

# The Merchants Trust

UK equity valuations providing many opportunities

The Merchants Trust (MRCH) manager, Simon Gergel at Allianz Global Investors, has been at the helm for the last 17 years during a variety of market environments. He has remained true to his investment process, seeking high-quality companies with solid fundamentals that are trading on reasonable valuations. The manager is very encouraged by the current valuation backdrop as, in aggregate, the UK market is trading at the low end of its 20-year range and within the market there is a wide dispersion of valuation multiples. A large proportion of UK stocks, including those of quality businesses, are trading on forward P/E multiples of less than 10x, providing Gergel with a large pond in which to fish. His approach has proved successful with mid- and long-term outperformance of MRCH's broad UK market benchmark. With the trust's dual mandate of income and capital growth, it offers an attractive 5.2% dividend yield and has grown its annual dividends for the last 41 consecutive years.

## Meaningful NAV outperformance vs the benchmark over last three years



Source: Refinitiv, Edison Investment Research

## Why consider MRCH?

The 41 consecutive years of higher dividends has earned MRCH 12th place in the AIC's list of 20 dividend heroes (funds that have achieved at least 20 consecutive years of higher dividends). Reflecting the board's confidence in the trust's income generating ability, two FY24 interim dividends have been paid so far, which are 3.6% higher year-on-year. This compares to the FY23 annual dividend, which was just 1.1% higher than the FY22 total distribution.

In our October 2023 [update](#), we highlighted that Gergel considered the UK's valuation backdrop to be 'a stock picker's dream'. Hence, this is where he is finding new ideas and opportunities to add to existing holdings rather than venturing overseas; up to 10% of the fund may be invested in non-UK listed companies (3.4% at end-October 2023).

As well as the notable outperformance versus its benchmark, MRCH's NAV total return ranks first and second out of 20 funds in the AIC UK Equity Income sector over the last three and five years respectively. There is steady demand for MRCH's shares; in an environment of elevated investor risk aversion the trust regularly trades at a premium. In FY23 the share base grew by nearly 10% and so far in FY24 a further c 5.4% of new shares have been issued raising c £43.0m.

Investment trusts  
UK equity income

15 December 2023

**Price** 537.0p  
**Market cap** £793m  
**Total assets** £881m

NAV\* 532.6p

Premium to NAV 0.8%

\*Including income. At 13 December 2023.

Dividend yield 5.2%

Shares in issue 147.8m

Code/ISIN MRCH/GB0005800072

Primary exchange LSE

AIC sector UK Equity Income

Financial year end 31 January

52-week high/low 604.0p 477.5p

NAV\* high/low 597.6p 484.5p

\*Including income.

## Gearing

Current net gearing\* 11%

\*Source: Morningstar.

## 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). The benchmark is a broad UK stock market index.

## Bull points

- Long-term record of outperformance versus the UK stock market.
- Attractive above-market dividend yield and commendable 41-year record of higher annual payments.
- Competitive fee structure.

## Bear points

- UK has been out of favour with global investors since the 2016 Brexit vote.
- A relatively high level of gearing should amplify capital losses in a falling market.
- Relative performance is likely to struggle in a growth/momentum-led market.

## Analyst

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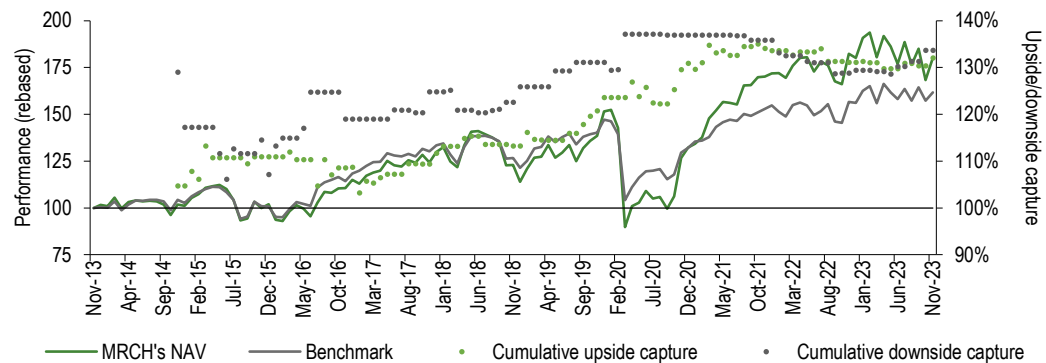
## MRCH: Focus on both income and capital growth

The trust has a very strong pedigree, having launched in February 1889. Gergel aims to deliver a high and rising income and robust capital growth from a portfolio of reasonably priced, primarily UK equities. MRCH features in the AIC's list of dividend heroes as it has increased its annual distribution for the last 41 consecutive years. The trust has a long-term record of outperformance versus the UK market and a competitive fee structure.

