

THE MERCANTILE INVESTMENT TRUST PLC

Annual Report & Financial Statements for the year ended 31st January 2019

Discovering Tomorrow's
Market Leaders



J.P.Morgan
Asset Management

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Financial Highlights

Total returns (includes dividends reinvested)

-8.0%
Return on net assets¹
(Last year: +25.5%)

-8.1%
Return to shareholders²
(Last year: +25.5%)

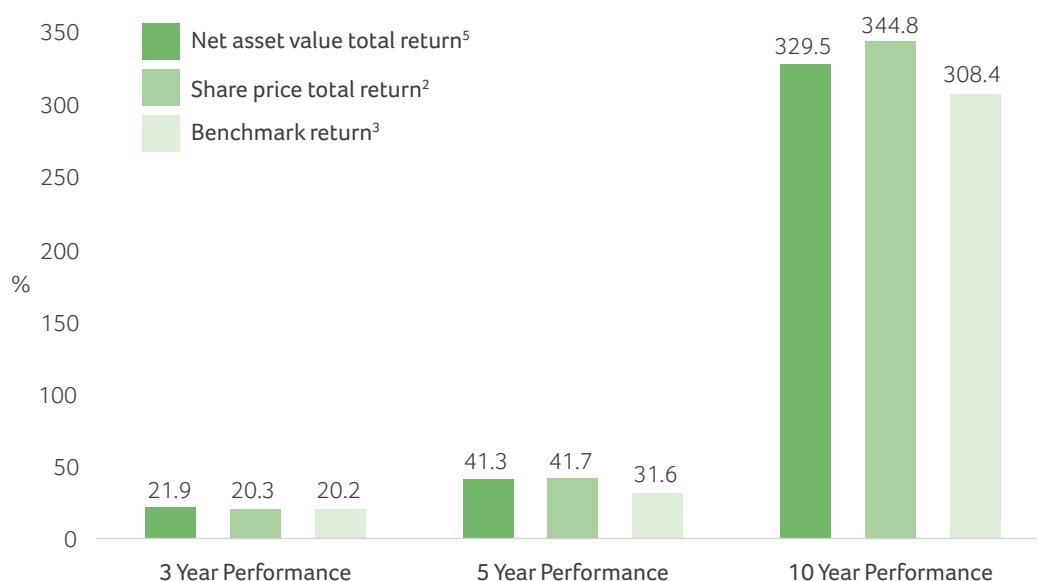
-6.7%
Benchmark return³
(Last year: +14.6%)

6.3p
Dividend
(Last year: 5.3p⁴)

+18.9%
Dividend increase
(Last year: +15.2%)

Long Term Performance

for periods ended 31st January 2019



A glossary of terms and alternative performance measures is provided on page 66.

¹Source: J.P. Morgan/Morningstar, using cum income net asset value per share, with debt at par value.

²Source: Morningstar.

³Source: FTSE Russell. The Company's benchmark is the FTSE All-Share Index, excluding constituents of the FTSE 100 Index and investment trusts, with net dividends reinvested.

⁴2018 dividend number has been restated following the sub-division of each existing ordinary share of 25p into ten ordinary shares of 2.5p each on 25th May 2018.

⁵Source: J.P. Morgan/Morningstar, using cum income net asset value per share, with debt at fair value.

Features

Objective

Long term capital growth from a portfolio of UK medium and smaller companies.

Investment Policy

- To emphasise capital growth from medium and smaller companies.
- To achieve long term dividend growth at least in line with inflation.
- To use long term gearing to increase potential returns to shareholders. The Company's gearing policy is to operate within a range of 10% net cash to 20% geared.
- To invest no more than 15% of gross assets in other UK listed closed-ended investment funds (including investment trusts).

Benchmark

The FTSE All-Share Index, excluding constituents of the FTSE 100 Index and investment trusts, with net dividends reinvested.

Capital Structure

At 31st January 2019 the Company's share capital comprised 944,492,180 ordinary shares of 2.5p each, including 151,999,999 shares held in Treasury.

At 31st January 2019, the Company also had in issue a £3.85 million 4.25% perpetual debenture and a £175 million 6.125% debenture repayable on 25th February 2030.

Management Company and Company Secretary

The Company employs JPMorgan Funds Limited ('JPMF' or the 'Manager') as its Alternative Investment Fund Manager and Company Secretary. JPMF is approved by the Financial Conduct Authority and delegates the management of the Company's portfolio to JPMorgan Asset Management (UK) Limited ('JPMAM').

Financial Conduct Authority ('FCA') regulation of 'non-mainstream pooled investments' and MiFID II 'complex instruments'

The Company currently conducts its affairs so that the shares issued by the Company can be recommended by independent financial advisers to ordinary retail investors in accordance with the FCA's rules in relation to non-mainstream investment products and intends to do so for the foreseeable future.

The shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an investment trust. The Company's shares are not classified as 'complex instruments' under the FCA's revised 'appropriateness' criteria adopted in the implementation of MiFID II.

Association of Investment Companies ('AIC')

The Company is a member of the AIC.

Website

The Company's website, which can be found at www.mercantileit.co.uk, includes useful information on the Company, such as daily prices, factsheets and current and historic half year and annual reports.

Strategic Report

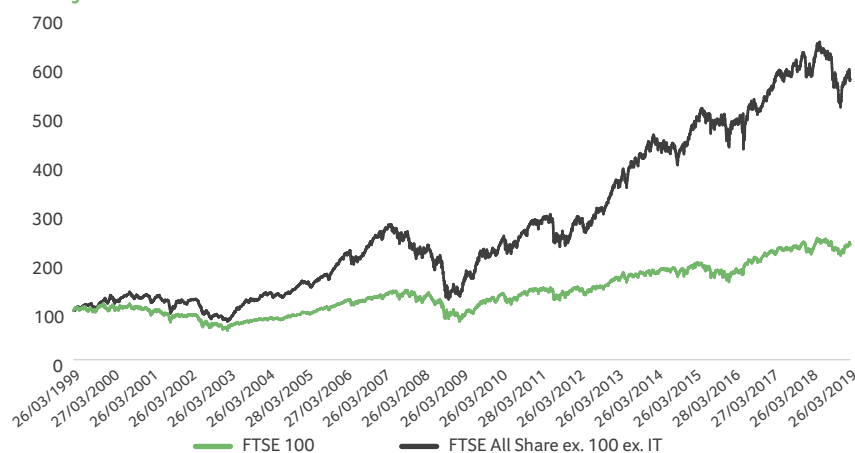
Chairman's Statement



Performance

Over the year to 31st January 2019, the Company produced a total return on net assets of -8.0% ¹ against a total return of -6.7% for the benchmark. The share price total return was -8.1% . Whilst it is disappointing to report a negative return and underperformance against the benchmark this year, I believe our Investment Managers have navigated well what have been very difficult markets. I would also emphasise that the Company's impressive long term performance remains intact, with both the net asset value and share price having outperformed the benchmark over three years and significantly outperformed over five and ten years (as can be seen on page 1). Not only has the Company outperformed its UK mid and small cap benchmark over those periods, but that benchmark has also significantly outperformed the broader UK market. In fact over the past 20 years the mid and small cap sector has outperformed the large cap sector by more than 6% per annum, as the following chart shows.

Twenty Year Performance



Returns and Dividends

Revenue per share again increased significantly to 7.47p, from 6.12p in 2018 (both figures restated to account for last year's 10 for 1 sub-division of shares), as underlying dividend growth from the portfolio was strong. We have paid three interim dividends of 1.25p per ordinary share in respect of the year to 31st January 2019. The Board has declared a fourth quarterly interim dividend of 2.55p, giving a total dividend of 6.3p per share for the year, an 18.9% increase on last year's total dividend of 5.3p per share.

This is a fabulous result and we remain in a strong dividend paying position. Our aim continues to be to increase the dividend at least in line with the rate of inflation. At the year end, taking account of the payment of the fourth interim dividend, the revenue reserve stood at £54.5 million, which is equivalent to 6.9p per share.

Discount and Share Buybacks

Over the year, the discount on the Company's shares narrowed slightly from 9.5% to 9.3%². The Board intends to continue to use the share repurchase authority to enhance value and where necessary to manage imbalances between the supply and demand of the Company's shares and thereby reduce the volatility of the discount. We believe that, to date, this mechanism has been helpful and therefore recommends that the powers to repurchase up to 14.99% of the Company's shares, to be cancelled or held in Treasury, be renewed by shareholders at the forthcoming Annual General Meeting ('AGM').

¹ on a cum-income basis with debt at par value.

² on a cum-income basis with debt at fair value.

Strategic Report – continued

During the year a total of 26,508,209³ shares were repurchased into Treasury, amounting to 3.2% of the issued share capital at the beginning of the year, at a total consideration of £56.8 million. Buying those shares back at a discount to net asset value added approximately 0.7p to the net asset value per share for continuing shareholders.

Gearing

The Company ended the year with gearing of 0.1%, lower than the 3.5% position at the previous year end as we took a cautious approach amid continuing macro-economic uncertainties. Gearing is regularly discussed between the Board and the Investment Managers and it remains the Board's current intention to operate within the range of 10% net cash to 20% geared. It is good to have some 'firepower' in uncertain times and we will deploy more gearing when and if opportunities arise.

Board of Directors

Sandy Nairn retired from the Board at the conclusion of the 2018 AGM and Jeremy Tigue has succeeded Sandy as the Board's Senior Independent Director. Ian Russell stepped down from the Board on 31st December 2018, owing to other business commitments. On behalf of the Board and shareholders I would like to thank them for their considerable contribution to the Company.

On 1st July 2018, Heather Hopkins and Graham Kitchen were appointed Directors. Heather has over two decades of experience in data analytics, research, financial services and international business, with expertise in retail distribution. She is Founder and Managing Director of NextWealth Limited which provides research and consultancy to platforms, asset managers and financial advice firms on the future of retail investment distribution. Graham has over 20 years experience managing UK equity funds, including open ended investment companies, investment trusts and pension funds. He was Global Head of Equities at Janus Henderson Investors, having previously been Head of UK Equities at Threadneedle Investments and held various positions at Invesco Asset Management. Each bring a wealth of relevant, complementary and different experience to the Board and I am sure they will add great value to the Company in the years ahead.

All of the Directors will stand for annual reappointment at the forthcoming AGM, in accordance with the Board's policy and corporate governance best practice.

The Manager

The Board monitors the performance of the Manager, J.P. Morgan, on an ongoing basis. It judges investment performance over the longer term and also in terms of risk management and internal control, administration, sales, marketing and compliance. We remain satisfied with the Manager's overall performance and believe that J.P. Morgan's continuing appointment is in the best interests of all shareholders.

³ The number of shares repurchased before the sub-division of shares that took place on 25th May 2018 has been restated.

Strategic Report – continued

Annual General Meeting

Your Company's one hundred and thirty third AGM will be held at Trinity House, Tower Hill, London EC3N 4DH on Thursday 23rd May 2019 at 12 noon. In addition to the formal part of the meeting, there will be a presentation from the Investment Managers who will answer questions on the portfolio and performance. There will also be an opportunity to meet the Board, the Investment Managers and representatives of J.P. Morgan. I look forward to seeing as many of you as possible at the meeting.

If you have any detailed or technical questions, it would be helpful if you could raise them in advance with the Company Secretary at 60 Victoria Embankment, London EC4Y 0JP or via the 'Ask a Question' link on the Company's website. Shareholders who are unable to attend the AGM are encouraged to use their proxy votes.

Outlook

We find ourselves in uncertain times both politically and economically. As soon as I sign off this report, the political situation will no doubt change yet again, perhaps with short-term knock-on effects to the area of the market in which we invest. It would be a brave and perhaps foolhardy person to make any predictions at the moment and that is why we are cautiously positioned currently, waiting to take advantage of any opportunities or to deal with any further disruption as appropriate.

As you will read in the Investment Manager's Report however, the economic background is more benign than the political one. Although forecast economic growth is more subdued than in the immediate past, there is still growth expected and your portfolio companies will benefit from that. The portfolio companies tend also to operate later in the cycle and there is a momentum behind them, still to play out.

Despite the short-term uncertainties, there are some things we can be certain of. The Mercantile invests in an area of the market which has, for structural reasons, outperformed the wider market over the long term and in two years out of every three. In addition, our managers have invested very well, outperforming their benchmark index over three, five and ten years. So, I believe that whatever the immediate future holds, by having an investment in The Mercantile shareholders have 'stacked the deck' in their favour and over the long term, will continue to prosper.

