020 (all values in Euro).

Number of employees: 1,675

	All employees	Risk Taker	Board Member	Other Risk Taker	Employees with Control Function	Employees with Comparable Compensation
Fixed remuneration	164,233,442	7,695,609	1,758,427	1,435,262	449,851	4,052,069
Variable remuneration	103,587,135	17,405,428	3,452,759	5,203,209	206,037	8,543,423
Total remuneration	**267,820,577**	**25,101,037**	**5,211,186**	**6,638,471**	**655,888**	**12,595,492**

Remuneration Policy of the AIFM

The compensation structure at AllianzGI is set up to avoid any kind of excessive risk-taking. Variable compensation awards are delivered via deferral programmes to ensure they are linked to sustainable performance. In addition, any compensation decisions have to be reviewed and approved by the AIFM's Functional, Regional and Global Compensation Committees on both an aggregate and individual basis, to further ensure effective risk mitigation.

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.

The Merchants Trust KID is available from the Literature Library 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 89 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	February/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 fact sheets, 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/howtoinvest.

Dividend

The board is proposing a final dividend of 6.8p payable on 18 May 2021 to shareholders on the Register of Members at the close of business on 23 April 2021, making a total distribution of 27.2p per share for the year ended 31 January 2021, an increase of 0.4% over last year's distribution. The ex-dividend date is 22 April 2021. A Dividend Reinvestment Plan (DRIP) is available for this dividend and the relevant Election Date is 26 April 2021.

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 Asset Services, Link Group, 10th Floor, Central Square, 29 Wellington Street, Leeds LS1 4DL. Telephone: 0371 664 0300. Lines are open 9.00 a.m. to 5.30 p.m. (UK time) Monday to Friday.
Email: enquiries@linkgroup.co.uk
Website: www.linkgroup.eu

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 Asset Services 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 8.00am 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 Asset Services 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 Asset Services 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.

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.

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.

Warning to Shareholders

We are aware that some shareholders may have received unsolicited telephone calls or correspondence concerning investment matters. These are typically from overseas based organisations who target UK shareholders offering to sell them, what often turn out to be, worthless or high risk shares in US or UK investments or encourage them to dispose of UK shares. They can be extremely persistent and persuasive. Shareholders are therefore advised to be very wary of any unsolicited advice or offers.

Please note that it is most unlikely that either the company or the company's Registrar, Link Asset Services, would make unsolicited telephone calls to shareholders. Any such calls would only ever relate to official documentation already circulated to shareholders and never in respect of investment 'advice'.

If you are in any doubt about the veracity of an unsolicited telephone call, please call the Company Secretary on +44 (0)800 389 4696 or the Registrar on +44 (0) 371 664 0300.

Notice of Meeting

Notice is hereby given that the annual general meeting of The Merchants Trust PLC will be held 199 Bishopsgate, London EC2M 3TY, on Thursday 13 May 2021 at 12 noon 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 2021 together with the Auditors' Report thereon.
2. To declare a final dividend of 6.8p 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 re-elect Mary Ann Sieghart as a director.
7. To re-elect Sybella Stanley 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, 13 and 14 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 40,853,295 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 12,555,988 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 16 August 2022 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 18,371,727;

    (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 2022 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.

14. That the Articles of Association contained in the document produced to the meeting and signed by the Chairman for the purposes of identification, be approved and adopted as the new Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association, with effect from the conclusion of the 2021 Annual General Meeting.

By order of the board

Kirsten Salt
Company Secretary
199 Bishopsgate, London, EC2M 3TY
13 April 2021

Notes:

1 Members entitled to attend and vote at this meeting may appoint one or more proxies to attend, speak and vote in their stead by completion of a personalised form of proxy. Full details on how to complete the form of proxy are set out on the form of proxy. The proxy need not be a member of the company.

2 A proxy must vote in accordance with any instructions given by the member by whom the proxy is appointed. A proxy has one vote on a show of hands in all cases (including where one member has appointed multiple proxies), except where he/she is appointed by multiple members who instruct him/her to vote in different ways, in which case he/she only has one vote for and one vote against the resolution.

3 A personalised form of proxy is provided with the Annual Report. Any replacement forms must be requested direct from the registrar.

4 Completion of the form of proxy does not exclude a member from attending the meeting and voting in person (although other restrictions on attending the meeting may be in place).

5 Duly completed forms of proxy must reach the office of the registrars at least 48 hours (excluding non-business days) before the meeting.

6 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 on the Euroclear website (www.euroclear.com/CREST).

7 To be entitled to vote at the meeting (and for the purpose of determination by the company of the number of votes they may cast), members must be entered on the company's Register of Members by12.00 p.m. on 11 May 2021 (the record date).

8. If the meeting is adjourned to a time not more than 48 hours after the record date applicable to the original meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If, however, the meeting is adjourned for a longer period then, to be so entitled, members must be entered on the company's Register of Members at the time which is 48 hours before the time fixed for the adjourned meeting or, if the company gives new notice of the adjourned meeting, at the record date specified in that notice.

9. The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the company in accordance with section 146 of the Companies Act 2006 (nominated persons). Nominated persons may have a right under

an agreement with the registered shareholder who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights. Nominated persons should contact the registered member by whom they were nominated in respect of these arrangements.

10. 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.

11. 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.

12. 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.

13. As at 12 April 2021, 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 122,559,887 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 123,737,887.

14. 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.