### MRCH's upside/downside analysis

The trust's cumulative upside capture over the last decade is 132%, which is broadly in line with its 134% downside capture, showing that on average the trust outperforms in a rising UK market and underperforms to a slightly larger degree in a falling market. These figures are meaningfully different than 100% (which would imply that MRCH generally trades in line with the UK market), illustrating Gergel's unconstrained approach and his willingness to take active stock and sector calls versus the trust's benchmark.

**Exhibit 1: MRCH's upside/downside capture over the last 10 years**



Source: Refinitiv, Edison Investment Research. Note: Cumulative upside/downside capture calculated as the geometric average NAV total return (TR) of the fund during months with positive/negative reference index TRs, divided by the geometric average reference index TR during these months. A 100% upside/downside indicates that the fund's TR was in line with the reference index's during months with positive/negative returns. Data points for the initial 12 months have been omitted in the exhibit due to the limited number of observations used to calculate the cumulative upside/downside capture ratios.

### Gergel's investment approach

The manager employs an opportunistic and contrarian approach to build a high-conviction, reasonably concentrated portfolio of 40 to 60 stocks. He is risk aware, paying attention to a firm's operational, financial and valuation aspects. Gergel's disciplined investment process is based around three pillars: fundamentals, valuation and themes (for more information see the Investment process section on page 8), and the manager has demonstrated that he is prepared to adhere to this approach during difficult periods of relative performance. Gergel cites data that over the long term show higher-yielding stocks outperform those with lower yields. However, he does not just buy high-yielding businesses and it is total return potential rather than dividend yield alone, which determines whether a company will be considered for inclusion in MRCH's portfolio. Conversely, a position is not automatically sold if its dividend yield falls below a certain level.

### MRCH's portfolio breakdown

Breaking down the UK market into valuation 'buckets' shows around 15% with a P/E ratio above 20x and a large part trading on less than 10x, with relatively little in between. The manager reports that around two-thirds of the stocks in MRCH's portfolio are trading on single-digit P/E ratios, with very few at the higher end. He emphasises that the trust's holdings are high-quality and not just

'cheap' businesses. Over the last 12 months, most of the investment has been in mid-cap stocks, which tend to be more domestic rather than international businesses and have been particularly out of favour. MRCH's defensive exposure has been reduced as Gergel is finding more attractive opportunities in the moderately cyclical and uncorrelated cyclical areas of the market.

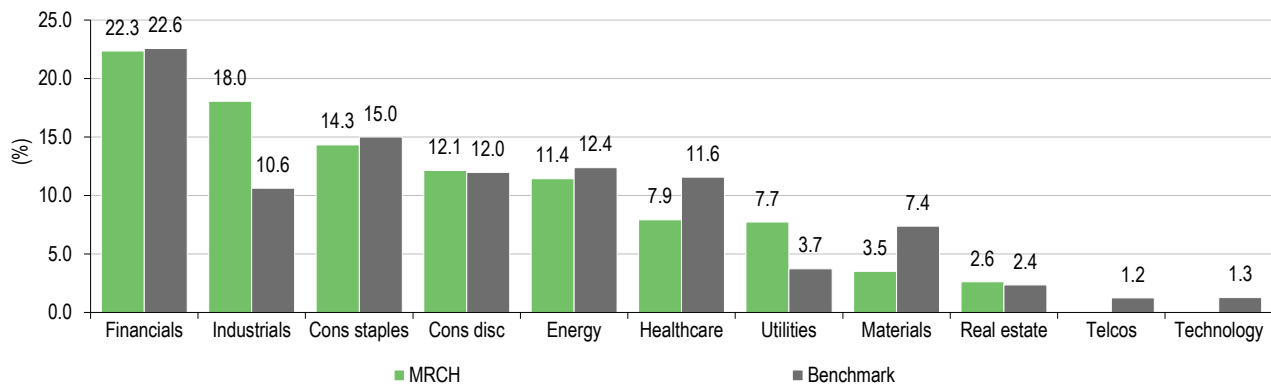
**Exhibit 2: Portfolio sector exposure versus benchmark (% unless stated)**