Angus Gordon Lennox
Chairman

5th April 2019

Strategic Report – continued

Investment Managers' Report

Contributions to total returns in the year ended 31st January 2019

	%
Benchmark return	-6.7
Stock/Sector – selection/allocation	-0.6
Effect of Gearing/Cash	0.2
Effect of Management fee/Other expenses	-0.5
Cost of debentures	-0.6
Repurchase of shares	0.2
Return on net assets with debt at par value	-8.0
Par to fair value adjustment	-0.5
Return on net assets with debt at fair value	-8.5
Effect of change in discount	-0.1
Return to shareholders	-8.1

Source: JPMAM and Morningstar.

The table provides a breakdown, relative to the benchmark, of the contributions to total return.

A glossary of terms and alternative performance measures is provided on page 66.

Setting the scene: a year dominated by trade tensions and political stalemate

Over the year to 31st January 2019, the UK equity market remained out of favour with international investors, as it has been ever since the UK voted to leave the European Union on 23rd June 2016. Investor sentiment was dominated by expectations of how orderly the UK's exit from the EU would be and these concerns have become more acute as we approach the scheduled leave date. Accordingly, in a disappointing year overall for global equity markets and virtually all asset classes, UK shares – and domestically-exposed UK shares in particular – mostly lagged those of other markets before recovering sharply in January 2019.

The first half of the Company's year (to 31st July 2018) saw volatility increase from historic lows but the market still managed to progress. The second half of the year was altogether more demanding, reflecting generally weaker global economic growth momentum and expectations of further weakness to come. October was particularly challenging, as global equities suffered their worst month since 2012, with market falls triggered by a variety of factors, including upward pressure on bond yields and geopolitical turmoil. Perhaps most significantly of all, anxiety focused on the potential impact of escalating trade conflicts between the US and its global trading partners, particularly China. This 'great unknown' remains unresolved at the time of writing and represents a downside risk to global growth prospects at a time when the global economy has already shifted into a lower gear.

On a more positive note, earnings grew despite these headlines. However, we are at an advanced stage of the economic cycle and investors are concerned about the macro economic outlook. Against the backdrop highlighted above, the performance of medium and smaller UK companies, excluding investment companies (the 'Benchmark') deteriorated year-on-year, with a return of -6.7%. This compared with a -3.6% return from the FTSE 100 Index.

UK Equity Market Total Return



Source: J.P. Morgan Asset Management, Bloomberg.

Strategic Report – continued

Mercantile's performance

The year to 31st January 2019 was a disappointing period, with the Company's return on net assets falling by 8.0%, underperforming the Benchmark which returned –6.7%.

Spotlight on stocks and sectors

The Company invests in a diversified portfolio of UK companies outside the FTSE 100 Index that we believe have significant headroom for growth. As such, it is our choice of stocks and sectors that determines the relative performance that the Company delivers to its shareholders.

In this section we reflect on some of our stock selection and sectoral decisions, highlighting both winners and losers over the year.

Winners

At a stock level, owning **Evrax**, the producer of engineered steel products, was a significant contributor to performance. Its exposure to low cost vanadium – a steel alloy ingredient – helped the company beat the market's earning expectations. Steam engineering expert and Cheltenham-headquartered **Spirax-Sarco** is one the Company's top 10 holdings and its shares performed so well through 2018 that it was promoted into the FTSE 100 Index at the end of the year. Its ongoing success has been driven by excellent execution of its self-generating organic growth model, through investing in its direct sales force. Our holding in **Softcat**, one of the UK's leading IT value-added resellers, was another success; the business hit the £1 billion revenue milestone in 2018 and continued to take market share in the UK, having delivered 52 quarters of consecutive year-on-year organic growth.

Positive contributions to relative performance also came from **not** owning stocks that have disappointed. For example, **Metro Bank**, a challenger high street bank that first opened its doors for business in 2010 and now has more than 65 branches. Metro Bank is a constituent of the FTSE 250 Index, but its shares have been amongst the worst performers over the last year. The bank reported a marked slowdown in lending growth for the fourth quarter of 2018 as well as the discovery of a misclassification of asset risk weightings leading to misrepresentation of capital adequacy. Another banking group under pressure was **CYBG** (encompassing Clydesdale Bank, Yorkshire Bank and Virgin Money). Its shares fell on concerns over its exposure to UK consumer credit and rising Payment Protection Insurance (PPI) costs. Pharmaceutical company **Indivior** is another stock whose absence from the portfolio was positive for overall relative performance. It produces opioid addiction treatment drugs and looks increasingly likely to face competitive challenges from rivals in its key US market.

Losers

Our holding in IT security software provider **Sophos** held back performance. We invested in the stock through its initial public offering in 2015 and it had delivered a strong return for us, as we reported a year ago. However, it has been unable to sustain its excellent 2017 billings growth partly because there were fewer high-profile cyber breaches stoking demand. Owning **Jupiter Fund Management** was also detrimental to performance and we have now exited our position entirely. Jupiter's share price spiralled downwards during the year, driven by concerns over fund outflows. The business is looking to grow assets outside its traditional UK heartland, but struggled to match revenues and profits of previous years, faced with broader cost and regulatory pressures. Finally, not owning the loss-making online supermarket **Ocado** hurt the Company's relative performance as the group signed several deals to develop customer fulfilment centres in partnership with international grocers such as Groupe Casino in France and Kroger in the US.

Strategic Report – continued



Guy Anderson

Guy joined the mid and small cap equities team within JPMAM's International Behavioural Finance team in 2012. He is a Managing Director and is the Company's lead Investment Manager. Guy previously worked as an investment analyst, having started his career as a management consultant. He graduated in Engineering from Oxford University and is a CFA charter holder.



Martin Hudson

Martin Hudson joined JPMAM in 1982 and is a Managing Director within the International Behavioural Finance team, specialising in mid and small-sized UK equities. He is a co-manager of the Company's portfolio, having previously been manager of the UK investment research department and a building and property analyst. Martin graduated in Natural Sciences from the University of Cambridge and is a chartered Engineer.

Positioning the portfolio for future success

Against the backdrop of heightened political risk in the UK and abroad, combined with a notable slowdown in global economic growth, seeing beyond the uncertainty can be challenging. However, because we focus on the attributes of individual businesses, we can still unearth and invest in companies that are both fundamentally robust and have the potential to be long-term future winners, even if the immediate geopolitical and economic climate is tough. We are always poised to take advantage of strategic opportunities as they arise and the current market environment is generating opportunities to buy potential long-term winners at attractive prices.

The UK is home to both domestically-focused businesses as well as those that are more global in nature. Within the first category, valuations have been depressed ever since the June 2016 EU referendum result – but we still believe there will be long-term winners once the Brexit fog lifts. The portfolio's domestic vs. international exposure has remained relatively static over the last year, with around half of the revenue generated by companies being sourced by each, which is approximately in line with the Benchmark.

We continue to work hard to identify winners and losers. In the IT Software & Services sector, we have recently built up a new position in **AVEVA**, the industrial software business, which we believe is a potential winner that could experience a step-change in growth as industrial customers begin to embrace the fourth industrial revolution, an era of smart technologies that will create massive change across industries.

Within builders' merchanting, we have increased our position size in **Grafton**, offsetting it with an underweight exposure to **Travis Perkins**. Our positioning plays to the trend of DIY being replaced by 'do it for me' and Grafton is able to take advantage of this with Selco, its trade-only builders' warehouse format that has ambitious growth plans. Travis Perkins, on the other hand, is struggling to restructure its dated IT systems and inappropriate real estate footprint.

We also remain invested in large holdings in several companies that have successfully delivered over time. These include our large holdings in companies such as the aforementioned **Spirax-Sarco**, specialist asset manager **Intermediate Capital Group (ICG)** and **Bellway**, one of the UK's largest house builders. All three companies are examples of stocks where we continue to believe that prospects for growth remain well underpinned.

Outlook for the coming year

The short-term outlook for the UK economy remains mixed, with Brexit uncertainties a negative factor and official Bank of England forecasts for UK economic growth becoming more subdued. On the positive side, UK unemployment dipped to 4% in late 2018 and is near to a 44-year low. Combined with an employment rate of 76%, this has driven wages up, increasing consumer spending power. Whilst political uncertainty has certainly been suppressing consumer confidence, as and when this dissipates confidence could improve and thus provide a platform for an upturn in domestic economic growth.

The prospect of generally weaker economic momentum and unpredictable trade politics are likely to be factors this year: we are already seeing slower estimates for global growth, driven in part by the risk of a trade war between the US and China. Only time will tell how this saga plays out but right now it is at least a 'low growth rather than no growth' environment. This provides a sufficiently robust backdrop for earnings growth in companies outside of the FTSE 100, many of which are at earlier stages of their business lifecycles.

Expectations for earnings growth remain positive and, with the market having de-rated, lower company valuations provide us with opportunities – as identified by our rigorous research process – to uncover attractive investment opportunities. The Company can hold up to 10% in cash or utilise gearing of up to 20% of net assets where appropriate. At the present time, the portfolio is fully invested but ungeared. This allows the Company to benefit from future

Strategic Report – continued



Anthony Lynch

Anthony joined in JPMAM 2009 as an analyst, having graduated in Economics from Durham University. He is an Executive Director within the International Behavioural Finance team, specialising in UK mid and small cap equities. He is a co-manager of the Company's portfolio. Anthony is a CFA charter holder

increases in the stock market while providing us with plenty of capacity to invest further as and when suitable opportunities arise.

We maintain our view that, regardless of UK and European politics and the testing macro backdrop, the favourable dynamics of medium- and small-sized companies will continue to drive superior returns over the long-term. The Company's long-term performance record is compelling in this respect and history supports our confidence: looking back over the last 60 years or so, mid and small cap stocks in aggregate have outperformed the overall market in two years out of three. Over the last 20 years, the Benchmark has outperformed the FTSE 100 by more than 6% per annum.

We have outperformed the Company's Benchmark over 3, 5, 10 and 25 years and are resolute in our commitment to carry on delivering capital growth and growing dividends. Above all, we are focused on investing in good quality, structurally robust companies that have the potential to deliver over the long-term. That means companies that can generate earnings growth and can adapt to the environments in which they operate, as we believe that these are the stocks that will continue to be the longer-term winners – and tomorrow's market leaders.

Guy Anderson

Martin Hudson

Anthony Lynch

Investment Managers

5th April 2019

Strategic Report – continued

Summary of Results

	2019	2018	
Total returns for the year ended 31st January			
Return on net assets ¹	-8.0%	+25.5%	
Return to shareholders ²	-8.1%	+25.5%	
Benchmark return ³	-6.7%	+14.6%	
Net asset value and discount at 31st January			% change
Shareholders' funds (£'000)	1,753,744	2,019,593	-13.2
Net asset value per share with debt at par value ⁶	221.3p	246.6p	-10.3
Net asset value per share with debt at fair value ^{4,6}	211.7p	237.5p	-10.9
Share price discount to net asset value with debt at par value ⁶	13.2%	12.8%	
Share price discount to net asset value with debt at fair value ⁴	9.3%	9.5%	
Market Data at 31st January			
The FTSE All-Share Index (capital only) excluding constituents of the FTSE 100 Index and investment trusts with net dividends reinvested ⁵	3,783.7	4,175.8	-9.4
Share price ⁶	192.0p	215.0p	-10.7
Ordinary shares in issue at year end (excluding shares held in Treasury) ⁶	792,492,181	819,000,390	
Revenue for the year ended 31st January			
Net revenue available for shareholders (£'000)	59,750	51,292	+16.5
Revenue return per share ⁶	7.5p	6.1p	+23.0
Dividend per share ⁶	6.3p	5.3p	+18.9
Ongoing Charges	0.45%	0.45%	
Gearing	0.1%	3.5%	

A glossary of terms and alternative performance measures is provided on page 66.

¹Source: J.P.Morgan/Morningstar, using cum income net asset value per share, with debt at par value.

²Source: Morningstar.

³Source: FTSE Russell. The Company's benchmark is the FTSE All-Share Index excluding constituents of the FTSE 100 Index and investment trusts with net dividends reinvested.

⁴The fair value of the Company's debentures have been calculated using discounted cash flow techniques, using the yield from a similarly dated gilt plus a margin based on the 5 year average for the AA Barclays Sterling Corporate Bond spread.

⁵Source: Datastream.

