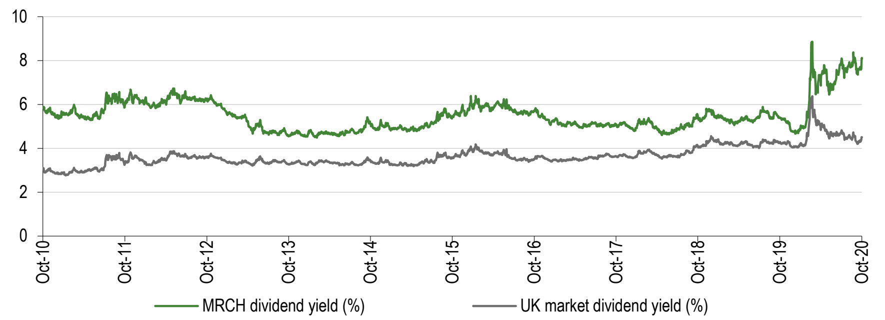
The Merchants Trust

Distinguished history of dividend growth

Investment trusts
UK equity income

The Merchants Trust (MRCH) has been managed by Simon Gergel at Allianz Global Investors (AllianzGI) since 2006. He is continuing to find interesting opportunities in the UK market, seeking high-quality, reasonably valued companies with attractive dividend yields. The manager says we are 'past the worst' in terms of dividend cuts in the wake of the coronavirus pandemic, with many companies reinstating their payments. MRCH has sufficient revenue reserves to be able to build on its record of 38 years of consecutive annual dividend growth. As shown in the chart below, the trust offers a consistently above-market dividend yield.

Consistent above-market dividend yield



Source: The Merchants Trust, Edison Investment Research

The market opportunity

The UK stock market has been out of favour with global investors for a number of years following the EU referendum in June 2016. However, with the Brexit transition period ending in the next few weeks, a level of uncertainty should dissipate. Given that UK shares look attractively valued compared with the global market, there is potential for a meaningful rerating if investor sentiment towards the UK improves.

Why consider investing in The Merchants Trust?

- Well positioned to continue to build on its 38-year record of consecutive annual dividend increases.
- Attractive 6.3% dividend yield, which is higher than the UK market's as well as the majority of its peers'.
- High-conviction portfolio of UK equities across the market cap spectrum.
- Poised for improved performance in a period of economic recovery.

Re-rating has been maintained

MRCH's discount to NAV narrowed in the fourth quarter of 2018, and notwithstanding a period of volatility during the stock market sell-off earlier in 2020, has essentially maintained its higher valuation. The current 0.3% share price premium to cum-income NAV compares with a range of an average 0.7% premium to a 3.1% discount over the last one, three, five and 10 years. MRCH has a progressive dividend policy and currently offers a 6.3% yield.

26 November 2020

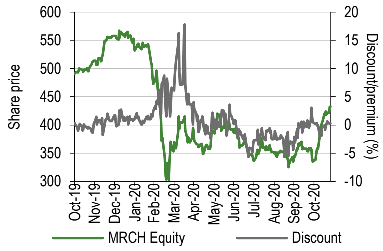
Price	**432.0p**
Market cap	**£519m**
AUM	**£620m**

NAV*	427.5p
Premium to NAV	1.1%
NAV**	430.7p
Premium to NAV	0.3%

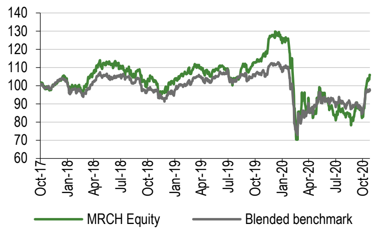
*Excluding income. **Including income. As at 24 November 2020.

Yield	6.3%
Ordinary shares in issue	120.2m
Code	MRCH
Primary exchange	LSE
AIC sector	UK Equity Income

Share price/discount performance



Three-year performance vs index



52-week high/low	567.0p	302.5p
NAV** high/low	556.9p	288.6p

**Including income.

Gearing

Gross*	22.8%
Net*	22.3%

*As at 31 October 2020.