15. Contracts of service are not entered into with the directors, who hold office in accordance with the company's Articles.

16. The full terms of the proposed amendments to the Company's articles of association are available at 199 Bishopsgate, London EC2M 3TY. A copy of the New Articles, together with a copy showing all of the proposed changes to the Existing Articles, will also be available for inspection on the Company's website, www.merchantstrust.co.uk from the date of the AGM Notice until the close of the AGM, and will also be available for inspection at the venue of the AGM from 15 minutes before and during the AGM.

New Articles – summary of the principal changes to the company's Articles of Association

Hybrid / virtual-only shareholder meetings

The New Articles permit the company to hold shareholder meetings on a virtual basis, whereby shareholders are not required to attend the meeting in person at a physical location but may instead attend and participate using electronic means. A shareholder meeting may be virtual-only if attendees participate only by way of electronic means, or may be held on a hybrid basis whereby some attendees attend in person at a physical location and others attend remotely using electronic means. This should make it easier for the company's shareholders to attend shareholder meetings if the board elects to conduct meetings using electronic means. Amendments have been made throughout the New Articles to facilitate the holding of hybrid or virtual-only shareholder meetings.
While the New Articles (if adopted) would permit shareholder meetings to be conducted using electronic means, the directors have no present intention of holding a virtual-only meeting. These provisions will only be used where the directors consider it is in the best of interests of shareholders for a hybrid or virtual-only meeting to be held. Nothing in the New Articles will prevent the company from holding physical shareholder meetings.

International tax regimes requiring the exchange of information

The board is proposing to include provisions in the New Articles to provide the company with the ability to require shareholders to co-operate in respect of the exchange of information in order to comply with the company's international tax reporting obligations.

The Hiring Incentives to Restore Employment Act 2010 of the United States of America, commonly known as the Foreign Account Tax Compliance Act, and all associated regulations and official guidance ('FATCA') imposes a system of information reporting on certain entities including foreign financial institutions such as the company following the enactment of the UK International Tax Compliance (United States of America) Regulations 2013 on 1st September 2013. These regulations have now been replaced by the International Tax Compliance Regulations 2015 (the 'Regulations').

The Board is proposing to make amendments to the Existing Articles to ensure that: (i) the Company has the ability to require shareholders to co-operate with it so that the Company is able to comply with its obligations under the Regulations in order to avoid being deemed to be a 'Non-participating Financial Institution' for the purposes of FATCA (and consequently having to pay withholding tax to the US Internal Revenue Service); (ii) the Company will not be liable for any monies that become subject to a deduction or withholding relating to FATCA, as such liability would be to the detriment of shareholders as a whole: and (iii) the Company has the ability to require shareholders to co-operate and provide further information in respect of the broader obligations under the OECD (Organisation for Economic Co-operation and Development) Common Reporting Standard for Automatic Exchange of Financial Account Information (the "Common Reporting Standard").

Minor amendments

The board is also taking the opportunity to make some additional minor or technical amendments to the Existing Articles, including (i) lowering the minimum number of directors required to two; (ii) clarifying that the consideration (if any) received by the company upon the sale of any Share which is forfeited by a shareholder pursuant to the New Articles will belong to the company; (iii) removing the requirement for the company to publish newspaper advertisements in relation to the untraced shareholders procedure; (iv) providing directors the bespoke ability to postpone meetings; (v) providing the directors with the ability to require additional security, access and safety measures to be put in place at general meetings of the company; and (vi) providing procedures for when there are insufficient directors. These changes reflect modern best practice and are intended to relieve certain administrative burdens on the company.

Glossary

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. As at 31 January 2021, the NAV with debt at par value was £554,717,404 (2020: £622,534,236) and the NAV per share was 458.5p (2020: 551.5p).

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 2021 earnings per ordinary share was 18.5p (2020: 29.7p), calculated by taking the profit after tax of £21,847,806 (2020: £32,643,236), divided by the weighted average shares in issue of 118,050,092 (2020: 110,037,230).

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 (see pages 97 and 98). As at 31 January 2021, the NAV with debt at market value was £531,921,257 (2020: £601,788,076) and the NAV per share with debt at market value was 439.7p (533.1p). (Further details can be found in Note 16(c) on page 97).

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 14 on page 92).

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 (see page 3). The share price as at 31 January 2021 was 438.5p, a decrease of 93.5p from the price of 532.0p as at 31 January 2020. The change in share price of 93.5p plus the dividends paid in the year of 27.2p are divided by the opening share price of 532.0p to arrive at the share price total return for the year ended 31 January 2021 of -12.5% (2020: +18.6%).

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 3).

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 40).

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 11).

	2021 £	2020 £
Management fee	2,008,996	2,386,058
Administration expenses	1,059,261	855,480
Less - non-recurring expenses	(201,165)	(12,000)
Total expenses (A)	**2,867,092**	**3,229,538**
Average net asset value with debt at market value (B)	466,877,915	544,002,583
Ongoing charge (A/B)	**0.61%**	**0.59%**

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.

Yield represents dividends declared in the past year as a percentage of the share price. This is shown as 6.2% at 31 January 2021 in the highlights on page 2.

	2021	2020
Dividends declared for the year	27.2p	27.1p
Share price at year end	438.5p	532.0p
Annual dividend as a percentage of the share price	**6.2%**	**5.1%**

Gearing is the amount of debt as a percentage of the net assets (see Note 17 on page 99).

The Merchants Trust PLC
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www.merchantstrust.co.uk