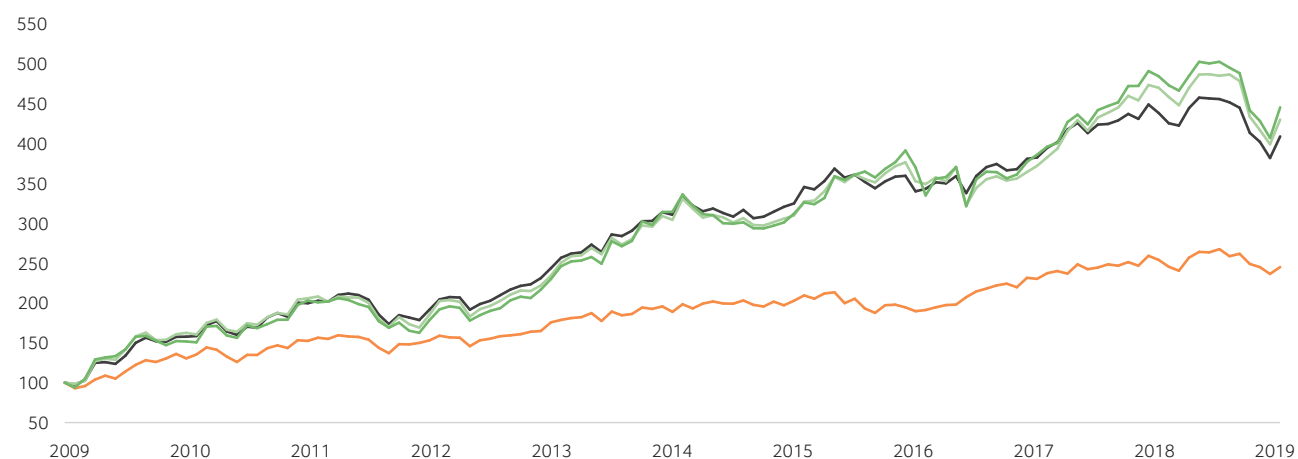
⁶Comparative figures for the year ended 31st January 2018 have been restated following the sub-division of each existing ordinary share of 25p into ten ordinary shares of 2.5p each on 25th May 2018.

Strategic Report – continued

Performance

Ten Year Performance

Figures have been rebased to 100 at 31st January 2009



■ The Mercantile – net asset value total return.¹

■ The Mercantile – share price total return.²

■ Benchmark total return.³

■ FTSE 100 Index total return.⁴

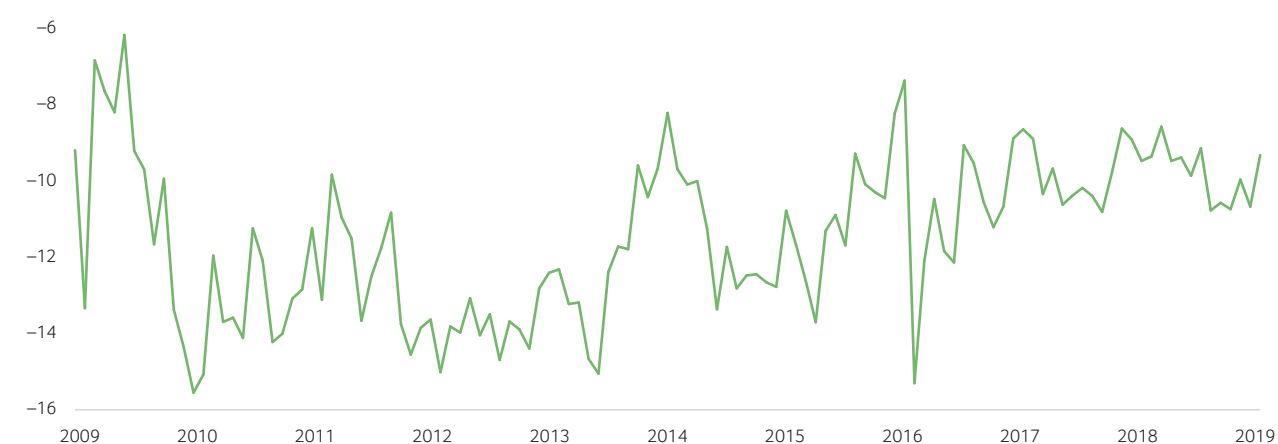
¹Source: J.P.Morgan/Morningstar, using cum income net asset value per share, with debt at fair value.

²Source: Morningstar.

³Source: FTSE Russell.

⁴Source: FTSE.

Discount History



■ Share price discount to cum income net asset value debt at fair value.

Source: Morningstar.

Strategic Report – continued

Ten Year Financial Record

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
At 31st January											
Total assets less current liabilities (€'m)	874.1	1,212.3	1,414.3	1,287.5	1,538.6	1,865.2	1,890.5	2,031.2	1,921.7	2,197.3	1,931.5
Net asset value per share (p) ^{1,2}	68.2	101.6	124.9	112.5	138.3	171.8	175.3	193.2	200.5	246.6	221.3
Share price (p) ²	59.3	86.0	110.9	94.0	117.1	155.0	149.8	172.7	175.5	215.0	192.0
Year to 31st January											
Gross revenue (€'000)	51,750	32,248	32,237	37,384	37,447	53,104	48,136	56,848	56,369	58,292	66,358
Revenue available for shareholders (€'000)	43,028	23,703	26,769	31,555	31,643	46,646	41,352	49,580	49,296	51,292	59,750
Revenue return per share (p) ²	4.2	2.3	2.7	3.2	3.2	4.8	4.2	5.2	5.3	6.1	7.5
Dividend per share (net) (p) ²	3.6	3.6	3.6	3.6	3.6	4.0	4.1	4.3	4.6	5.3	6.3
Discount (%)	13.0	15.3	11.2	16.4	15.3	9.8	14.6	10.6	12.5	12.8	13.2
Gearing/(net cash) (%)	2.8	11.9	8.9	14.3	2.7	8.9	(0.9)	(4.2)	2.5	3.5	0.1
Ongoing Charges (%) ³	0.56	0.54	0.49	0.51	0.49	0.48	0.49	0.48	0.48	0.45	0.45
Rebased to 100 at 31st January 2009											
Net asset value per share ¹	100.0	149.0	183.1	165.0	202.8	251.9	257.0	283.3	294.0	361.6	324.5
Total return on net assets ⁴	100.0	162.4	205.7	184.9	234.1	304.0	309.4	352.3	371.6	469.4	429.5
Share price	100.0	145.0	187.0	158.5	197.5	261.4	252.6	291.2	296.0	362.6	323.8
Total return to shareholders ⁵	100.0	151.6	202.8	178.2	229.8	314.0	311.7	369.6	385.5	483.8	444.8
Benchmark total return ⁵	100.0	157.6	199.5	191.3	243.4	310.3	324.5	339.6	382.1	437.8	408.4
Revenue return per share	100.0	54.8	64.3	76.2	76.2	114.3	100.0	123.8	126.2	145.2	178.6
Dividends per share ²	100.0	100.0	100.0	100.0	100.0	111.1	113.9	119.4	127.8	147.2	175.0
Retail Price Index ⁶ (%)	100.0	103.8	109.2	113.4	117.3	120.5	121.9	123.8	127.1	132.0	135.6

¹Source: J.P. Morgan/Morningstar, using cum income net asset value per share, with debt at par value.

²All prior years' comparative figures have been restated due to the sub-division of each existing ordinary share of 25p into ten ordinary shares of 2.5p each on 25th May 2018.

³Ongoing Charges represents the management fee and all other operating expenses excluding finance costs, expressed as a percentage of the average of the daily net assets during the year (2009 to 2011: Total Expense Ratio, calculated on the average of the month end net assets). The ongoing charges are calculated in accordance with guidance issued by the Association of Investment Companies in May 2012.

⁴Source: J.P. Morgan/Morningstar, using cum income net asset value per share, with debt at fair value.

⁵Source: Morningstar, FTSE Russell.

⁶Source: Office of National Statistics. Calculated on a cumulative basis, rebased to 100 as at 31st January 2009.

Strategic Report – continued

Ten Largest Investments

at 31st January

Company	2019 Valuation		2018 Valuation	
	£'000	% ¹	£'000	% ¹
Bellway	54,754	3.1	53,953	2.6
Intermediate Capital	50,648	2.9	53,904	2.6
Phoenix²	40,780	2.3	33,398	1.6
Spirax-Sarco Engineering	40,640	2.3	45,399	2.2
SSP²	36,508	2.1	28,014	1.3
Close Brothers²	36,085	2.1	30,752	1.5
Beazley	35,401	2.0	38,063	1.8
Man	34,937	2.0	43,760	2.1
Grafton²	33,640	1.9	24,172	1.2
Bodycote²	33,462	1.9	37,807	1.8
Total³	396,855	22.6		

All of the above investments are listed in the UK.

¹Based on total portfolio of £1,755m (2018: £2,091m).

²Not Included in the ten largest investments at 31st January 2018.

³At 31st January 2018, the value of the ten largest investments amounted to £432m representing 20.7% of the total portfolio.

Strategic Report – continued

Portfolio Analyses

Listed Equity Market Capitalisation

at 31st January

	2019 % ¹	2018 % ¹
UK FTSE Mid sized	79.2	79.7
UK FTSE 100	11.3	9.7
UK FTSE Small & Fledgling	5.2	7.0
UK AIM	4.1	3.4
UK Unquoted	0.2	0.2
Total	100.0	100.0

¹Based on total portfolio of £1,755m (2018: £2,091m).

Source: J.P. Morgan

Sector Analysis

at 31st January

	Portfolio 2019 % ¹	Benchmark 2019 %	Portfolio 2018 % ¹	Benchmark 2018 %
Industrials	32.0	28.8	31.0	28.9
Financials	21.0	15.7	23.1	15.9
Consumer Services	14.6	18.0	22.1	21.7
Consumer Goods	12.4	8.2	9.6	7.1
Real Estate	6.2	12.6	3.7	9.6
Technology	6.2	2.8	5.7	2.5
Basic Materials	4.0	4.0	3.8	4.1
Oil & Gas	2.0	2.6	—	3.2
Telecommunications	0.8	1.1	0.2	1.0
Health Care	0.8	4.6	0.4	4.9
Utilities	—	1.6	0.4	1.1
Total	100.0	100.0	100.0	100.0

¹Based on total portfolio of £1,755m (2018: £2,091m).

Source: J.P. Morgan

Strategic Report – continued

List of Investments

at 31st January 2019

Company	Valuation £'000
Industrials	
Spirax-Sarco Engineering	40,640
Grafton	33,640
Bodycote	33,462
Electrocomponents	33,328
Hays	32,853
Vesuvius	29,872
Marshalls	25,833
Howden Joinery	25,270
RPC	24,291
Coats	23,841
Rhi Magnesita	23,015
BBA Aviation	22,832
DS Smith	20,900
Morgan Sindall	18,104
Rotork	17,999
Morgan Advanced Materials	17,275
Diploma	16,824
Polypipe	15,606
Ibstock	15,357
Babcock International	14,332
Forterra	13,913
Vp	13,440
Melrose Industries	10,615
Avon Rubber	9,652
Alpha Financial Markets Consulting ¹	9,476
Renishaw	8,636
STthree	6,535
XP Power	4,629
	562,170
Financials	
Intermediate Capital	50,648
Phoenix	40,780
Close Brothers	36,085
Beazley	35,401
Man	34,937
Jardine Lloyd Thompson	28,215
3i	25,476
John Laing	22,897
IG	21,336
Brewin Dolphin	17,267
Amigo	15,908
Charter Court Financial Services	14,383
Mortgage Advice Bureau ¹	11,751
Sabre Insurance	9,940
Cenkos Securities ¹	3,017
	368,041

Company	Valuation £'000
Consumer Services	
SSP	36,508
B&M European Value Retail	31,765
National Express	31,361
JD Sports Fashion	30,935
WH Smith	29,686
Inchcape	29,258
Auto Trader	26,049
GVC	8,064
Hollywood Bowl	7,797
M&C Saatchi ¹	7,495
Gocompare.Com	6,712
Reach	5,242
JPJ	4,549
	255,421
Consumer Goods	
Bellway	54,754
Games Workshop	26,348
Countryside Properties	26,283
Fevertree Drinks ¹	24,423
Britvic	20,251
Cranswick	17,792
MP Evans ¹	16,409
Berkeley	12,385
AG Barr	9,186
Taylor Wimpey	9,110
	216,941
Real Estate	
UNITE	28,499
Segro	19,051
LondonMetric Property	16,806
Savills	15,453
Workspace	13,300
Derwent London	12,102
Shaftesbury	4,356
	109,567
Technology	
AVEVA	32,664
Softcat	28,217
Sophos	20,232
Computacenter	16,047
FDM	11,989
	109,149

Strategic Report – continued

Company	Valuation £'000
Basic Materials	
Polymetal International	20,138
Synthomer	15,232
Ferrexpo	13,625
Evraz	12,206
KAZ Minerals	5,189
Tennants Consolidated ^{2,3}	4,174
	70,564
Oil & Gas	
Petrofac	20,342
Hunting	15,359
	35,701
Telecommunications	
Telecom Plus	14,100
	14,100
Health Care	
Hikma Pharmaceuticals	13,340
	13,340
Total Investments⁴	1,754,994

¹AIM listed investment.