Analysts

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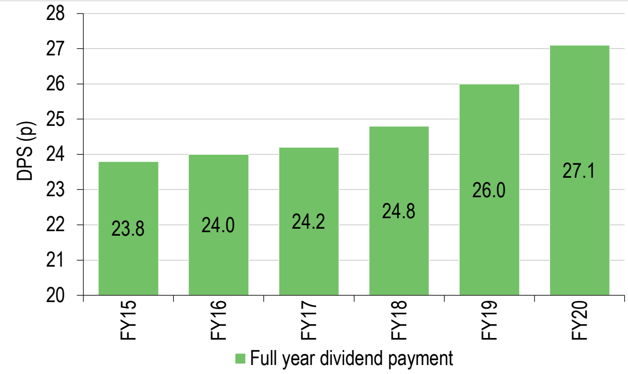
Edison profile page

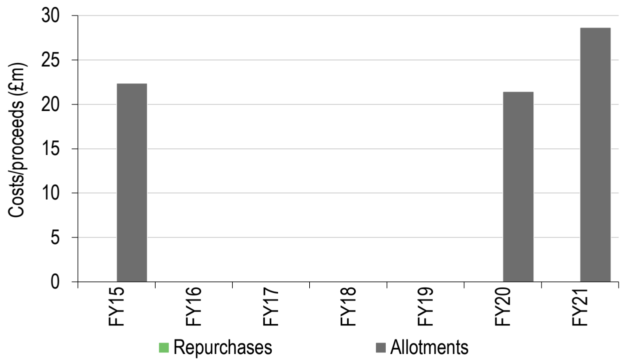
Exhibit 1: Trust at a glance

Investment objective and fund background	Recent developments
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. With effect from 1 February 2017, the benchmark is a broad UK stock market index (previously an index of the 100 largest UK companies).	■ 30 September 2020: Six-month report to 31 July 2020. NAV TR -31.4% versus benchmark TR -17.8%. Share price TR -34.3%. Second interim dividend of 6.8p per share declared (flat year-on-year). ■ 24 June 2020: First interim dividend of 6.8p per share declared (+1.5% year-on-year). ■ 1 May 2020: Appointment of Karen McKellar as a non-executive director. ■ 24 April 2020: Final report to 31 January 2020. NAV TR +18.7% versus benchmark TR +10.7%. Share price TR +18.6%.

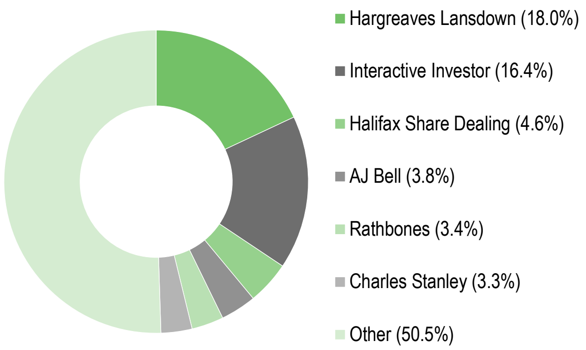
Forthcoming		Capital structure		Fund details	
AGM	May 2021	Ongoing charges	0.59% (FY20)	Group	Allianz Global Investors
Final results	April 2021	Net gearing	22.3%	Manager	Simon Gergel
Year end	31 January	Annual mgmt fee	0.35%	Address	199 Bishopsgate, London, EC2M 3TY, UK
Dividend paid	Quarterly	Performance fee	None		
Launch date	February 1889	Trust life	Indefinite	Phone	+ 44 (0)800 389 4696
Continuation vote	None	Loan facilities	See page 9	Website	www.merchantstrust.co.uk

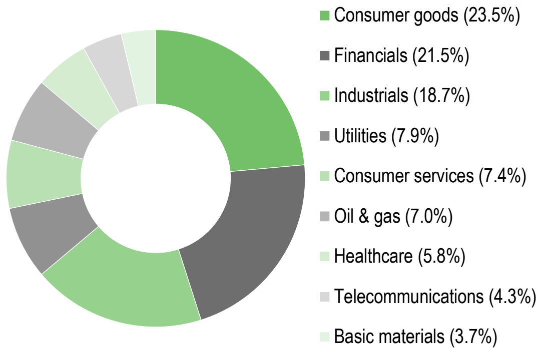
Dividend policy and history (financial years)	Share buyback policy and history (financial years)
Dividends are paid quarterly in August, November, February/March and May. The annual dividend has increased for 38 consecutive years.	Renewed annually, the trust has authority to purchase up to 14.99% and allot up to 5% of issued share capital.





