EDISON

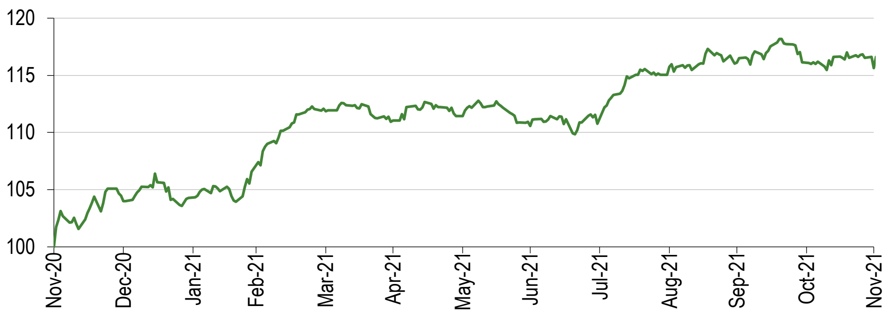
The Merchants Trust

Firing on all cylinders

Investment trusts
UK equity income

The Merchants Trust (MRCH) is managed by Simon Gergel, who is chief investment officer, UK equities, at Allianz Global Investors (AllianzGI). This firm has been engaged in environmental, social and governance (ESG) research since 2000, and a consideration of ESG factors is deeply embedded in MRCH's disciplined investment process. While the manager is very encouraged by the trust's improved performance following a tough period in early-2020, he is not complacent, and continues to seek high-quality businesses that are trading on reasonable valuations and can be held for the long term. MRCH consistently offers a dividend yield above that of the broad UK stock market and is on track for 40 years of consecutive annual dividend growth; its current yield is 4.9%.

NAV outperformance vs UK market over 12 months to end-November 2021



Source: Refinitiv, Edison Investment Research

The analyst's view

MRCH now has a broader income opportunity set given that up to 10% of the fund can be invested in overseas equities; there are currently four European companies in the portfolio, which make up c 6% of the fund. Gergel does not target a specific dividend yield; instead, the yield is an output of his diligent, bottom-up stock selection process. While the manager has a value bias, he does not employ a deep-value approach, which may involve investing in low-quality companies. MRCH has a commendable investment track record given that investors have favoured growth stocks for the majority of the last decade. The trust is ahead of its benchmark over the last one, three, five and 10 years. It currently ranks first, first and fifth over the last one, three and five years respectively out of the 17 largest funds in the AIC UK Equity Income sector. MRCH also has the second-highest dividend yield in this selected peer group.

High investor demand means regular share issuance

MRCH's shares are currently trading at a 0.2% premium to NAV, which compares to a range of an average 0.3% premium to a 1.9% discount over the last one, three, five and 10 years. Strong investor demand for the trust's shares has meant that so far in FY22 (January year-end) c 5.2m shares (c 4.3% of the share base) have been issued, raising c £27.1m.

10 December 2021

Price	**553.0p**
Market cap	**£698m**
AUM	**£768m**
NAV*	551.9p
Premium to NAV	0.2%

*Including income. As at 8 December 2021.

Yield	4.9%
Shares in issue	126.2m
Code/ISIN	MRCH/GB0005800072
Primary exchange	LSE
AIC sector	UK Equity Income

52-week high/low	557.0p	428.0p
NAV* high/low	551.9p	432.2p

*Including income.

Gearing

Net gearing*	12.5%

*As at 31 October 2021.

Fund objective

The Merchants Trust's investment objective is to provide an above-average level of income and income growth, together with long-term growth of capital, through investing mainly in higher-yielding large-cap UK companies (up to 10% of the fund may be invested in overseas equities). With effect from 1 February 2017, the benchmark is a broad UK stock market index (previously an index of the 100 largest UK companies).

Bull points

- Attractive above-market dividend yield and revenue reserves equivalent to around 0.6x the last annual distribution.
- Long-term record of outperformance versus the UK stock market.
- Competitive fee structure.

Bear points

- Relative performance is likely to struggle in a growth/momentum-led market.
- FY21 dividend was uncovered.
- UK economy is burdened by the government's heavy debt load.