²Unquoted investment.

³Includes a fixed interest investment.

⁴The portfolio comprises investments in equity shares, and a fixed interest investment.

Strategic Report – continued

Business Review

The aim of the Strategic Report is to provide shareholders with the ability to assess how the Directors have performed their duty to promote the success of the Company during the year under review. To assist shareholders with this assessment, the Strategic Report sets out the structure and objective of the Company, its investment policies and risk management, investment restrictions and guidelines, performance, total return, revenue and dividends, key performance indicators, share capital, Board diversity, discount, employees, social, community and human rights issues, principal risks and how the Company seeks to manage those risks and finally its long term viability.

Objective and Strategy of the Company

The Mercantile Investment Trust plc is an investment trust company that has a premium listing on the London Stock Exchange. Its objective is to achieve long term capital growth from a portfolio of UK medium and smaller companies. The Company employs JPMorgan Funds Limited ('JPMF' or the 'Manager') to actively manage its assets. The Board has determined an investment policy and related guidelines and limits, as described below.

Structure of the Company

The Company is subject to UK and European legislation and regulations including UK company law, UK Financial Reporting Standards, the UK Listing, Prospectus, Disclosure Guidance and Transparency Rules, taxation law and the Company's own Articles of Association. The Company is an investment company within the meaning of Section 833 of the Companies Act 2006 and has been approved by HM Revenue & Customs as an investment trust (for the purposes of Sections 1158 and 1159 of the Corporation Tax Act 2010). As a result the Company is not liable for taxation on capital gains. The Directors have no reason to believe that approval will not continue to be retained. The Company is not a close company for taxation purposes.

A review of the Company's activities and prospects is given in the Chairman's Statement on pages 3 to 5, and in the Investment Managers' Report on pages 6 to 9.

Investment Policies and Risk Management

In order to achieve its objective and to seek to manage risk, the Company's business model is to invest in a diversified portfolio and it employs a Manager with a strong focus on research that enables it to identify what it believes to be the most attractive stocks in the market.

The Board has sought to manage the Company's risk by imposing various investment limits and restrictions. These limits and restrictions may be varied at any time by the Board at its discretion.

Investment Restrictions and Guidelines

- The Company invests in medium and smaller companies which are listed mainly on the London Stock Exchange.
- At time of purchase the maximum exposure to any individual stock is 8% of total assets. The Company may hold five positions of up to 8%, totalling no more than 40% of the Company's gross assets. Thereafter a maximum of 3% of gross assets may be held in any one investment.
- Capital growth is emphasised, with long-term dividend growth at least in line with inflation.
- Gearing may be used when appropriate in order to increase potential returns to shareholders. Such gearing will be long-term in nature and will operate within a range of 10% net cash to 20% geared.
- The Company does not invest more than 15% of its gross assets in other listed closed-ended investment funds (including investment trusts).
- The Company will not invest more than 10% of assets in companies that themselves may invest more than 15% of gross assets in UK listed investment companies.

Performance

In the year to 31st January 2019, the Company produced a total return to shareholders of -8.1% and a total return on net assets of -8.0%. This compares with the total return on the Company's benchmark of -6.7%. At 31st January 2019, the value of the Company's investment portfolio was £1,755.0 million. The Investment Managers' Report on pages 6 to 9 includes a review of developments during the year as well as information on investment activity within the Company's portfolio.

Total Return, Revenue and Dividends

Gross total loss for the year amounted to £142.5 million (2018: £433.1 million return) and net total loss after deducting interest, management expenses and taxation amounted to £161.9 million (2018: £413.2 million return). Distributable income for the year amounted to £59.8 million (2018: £51.3 million). The Directors have declared quarterly interim dividends totalling 6.3p (2018: 5.3p¹) per ordinary share for the year which totalled £50.1 million (2018: £43.8 million). The year end revenue reserve after allowing for these dividends will amount to £54.5 million (2018: £44.5 million).

Key Performance Indicators ('KPIs')

The Company's objective is to achieve long term capital growth from a portfolio of UK medium and smaller companies. In order to monitor performance against this objective, the Board uses a number of financial KPIs to monitor and assess the performance of the Company. The principal KPIs are:

¹The dividend rate has been restated following the sub-division of each existing ordinary share of 25p into ten ordinary shares of 2.5p each on 25th May 2018.

Strategic Report – continued

- **Performance against the benchmark index**
This is the most important KPI by which performance is judged. Please refer to the graph headed 'Ten Year Performance' on page 11.
- **Performance against the Company's peers**
The principal objective is to achieve capital growth relative to the benchmark. The Board also monitors the performance relative to a broad range of competitor funds.
- **Dividends**
The Company pays four quarterly dividends each year and the Board's aim is to achieve long term dividend growth at least in line with inflation.
- **Performance attribution**
The purpose of performance attribution analysis is to assess how the Company achieved its performance relative to its benchmark index, i.e. to understand the impact on the Company's relative performance of the various components such as stock selection and sector allocation. Details of the attribution analysis for the year ended 31st January 2019 are given in the Investment Managers' Report on page 6.
- **Share price discount to net asset value ('NAV') per share**
The Board operates a share repurchase programme that seeks to enhance value and address imbalances in supply and demand of the Company's shares within the market and thereby reduce the volatility and absolute level of the discount to NAV at which the Company's shares trade. Please refer to the graph headed 'Discount History' on page 11.
- **Ongoing Charges**
The ongoing charges ratio represents the Company's management fee and all other operating expenses, excluding finance costs, expressed as a percentage of the average of the daily net assets during the year. The ongoing charges ratio for the year ended 31st January 2019 was 0.45% (2018: 0.45%). The Board reviews each year an analysis which shows a comparison of the Company's ongoing charges ratio and its main expenses with those of its peers.

Share Capital

During the year, the Company repurchased a total of 26,508,209¹ shares into Treasury, amounting to 3.2% of the issued share capital at the beginning of the year, for a total consideration of £56.8 million (2018: £98.6 million). As the shares were repurchased at a discount to the underlying net asset value ('NAV') they enhanced the NAV of the remaining shares. The Company has not repurchased any shares since the year end.

¹The number of shares repurchased before the sub-division of shares that took place on the 25th May 2018 has been restated.

A resolution to renew the authority to repurchase shares will be put to shareholders at the forthcoming Annual General Meeting.

The Company did not issue any shares during the year and has not issued any shares since the year end.

Board Diversity

At 31st January 2019, there were four male Directors and two female Directors on the Board. The Company has no employees. The Board's policy on diversity is set out on page 26.

Discount

The Board monitors closely the level of the Company's share price discount to net asset value. During the year the discount decreased from 9.5% to 9.3%, calculated on the cum income NAV with debt at fair value.

The Company reports its performance (Financial Highlights, Chairman's Statement, Investment Managers' report etc.) to shareholders on a cum income NAV with debt at fair value basis. This is consistent with the NAV stated in the Company's monthly factsheets and on its website.

The fair value of the Company's debentures is calculated using a discounted cash flow technique which applies the yield from a similarly dated gilt to the debentures issued by the Company and adds to that a margin based on the five year average for the AA Barclays Sterling Corporate Bond spread.

Employees, Social, Community and Human Rights Issues

The Company has no employees. Since many of its functions are carried out by employees of the Manager and its affiliate, JPMorgan Asset Management (UK) Limited ('JPMAM'), it notes the JPMAM policy statements in respect of social and environmental issues.

JPMAM believes that companies should act in a socially responsible manner. Although our priority at all times is the best economic interests of our clients, we recognise that, increasingly, non-financial issues such as social and environmental factors have the potential to impact the share price, as well as the reputation of companies. Specialists within JPMAM's environmental, social and governance ('ESG') team are tasked with assessing how companies deal with and report on social and environmental risks and issues specific to their industry.

JPMAM is also a signatory to the United Nations Principles of Responsible Investment, which commits participants to six principles, with the aim of incorporating ESG criteria into their processes when making stock selection decisions and promoting ESG disclosure. Our detailed approach to how we implement the principles is available on request.

Strategic Report – continued

The Manager has implemented a policy which seeks to restrict investments in securities issued by companies that have been identified by an independent third party provider as being involved in the manufacture, production or supply of cluster munitions, depleted uranium ammunition and armour/and/or anti-personnel mines. Shareholders can obtain further details on the policy by contacting the Manager.

Greenhouse Gas Emissions

The Company has no premises, consumes no electricity, gas or diesel fuel and consequently does not have a measurable carbon footprint. *JPMAM is a signatory to Carbon Disclosure Project. JPMorgan Chase is a signatory to the Equator Principles on managing social and environmental risk in project finance.*

The Modern Slavery Act 2015 (the 'MSA')

The MSA requires companies to prepare a slavery and human trafficking statement for each financial year of the organisation. As the Company has no employees and does not supply goods and services, the MSA does not apply directly to it. The MSA requirements more appropriately relate to JPMF and JPMAM. JPMorgan's statement on the MSA can be found on the following website: <https://www.jpmorganchase.com/corporate/Corporate-Responsibility/document/modern-slavery-act.pdf>

Criminal Corporate Offence

The Company maintains zero tolerance towards tax evasion. Shares in the Company are purchased through intermediaries or brokers, therefore no funds flow directly into the Company.

Principal Risks

The Directors confirm that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, viability, solvency or liquidity.

With the assistance of the Manager, the Board has drawn up a risk matrix, which identifies the key risks to the Company. These key risks fall broadly under the following categories:

- **Investment and Strategy:** An inappropriate investment strategy, for example sector allocation or the level of gearing, may lead to underperformance against the Company's benchmark index and peer companies, resulting in the Company's shares trading on a wider discount. The Board manages these risks by diversification of investments through its investment restrictions and guidelines which are monitored and reported on by the Manager. JPMF provides the Directors with timely and accurate management information, including performance data and attribution analyses, revenue estimates,

liquidity reports and shareholder analyses. The Board monitors the implementation and results of the investment process with the Investment Managers, who attend all Board meetings, and reviews data which show statistical measures of the Company's risk profile. The Investment Managers employ the Company's gearing tactically, within a strategic range set by the Board.

- **Accounting, Legal and Regulatory:** In order to qualify as an investment trust, the Company must comply with Section 1158 of the Corporation Tax Act 2010 ('Section 1158'). Details of the Company's approval are given under 'Structure of the Company' on page 17. Were the Company to breach Section 1158, it might lose investment trust status and, as a consequence, gains within the Company's portfolio could be subject to Capital Gains Tax. The Section 1158 qualification criteria are monitored continually by JPMF and the results reported to the Board each month. The Company must also comply with the provisions of the Companies Act and, since its shares are listed on the London Stock Exchange, the UKLA Listing Rules and Disclosure Guidance and Transparency Rules ('DTRs'). A breach of the Companies Act could result in the Company and/or the Directors being fined or the subject of criminal proceedings. Breach of the UKLA Listing Rules or DTRs could result in the Company's shares being suspended from listing which in turn would breach Section 1158. The Board relies on the services of its Company Secretary, JPMF, to ensure compliance with The Companies Act and the UKLA Listing Rules and DTRs.
- **Corporate Governance and Shareholder Relations:** Details of the Company's compliance with Corporate Governance best practice, including information on relations with shareholders, are set out in the Corporate Governance Statement on pages 25 to 27.
- **Operational and Cyber Crime:** Disruption to, or failure of, JPMF's accounting, dealing or payments systems or the custodian's records could prevent accurate reporting and monitoring of the Company's financial position. This includes the risk of cybercrime and the consequent potential threat to security and business continuity. Details of how the Board monitors the services provided by JPMF and its associates and the key elements designed to provide effective risk management and internal control are included within the Risk Management and Internal Control section of the Corporate Governance statement on page 27.

The threat of cyber attack, in all its guises, is regarded as at least as important as more traditional physical threats to business continuity and security. The Company benefits

Strategic Report – continued

directly or indirectly from all elements of JPMorgan's Cyber Security programme. The information technology controls around the physical security of JPMorgan's data centres, security of its networks and security of its trading applications are tested by independent reporting accountants and reported on every six months against the Audit and Assurance Faculty ('AAF') standard.

- **Financial:** The financial risks faced by the Company include market price risk, interest rate risk, liquidity risk and credit risk. Bank counterparties are subject to regular credit analysis by the Manager and regular consideration at meetings of the Board. In addition the Board receives regular reports on the Manager's monitoring and mitigation of credit risks on share transactions carried out by the Company. Further details are disclosed in note 24 on pages 55 to 59.