Shareholder base (as at 31 October 2020)	Portfolio exposure by sector (ex-cash as at 31 October 2020)





Top 10 holdings (as at 31 October 2020)

		Portfolio weight %	
Company	**Sector**	**31 October 2020**	**31 October 2019***
GlaxoSmithKline	Pharma & biotech	5.6	5.9
British American Tobacco	Tobacco	4.6	3.2
Imperial Brands	Tobacco	4.6	3.5
SSE	Electricity	3.9	N/A
National Grid	Gas, water & multi-utilities	3.7	N/A
BAE Systems	Aerospace & defence	3.6	3.8
Barclays	Banks	3.5	3.3
Tate & Lyle	Food producers	3.1	N/A
IG Group	Financial services	3.1	N/A
WPP	Media	3.0	N/A
Top 10 (% of portfolio)		**38.6**	**37.5**

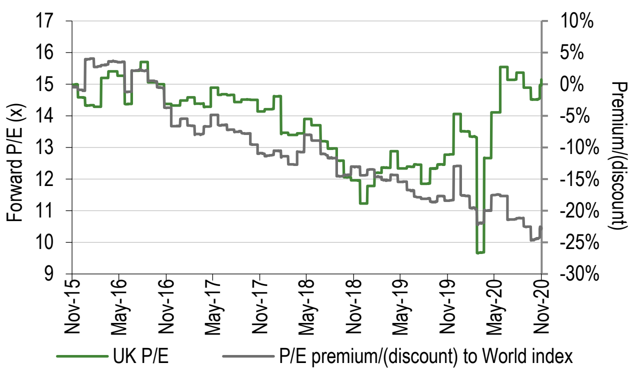
Source: MRCH, Edison Investment Research, Morningstar. Note: *N/A where not in end-October 2019 top 10.

Market outlook: Room for an improvement in sentiment

While UK shares have rallied considerably since the coronavirus-led market sell-off earlier in 2020, they have continued to trail the performance of the world market. As a result, in aggregate UK shares are looking even more attractively valued – the Datastream UK index is currently trading on a forward P/E multiple of 15.2x – a 22.6% discount to the Datastream World Index, which is significantly wider than the 10.5% average discount over the last five years. Brexit has been an overhang for the domestic market since the EU referendum in June 2016; however, this uncertainty will lift in a matter of weeks, regardless of whether a trade deal with Europe is agreed. Also, there has been a major bifurcation within global markets as investors have particularly favoured reliable growth stocks and those deemed to be COVID-19 beneficiaries, leading to a wide dispersion between company valuations. If there is a change in market leadership, as witnessed recently following the announcements of potentially successful coronavirus vaccines, sectors and markets that have lagged have the potential to rerate. History shows that changes in sentiment, when they occur, can be swift and meaningful.

Exhibit 2: Valuation of UK equities

Valuation versus global market



Valuation metrics (at 25 November 2020)

	Last	High	Low	10-year average	Last as % of average
UK					
P/E 12 months forward (x)	15.2	15.7	8.5	12.9	118
Price to book (x)	1.0	2.1	0.8	1.4	72
Dividend yield (%)	3.1	6.4	2.7	3.5	86
Return on equity (%)	1.8	14.9	1.5	9.7	18
World					
P/E 12 months forward (x)	19.6	19.6	9.8	14.1	138
Price to book (x)	2.4	2.4	1.4	1.8	128
Dividend yield (%)	1.9	3.4	1.9	2.5	74
Return on equity (%)	7.2	13.2	7.2	11.0	66

Source: Refinitiv, Edison Investment Research

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 32 years' 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 is able to draw on the broad resources of AllianzGI's investment team and works closely with Matthew Tillett (a portfolio manager with 14 years' investment experience and now lead manager of MRCH's stablemate The Brunner Investment Trust) and Richard Knight (a portfolio manager with six 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 10 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 2020, net gearing was 22.3%.

The trust has a distinguished dividend history – it has increased its annual distribution for the last 38 consecutive years, using reserves to supplement income when required. MRCH currently offers an above-market dividend yield of 6.3%.

The fund manager: Simon Gergel

The manager's view: 'Past the worst'

Dividend income and growth are important features of MRCH and Gergel's view is that we are 'past the worst' in terms of dividend cuts in response to the coronavirus pandemic. The current lockdown in England aside, he says that in aggregate, trading is improving, balance sheets are in better shape and companies are reintroducing dividends or paying those that were postponed. The manager thus believes 'we are through the worst of the process and on the path to recovery.' In terms of UK dividend payments, Gergel expects a significant decline in 2020, followed by a partial recovery in 2021 before returning to a more normal level in 2022. However, he suggests aggregate UK dividends will be lower than pre-COVID-19 as there have been some dividend resets, such as at the major oil companies.