Analysts

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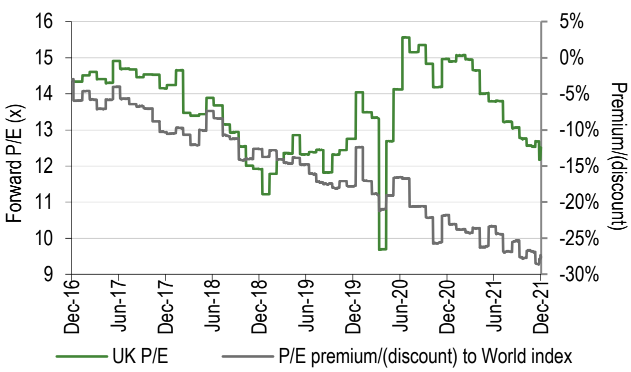
Market outlook: Potential for a re-rating

Despite an active COVID-19 vaccination programme that has helped the economy to get back on track, the UK stock market continues to be attractively valued in both absolute and relative terms. The Datastream UK index is currently trading on a forward P/E multiple of 12.5x, which is a 6% discount to its 10-year average. This is a c 28% discount compared with the Datastream World index, which is trading on a forward P/E multiple of 17.3x and is a 17% premium to its 10-year average. While there are current hiccups in supply chains, over time these are likely to be worked through and looking ahead to next year, barring further lockdowns, there is the prospect of healthy growth in corporate earnings, helped by high levels of government spending and pent-up consumer demand. This could lead to a re-rating of UK stocks, especially if the level of merger and acquisition activity remains buoyant, as overseas companies are taking advantage of being able to acquire attractively valued UK businesses.

Exhibit 1: Valuation of UK equities

Valuation versus global market (last five years)



Valuation metrics (at 9 December 2021)

	Last	High	Low	10-year average	Last as % of average
UK					
P/E 12 months forward (x)	12.5	15.8	9.2	13.3	94
Price to book (x)	1.1	1.9	0.7	1.3	88
Dividend yield (%)	3.1	6.4	2.7	3.5	87
Return on equity (%)	10.6	14.9	1.3	9.1	116
World					
P/E 12 months forward (x)	17.3	19.8	10.3	14.8	117
Price to book (x)	2.4	2.4	1.3	1.8	133
Dividend yield (%)	1.9	3.4	1.8	2.5	75
Return on equity (%)	12.8	13.0	7.2	10.8	119

Source: Refinitiv, Edison Investment Research

The manager's view: Upbeat outlook on UK stocks

Gergel is keen to highlight that he believes the UK stock market still offers very good value, especially compared with other developed markets. He notes that the UK market remains polarised, in terms of company valuations, although the disparity is less extreme than in 2020. The manager says that there are 'great opportunities for active stock pickers'. More than 20% of the broad UK market index is represented by companies trading on a forward P/E multiple above 24x, with more than 25% trading at less than 8x. Unsurprisingly, given the trust's investment process, its portfolio is biased towards the less-expensive end of the UK market. Gergel is very encouraged by MRCH's absolute and relative performance over the last year, but he is not resting on his laurels. He reports that there has been some repositioning of the trust's portfolio: taking profits in more-cyclical names that have done particularly well and reinvesting in more defensive and higher-growth companies.

The manager remains optimistic on the outlook for the UK economy, albeit he is a little more cautious than he was six months ago; interest rates remain very low, there is a high level of government spending, including on infrastructure, and in aggregate, consumers have been able to increase their savings during lockdowns. Brexit uncertainty had put downward pressure on the UK economy between mid-2016 and the beginning of this year, so Gergel believes there is much latent growth potential that can be released. While inflation is rising, including energy costs, and there are supply chain disruptions, the manager expects these issues to gradually start to ease; however, he would not be surprised to see company-specific profit warnings in the coming months due to margin pressure as a result of higher costs. Gergel's positive outlook on the UK economic recovery is based on his view that inflation will not choke growth, and he does not expect interest rates to rise significantly as there is so much debt at both the government and the consumer level, so the Bank of England cannot raise interest rates too quickly. Given attractive valuations, the UK is proving to be a fertile area for takeovers this year, and this above-average level of activity is continuing, although the number of initial public offerings has slowed following some high-profile disappointments including THG, Made.com, Victorian Plumbing and Deliveroo.

Current portfolio positioning

At end-October 2021, MRCH's top 10 holdings made up 38.0% of the fund, which was broadly in line with 38.6% a year earlier; seven positions were common to both periods. European equities made up 5.8% of the portfolio. As discussed in our July 2021 review, Gergel can now invest up to 10% of the fund in overseas equities. MRCH has four European stocks to diversify the trust's sources of income as the UK market is very concentrated in terms of high dividend payers; these are Sanofi (pharma), SCOR and Swiss Re (both reinsurance, an area under-represented in the UK market) and TotalEnergies (energy). The manager says he will be sticking to the 10% overseas exposure limit and investors can be reassured that MRCH will remain a UK-focused fund.