Long Term Viability

Taking account of the Company's current position, the principal risks that it faces and their potential impact on its future development and prospects, the Directors have assessed the prospects of the Company, to the extent that they are able to do so, over the next five years. They have made that assessment by considering those principal risks, the Company's investment objective and strategy, the investment capabilities of the Manager and the current outlook for the UK economy and equity market.

In determining the appropriate period of assessment the Directors had regard to their view that, given the Company's objective of achieving long term capital growth, shareholders should consider the Company as a long term investment proposition. This is consistent with advice provided by investment advisers, that investors should consider investing in equities for a minimum of five years. Thus the Directors consider five years to be an appropriate time horizon to assess the Company's viability.

The Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period of assessment.

By order of the Board
Jonathan Latter, for and on behalf of
JPMorgan Funds Limited,
Company Secretary

5th April 2019

Directors' Report

Board of Directors



Angus Gordon Lennox^{*##†}

A Director since September 2015.

Last reappointed to the Board: 2018.

Remuneration: £69,000.

Angus is a non-executive Director of Securities Trust of Scotland plc and Aberforth Split Level Income Trust plc. He is also Executive Chairman of two private family businesses. Previously he had a 24 year career as a corporate broker, first as a partner of Cazenove & Co, and later as a Managing Director of JPMorgan Cazenove, from which he left in August 2010.

Connections with Manager: none.

Shared directorships with other Directors: none.

Shareholding in the Company: 110,000 ordinary shares.



Helen James^{*##†}

A Director since September 2011.

Last reappointed to the Board: 2018.

Remuneration: £37,000.

Helen is Group Chief Operating Officer of Brunswick Group. She was previously CEO of Investis, a leading digital corporate communications company, having been Managing Director and a co-founder of the company in 2000. Prior to that Helen was head of Pan-European Equity Sales at Paribas. She is also a non-executive director of Edinburgh Worldwide Investment Trust plc.

Connections with Manager: none.

Shared directorships with other Directors: none.

Shareholding in the Company: 6,500 ordinary shares (non-beneficial).



Jeremy Tighe^{*##†}

A Director since March 2012.

Last reappointed to the Board: 2018.

Remuneration: £41,000.

Jeremy joined F&C Management in 1981 and was the fund manager of Foreign and Colonial Investment Trust plc from 1997 to July 2014. He was, until January 2013, a Director of the Association of Investment Companies. He is Chairman of ICG Enterprise Trust plc and Syncona Limited and a non-executive Director of The Monks Investment Trust plc and Aberdeen Standard Equity Income Trust plc.

Connections with Manager: none.

Shared directorships with other Directors: none.

Shareholding in the Company: 153,866 ordinary shares.

Directors' Report – continued

Board of Directors – continued



Harry Morley^{*##†}

A Director since May 2014 and Chairman of the Audit Committee since March 2015.

Last reappointed to the Board: 2018.

Remuneration: £50,000.

Harry was CEO of Armajaro Asset Management LLP from 2010 until 2016, and a non-executive Director of Bibendum Wine Holdings Ltd until May 2016. He was Co-founder and CFO of Tragus Holdings Ltd, owner of Café Rouge and Bella Italia restaurant chains, and also worked in the shipping industry for P&O. He is currently a non-executive Director of JD Wetherspoon plc, TheWorks.co.uk plc and a Trustee of The Ascot Authority. He qualified as a chartered accountant with Price Waterhouse.

Connections with Manager: none.

Shared directorships with other Directors: none.

Shareholding in the Company: 30,000 ordinary shares.



Heather Hopkins^{*##†}

A Director since July 2018.

Last reappointed to the Board: n/a.

Remuneration: £37,000.

Heather has over two decades of experience in data analytics, research, financial services and international business, with expertise in retail distribution. She is Founder and Managing Director of NextWealth Limited which provides research and consultancy to platforms, asset managers and financial advice firms on the future of retail investment distribution. She is also a Director of Clive Waller Consulting Limited, which manages The UK Platform Awards and The Investment Network, a Director of The Open Strings Foundation, a US charity and a columnist for New Model Adviser. She was formerly Head of Platform, a research and events business.

Connections with Manager: none.

Shared directorships with other Directors: none.

Shareholding in the Company: 5,000 ordinary shares.



Graham Kitchen^{*##†}

A Director since July 2018.

Last reappointed to the Board: n/a.

Remuneration: £37,000.

Graham has over twenty years experience managing UK equity funds, including OEICs, investment trusts and pension funds. He was Global Head of Equities at Janus Henderson Investors from 2011 to 2018. Formerly Head of UK Equities at Threadneedle Investments and held various positions at Invesco Asset Management. He is a CFA Charterholder and a Non-Executive Director of Invesco Perpetual Select Trust plc, British Empire Trust plc and of Places for People, a provider of affordable housing, Chair of the independent investment committee of the Cancer Research UK Pension Scheme and a member of the investment committee of Independent Age, a charity that provides advice to older people. He also acts as mentor for The Prince's Trust and The Social Mobility Foundation.

Connections with Manager: none.

Shared directorships with other Directors: none.

Shareholding in the Company: 48,180 ordinary shares.

*A member of the Audit Committee.

#A member of the Nomination Committee.

†A member of the Management Engagement Committee.

All Directors are considered independent of the Manager.

Directors' Report – continued

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31st January 2019.

Management of the Company

JPMorgan Funds Limited ('JPMF') is employed as Manager and Company Secretary to the Company under a contract terminable on six months' notice, without penalty. If the Company wishes to terminate the contract on shorter notice, the balance of remuneration is payable by way of compensation.

JPMF is a wholly-owned subsidiary of JPMorgan Chase Bank which, through other subsidiaries, also provides banking, dealing and custodian services to the Company.

Through its Management Engagement Committee, established in 2018, the Board has thoroughly reviewed the performance of JPMF in the course of the year. The review covered the performance of the Manager, its management processes, investment style, resources and risk controls and the quality of support that the Company receives from JPMF including the marketing support provided. The Board is of the opinion that the continuing appointment of the Manager is in the best interests of shareholders as a whole. Such a review is carried out on an annual basis.

The Alternative Investment Fund Managers Directive ('AIFMD')

JPMF is the Company's alternative investment fund manager ('AIFM'). It is approved as an AIFM by the FCA. For the purposes of the AIFMD the Company is an alternative investment fund ('AIF'). JPMF has delegated responsibility for the day to day management of the Company's portfolio to JPMorgan Asset Management (UK) Limited ('JPMAM'). The Company has appointed BNY Mellon (International) Limited ('BNY') as its depository. BNY has appointed JPMorgan Chase Bank, N.A. as the Company's custodian. BNY is responsible for the oversight of the custody of the Company's assets and for monitoring its cash flows.

The AIFMD requires certain information to be made available to investors in AIFs before they invest and requires that material changes to this information be disclosed in the annual report of each AIF. Investor Disclosure Documents, which set out information on the Company's investment strategy and policies, leverage, risk, liquidity, administration, management, fees, conflicts of interest and other shareholder information are available on the Company's website at www.mercantileit.co.uk. There have been no material changes (other than those reflected in these financial statements) to this information requiring disclosure. Any information requiring immediate disclosure pursuant to the AIFMD will be disclosed to the London Stock Exchange through a primary information provider.

The Company's leverage and JPMF's remuneration disclosures are set out on pages 61 and 62.

Management Fee

With effect from 1st February 2018, the management fee was charged at the rate of 0.45% of the value of the Company's market capitalisation and is calculated and paid monthly in arrears. If the

Company invests in funds managed or advised by JPMF, or any of its associated companies that charge an underlying fee, they are excluded from the calculation and therefore attract no fee. Prior to 1st February 2018, the management fee was charged at the rate of 0.475% of the Company's market capitalisation.

Directors

Sandy Nairn retired from the Board at the conclusion of the Annual General Meeting held on 23rd May 2018 and Ian Russell retired on 31st December 2018. Heather Hopkins and Graham Kitchen were appointed Directors on 1st July 2018.

The Directors of the Company who held office at the year end, are detailed on pages 21 and 22.

Details of Directors' beneficial shareholdings may be found in the Directors' Remuneration Report on page 31.

No Director reported an interest in the Company's debentures during the year.

In accordance with corporate governance best practice, all Directors will retire at the Company's forthcoming Annual General Meeting and, being eligible, will offer themselves for reappointment by shareholders.

The Nomination Committee, having considered their qualifications, performance and contribution to the Board and its committees, confirms that each Director proposed for reappointment continues to be effective and demonstrates commitment to the role and the Board recommends to shareholders that they be reappointed.

Director Indemnification and Insurance

As permitted by the Company's Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity, as defined by Section 234 of the Companies Act 2006. This was in place throughout the financial year and also as at the date of approval of these financial statements.

An insurance policy is maintained by the Company which indemnifies the Directors of the Company against certain liabilities arising in the conduct of their duties. There is no cover against fraudulent or dishonest actions.

Disclosure of Information to Auditors

In the case of each of the persons who are Directors of the Company at the time when this report was approved:

- (a) so far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act) of which the Company's Auditors are unaware; and
- (b) each of the Directors has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company's Auditors are aware of that information.

The above confirmation is given and should be interpreted in accordance with the provisions of Section 418(2) of the Companies Act 2006.

Directors' Report – continued

Independent Auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as Auditors to the Company and resolutions proposing their reappointment and authorising the Directors to determine their remuneration for the ensuing year will be proposed to shareholders at the Annual General Meeting.

Section 992 Companies Act 2006

Capital Structure

The Company's capital structure is summarised on page 1 of this report.

Voting Rights in the Company's shares

Details of the voting rights in the Company's shares as at the date of this report are given in note 16 to the Notice of Annual General Meeting on page 65.

Notifiable Interests in the Company's Voting Rights

At the year end, the following had declared a notifiable interest in the Company's voting rights:

Shareholders	Number of voting rights	% ¹
Brewin Dolphin Limited	95,855,164	12.0
Rathbone Investment Management Ltd	95,433,317	12.0
Quilter plc	83,960,848	10.6
Old Mutual Plc	6,765,884	7.1
Investec Wealth & Investment Ltd	4,141,454	4.3

¹The percentage stated reflects the percentage of the Company's total voting rights held by the shareholder at the time of the notification to the Company.

The Company is also aware that approximately 6% of the Company's total voting rights are held by individuals through savings products managed by JPMAM, registered in the name of Chase Nominees Limited. If those voting rights are not exercised by the beneficial holders, in accordance with the terms and conditions of those savings products, under certain circumstances the Manager has the right to exercise those voting rights. That right is subject to certain limits and restrictions and falls away at the conclusion of the relevant general meeting.

Miscellaneous Information

The rules concerning the appointment and replacement of Directors, amendment of the Articles of Association and powers to issue or buy back the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006. There are no restrictions concerning the transfer of securities in the Company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; no agreements which the Company is party to that affect its control following a takeover bid; and no agreements between the Company and its directors concerning compensation for loss of office.

Listing Rule 9.8.4R

Listing Rule 9.8.4R requires the Company to include certain information in an identified section of the Annual Report or a cross reference table indicating where the information is set out. The Directors confirm that there are no disclosures to be made in this report.

Annual General Meeting

NOTE: THIS SECTION IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the action you should take you should seek your own personal financial advice from your stock broker, bank manager, solicitor, or other financial advisor authorised under the Financial Services and Markets Act 2000.

Resolutions relating to the following items of special business will be proposed at the forthcoming Annual General Meeting ('AGM'):

Authority to allot new shares and to disapply statutory pre-emption rights (resolutions 11 and 12)

The Directors will seek renewal of the authority at the AGM to issue up to 39,624,609 ordinary shares for cash up to an aggregate nominal amount of £990,615, such amount being equivalent to 5% of the issued ordinary share capital as at the last practicable date before the publication of this report. The full text of the resolutions is set out in the Notice of Meeting on page 63. This authority will expire at the conclusion of the AGM of the Company in 2020 unless renewed at a prior general meeting.

It is advantageous for the Company to be able to issue new shares to participants purchasing shares through the JPMorgan savings products and also to other investors when the Directors consider that it is in the best interests of shareholders to do so. As such issues are only made at prices greater than the net asset value (the 'NAV'), they increase the NAV per share and spread the Company's administrative expenses, other than the management fee which is charged on the value of the Company's market capitalisation, over a greater number of shares. The issue proceeds are available for investment in line with the Company's investment policies.