	Portfolio end-October 2023	Portfolio end-October 2022	Change (pp)	Active weight vs benchmark (pp)
Financials	22.3	20.8	1.5	(0.2)
Industrials	18.0	16.3	1.7	7.4
Consumer staples	14.3	17.3	(2.9)	(0.7)
Consumer discretionary	12.1	13.1	(1.0)	0.2
Energy	11.4	11.9	(0.5)	(0.9)
Healthcare	7.9	6.9	1.0	(3.7)
Utilities	7.7	5.8	1.9	4.0
Basic materials	3.5	3.6	(0.0)	(3.9)
Real estate	2.6	3.0	(0.4)	0.3
Telecommunications	0.0	1.3	(1.3)	(1.2)
Technology	0.0	0.0	0.0	(1.3)
	<b>100.0</b>	<b>100.0</b>		

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

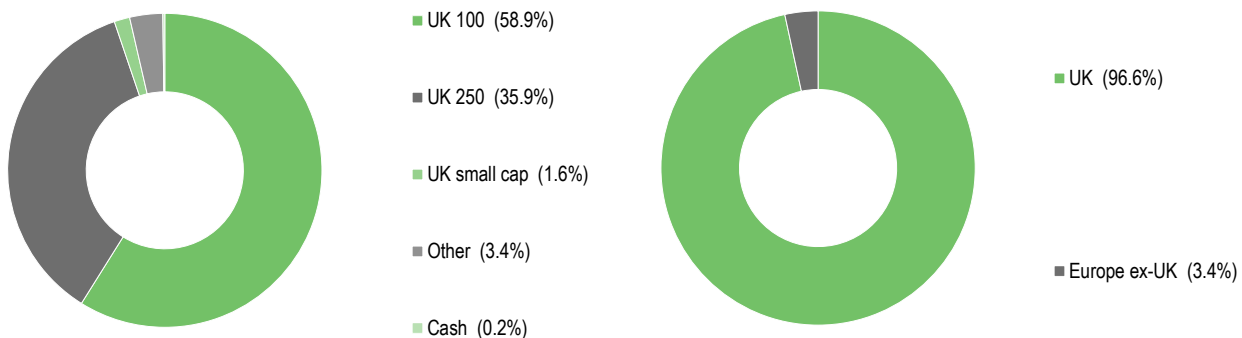
Reflecting the trust's relatively low portfolio turnover, which was c 28% in FY23, there were only small changes in MRCH's sector exposure in the 12 months to end-August 2023. The largest were higher weightings in Utilities (+1.9pp), industrials (+1.7pp) and financials (+1.5pp), and a 2.9pp lower allocation to consumer staples stocks. Versus its benchmark, the notable differences are overweight positions in industrials (+7.4pp) and utilities (+4.0pp), with underweight exposures to basic materials (-3.9pp) and healthcare (-3.7pp).

**Exhibit 3: MRCH's sector exposure versus its benchmark at 31 October 2023**



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

**Exhibit 4: Portfolio market cap (left) and geographic (right) exposure (at 31 October 2023)**



Source: MRCH, Edison Investment Research

Exhibit 4 shows MRCH's market cap and geographic exposures. In the year ending 31 October 2023, compared with 12 months earlier, there was a notable higher allocation to mid-cap stocks (UK 250, +12.9pp) with lower weightings in small-cap (-7.6pp) and large-cap (UK 100, -2.7pp) stocks. There were negligible changes in the trust's geographic exposure over the period.

At end-October 2023, there were 52 (non-derivative) holdings in the portfolio, which was the same number as 12 months earlier. The top 10 made up 34.8% of the fund, which was less than 35.1% a year earlier; eight positions were common to both periods.

<b>Exhibit 5: Top 10 holdings (at 31 October 2023)</b>			
Company	Sector	Portfolio weight (%)	
		31 October 2023	31 October 2022*
GSK	Pharmaceuticals & biotechnology	5.1	4.0
Shell	Oil, gas & coal	4.6	4.6
British American Tobacco	Tobacco	3.7	4.3
BP	Oil, gas & coal	3.5	3.8
DCC	Industrial support services	3.3	2.7
SSE	Electricity	3.1	N/A
IG Group	Investment banking & brokerage	3.1	3.3
Imperial Brands	Tobacco	2.8	4.0
WPP	Media	2.8	N/A
Rio Tinto	Industrial metals & mining	2.8	2.9
<b>Top 10 (% of portfolio)</b>		<b>34.8</b>	<b>35.1</b>

Source: MRCH, Edison Investment Research. Note: \*N/A where not in end-October 2022 top 10.