Exhibit 2: Top 10 holdings (at 31 October 2021)

Company	Sector	Portfolio weight %	
		31 October 2021	31 October 2020*
GlaxoSmithKline	Pharma & biotech	5.3	5.6
British American Tobacco	Tobacco	4.4	4.6
Imperial Brands	Tobacco	4.1	4.6
BP	Oil & gas producers	3.9	N/A
Royal Dutch Shell 'B' shares	Oil & gas producers	3.6	N/A
SSE	Electricity	3.6	3.9
WPP	Media	3.4	3.0
BAE Systems	Aerospace & defence	3.3	3.6
Legal & General Group	Insurance	3.2	N/A
National Grid	Gas, water & multi-utilities	3.2	3.7
Top 10 (% of portfolio)		**38.0**	**38.6**

Source: MRCH, Edison Investment Research. Note: *N/A where not in end-October 2020 top 10.

In Exhibit 3, we show MRCH's sector breakdown. It is not possible to provide a year-on-year comparison as the index sector classifications have changed during the last 12 months. The trust's largest active weights are an above-market weighting in utilities (+6.6pp) and a below-market weighting in basic materials (-6.9pp).

Exhibit 3: Portfolio sector exposure vs benchmark (% unless stated)

	Portfolio end-October 2021	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Financials	22.4	23.1	(0.7)	1.0
Consumer discretionary	15.2	12.2	3.0	1.2
Consumer staples	14.7	14.5	0.2	1.0
Industrials	13.7	13.0	0.7	1.1
Energy	10.5	8.5	2.1	1.2
Utilities	9.6	3.0	6.6	3.2
Healthcare	6.6	10.1	(3.5)	0.7
Telecommunications	2.9	1.9	1.1	1.6
Basic materials	2.1	9.0	(6.9)	0.2
Real estate	1.5	3.2	(1.7)	0.5
Technology	0.0	1.6	(1.6)	0.0
Cash	0.8	0.0	0.8	N/A
	100.0	**100.0**		

Source: MRCH, Edison Investment Research. Note: Numbers subject to rounding.

Gergel highlights changes in the portfolio this year. He has added some higher-quality companies that had derated including RELX, Sanofi and Tesco, and special situations at a fair price such as

Drax. The manager sold some of the trust's more cyclical stocks that had performed well including BT, CRH, Inchcape, Kin and Carta, and Meggitt, which received a takeover bid, along with lower-conviction positions such as Abrdn and Hammerson. In aggregate, MRCH's cyclical exposure has declined and there is a higher weighting in more defensive and higher-growth names.

In September 2021, Gergel initiated a new position in home emergency repairs and improvements company HomeServe, which had derated, in part due to having to write off a customer relationship management system that was being developed internally and was replaced by an off the shelf product; also, the company's growth rate in the UK came under pressure. The manager believes that HomeServe has 'good defensive growth prospects and a decent yield'. It has a leading position in the home services markets in North America and Europe. The company works with utilities providing services to the home including pipes. HomeServe offers an insurance-type product and has very strong growth in the United States, where it is the market leader. It took a long time for the company to achieve critical mass, but it is now generating a high return on equity. HomeServe is benefiting from the energy revolution such as the growth in electric vehicle charging points and air sourced heat pumps and also owns Checkatrade, the UK's leading directory of vetted and recommended tradespeople. This business is currently loss-making but is approaching profitability. Gergel suggests that HomeServe's high-teens P/E multiple does not take into account the value of its 'home expert' business, c 3.0% dividend yield and strong free cash flow generation. The company is rolling out its Japanese operations and is benefiting from growth in online portals and people spending more on their homes.

While MRCH's portfolio in aggregate is modestly valued, the manager is keen to stress that it is made up of quality companies. There are a series of themes represented in the fund including environmental change enablers (undervalued ESG plays) and digital winners (companies on the right side of structural change). One of MRCH's environmental change enablers is SSE, which recently held an investor day. The company is the largest UK builder of offshore wind farms and is significantly increasing its renewables capacity. It is also increasing spending on its distribution network given the shift to more electric vehicles. Next is an example of a digital winner; traditionally a physical retailer, the company now generates most of its profits from its online operations. As well as Next-branded products, the company sells a large range of third-party brands, including Gap, where it has a 51% stake in a joint venture to host Gap's UK and Irish online business. Next is expanding its overseas online operations and post-lockdown growth has been very strong. The company trades on a reasonable valuation due to its legacy store network. Gergel expects Next's growth rate to positively inflect as its online business becomes an even greater percentage of its overall profits.