The manager comments that MRCH started the year in a strong position. In FY20 (to 31 January 2020) the dividend was 1.1x covered and at the end of the period revenue reserves were around one year of dividends. The board has announced its intention to use these reserves to enable the trust's record of dividend increases to continue. Gergel is hopeful that with increased levels of income expected in FY22 and FY23, by this time MRCH will be closer to covering its dividend. The manager has undertaken a number of transactions in the portfolio to boost income, such as buying companies with 'reliable' dividends and writing more covered call options. 'The income story is very important for the trust,' he adds.

Gergel sees value opportunities in the UK as a whole, and particularly in the type of companies he favours. He explains that the UK is one of the least expensive markets, having been depressed since mid-2016 following the Brexit vote. 'However, we are now in the end game as by 2021 Brexit will be in the past.' At this stage he believes that the UK market will be investible again, despite its very low weighting to the technology sector. The manager says that investors do not like uncertainty, which should lessen in 2021 with or without a trade agreement with Europe. Furthermore, Gergel argues that 'it should be remembered that around three quarters of the sales and profits of domestic companies are generated overseas, meaning that the UK stock market is not a direct play on the UK economy.'

The manager highlights that within the UK market there has been 'a massive polarisation between the performance of value and growth shares.' He says that while this is providing 'great opportunities,' it has meant a difficult period for the performance of value managers, although 'MRCH has done relatively well compared with other value style-investors.' He adds, 'while the valuation divergence has provided a difficult headwind, it is also a big opportunity.' Considering what might cause a change in the growth versus value trend, Gergel says the environment can be considered as a 'piece of elastic' – initially as it stretches nothing happens, but it can snap back; 'at some point the valuation gap will close, and when it happens, it could occur very quickly.' This has been borne out in recent trading sessions as value stocks have performed significantly better following the announcements of potentially successful COVID-19 vaccines. Also, the manager believes that if companies remain very attractively valued, they are likely to attract the attention of corporate or private equity buyers.

Asset allocation

Investment process: Fundamentals, valuations and themes

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, environmental, social and governance (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.

The team undertakes regular engagement with companies on ESG issues. Recent examples include discussions about remuneration and governance with Imperial Brands, and meetings with mining and energy companies regarding energy transition and corporate targets.

MRCH's portfolio can be broken down into four broad 'buckets' (% as at 30 September 2020, excluding cash): high yield (c 31%) – undervalued companies with a high dividend yield; cyclical growth (c 32%) – companies that can grow over a cycle but may have economic or market sensitivity; defensive growth (c 27%) – firms that can grow with limited economic sensitivity; and special situations (c 7%) – 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.

Gergel explains that given MRCH's need for more income against a backdrop of widespread UK dividend cuts, there has been an increase in option activity. 'We only write covered calls to generate additional income at option strike prices where we are willing to sell the position,' he says, noting that as volatility has been high and option prices are attractive, he expects the trust's elevated level of option activity to continue.

Current portfolio positioning

At end-October 2020, MRCH's top 10 holdings made up 38.6% of the portfolio, which was a modestly higher concentration compared with 37.5% a year earlier; five positions were common to both periods. The trust's breakdown by market cap is shown in Exhibit 3. Over the 12 months to end-October 2020, there is a higher allocation to small caps (+4.6pp) with lower weightings in cash (-2.1pp), large cap (-1.5pp) and mid-cap stocks (-0.9pp).

Exhibit 3: Market capitalisation breakdown (% unless stated)

Index	Portfolio end-October 2020	Portfolio end- October 2019	Change (pp)
Large cap	63.0	64.5	(1.5)
Mid cap	23.6	24.5	(0.9)
Small cap	13.0	8.4	4.6
Cash	0.5	2.6	(2.1)
	100.0	**100.0**	

Source: The Merchants Trust, Edison Investment Research. Note: Numbers subject to rounding.

In terms of sectors, the largest changes are a considerably higher weighting in consumer goods (+10.7pp – largely due to a higher tobacco exposure) and a higher weighting in telecoms (+4.3pp), with lower weightings in financials (-7.3pp) and consumer services (-3.6pp). Although stocks are selected on a bottom-up basis, Exhibit 4 shows that in aggregate Gergel favours the consumer goods, industrials, and utilities sectors, with overweight positions versus the benchmark of +8.1pp, +5.4pp and +4.3pp respectively. The largest underweight exposures are consumer services (-5.3pp), basic materials and healthcare (both -5.1pp), and financials (-4.3pp).