Authority to repurchase the Company's shares for cancellation (resolution 13)

At the AGM held on 23rd May 2018, shareholders gave authority to the Company to purchase up to 14.99% of its then issued share capital. This authority will expire on 22nd November 2019 unless renewed by shareholders. The Directors consider that the renewing of the authority is in the interests of shareholders as a whole, as the repurchase of shares at a discount to the underlying NAV enhances the NAV of the remaining shares. Repurchased shares may be cancelled or held in Treasury. Any shares held in Treasury will only be reissued at a premium to NAV.

Approval of dividend policy (resolution 14)

The Directors seek approval of the Company's dividend policy to continue to pay four quarterly interim dividends, which for the year ended 31st January 2019 have totalled 6.3 pence per share.

Directors' Report – continued

Recommendation

The Board considers resolutions 11-14 are likely to promote the success of the Company and are in the best interests of the Company and its shareholders as a whole. The Directors unanimously recommend that you vote in favour of the resolutions as they intend to do in respect of their own beneficial holdings which amount in aggregate to 353,546 shares representing approximately 0.04% of the existing issued ordinary share capital of the Company. The full text of the resolutions are set out in the Notice of Meeting on pages 63 and 64.

Corporate Governance Statement

Compliance

The Company is committed to high standards of corporate governance. This statement, together with the Statement of Directors' Responsibilities on page 33, indicates how the Company has applied the principles of good governance of the Financial Reporting Council 2016 UK Corporate Governance Code (the 'UK Corporate Governance Code') and the AIC's Code of Corporate Governance, (the 'AIC Code'), which complements the UK Corporate Governance Code and provides a framework of best practice for investment trusts.

The Board is responsible for ensuring the appropriate level of corporate governance and considers that the Company has complied with the best practice provisions of the UK Corporate Governance Code, insofar as they are relevant to the Company's business, and the AIC Code throughout the year under review.

Role of the Board

A management agreement between the Company and JPMF sets out the matters which have been delegated to the Manager. This includes management of the Company's assets and the provision of accounting, company secretarial, administration and some marketing services.

All other matters are reserved for the approval of the Board. A formal schedule of matters reserved to the Board for decision has been approved. This includes determination and monitoring of the Company's investment objectives and policy and its future strategic direction, gearing policy, management of the capital structure, appointment and removal of third party service providers, review of key investment and financial data and the Company's corporate governance and risk control arrangements.

The Board has procedures in place to deal with potential conflicts of interest and following the introduction of The Bribery Act 2010, has adopted appropriate procedures designed to prevent bribery. It confirms that the procedures have operated effectively during the year under review.

The Board meets at least quarterly during the year and additional meetings are arranged as necessary. Full and timely information is provided to the Board to enable it to function effectively and to allow Directors to discharge their responsibilities.

There is an agreed procedure for Directors to take independent professional advice if necessary and at the Company's expense. This is in addition to the access that every Director has to the advice and services of the Company Secretary, JPMF, which is responsible to the Board for ensuring that applicable rules and regulations are complied with and that Board procedures are followed.

Board Composition

The Board, chaired by Angus Gordon Lennox, consists of six non-executive Directors, all of whom are regarded by the Board as independent, including the Chairman. The Directors have a breadth of investment, business and financial skills and experience relevant to the Company's business and brief biographical details of each Director are set out on pages 21 and 22.

There have been no changes to the Chairman's other significant commitments during the year under review.

A review of Board composition and balance is included as part of the annual performance evaluation of the Board. The Board appointed Jeremy Tigue as its Senior Independent Director following the retirement of Sandy Nairn at the conclusion of the 2018 AGM.

The Senior Independent Director leads the evaluation of the performance of the Chairman and may be contacted by shareholders if they have concerns that cannot be resolved through discussion with the Chairman.

Tenure

Directors are initially appointed until the following Annual General Meeting when, under the Company's Articles of Association, it is required that they be reappointed by shareholders. Thereafter, subject to the performance evaluation carried out each year, the Board will agree whether it is appropriate for each Director to seek reappointment. In accordance with the UK Corporate Governance Code, Directors continuing in office seek annual reappointment.

The terms and conditions of Directors' appointments are set out in formal letters of appointment, copies of which are available for inspection on request at the Company's registered office and at the AGM.

Induction and Training

On appointment, the Manager and Company Secretary provide all Directors with induction training. Thereafter, regular briefings are provided on changes in law and regulatory requirements that affect the Company and the Directors. Directors are encouraged to attend industry and other seminars covering issues relevant to investment trust companies. Regular reviews of the Directors' training needs are carried out by the Nomination Committee by means of the evaluation process described below.

Meetings and Committees

The Board delegates certain responsibilities and functions to committees. Details of membership of committees are shown with the Directors' profiles on pages 21 and 22. Directors who are not members of Committees may attend at the invitation of the Chairman.

Directors' Report – continued

The table below details the number of Board, Audit Committee, Nomination Committee and Management Engagement Committee meetings attended by each Director. During the year there were six Board meetings, including a separate meeting devoted to strategy, three Audit Committee meetings and one meeting of each of the Nomination and Management Engagement Committees.

These meetings were supplemented by additional meetings held to cover procedural matters and formal approvals. In addition there is regular contact between the Directors and the Manager and Company Secretary throughout the year.

Director	Board Meetings Attended	Audit Committee Meetings Attended	Nomination Committee Meetings Attended	Management Engagement Committee Meetings Attended
Angus Gordon				
Lennox	6	3 ¹	1	1
Heather Hopkins ²	3	2	1	1
Helen James	5	2	1	1
Graham Kitchen ²	3	2	1	1
Harry Morley	6	3	1	1
Sandy Nairn ³	2	1	—	—
Ian Russell ⁴	6	3	1	1
Jeremy Tigue	6	3	1	1

¹Attended by invitation. Following the publication of the revised FRC UK Corporate Governance Code in July 2018, the Chairman was appointed a member of the Audit Committee on 27th March 2019.

²Appointed to the Board on 1st July 2018.

³Retired from the Board on 23rd May 2018.

⁴Retired from the Board on 31st December 2018.

Board Committees

Nomination Committee

The Nomination Committee, chaired by Angus Gordon Lennox, comprises all the Directors and meets at least annually to ensure that the Board has an appropriate balance of skills and experience to carry out its fiduciary duties and to select and propose suitable candidates for appointment when necessary. The appointment process takes account of the benefits of diversity, including gender. During the year, the Committee engaged Nurole to conduct the recruitment process which resulted in the appointment of Heather Hopkins and Graham Kitchen. Nurole is an independent recruitment agency and has no connection with the Company.

The Board's policy on diversity, including gender, is to take account of the benefits of these during the appointment process. However, the Board remains committed to appointing the most appropriate candidate, regardless of gender or other forms of diversity. Therefore, no targets have been set against which to report.

The Committee conducts an annual performance evaluation, to ensure that the Board, all members of the Board and its

committees have devoted sufficient time and contributed adequately to the work of the Board.

The Committee also reviews Directors' fees and makes recommendations to the Board as and when appropriate, in relation to remuneration policy and implementation.

An externally facilitated Board evaluation is carried out every three years. Such an evaluation was carried out in 2017 by Lintstock, a third party which has no other connection to the Company.

Management Engagement Committee

During the financial year, the Board established a Management Engagement Committee. Chaired by Graham Kitchen, the Committee comprises all of the Directors and meets annually to review the performance of the Manager. It conducts a formal evaluation of the Manager on an annual basis. The evaluation includes consideration of the investment strategy and process of the Investment Manager, noting consistent outperformance of the benchmark over the long term, and the quality of support that the Company receives from JPMF. As a result of the evaluation process, the Board confirms that it is satisfied that the continuing appointment of the Manager is in the interests of shareholders as a whole.

Marketing and Communications Committee

The Board is establishing a Marketing and Communications Committee. To be chaired by Heather Hopkins, the Committee will comprise all of the Directors and will meet twice each year. Once the Committee's terms of reference have been confirmed they will be made available on the Company's website. This will follow an initial review of JPMAM's Sales and Marketing strategy and results.

Audit Committee

The report of the Audit Committee is set out on pages 27 to 29.

Terms of Reference

The Nomination Committee, the Audit Committee and Management Engagement Committee have written terms of reference which define clearly their respective responsibilities, copies of which are available for inspection on the Company's website, on request at the Company's registered office and at the Company's AGM.

Relations with Shareholders

The Board regularly monitors the shareholder profile of the Company. It aims to provide shareholders with a full understanding of the Company's activities and performance and reports formally to shareholders twice a year by way of the Annual Report and Financial Statements and Half Year Financial Report. This is supplemented by the daily publication, through the London Stock Exchange, of the net asset value of the Company's shares.

All shareholders have the opportunity, and are encouraged, to attend the Company's Annual General Meeting at which the Directors and representatives of the Manager are available in person to meet with shareholders and answer questions. In addition, a presentation is given by the Investment Managers who review the

Directors' Report – continued

Company's performance. During the year the Company's brokers and the Investment Managers hold regular discussions with larger shareholders. The Directors are made fully aware of their views. The Chairman and Directors conduct visits to larger shareholders when requested and make themselves available as and when required to address shareholder queries. The Directors may be contacted through the Company Secretary whose details are shown on page 71. The Chairman can also be contacted via the Company's website at www.mercantileit.co.uk.

The Company's Annual Report and Accounts is published in time to give shareholders at least 20 working days' notice of the Annual General Meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to submit questions via the Company's website or write to the Company Secretary at the address shown on page 71.

Details of the proxy voting position on each resolution will be published on the Company's website shortly after the Annual General Meeting.

Risk Management and Internal Control

The UK Corporate Governance Code requires the Directors, at least annually, to review the effectiveness of the Company's system of risk management and internal control and to report to shareholders that they have done so. This encompasses a review of all controls, which the Board has identified as including business, financial, operational, compliance and risk management.

The Directors are responsible for the Company's system of risk management and internal control which is designed to safeguard the Company's assets, maintain proper accounting records and ensure that financial information used within the business, or published, is reliable. However, such a system can only be designed to manage rather than eliminate the risk of failure to achieve business objectives and therefore can only provide reasonable, but not absolute, assurance against fraud, material mis-statement or loss.

Since investment management, custody of assets and all administrative services are provided to the Company by JPMF and its associates, the Company's system of risk management and internal control mainly consists of monitoring the services provided by JPMF and its associates, including the operating controls established by them, to ensure they meet the Company's business objectives. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company (see Principal Risks on pages 19 and 20). This process, which was in place during the year under review and up to the date of approval of the Annual Report and Accounts, accords with the guidance of the Financial Reporting Council. As explained above, the Company is not required to have an internal audit function of its own, but relies on the internal audit department of the Manager. This arrangement is kept under review. The key elements designed to provide effective risk management and internal control are as follows:

Financial Reporting – Regular and comprehensive review by the Board of key investment and financial data, including

management accounts, revenue projections, analysis of transactions and performance comparisons.

Management Agreement – Appointment of a manager, depositary and custodian regulated by the Financial Conduct Authority (FCA), whose responsibilities are clearly defined in a written agreement.

Management Systems – The Manager's system of risk management and internal control includes organisational agreements which clearly define the lines of responsibility, delegated authority, control procedures and systems. These are monitored by the Manager's Compliance department which regularly monitors compliance with FCA rules.

Investment Strategy – Authorisation and monitoring of the Company's investment strategy and exposure limits by the Board.

The Board, either directly or through the Audit Committee, keeps under review the effectiveness of the Company's system of risk management and internal control by monitoring the operation of the key operating controls of the Manager and its associates as follows:

- reviews the terms of the management agreement and receives regular reports from the Manager's Compliance department;
- reviews reports on the risk management and internal controls and the operations of its Custodian, JPMorgan Chase Bank, which is itself independently reviewed;
- reviews every six months an independent report on the risk management and internal controls and the operations of the Manager; and
- reviews quarterly reports from the Company's depositary.

By the means of the procedures set out above, the Board confirms that it has carried out a robust assessment of the effectiveness of the Company's system of risk management and internal control for the year ended 31st January 2019 and to the date of approval of this Annual Report and Financial Statements.

During the course of its review of the system of risk management and internal control, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant.

Audit Committee Report

Role and Composition

The Audit Committee, chaired by Harry Morley, consists of all the Directors other than the Chairman and meets on at least three occasions each year. The members of the Committee consider that at least one member has recent and relevant financial experience and that the committee as a whole has competency relevant to the sector in which the Company operates. For details of their qualifications see pages 21 and 22. Angus Gordon Lennox was not a member of the Audit Committee during the year, however, he was invited to attend meetings as a guest.