Performance: Long-term record of outperformance

Exhibit 4: Five-year discrete performance data

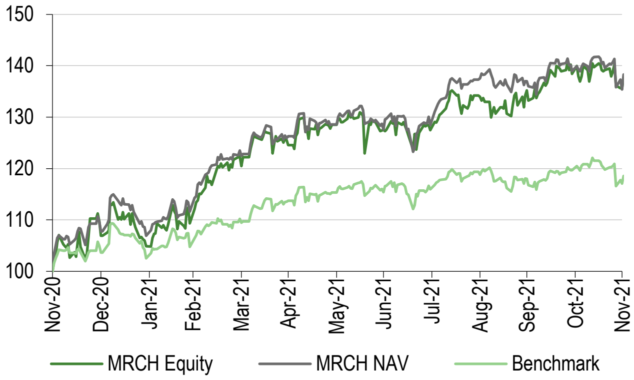
12 months ending	Share price (%)	NAV* (%)	Blended benchmark **(%)	CBOE UK All companies (%)	CBOE UK 100 Companies (%)
30/11/17	14.5	13.1	13.6	13.4	12.3
30/11/18	2.6	(1.7)	(1.5)	(1.5)	(0.7)
30/11/19	17.1	14.8	11.0	11.0	10.2
30/11/20	(13.0)	(14.2)	(10.6)	(10.6)	(6.5)
30/11/21	35.6	35.4	17.1	17.1	16.0

Source: Refinitiv. Note: All % on a total return basis in pounds sterling. *NAV with debt at market value. **Blended benchmark is UK 100 Index until 31 January 2017 and UK All-Share Index thereafter.

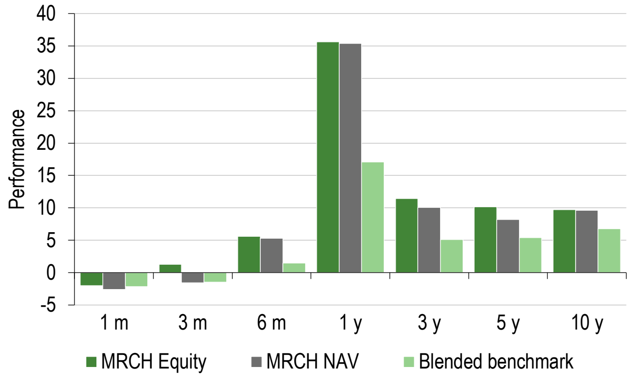
MRCH has delivered impressive absolute and relative results over the 12 months to end-November. Its net asset value (NAV) and share price total returns of 35.4% and 35.6% respectively are significantly ahead of its benchmark's 17.1% total return.

Exhibit 5: Investment trust performance to 30 November 2020

Price, NAV and benchmark total return performance, one-year rebased



Price, NAV and benchmark total return performance (%)



Source: Refinitiv, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

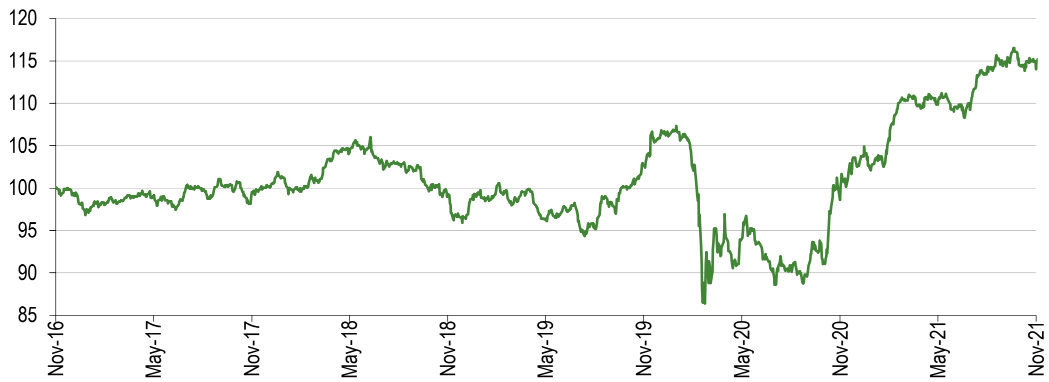
MRCH's relative returns are shown in Exhibit 6. It has outpaced the broad UK market over almost all periods shown in both NAV and share price terms. Over the last year, positions that have contributed positively to the trust's performance include Meggitt, which received a takeover bid at a c 70% premium to its pre-bid share price, and SThree, whose recruitment businesses have held up relatively well during the pandemic given its focus on temporary and science, technology, engineering and mathematics (STEM) workers. MRCH's performance has also benefited from not holding Unilever, which has underperformed significantly due to cost pressures. Detractors to the trust's performance over the last year include not owning Glencore, which has benefited from strong commodity prices, while some defensive company share prices have lagged such as MRCH's holdings in GlaxoSmithKline and Tate & Lyle. Gergel notes that in the 12 months to the end of September 2021, the trust's top 10 positive positions each made an active contribution of more than 100bp, while there was only one negative contributor of more than 100bp. The manager is very happy with what MRCH has delivered, which has been helped by avoiding value traps (companies that look attractively valued but whose share prices are unlikely to appreciate).