Exhibit 4: Portfolio sector exposure vs benchmark (% unless stated)

	Portfolio end-October 2020	Portfolio end-October 2019	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Consumer goods	23.4	12.7	10.7	15.3	8.1	1.5
Financials	21.4	28.7	(7.3)	25.7	(4.3)	0.8
Industrials	18.6	19.1	(0.5)	13.2	5.4	1.4
Utilities	7.9	7.7	0.2	3.6	4.3	2.2
Consumer services	7.4	11.0	(3.6)	12.7	(5.3)	0.6
Oil & gas	7.0	8.0	(1.0)	6.5	0.5	1.1
Healthcare	5.8	5.9	(0.1)	10.9	(5.1)	0.5
Telecommunications	4.3	0.0	4.3	2.2	2.1	2.0
Basic materials	3.7	4.3	(0.6)	8.8	(5.1)	0.4
Technology	0.0	0.0	0.0	1.2	(1.2)	0.0
Cash	0.5	2.6	(2.1)	0.0	0.5	N/A
	100.0	**100.0**		**100.0**		

Source: The Merchants Trust, Edison Investment Research. Note: Numbers subject to rounding.

Discussing portfolio activity in recent months, the manager highlights a new position in **Next**. He views it as a high-quality company that has been repositioning itself over many years, shifting from physical store and catalogue sales to online, and away from fashion towards the childrenswear, homeware and international categories. Gergel highlights that Next's online business now generates most of its profits, and the coronavirus pandemic has accelerated the growth in website operations in the UK, overseas and third-party brands. As an example of the 'encompassing service' Next can provide, Gergel says, the company runs Childsplay.com's entire digital offering. Retail partners are charged a percentage fee and it is very easy for brand owners to scale up as they do not have to use their own warehouses, while product returns can be made through Next stores. The manager says that Next's shares had been depressed due to COVID-19 and the company suspended its dividends, but he expects these to resume in the medium term. This is the first time he has held Next in MRCH's portfolio.

Another addition is **Diversified Gas & Oil** (DGO), a specialist gas company with a large portfolio of producing wells in the Eastern US. Gergel explains that oil & gas companies operating in shale areas tend to be more focused on drilling new wells than improving the productivity of their mature ones, so DGO is able to purchase these assets at reasonable prices and improve their efficiency. He says the company's production has come through higher than expected, it generates high levels of free cash flow and has an attractive double-digit dividend yield.

The manager had not owned **Vodafone** for a long time as he viewed it as a 'value trap' (where a company's outwardly attractive valuation reflects poor prospects of recovery). While demand for the company's services had 'exploded', Gergel comments that this was not being monetised, although that is now starting to change. The manager explains that Vodafone has worked through some regulatory issues such as lower overseas roaming charges, while consolidation in various European countries is leading to lower levels of competition. The firm is a 'very strong cost-cutting story,' says Gergel, suggesting that Vodafone is attractively valued, its business fundamentals are improving, there is strong cash flow generation and it offers a competitive dividend yield.

Close Brothers is now back in the portfolio having been sold a number of years ago on valuation grounds; the manager says the company has an 'exceptional record' of long-term growth. It focuses on niche operations such as finance for printing presses, used cars and insurance premiums, which enables the firm to charge higher prices. There has been significant long-term investment into new business areas. Loan growth is cyclical based on the rise and fall of debt provisions, but Gergel believes that it is an opportune time to own Close Brothers in anticipation of higher growth and a recovery in profits.

A reduction in MRCH's exposure to economically sensitive names is evidenced by the sales of the holdings in Prudential and Sirius Real Estate. The position in exhibition and events company Informa was sold due to the shift to virtual meetings negatively affecting its operations and the manager also had concerns about the firm's long-term growth. In addition, Gergel has taken profits in positions that had performed well, including Antofagasta, BHP and CRH.