## The manager's perspective on the UK market

The UK has a challenging economic background with issues including lacklustre levels of consumer and corporate demand, rising labour costs, the impact of higher interest rates and the deglobalisation trend. Manufacturers are moving production closer to their end markets rather than operating in the cheapest locations, for geopolitical and environmental reasons, which is increasing costs and complexity globally. On the positive side commodity costs have rolled over and high employment levels are supportive for the UK economy. Interest rate expectations look to have peaked, which could lead to a significant improvement in investor sentiment.

Gergel explains that UK equity ownership has changed. In the late 1980s and early 1990s, around half of the UK market was owned by domestic institutions; they now own about 4%, and around half of the market is held by foreign investors. However, the UK market has been out of favour with international investors and has continued to derate since the June 2016 Brexit vote, for a range of reasons, so an increased appetite could be very beneficial for the performance of UK stocks. Valuations are certainly supportive, as the UK is trading on a forward P/E multiple of c 10x, which is at the bottom of its 20-year range, unlike the US, which at c 20x is at the top end of its range over the last two decades. Also, within the UK market, the range between the highest- and lowest-valued shares is the widest in 50 years, thereby providing a very attractive environment for active stock pickers. Despite the perception that the UK has a growth and inflation problem, growth estimates have been revised upwards and inflation is coming down rapidly. Also, the policy gap between the Conservative and Labour parties has narrowed and politicians have learned that asset markets determine what they can and cannot do; hence, UK political risk has declined. Unpopular policies can lead to major sell-offs in stock and bond markets, as witnessed when short-lived prime minister Liz Truss tried to introduce a mini budget based on unfunded tax cuts.

## Performance: Good mid- and long-term record

MRCH is the sixth largest of 20 funds that make up the AIC UK Equity Income sector. Some stock specific weakness has affected the trust's NAV total return, which ranks 17th over the last 12 months. However, MRCH's medium-term results are much more encouraging with the trust

ranking first over the last three and second over the last five years. Over the last decade, MRCH's NAV total return is above average, ranking 11th.

On 13 December 2023, MRCH was one of three funds trading at a premium. This indicates robust demand for the trust's shares during a period when the average investment trust discount is the widest since December 2008, which was during the global financial crisis. MRCH has a competitive ongoing charge, ranking sixth. The trust has a broadly average level of gearing, and an attractive dividend yield, which is c 20bp above the sector mean.

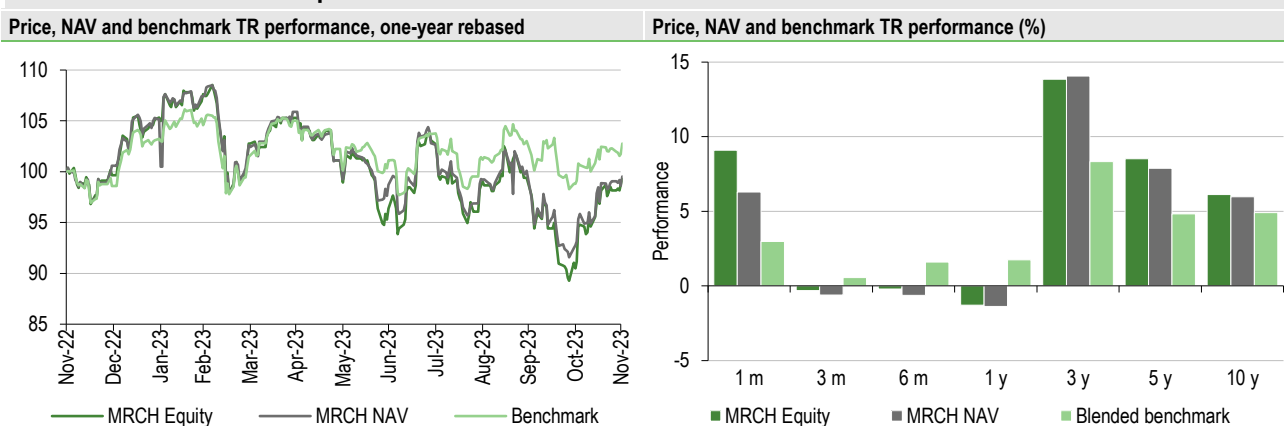
**Exhibit 6: AIC UK Equity Income sector at 13 December 2023\***