The Committee reviews the actions and judgements of the Manager in relation to the half year and annual financial

Directors' Report – continued

statements and the Company's compliance with the UK Corporate Governance Code. At the request of the Board, the Audit Committee provides confirmation to the Board as to how it has discharged its responsibilities so that the Board may ensure that information presented to it is fair, balanced and understandable, together with details of how it has done so.

Financial Statements and Significant Accounting Matters

During its review of the Company's financial statements for the year ended 31st January 2019, the Audit Committee considered the following significant issues, including those communicated by the Auditors during their reporting:

Significant issue	How the issue was addressed
Valuation and existence of investments	The valuation of investments is undertaken in accordance with the accounting policies, disclosed in note 1(b) to the financial statements on page 44. Controls are in place to ensure that valuations are appropriate and existence is verified through custodian reconciliations.
Recognition of investment income	The recognition of investment income is undertaken in accordance with accounting policy note 1(d) to the financial statements on page 44. The Board regularly reviews subjective elements of income such as special dividends and agrees their accounting treatment.
Going concern	The Directors have considered the Company's investment objective, risk management policies, capital management policies and procedures, the nature of the portfolio and expenditure and cash flow projections. As a result, they have determined that the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for at least twelve months from the date of approval of these financial statements. Please refer to the section headed 'Going Concern' on page 29 for further details.
Compliance with Sections 1158 and 1159	Approval for the Company as an investment trust under Sections 1158 and 1159 has been obtained and ongoing compliance with the eligibility criteria is monitored on a regular basis.

The Board was made fully aware of any significant financial reporting issues and judgements made in connection with the preparation of the financial statements.

The Audit Committee examines the effectiveness of the Company's risk management and internal control systems, receives information from the Manager's Compliance department and reviews the scope and results of the external audit, its effectiveness and cost effectiveness, the balance of audit and non-audit services and the independence and objectivity of the external auditors. The Audit Committee also receives

confirmations from the Auditors, as part of their reporting, in regard to their objectivity and independence. In the Directors' opinion, the Auditors are considered independent.

Auditor Appointment and Tenure

The Audit Committee also has primary responsibility for making recommendations to the Board on the reappointment and removal of external auditors. A predecessor firm of PricewaterhouseCoopers LLP ('PwC') was appointed on 8th January 1885, shortly after the Company's launch. The audit engagement partner rotates every five years in accordance with ethical guidelines and 2019 is the fourth year for the current partner.

As part of its review of the continuing appointment of the Auditors, the Audit Committee considered the length of tenure of the audit firm, its fee, its independence from JPMF and the Investment Managers and any matters raised during the audit. A formal tender exercise was undertaken in 2014, as a result of which PwC was reappointed. Written submissions were received from five audit firms. These were considered in full by Board representatives and a shortlist of three firms was drawn up. Meetings were held between a Committee of the Board and the shortlisted firms, using a selection checklist. Following those meetings, PwC were reappointed by Board resolution. A further tender review will be conducted in 2019 and a change of Audit firm will be proposed to shareholders for approval at the 2020 AGM.

The Audit Committee reviews and approves any non-audit services provided by the independent Auditors and assesses the impact of any non-audit work on the ability of the Auditors to remain independent. PwC reviews the debenture loan covenants on an annual basis. Otherwise, no such work was undertaken during the year. Details of the fees paid for audit services are included in note 6 on page 47.

Representatives of the Company's Auditors attend the Audit Committee meeting at which the draft Annual Report & Financial Statements are considered. Having conducted the formal tender in 2014, and reviewed the performance of the external auditors, including the quality of work, timing of communications and work with JPMF, the Committee considered it appropriate to recommend their reappointment. The Board supported this recommendation which will be put to shareholders at the forthcoming Annual General Meeting.

In order to safeguard the Auditors' objectivity and independence, any significant non-audit services are carried out through a partner other than the audit engagement partner where appropriate. Fees paid for audit services, audit-related services and other non-audit services are set out, where relevant, in note 6 on page 47. There were no significant non-audit engagements during the year under review. The Audit Committee has assessed the impact of any non-audit work carried out and is content with the Auditors' ability to remain independent and objective. The Directors' statement on the Company's system of risk management and internal control is set out below.

Directors' Report – continued

Going Concern

The Directors believe that, having considered the Company's investment objective (see page 17), risk management policies (see pages 55 to 59), capital management policies and procedures (see page 60), the nature of the portfolio and expenditure and cash flow projections, the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence and they have not identified any material uncertainties to the Company's ability to continue to do so over a period of at least 12 months from the date of approval of these financial statements.

For these reasons, the Directors consider that there is reasonable evidence to continue to adopt the going concern basis in preparing the Company's financial statements.

Fair, Balanced and Understandable

Having taken all available information into consideration and having discussed the content of the annual report and accounts with the Alternative Investment Fund Manager, Investment Managers, Company Secretary and other third party service providers, the Audit Committee has concluded that the Annual Report and Accounts for the year ended 31st January 2019, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy and has reported these findings to the Board. The Board's conclusions in this respect are set out in the Statement of Directors' Responsibilities on page 33.

Corporate Governance and Voting Policy

The Company delegates responsibility for voting to the Manager.

The following is a summary of the Manager's policy statements on corporate governance, voting policy and social and environmental issues, which has been reviewed and noted by the Board. Details of social and environmental issues are included in the Strategic Report on pages 18 to 19.

Corporate Governance

JPMAM believes that corporate governance is integral to our investment process. As part of our commitment to delivering superior investment performance to our clients, we expect and encourage the companies in which we invest to demonstrate the highest standards of corporate governance and best business practice. We examine the share structure and voting structure of the companies in which we invest, as well as the board balance, oversight functions and remuneration policy. These analyses then form the basis of our proxy voting and engagement activity.

Proxy Voting

JPMAM manages the voting rights of the shares entrusted to it as it would manage any other asset. It is the policy of JPMAM to vote in a prudent and diligent manner, based exclusively on our reasonable judgement of what will best serve the financial interests of our clients. So far as is practicable, we will vote at all of the meetings called by companies in which we are invested.

Stewardship/Engagement

JPMAM recognises its wider stewardship responsibilities to its clients as a major asset owner. To this end, we support the introduction of the FRC Stewardship Code, which sets out the responsibilities of institutional shareholders in respect of investee companies. Under the Code, managers should:

- publicly disclose their policy on how they will discharge their stewardship responsibilities to their clients;*
- disclose their policy on managing conflicts of interest;*
- monitor their investee companies;*
- establish clear guidelines on how they escalate engagement;*
- be willing to act collectively with other investors where appropriate;*
- have a clear policy on proxy voting and disclose their voting record; and*
- report to clients.*

JPMAM endorses the Stewardship Code for its UK investments and supports the principles as best practice elsewhere. We believe that regular contact with the companies in which we invest is central to our investment process and we also recognise the importance of being an 'active' owner on behalf of our clients.

JPMAM's Voting Policy and Corporate Governance Guidelines are available on request from the Company Secretary or can be downloaded from JPMAM's website: <http://www.jpmmorganinvestmenttrusts.co.uk/governance>. This also sets out its approach to the seven principles of the FRC Stewardship Code, its policy relating to conflicts of interest and its detailed voting record.

By order of the Board
Jonathan Latter, for and on behalf of
JPMorgan Funds Limited,
Company Secretary

5th April 2019

Copies of the UK Corporate Governance Code and the AIC Code may be found on the respective organisations' websites: www.frc.org.uk and www.theaic.co.uk

Directors' Remuneration Report

The Board presents the Directors' Remuneration Report for the year ended 31st January 2019, which has been prepared this Report in accordance with the requirements of Section 421 of the Companies Act 2006 as amended.

The law requires the Company's Auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included in the Independent Auditors' Report on pages 34 to 39.

As all the Directors are non-executive, the Board has not established a Remuneration Committee. Instead, the Nomination Committee reviews Directors' fees on a regular basis and makes recommendations to the Board as and when appropriate.

Directors' Remuneration Policy

The law requires that the Directors' Remuneration Policy is subject to a triennial binding vote. However, the Board has decided to seek annual approval and therefore an ordinary resolution to approve this policy will be put to shareholders at the forthcoming Annual General Meeting. The policy subject to the vote, is set out in full below and is currently in force.

The Board's policy for this and subsequent years is that Directors' fees should properly reflect the time spent by the Directors on the Company's business and should be at a level to ensure that candidates of a high calibre are recruited to the Board. The Chairman of the Board, the Chairman of the Audit Committee and the Senior Independent Director are paid higher fees than other Directors, reflecting the greater time commitment involved in fulfilling those roles.

The Nomination Committee, comprising all Directors, reviews fees on a regular basis and makes recommendations to the Board as and when appropriate. Reviews are based on information provided by the Manager, and includes research carried out by third parties on the level of fees paid to the directors of the Company's peers and within the investment trust industry generally. The involvement of remuneration consultants has not been deemed necessary as part of this review.

All of the Directors are non-executive, there are no performance-related elements to their fees and the Company does not operate any type of incentive, share scheme, award or pension scheme and therefore no Directors receive bonus payments or pension contributions from the Company or hold options to acquire shares in the Company. Directors are not granted exit payments and are not provided with compensation for loss of office. No other payments are made to Directors, other than the reimbursement of reasonable out-of-pocket expenses incurred in attending the Company's business.

The Company's Articles of Association currently stipulate that aggregate fees must not exceed £400,000 per annum and provide that any increase in this limit requires both Board and shareholder approval.

In the year under review, Directors' fees were paid at the following annual rates: Chairman £67,000; Chairman of the Audit Committee £49,000; Senior Independent Director £41,000; and other Directors £36,500. With effect from 1st February 2019 fees have been increased to £69,000, £50,000 and £37,000 for the Chairman, Audit Committee Chairman and other Directors respectively. The fee paid to the Senior Independent Director remains unchanged at £41,000.

The Company has no Chief Executive Officer and no employees and therefore no consultation of employees is required, and there is no employee comparative data to provide, in relation to the setting of the remuneration policy for Directors.

The Company has not sought shareholder views on its remuneration policy. The Nomination Committee considers any comments received from shareholders on remuneration policy on an ongoing basis.

The terms and conditions of Directors' appointments are set out in formal letters of appointment which are available for review at the Company's Annual General Meeting and the Company's registered office. Details of the Board's policy on tenure are set out on page 25.

Directors Remuneration Policy Implementation

The Directors' Remuneration Policy Implementation Report is subject to an annual advisory vote and therefore an ordinary resolution to approve this report will be put to shareholders at the forthcoming Annual General Meeting. There have been no changes to the policy compared with the year ended 31st January 2018 and no changes are proposed for the year ending 31st January 2020.

At the Annual General Meeting held on 23rd May 2018, of votes cast, 99.7% of votes cast were in favour of (or granted discretion to the Chairman who voted in favour of) both the remuneration policy and the remuneration report and 0.3% voted against. Votes withheld were the equivalent of less than 0.1% of the votes cast. Similar details for the 2019 AGM will be given in next year's Annual Report.

Details of the implementation of the Company's remuneration policy are given below. No advice from remuneration consultants was received during the year under review.

Single total figure of remuneration

The single total figure of remuneration for each Director is detailed below together with the prior year comparative.

There are no performance targets in place for the Directors of the Company and there are no benefits for any of the Directors which will vest in the future. There are no benefits, pension, bonus, long term incentive plans, exit payments or arrangements in place on which to report.

Directors' Remuneration Report – continued

Single total figure table¹

	2019			2018		
	Fees £	Taxable expenses ² £	Total £	Fees £	Taxable expenses ² £	Total £
Hamish Leslie						
Melville ³	—	—	—	20,951	240	21,191
Helen James	36,500	—	36,500	36,000	—	36,000
Angus Gordon						
Lennox ⁴	67,000	3,070	70,070	54,049	5,846	59,895
Harry Morley	49,000	470	49,470	48,000	884	48,884
Heather						
Hopkins ⁵	21,292	—	21,292	—	—	—
Graham						
Kitchen ⁵	21,292	183	21,475	—	—	—
Sandy Nairn ⁶	12,803	3,742	16,545	40,000	4,849	44,849
Ian Russell ⁷	33,458	8,154	41,612	36,000	4,899	40,899
Jeremy Tigue ⁸	39,595	—	39,595	36,000	—	36,000
Total	280,940	15,619	296,559	271,000	16,718	287,718

¹Audited information.

²Taxable travel and subsistence expenses incurred in attending Board and Committee meetings.

³Retired from the Board on 24th May 2017.

⁴Appointed Chairman on 24th May 2017.

⁵Appointed on 1st July 2018.

⁶Retired from the Board on 23rd May 2018.

⁷Retired from the Board on 31st December 2018.

⁸Appointed Senior Independent Director on 23rd May 2018.