Performance: Moving on from a tough H121

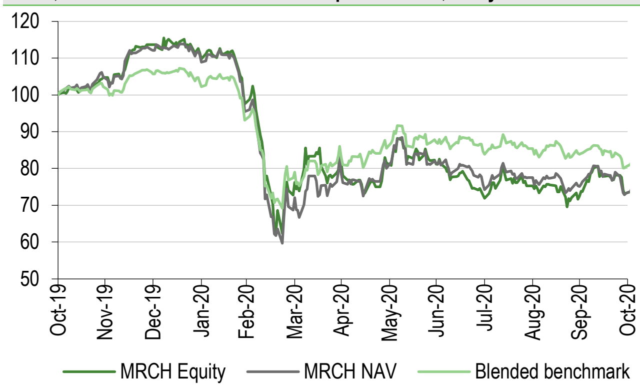
Exhibit 5: Five-year discrete performance data

12 months ending	Share price (%)	NAV* (%)	Blended benchmark **(%)	CBOE UK All companies (%)	CBOE UK 100 Companies (%)
31/10/16	1.1	9.1	13.7	12.2	13.7
31/10/17	21.5	15.5	13.2	13.4	12.1
31/10/18	3.3	(1.9)	(1.5)	(1.5)	(0.9)
31/10/19	9.0	7.2	6.8	6.8	6.5
31/10/20	(26.7)	(26.7)	(19.6)	(19.6)	(16.0)

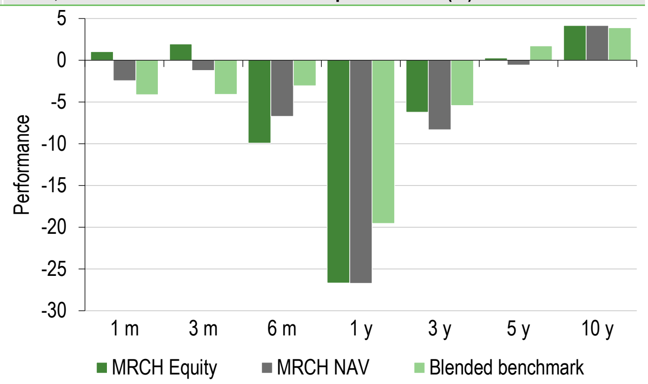
Source: Refinitiv. Note: All % on a total return basis in pounds sterling. *NAV with debt at market value. **Blended benchmark is UK 100 Index until 31 January 2017 and UK All-Share Index thereafter.

Exhibit 6: Investment trust performance to 31 October 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.

In H121 (to 31 July 2020), MRCH's NAV and share price total returns of -31.4% and -34.3% respectively were considerably behind the benchmark's -17.8% total return. The underlying portfolio returned -25.5%, while there was the negative effect of gearing in a falling market. At the beginning of the year the fund had a modest pro-cyclical bias in anticipation of an improving economic environment and a more stable political backdrop following the convincing Conservative Party win in the December 2019 general election. However, the onset of the coronavirus pandemic and subsequent lockdown dramatically changed the economic outlook and considerably hampered certain businesses, including those in the aerospace, leisure and travel sectors. The stock market has polarised between highly valued companies with sustainable growth prospects or those seen as beneficiaries of COVID-19, and more reasonably valued or cyclical firms. Most of MRCH's underperformance in H120 was a result of stock selection rather than asset allocation, as underweight positions in the poorly performing bank and energy production sectors was offset by an overweight in aerospace and an underweight in the strongly performing healthcare segment. At the stock level the largest contributors to MRCH's relative returns were not owning HSBC (+0.9pp) and Lloyds Bank (+0.6pp), along with the trust's holdings in IG Group (+0.6pp), Stock Spirits and

Antofagasta (both +0.5pp), while the largest detractors were not owning AstraZeneca (-1.5pp) and positions in Vistry Group, Meggitt and National Express (all -0.9pp).

Exhibit 7: 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	5.4	6.3	(7.1)	(8.9)	(2.6)	(7.0)	2.8
NAV relative to blended benchmark	1.8	3.0	(3.8)	(8.9)	(9.0)	(10.9)	2.6
Price relative to CBOE UK All Companies	5.4	6.3	(7.1)	(8.9)	(2.6)	(5.9)	(1.0)
NAV relative to CBOE UK All Companies	1.8	3.0	(3.8)	(8.9)	(9.0)	(9.8)	(1.2)
Price relative to CBOE UK 100	6.0	7.4	(1.2)	(12.8)	(7.0)	(10.4)	(0.9)
NAV relative to CBOE UK 100	2.4	4.0	2.3	(12.8)	(13.2)	(14.1)	(1.1)

Source: Refinitiv, Edison Investment Research. Note: Data to end-October 2020. Geometric calculation.

Unfortunately, MRCH's tough period of performance in H121 has negatively affected its longer-term track record. However, the trust remains ahead of its blended benchmark over the last decade in both NAV and share price terms, while the relative performance has improved in recent months.