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
Merchants Trust	793.4	(0.2)	32.7	47.0	71.9	0.9	0.6	No	111	5.1
abrdn Equity Income Trust	144.1	(8.1)	8.3	0.2	21.5	(0.6)	0.9	No	113	7.6
BlackRock Income and Growth	38.0	7.2	22.4	35.5	82.9	(11.9)	1.2	No	116	3.9
Chelverton UK Dividend Trust	31.3	(11.1)	5.4	2.2	34.4	3.1	2.4	No	162	8.6
City of London	2,008.1	4.8	26.7	29.9	72.1	0.5	0.4	No	106	5.1
CT UK Capital and Income	297.7	5.9	19.5	30.0	75.7	(5.8)	0.7	No	105	4.2
CT UK High Income Units	105.1	4.3	7.3	21.3	47.7	(6.8)	1.0	No	115	5.0
Diverse Income Trust	256.1	(3.8)	(1.9)	15.1	56.1	(7.2)	1.1	No	100	5.0
Dunedin Income Growth	406.5	8.1	11.6	41.6	73.4	(9.0)	0.6	No	108	4.7
Edinburgh Investment	1,038.8	11.2	32.0	27.1	72.2	(8.4)	0.5	No	110	3.9
Finsbury Growth & Income	1,687.1	3.9	11.7	31.5	128.5	(6.6)	0.6	No	102	2.2
Invesco Select UK Equity	105.7	7.8	30.4	40.8	90.0	(16.1)	0.8	No	110	4.5
JPMorgan Claverhouse	384.3	5.3	19.8	29.1	67.1	(5.4)	0.7	No	108	5.2
Law Debenture Corporation	1,026.5	6.7	25.8	47.1	111.9	(0.5)	0.5	No	113	3.9
Lowland Investment Company	316.1	6.1	21.5	16.3	41.0	(10.7)	0.6	No	113	5.3
Murray Income Trust	904.2	6.0	16.7	38.9	79.4	(7.7)	0.5	No	109	4.5
Schroder Income Growth	192.4	4.4	21.1	32.6	74.0	(5.6)	0.8	No	114	5.0
Shires Income	90.4	1.1	11.3	29.6	69.8	(10.6)	1.0	No	117	6.5
Temple Bar	671.3	10.8	32.7	20.2	45.9	(5.8)	0.5	No	109	4.0
Troy Income & Growth	159.0	3.0	6.7	12.8	65.6	(5.1)	0.9	No	102	3.1
<b>Sector average (20 funds)</b>	<b>532.8</b>	<b>3.7</b>	<b>18.1</b>	<b>27.4</b>	<b>69.1</b>	<b>(6.0)</b>	<b>0.8</b>		<b>112</b>	<b>4.9</b>
<b>MRCH rank</b>	<b>6</b>	<b>17</b>	<b>1</b>	<b>2</b>	<b>11</b>	<b>2</b>	<b>6</b>		<b>9</b>	<b>6</b>

Source: Morningstar, Edison Investment Research. Note: \*Performance to 12 December 2023. NAV with debt at par. TR, total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The trust is classified as a mid-cap value fund by Morningstar, along with five of its peers: abrdn Equity Income Trust, Invesco Select UK Equity, The Law Debenture Corporation, Lowland Investment Company and Shires Income. MRCH's NAV total returns (TRs) rank fifth out of the six funds over the last year, first over three years, second over five years and third over the last decade.

**Exhibit 7: Investment trust performance to 30 November 2023**



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

Underperformance over the last six months means that MRCH has lagged its benchmark over the last year (Exhibit 8). However, it has outperformed over the last three, five and 10 years in both NAV and share price terms. The trust's record is particularly notable over the last three years and

has been helped by growth stocks falling out of favour with investors in a rising interest rate environment.

**Exhibit 8: 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*	5.9	(0.9)	(1.8)	(3.0)	16.1	18.9	12.3
NAV relative to blended benchmark*	3.2	(1.2)	(2.2)	(3.1)	16.7	15.6	10.8
Price relative to UK All-Share	5.9	(0.9)	(1.8)	(3.0)	16.1	18.9	11.0
NAV relative to UK All-Share	3.2	(1.2)	(2.2)	(3.1)	16.7	15.6	9.5
Price relative to UK 100	6.7	(1.2)	(2.2)	(3.5)	11.0	16.8	10.6
NAV relative to UK 100	3.9	(1.5)	(2.7)	(3.6)	11.6	13.5	9.1

Source: Refinitiv, Edison Investment Research. Note: Data to end-November 2023. Geometric calculation. \*Blended benchmark is UK 100 Index until 31 January 2017 and UK All-Share Index thereafter.