Exhibit 6: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to blended benchmark	0.2	2.8	4.0	15.9	19.1	24.9	31.0
NAV relative to blended benchmark	(0.4)	(0.1)	3.8	15.6	14.8	14.0	29.6
Price relative to CBOE UK All Companies	0.2	2.8	4.0	15.9	19.1	25.1	25.4
NAV relative to CBOE UK All Companies	(0.4)	(0.1)	3.8	15.6	14.8	14.3	24.0
Price relative to CBOE UK 100	(0.1)	1.4	3.5	16.9	15.7	21.8	27.8
NAV relative to CBOE UK 100	(0.7)	(1.4)	3.2	16.7	11.6	11.2	26.4

Source: Refinitiv, Edison Investment Research. Note: Data to end-November 2021. Geometric calculation.

Exhibit 7: NAV total return performance relative to the benchmark over five years



Source: Refinitiv, Edison Investment Research

Peer group comparison

Exhibit 8 shows the 17 largest funds of the 22 that make up the AIC UK Equity Income sector; they all have market caps above £100m. MRCH's improved performance means that its NAV total return is above the selected group average over one, three and five years, ranking first, first and fifth respectively, while trailing modestly over the last decade, ranking sixth. The trust's strong performance has been achieved despite its value bias in a decade where growth stocks have been favoured by investors, and its NAV total returns rank favourably versus other value strategy funds such as Edinburgh Investment and Temple Bar. The manager believes that the trust will be very well positioned if there is a sustained recovery in value stocks.

As at 9 December MRCH was trading on the second-highest premium in the selected peer group, reflecting strong demand for its shares. The trust has a competitive ongoing charge, and no performance fee is payable. Its level of gearing is above the mean and it currently offers the second-highest dividend yield in the selected peer group (1.1pp above the mean).

Exhibit 8: Selected peer group as at 9 December 2021*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Premium/ (discount)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
Merchants Trust	697.9	31.7	48.8	51.6	148.6	0.4	0.6	No	113	4.9
Aberdeen Standard Equity Inc Trust	169.1	17.8	10.1	12.9	105.5	(7.3)	0.9	No	112	5.9
BMO Capital & Income	347.9	20.1	34.5	44.7	140.7	(2.6)	0.6	No	106	3.6
BMO UK High Income Units	118.6	9.0	25.3	25.3	99.4	(7.6)	1.0	No	111	4.3
City of London	1,750.5	16.9	21.5	29.1	123.8	(0.7)	0.4	No	110	4.9
Diverse Income Trust	416.2	18.5	38.6	50.9	259.4	1.5	1.1	No	100	3.3
Dunedin Income Growth	477.1	12.3	44.7	52.7	134.5	(0.4)	0.6	No	108	4.0
Edinburgh Investment	1,081.3	20.4	17.6	19.4	116.6	(8.2)	0.4	No	106	3.8
Finsbury Growth & Income	2,014.2	12.2	34.5	68.8	265.4	(4.8)	0.6	No	101	1.9
Invesco Select UK Equity	152.1	28.2	42.5	42.3	200.4	(2.7)	0.9	No	108	3.4
JPMorgan Claverhouse	455.3	22.4	35.5	41.3	153.5	0.3	0.7	No	119	4.0
Law Debenture Corporation	948.9	23.4	46.4	63.2	205.1	(0.4)	0.6	No	112	3.7
Lowland	360.7	24.0	21.1	24.3	147.6	(7.5)	0.6	No	114	4.5
Murray Income Trust	1,056.4	18.0	42.7	55.0	144.0	(7.4)	0.5	No	109	3.7
Schroder Income Growth	210.5	13.0	26.4	29.4	128.5	0.3	0.8	No	111	4.2
Temple Bar	736.1	21.5	14.2	14.9	107.0	(7.4)	0.5	No	107	3.5
Troy Income & Growth	254.3	15.2	22.8	33.4	125.6	(1.7)	0.9	No	100	1.8
Selected group average (17 funds)	**661.6**	**19.1**	**31.0**	**38.8**	**153.3**	**(3.3)**	**0.7**		**109**	**3.8**
MRCH rank	**7**	**1**	**1**	**5**	**6**	**2**	**7**		**3**	**2**