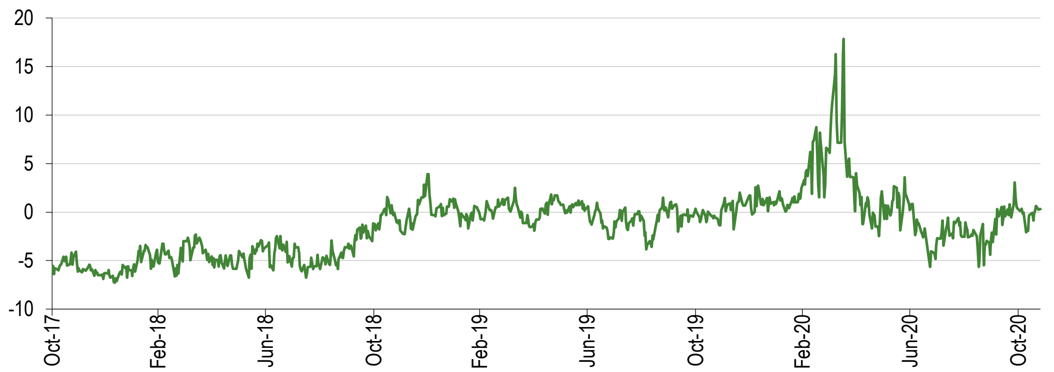
Exhibit 8: NAV total return performance relative to the benchmark over three years

Source: Refinitiv, Edison Investment Research

Valuation: Shares trading close to NAV

MRCH's current 0.3% share price premium to cum-income NAV compares with a volatile range of a decade-wide high 17.8% premium to a 5.7% discount over the last 12 months. The higher valuation from late 2018 to the coronavirus-led market sell-off earlier in 2020 may be due to increased marketing efforts, the manager's strict adherence to the investment process or the trust's attractive dividend yield. Over the last one, three, five and 10 years, the trust has traded at an average premium of 0.7% and average discounts of 1.4%, 3.1% and 1.7% respectively.

Exhibit 9: Share price premium/discount to NAV (including income) over three years (%)



Source: Refinitiv, 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 repurchase them when they are at a sustained discount to NAV. So far in FY21, c 7.3m shares (6.5% of the share base) were issued at a premium, raising c £28.7m.

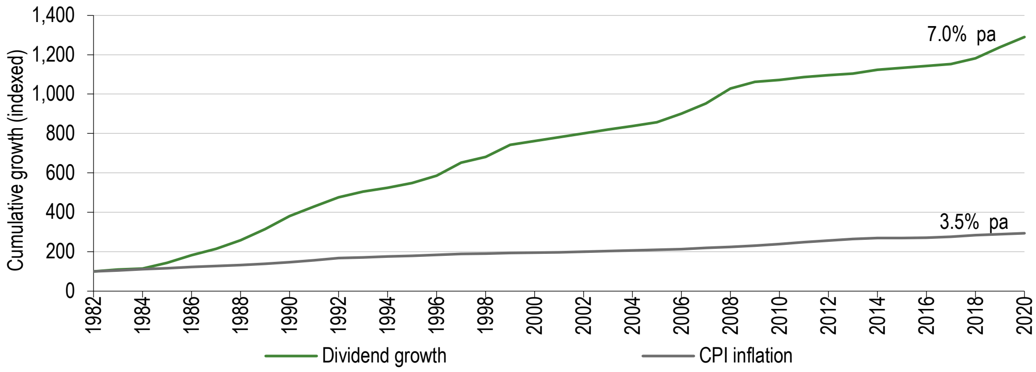
Capital structure and fees

MRCH is a conventional investment trust with one class of share; there are currently 120.2m ordinary shares in issue. At the end of January 2020, £16m of the trust's revolving credit facility was paid down as the board and the manager believed a more conservative approach to gearing was appropriate after many years of rising markets. The timing of this was fortuitous ahead of the stock market sell-off in February 2020. MRCH now has c £93m of debt with an effective interest rate of 3.8% at end-FY20 (considerably lower than 8.5% at end-FY17). At the end of October 2020, the trust's net gearing was 22.3%. The manager is comfortable with this level and believes that gearing will be accretive to MRCH's total returns on the assumption that the UK stock market can appreciate at a higher annual rate than the trust's 3.8% cost of debt.

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 FY20 0.59% ongoing charge was just 1bp higher year-on-year.

Dividend policy and record

Exhibit 10: Growth of MRCH's dividend vs UK inflation



Source: Refinitiv, The Merchants Trust, Edison Investment Research

MRCH's annual dividend has increased for the last 38 consecutive years, compounding at a rate higher than that of UK CPI inflation (Exhibit 10). The trust consistently offers a higher dividend yield than the broad UK market (front page chart). Distributions are made quarterly in August, November, February/March and May.