Gergel had recently experienced a tricky few months, primarily for stock-specific reasons. However, performance improved in November 2023, as several of MRCH's portfolio companies bounced back from oversold levels. Positive contributors included DCC (share price c +16% in the month) whose results were well received by investors. Energean (c +18%) released a solid trading update that showed production was unaffected by the war in the Middle East. Lancashire Holdings' (c +17%) robust results benefited from firm pricing, and the company also declared a substantial special dividend. OSB Group (c +25%) was another company whose share price bounced back following a solid trading update.

In October 2023, Energean's share price fell c 25% during the month, as investors were concerned about the risk of production disruption at its largest asset, a gas field offshore Israel. St James's Place (c -23% in October) announced a major change to its pricing strategy, in response to regulatory and competitive pressures. Two portfolio companies suspended their dividends: XP Power (c -54%) has been investing in new capacity and experienced order delays, however, the manager remains bullish about the company's future prospects; and Mobico (formerly National Express, c -30%) has faced continuing driver shortages and inflationary pressures, and once again issued a profits warning, so this position was sold as its financial position has weakened.

Gergel initiated a new position in Aena, which is a Spanish-listed airports operator. It is majority owned by the Spanish state and owns 46 airports in Spain, but also has concessions at many other airports around the world, including in Brazil, Central America and Luton (UK). Aena's business providing capacity for aircraft landing in Spain is regulated, but the company earns unregulated returns on its commercial activities, such as renting space for duty free shopping or restaurants. The company has modest capex, so can use its strong cash flow to pay a healthy dividend.

In September 2023, Drax (c -21% during the month), was subject to concerns around debt factoring, which is used to finance higher receivables as energy prices have risen. The manager added to the position as he anticipates the company will generate strong cash flows in coming years, helped by a large amount of its output being hedged at favourable prices. Pets At Home (c -11%), which owns a veterinary chain, saw its shares come under pressure as the Competition and Markets Authority launched an investigation into the veterinary industry. Gergel believes that Pets At Home should be relatively insulated from the investigation as it has a unique profile, including giving local vets autonomy over pricing and service offering. Better news came from GSK (c +7%), which had strong initial demand for its novel vaccine against respiratory syncytial virus, and the company held a capital markets event to talk about its HIV business.

In August 2023, WPP (c -10% during the month) released Q223 results that missed consensus numbers. Growth was lower than expected, especially among the company's US technology clients who are reducing their marketing spend. Close Brothers Group (c -11%) experienced share price weakness despite a lack of specific news. Admiral's (c +17%) results showed that higher car insurance pricing is helping to improve the company's profitability.

**Exhibit 9: Five-year discrete performance data**

12 months ending	MRCH share price (%)	MRCH NAV* (%)	Benchmark (%)	UK 100 large-cap Index (%)
30/11/19	17.1	14.8	11.0	10.1
30/11/20	(13.0)	(14.2)	(10.3)	(12.0)
30/11/21	35.6	35.4	17.4	16.7
30/11/22	10.2	11.2	6.5	11.3
30/11/23	(1.3)	(1.4)	1.7	2.4

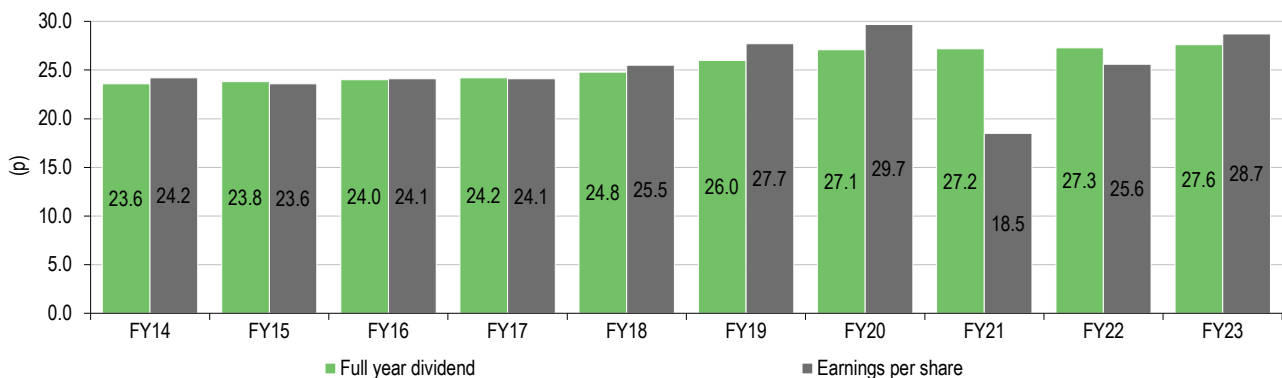
Source: Refinitiv. Note: All % on a total return basis in pounds sterling. \*NAV with debt at market value.