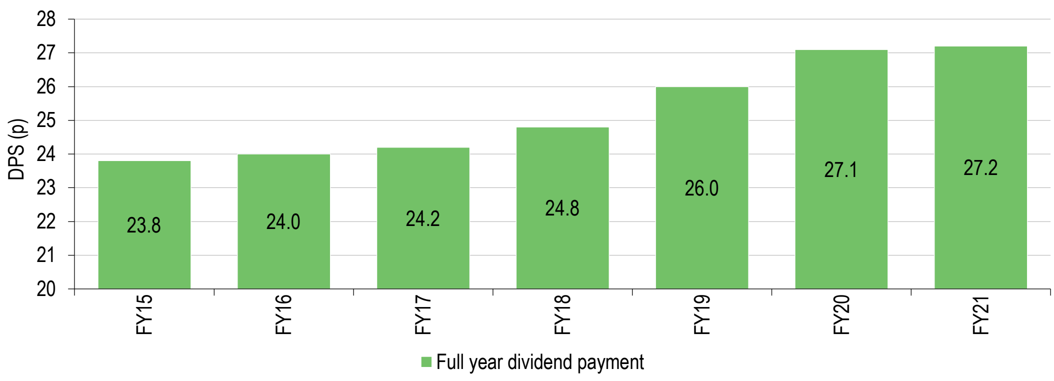
Source: Morningstar, Edison Investment Research. Note: *Performance to 8 December 2021. NAV with debt at par. TR, total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

Dividends: Long-term record of dividend growth

MRCH's annual dividend has increased for the last 39 consecutive years, compounding at a rate considerably higher than that of UK CPI inflation (Exhibit 10). As shown in Exhibit 11, the trust consistently offers a higher dividend yield than the broad UK market. Distributions are made quarterly in August, November, February/March and May.

In H122, MRCH's earnings were 13.3p per share, which was 49.4% higher year-on-year compared with a depressed level of 8.9p per share in H121. So far in FY22, the board has declared two quarterly dividends of 6.8p per share, which are flat year-on-year. At the end of H121, MRCH had revenue reserves of 17.6p per share, which is c 0.6x the last annual dividend; FY21 was the first time that the board had drawn on MRCH's revenue reserves since FY17. Based on its current share price, the trust offers a 4.9% dividend yield. In April 2021, a statement from MRCH's chairman stated that the board recognises the importance of a growing dividend to shareholders and could see a path to a covered distribution in the medium term. It plans to continue with the trust's progressive dividend policy, utilising revenue reserves when necessary. Also, Gergel says that since April, the outlook for MRCH's income has improved, helped by takeovers of lower-yielding stocks.

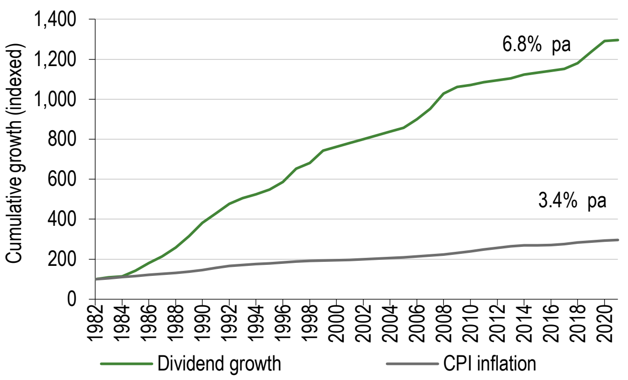
Exhibit 9: Dividend history since FY16



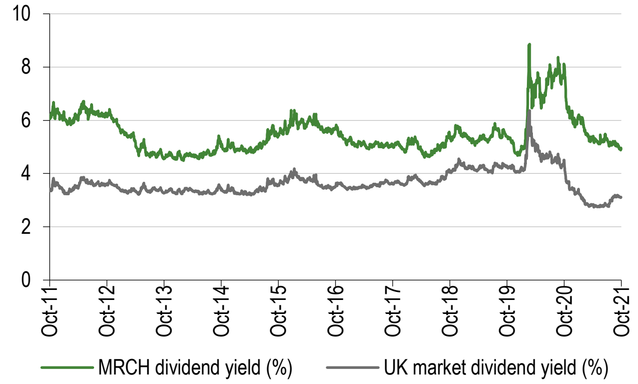
Source: Bloomberg, Edison Investment Research

Exhibit 10: MRCH's dividend yield and growth (%)