In H121, MRCH's earnings were 8.9p per share, representing a 44.7% decline year-on-year; this is unsurprising given the extensive dividend cuts by UK companies in the wake of COVID-19. So far this financial year, the board has declared two quarterly dividends of 6.8p per share, meaning the first half total distribution of 13.6p per share is a modest 0.7% increase on the 13.5p paid in respect of H120. At the end of H121, MRCH had revenue reserves of 22.6p per share. Although this is a 21.5% decline year-on-year, it still provides good flexibility to smooth the trust's dividend stream, representing 0.8x the last four quarterly dividend payments. FY21 will be the first time that the board has drawn on MRCH's revenue reserves since FY17. Based on its current share price, the trust offers a generous 6.3% dividend yield.

Peer group comparison

In Exhibit 11, we show the 17 largest funds, with market caps above £100m, in the 23-strong AIC UK Equity Income sector. MRCH's NAV total return is above the selected group average over three and five years, ranking eighth and sixth respectively, while its returns are below average over one and 10 years, ranking eighth and 13th respectively. These ratings reflect the very wide disparity between the performance of growth and value styles in recent years.

On the date shown in the table, MRCH was one of four funds trading at a premium. The trust has a competitive ongoing charge, the highest level of gearing and an appealing dividend yield, ranking second and 1.7pp above the mean of the selected peer group.

Exhibit 11: Selected peer group as at 23 November 2020*

% 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	519.3	(5.9)	3.2	27.3	88.9	1.9	0.6	No	122	6.3
Aberdeen Standard Equity Inc Trust	145.5	(11.6)	(17.8)	(5.3)	72.4	(9.9)	0.9	No	112	6.8
BMO Capital & Income	306.7	(6.0)	3.5	37.7	104.6	(1.6)	0.6	No	106	4.1
BMO UK High Income Units	109.6	(3.9)	0.3	26.3	83.9	(10.0)	1.0	No	108	4.6
City of London	1,502.6	(9.7)	(2.7)	17.8	100.8	3.5	0.4	No	110	5.3
Diverse Income Trust	334.1	9.0	7.7	27.2		(4.8)	1.1	No	100	3.9
Dunedin Income Growth	419.3	5.1	18.6	51.6	113.5	(2.8)	0.6	No	109	4.5
Edinburgh Investment	919.5	(7.8)	(10.8)	1.0	102.2	(7.7)	0.6	No	110	4.5
Finsbury Growth & Income	1,876.3	(2.4)	17.3	62.5	241.2	0.5	0.7	No	101	2.0
Invesco Income Growth	141.2	(9.4)	(2.2)	14.2	106.1	(13.8)	0.7	No	106	4.9
JPMorgan Claverhouse	358.0	(9.1)	(1.5)	25.0	95.9	(1.6)	0.7	No	117	4.7
Law Debenture Corporation	729.5	3.5	9.6	45.6	146.9	(1.0)	0.3	No	116	4.2
Lowland	310.0	(7.5)	(12.3)	12.5	122.8	(3.8)	0.6	No	112	5.2
Murray Income Trust	983.2	(1.5)	14.1	46.3	113.4	1.3	0.6	No	104	4.1
Schroder Income Growth	187.5	(5.1)	0.4	25.1	110.7	(0.6)	0.9	No	110	4.6
Temple Bar	644.0	(21.0)	(12.5)	11.6	79.5	(4.0)	0.5	No	102	4.0
Troy Income & Growth	250.0	(8.7)	4.1	22.0	109.9	(0.5)	0.9	No	100	3.9
Selected group average (17 funds)	**572.7**	**(5.4)**	**1.1**	**26.4**	**112.0**	**(3.2)**	**0.7**		**108**	**4.6**
MRCH rank	**7**	**8**	**8**	**6**	**13**	**2**	**11**		**1**	**2**

Source: Morningstar, Edison Investment Research. Note: *Performance to 20 November 2020. NAV with debt at par. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

MRCH's board has five directors, all of whom are non-executive and independent of the manager. Colin Clark was appointed as a director in June 2019 and assumed the role of chairman in September 2019. Sybella Stanley, senior independent director and Mary Ann Sieghart both joined the board in November 2014, Timon Drakesmith joined in November 2016 and Karen McKellar (formerly Karen Robertson) joined in May 2020.

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