## Dividends: Higher dividends for 41 consecutive years

MRCH ranks 12th on the AIC's list of 20 dividend heroes, which are funds with at least 20 years of consecutive dividend growth. Over time, the trust's dividend growth has meaningfully exceeded the rate of UK inflation, thereby providing real income growth to shareholders.

At the end of FY23, MRCH had revenue reserves of 16.3p per share, equivalent to c 0.6x the last annual payment of 27.6p per share, which was a modest 1.1% increase year-on-year. So far in FY24, two interim dividends of 7.10p per share have been paid. These are 3.6% higher year-on-year, demonstrating the board's confidence in the trust's income generating ability.

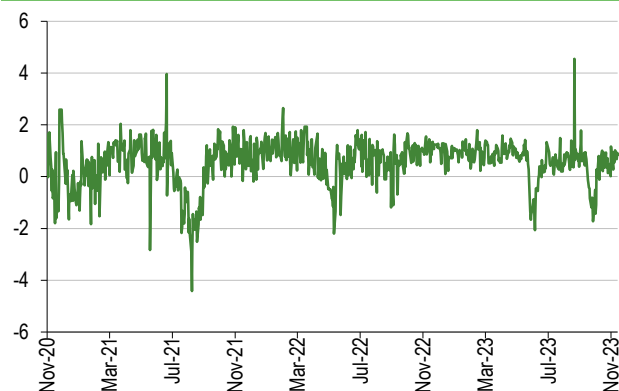
**Exhibit 10: Dividend and revenue history last 10 years**



Source: MRCH, Edison Investment Research

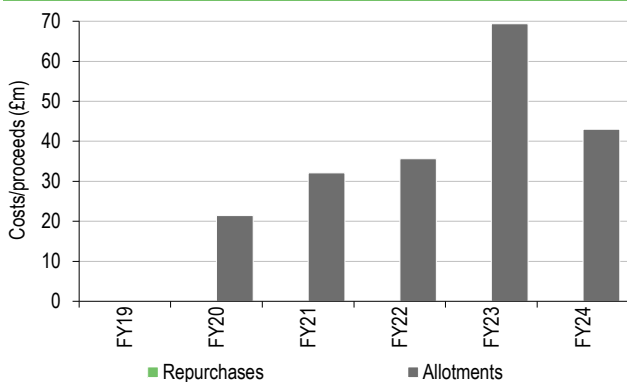
## Valuation: Trading at a premium and issuing shares

**Exhibit 11: Discount over three years (%)**



Source: Refinitiv, Edison Investment Research

**Exhibit 12: Buybacks and issuance**



Source: Morningstar, Edison Investment Research

MRCH's 0.8% share price premium to cum-income NAV compares with average premiums of 0.8%, 0.6% and 0.5% over the last one, three and five years respectively and an average 1.5% discount

over the last decade. The fact that the trust regularly trades at a premium is notable, as generally investment trust discounts have widened during the current period of heightened investor risk aversion.

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. As shown in Exhibit 12, share issuance has been robust; in FY23, the number of shares increased by c 9.7% and so far in FY24, a further c 5.4% of the share base has been issued at a cost of c £43.0m.

## Fund profile: High-conviction, diversified portfolio

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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 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. Investment guidelines are in place to mitigate risk. The trust must have exposure to 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. MRCH has a distinguished dividend history: it has increased its annual distribution for the last 41 consecutive years, using reserves to supplement income when required.