Growth of MRCH's dividend vs UK inflation



MRCH's dividend yield vs FTSE All-Share dividend yield

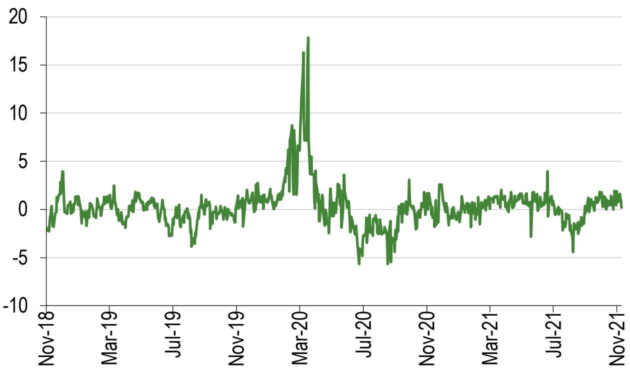


Source: Refinitiv, MRCH, Edison Investment Research

Valuation: Regularly trading at a premium

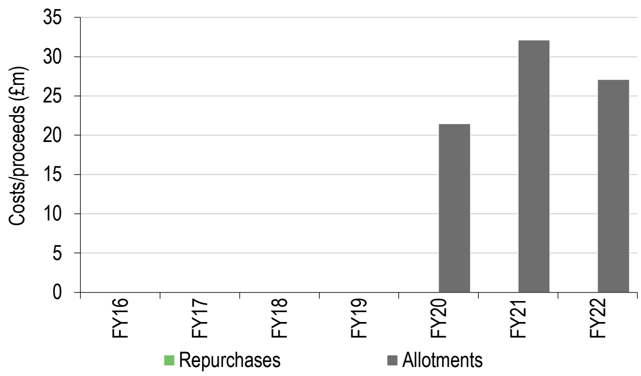
MRCH's current 0.2% share price premium to cum-income NAV compares with a range of a 4.0% premium to a 4.4% discount over the last 12 months. Over the last one, three, five and 10 years, the trust has traded at average premiums of 0.3% and 0.3% and average discounts of 1.8% and 1.9% respectively.

Exhibit 11: Discount over three years (%)



Source: Refinitiv, Edison Investment Research

Exhibit 12: Buybacks and issuance



Source: Morningstar, Edison Investment Research

The board's policy is to issue new shares when MRCH's shares are trading at a premium to NAV with debt at market value and to consider repurchasing them when they are at a sustained discount to NAV. So far in FY22, c 5.2m shares (c 4.3% of the share base) have been issued, raising c £27.1m.

Fund profile: High-conviction, diversified portfolio

MRCH was launched in 1889, and as such is one of the oldest investment trusts listed on the London Stock Exchange. Since 2006, MRCH has been managed by AllianzGI's chief investment officer for UK equities, Simon Gergel, who has c 35 years of investment experience. He aims to provide an above-average level of income and income growth, together with long-term capital appreciation from a high-conviction portfolio of mainly higher-yielding large UK companies. The manager works closely with Matthew Tillett (a portfolio manager with 15 years' investment experience and now lead manager of MRCH's stablemate The Brunner Investment Trust) and Richard Knight (a portfolio manager with seven years' investment experience).

The trust's portfolio is relatively concentrated, with c 40–60 stocks, and Gergel has a contrarian approach, seeking undervalued equities that can be held for the long term. MRCH's performance is measured against the broad UK market (prior to the end of January 2017 it was versus the 100 largest UK companies). Investment guidelines are in place to mitigate risk. MRCH must have exposure in at least five of the 11 market sectors, with a maximum 35% of the fund in a single sector. Any holding may not exceed 15% of assets. Gearing in a range of 10–25% of NAV, at the time of drawdown, is permitted; at end-October 2021, net gearing was 12.5%.

MRCH has a distinguished dividend history: it has increased its annual distribution for the last 39 consecutive years, using reserves to supplement income when required. MRCH currently offers an above-market dividend yield of 4.9%.

Investment process: Three pillars

Gergel focuses on undervalued companies with strong fundamentals, aiming to generate a high – and rising – income stream and long-term capital growth. He says that there is compelling historical evidence that, on average, companies paying high dividend yields have delivered above-average total returns, not just a higher income stream. The manager is able to draw on the broad resources of AllianzGI's investment team, which includes equity, credit and macroeconomic research analysts, ESG specialists, and the proprietary Grassroots market research operation.

Companies considered for inclusion in the portfolio undergo thorough fundamental research with a particular focus on the sustainability of a firm's cash flows. Stock selection is centred around three pillars:

- **Fundamentals** – focus on a company's industry structure and competitive position, its financial metrics and ESG factors.
- **Valuation** – in absolute and relative terms, along with dividend yield.
- **Themes** – industry and secular issues, the macroeconomic outlook and the stage of the business cycle.

MRCH's portfolio can be broken down into four broad 'buckets': high yield (c 30–40%) – undervalued companies with a high dividend yield; cyclical growth (c 30–40%) – companies that can grow over a cycle but may have economic or market sensitivity; defensive growth (c 20–25%) – firms that can grow with limited economic sensitivity; and special situations (c 5–15%) – companies undergoing a turnaround or restructuring. Positions may be sold if they become fully valued, there is a change in the investment case, or a better opportunity is identified.

MRCH's approach to ESG

The consideration of ESG factors is fully integrated into MRCH's research process along with more traditional operational and financial analysis. By understanding how a business interacts with the environment, treats its employees and deals with customers and suppliers, the manager and his team can gain valuable insights into its future prospects, and can assess long-term risks, which might not be evident in financial metrics. Companies with a low score on any ESG factor are sold or need a documented justification from the manager. The process is independently monitored by a separate team within AllianzGI, with daily exception reporting.