## Investment process: Fundamentals, valuation, themes

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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 and credit investors, macroeconomic research analysts, sustainability 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); and themes (industry and secular issues, the macroeconomic outlook and the stage of the business cycle.) There are three investment categories represented in MRCH's portfolio:

- **Classic value:** companies that are unloved, under-owned or misunderstood. Fundamentally sound businesses without major structural risks. It is important to avoid 'value traps' (shares that appear inexpensive, but whose valuation is warranted due to structural challenges or disruptive threats to an industry). Typically, short to medium holding periods.
- **Franchise:** quality companies with sustainable competitive advantages. Long-term growth potential to compound value. Buy at attractive valuations and do not overpay for growth. Typically, medium to long holding periods.
- **Special situations:** unique situations with unusual share price drivers that are often uncorrelated with the economy or financial markets. These include turnarounds, workouts,



spin-offs, balance sheet restructurings and countercyclical businesses. Holding periods are variable.

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 monitored by regional CIOs and AllianzGI's sustainability team.

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 (SRI), 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.

## Gearing

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At end-FY23, MRCH had c £110m of debt with an effective interest rate of c 4.65%, which is considerably lower than c 8.50% at end-FY17. The debt is made up as follows: £35.0m in a 2.96% fixed rate note expiring on 18 December 2052; £30m in a 5.875% secured bond expiring on 20 December 2029; a £42m revolving credit facility; a c £1.4m 4.00% perpetual debenture; and a c £1.2m 3.65% cumulative preference stock. MRCH's active share issuance, in response to high investor demand, has reduced the trust's net gearing over time. Net gearing is c 11%, which is within the board's policy range of 10–25%.

## Fees and charges

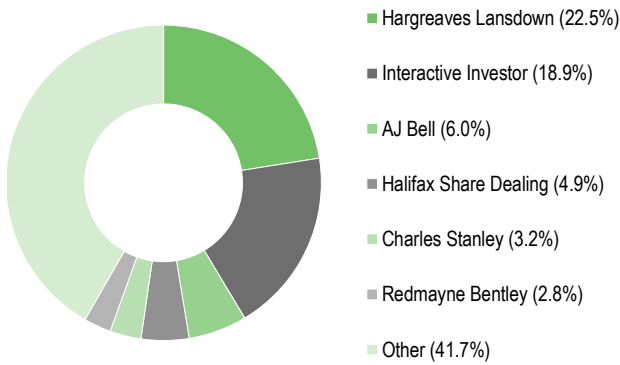
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AllianzGI is paid 0.35% pa of the value of MRCH's gross assets (minus current liabilities, short-term loans and any funds within the portfolio managed by AllianzGI). The management fee is allocated 65% to the capital and 35% to the revenue accounts 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 FY23 ongoing charge was 0.56%, which was just 1bp higher year-on-year and one of the lowest in the AIC UK Equity Income sector. The board remains focused on reducing the trust's fixed costs.

## Capital structure

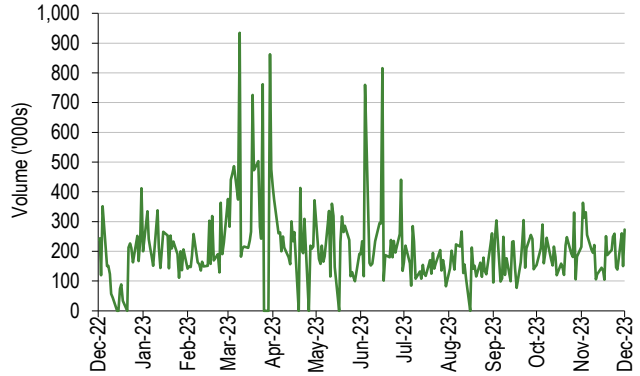
MRCH is a conventional investment trust with one class of share; there are 147.8m ordinary shares in issue and its average daily trading volume over the last 12 months is c 220k shares.

**Exhibit 13: Major shareholders**



Source: MRCH. Note: At 31 October 2023.

**Exhibit 14: Average daily volume**



Source: Refinitiv. Note: 12 months to 13 December 2023.

## The board

**Exhibit 15: MRCH's board of directors**

Board member	Date of appointment	Remuneration in FY23	Shareholdings at end-FY23
Colin Clark (chairman since September 2019)	June 2019	£40,500	10,000
Sybella Stanley (senior independent director)	November 2014	£27,000	3,114
Mary Ann Sieghart	November 2014	£27,000	1,000
Timon Drakesmith*	November 2016	£33,000	15,000
Karen McKellar	May 2020	£27,000	8,000

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

Two members of the board, Sybella Stanley and Mary Ann Sieghart, are due to retire having attained nine years' service; the search for new directors is underway.

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