AllianzGI believes that it has an important duty to engage with the boards and management teams of MRCH's investee companies and to regularly submit proxy votes. 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, helps engender real change and make a positive difference to society. AllianzGI sees ESG as a distinctly different philosophy from socially responsible investing, where investment universes are explicitly constrained to avoid 'bad companies' so that portfolios can be skewed toward 'good companies'. It believes that ESG risk, once properly understood, should be considered in the context of risk/reward, like all other risks considered by the manager. Furthermore, AllianzGI believes that third-party ESG/SRI research is too dependent on limited company disclosures. Therefore, its analysts and managers challenge third-party research, developing their own conclusions based on material risks.

For MRCH, Gergel says that, in terms of ESG, there has been ongoing engagement with energy companies, including discussions about methane emissions. He also highlights a recent engagement with a tobacco firm urging it to accelerate the shift to next-generation, less-harmful vaping and heat-not-burn products, which could be a significant benefit to society. Tobacco companies are also focusing more on their energy consumption and social care of the farming communities that produce their raw materials.

Gearing

MRCH has c £93m of debt with an effective interest rate of c 3.6% at end-FY21 (considerably lower than 8.5% at end-FY17). Hence, if Gergel can generate total returns greater than 3.6% pa, gearing will be additive to the trust's performance. At the end of October 2021, MRCH's net gearing was 12.5%; this has declined from 16.9% so far in FY22, as the trust's NAV has increased significantly and there has been regular share issuance. The manager is comfortable with the current level of gearing, and it remains within the board's policy range of 10–25%.

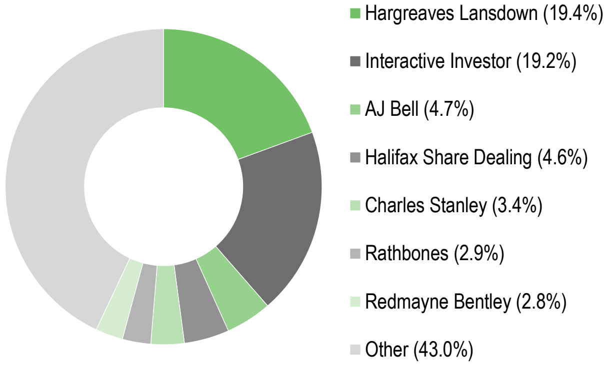
Fees and charges

AllianzGI is paid 0.35% pa of the value of MRCH's gross assets (minus current liabilities, short-term loans and any funds within the portfolio managed by AllianzGI). The management fee is allocated 65% to the capital and 35% to the revenue accounts respectively, which helps to boost the trust's level of income, and reflects the board's expected split of long-term returns between capital and income. MRCH's FY21 ongoing charge was 0.61% compared with 0.59% in FY20 due to a lower level of net assets year-on-year.

Capital structure

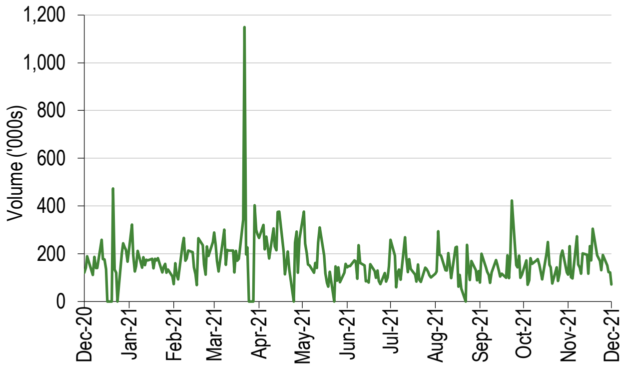
MRCH is a conventional investment trust with one class of share; there are 126.2m ordinary shares in issue and its average daily trading volume over the last 12 months is c 172k shares.

Exhibit 12: Major shareholders



Source: MRCH, at 30 November 2021

Exhibit 13: Average daily volume



Source: Refinitiv. Note: 12 months to 9 December 2021.

The board

Exhibit 14: MRCH's board of directors

Board member	Date of appointment	Remuneration in FY21	Shareholdings at end-FY21
Colin Clark (chairman since September 2019)	June 2019	£39,750	10,000
Sybella Stanley (senior independent director)	November 2014	£26,500	3,114
Mary Ann Sieghart	November 2014	£26,500	1,000
Timon Drakesmith*	November 2016	£32,250	15,000
Karen McKellar	May 2020	£19,875	5,000

Source: MRCH. Note: *Chairman of the audit committee.