No amounts (2018: nil) were paid to third parties for making available the services of Directors.

Directors' Shareholdings¹

The Directors' beneficial shareholdings are detailed below. The Directors have no other share interests or share options in the Company and no share schemes are available.

	31st January 2019 ¹	1st February 2018 or as at date of appointment ^{1,2}
Heather Hopkins	5,000	—
Helen James ³	6,500	6,500
Angus Gordon Lennox ⁴	110,000	110,000
Graham Kitchen	48,180	8,560
Harry Morley	30,000	30,000
Jeremy Tigue ⁵	152,885	130,700
Total	352,565	285,760

¹Audited information.

²Figures restated pursuant to 10 for 1 sub-division of shares in 2018.

³Non-beneficial holding.

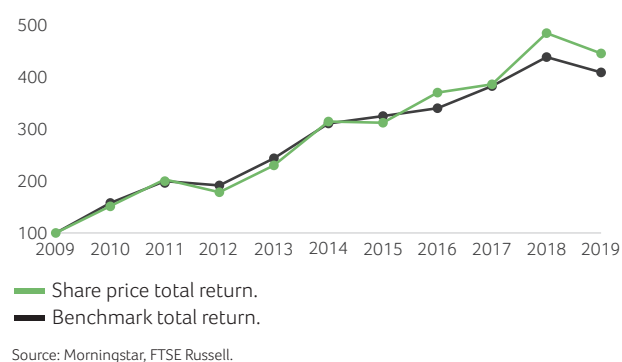
⁴Includes SIPP of 60,000 shares.

⁵On 1st February 2019 Jeremy Tigue acquired 981 shares through the Company's dividend reinvestment plan, taking his shareholding in the Company at the date of this report to 153,866.

No other changes to the Directors' holdings have been recorded at the date of this report.

In accordance with the Companies Act 2006, a graph showing the Company's share price total return compared with its benchmark, the FTSE All-Share Index excluding constituents of the FTSE 100 Index and investment trusts, with net dividends reinvested, over the last ten years is shown below. The Board believes this benchmark is the most representative comparator for the Company.

Ten year share price and benchmark total return to 31st January 2019



A table showing the total remuneration for the Chairman over the five years ended 31st January 2019 is below:

Remuneration for the Chairman over the five years ended 31st January 2019

Year ended 31st January	Fees	Performance related benefits received as a percentage of maximum payable ¹
2019	£67,000	n/a
2018	£66,000	n/a
2017	£66,000	n/a
2016	£66,000	n/a
2015	£60,000	n/a

¹In respect of one year period and periods of more than one year.

Directors' Remuneration Report – continued

A table showing actual expenditure by the Company on remuneration and distributions to shareholders for the year and the prior year is below:

Expenditure by the Company on remuneration and distributions to shareholders

	Year ended 31st January	
	2019 £	2018 £
Remuneration paid to all Directors	297,000	288,000
Distribution to shareholders		
— by way of dividend	47,193,000	39,149,000
— by way of share repurchases	56,804,000	98,559,000
Total distribution to shareholders	104,297,000	137,708,000

For and on behalf of the Board
Angus Gordon Lennox
Chairman

5th April 2019

Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual report and the accounts in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland ('FRS 102') and applicable law). Under Company law the Directors must not approve the financial statements unless they are satisfied that taken as a whole, the annual report and accounts are fair, balanced and understandable, provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy and that they give a true and fair view of the state of affairs of the Company and of the total return or loss of the Company for that period. In order to provide these confirmations, and in preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- notify the Company's shareholders in writing about the use, if any, of disclosure exemptions in FRS 102 in the preparation of the financial statements

and the Directors confirm that they have done so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of

the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations the Directors are also responsible for preparing a Directors' Report and Directors' Remuneration Report that comply with that law and those regulations.

Each of the Directors, whose names and functions are listed on pages 21 and 22 confirms that, to the best of his/her knowledge, the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities, financial position and net return or loss of the Company.

The Board confirms that it is satisfied that the Annual Report and Accounts taken as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

The Board also confirms that it is satisfied that the Strategic Report and Directors' Report include a fair review of the development and performance of the business, and the Company, together with a description of the principal risks and uncertainties that it faces.

The Financial Statements are published on the www.mercantileit.co.uk website, which is maintained by the Manager. The maintenance and integrity of the website maintained by the Manager is, so far as it relates to the Company, the responsibility of the Manager. The work carried out by the Auditors does not involve consideration of the maintenance and integrity of this website and, accordingly, the Auditors accept no responsibility for any changes that have occurred to the accounts since they were initially presented to the website. The accounts are prepared in accordance with UK legislation, which may differ from legislation in other jurisdictions.

For and on behalf of the Board
Angus Gordon Lennox
Chairman

5th April 2019

Independent Auditors' Report

to the members of The Mercantile Investment Trust plc

Report on the audit of the financial statements

Opinion

In our opinion, The Mercantile Investment Trust plc's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31st January 2019 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report & Financial Statements (the 'Annual Report'), which comprise: Statement of Comprehensive Income; Statement of Changes in Equity; Statement of Financial Position as at 31st January 2018; Statement of Cash Flows; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

Other than those disclosed in the Directors' Report, we have provided no non-audit services to the Company in the year from 1st February 2018 to 31st January 2019.

Our audit approach

Overview



-
- Overall materiality: £17.5 million (2018: £ 20.2 million), based on 1% of net assets.
 - The Company is a standalone Investment Trust Company and engages JPMorgan Funds Limited (the "Manager") to manage its assets.
 - We conducted our audit of the financial statements using information from JPMorgan Corporate & Investment Bank (the 'Administrator') to whom the Manager has, with the consent of the Directors, delegated the provision of certain administrative functions.
 - We tailored the scope of our audit taking into account the types of investments within the Company, the involvement of the third parties referred to above, the accounting processes and controls, and the industry in which the Company operates.
-
- Income from Investments.
 - Valuation and existence of investments.
-

Independent Auditors' Report – continued

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the entity and industry, we identified that the principal risks of non-compliance with laws and regulations related to the on-going qualification as an Investment Trust under the Corporation Tax Act 2010 (see page 62 of the Annual Financial Report) and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and Chapter 15 of the UK Listing Rules applicable to Closed-Ended Investment Funds. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journal entries to increase income or to overstate the value of investments and increase the net asset value of the Trust. We performed the following procedures in response to those risks:

- Discussions with management, the Manager and the Administrator, including consideration of known or suspected instances of non compliance with laws and regulation and fraud;
- Evaluation of the controls implemented by the Manager and the Administrator designed to prevent and detect irregularities;
- Assessment of the Company's compliance with the requirements of s1158 of the Corporation Tax Act 2010, including recalculation of numerical aspects of the eligibility conditions; and
- Identifying and testing unusual journal entries.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter

How our audit addressed the key audit matter

Income from Investments

Refer to page 28 (Audit Committee Report), page 44 (Accounting Policies) and page 47 (Notes to the Financial Statements).

We focused on the accuracy and completeness of dividend income recognition and its presentation in the Statement of Comprehensive Income as set out in the requirements of The Association of Investment Companies Statement of Recommended Practice (the 'AIC SORP'). This is because incomplete or inaccurate income could have a material impact on the Company's net assets value.

We also focused on the accuracy and occurrence of realised and unrealised gains or losses on the investment portfolio.

We assessed the accounting policy for income recognition for compliance with accounting standards and the AIC SORP and performed testing to check that income had been accounted for in accordance with this stated accounting policy.

We found that the accounting policies implemented were in accordance with accounting standards and the AIC SORP, and that income has been accounted for in accordance with the stated accounting policy.

We tested the accuracy of dividend receipts by agreeing the dividend rates from investments to independent market data. No material misstatements were identified which required reporting to those charged with governance.

To test for completeness, we tested all investment holdings in the portfolio, to ensure that all dividends declared in the market by investment holdings had been recorded.

We tested occurrence by testing that all dividends recorded in the year had been declared in the market by investment holdings, and we traced a sample of dividends received to bank statements.

Independent Auditors' Report – continued

Key audit matter

How our audit addressed the key audit matter

We tested the allocation and presentation of dividend income between the revenue and capital return columns of the Statement of Comprehensive Income in line with the requirements set out in the AIC SORP by determining reasons behind dividend distributions. Our procedures did not identify any material misstatements which required reporting to those charged with governance.

We also checked that the gains or losses on investments held at fair value comprise realised and unrealised gains or losses, we tested a sample of disposal proceeds to bank statements. For unrealised gains or losses, we tested the valuation of the portfolio at the year-end, and also tested the reconciliation of opening and closing investments.

Our testing did not identify any material misstatements which required reporting to those charged with governance.

Valuation and existence of investments

Refer to page 28 (Audit Committee Report), page 44 (Accounting Policies) and page 50 (Notes to the Financial Statements).

The investment portfolio at the year-end principally comprised of listed equity investments.

We focused on the valuation and existence of investments because investments represent the principal element of the net asset value as disclosed on the Statement of Financial Position in the financial statements.

We tested the valuation of the listed investment portfolio by agreeing the prices used in the valuation to independent third party sources. We also tested the Director's valuation of the unquoted stock.

No misstatements were identified by our testing which required reporting to those charged with governance.

We tested the existence of the investment portfolio by agreeing the holdings for investments to an independent custodian confirmation from JPMorgan Chase Bank, N.A.

No misstatements were identified by our testing which required reporting to those charged with governance.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.

The Company's accounting is delegated to the Administrator who maintains the Company's accounting records and who has implemented controls over those accounting records.

As part of our risk assessment, we understood and assessed the internal controls in place at both the Manager and the Administrator to the extent relevant to our audit. This assessment of the operating and accounting structure in place at both organisations involved obtaining and analysing the relevant control reports issued by the independent service auditor of the Manager and the Administrator in accordance with generally accepted assurance standards for such work. Following this assessment, we then identified those relevant controls at the J.P. Morgan on which we could place reliance to provide audit evidence. We then applied professional judgement to determine the extent of substantive testing required over each balance in the financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Independent Auditors' Report – continued

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£17.5 million (2018: £ 20.2 million).
How we determined it	1% of net assets.
Rationale for benchmark applied	We applied this benchmark, which is a generally accepted auditing practice for investment trust audit.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.9 million (2018: £1.0 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.
We are required to report if the Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Independent Auditors' Report – continued

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31st January 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. **(CA06)**

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. **(CA06)**

The Directors' assessment of the prospects of the Company and of the principal risks that would threaten the solvency or liquidity of the Company

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 20 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 21 of the Annual Report as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Company and statement in relation to the longer-term viability of the Company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the 'Code'); and considering whether the statements are consistent with the knowledge and understanding of the Company and its environment obtained in the course of the audit. **(Listing Rules)**

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 34, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Company obtained in the course of performing our audit.
- The section of the Annual Report on page 29 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. **(CA06)**

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 33, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditors' Report – continued

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

We were appointed by the members in 1884 to audit the financial statements for the year ended 31st January 1885 and subsequent financial periods. The period of total uninterrupted engagement is 135 years, covering the years ended 31st January 1885 to 31st January 2019.

Alex Bertolotti (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

5th April 2019

Financial Statements

Statement of Comprehensive Income for the year ended 31st January 2019

	Notes	2019			2018		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments held at fair value through profit or loss	3	—	(208,880)	(208,880)	—	374,818	374,818
Net foreign currency gains		—	42	42	—	15	15
Income from investments	4	65,363	—	65,363	57,652	—	57,652
Interest receivable and similar income	4	995	—	995	640	—	640
Gross return/(loss)		66,358	(208,838)	(142,480)	58,292	374,833	433,125
Management fee	5	(2,177)	(5,079)	(7,256)	(2,264)	(5,282)	(7,546)
Other administrative expenses	6	(1,212)	—	(1,212)	(1,151)	—	(1,151)
Net return/(loss) on ordinary activities before finance costs and taxation		62,969	(213,917)	(150,948)	54,877	369,551	424,428
Finance costs	7	(3,294)	(7,685)	(10,979)	(3,293)	(7,685)	(10,978)
Net return/(loss) on ordinary activities before taxation		59,675	(221,602)	(161,927)	51,584	361,866	413,450
Taxation refund/(charge)	8	75	—	75	(292)	—	(292)
Net return/(loss) on ordinary activities after taxation		59,750	(221,602)	(161,852)	51,292	361,866	413,158
Return/(loss) per share¹	9	7.47p	(27.69)p	(20.22)p	6.12p	43.18p	49.30p

Dividends declared in respect of the financial year ended 31st January 2019 total 6.3p (2018: 5.3p¹) per share amounting to £50,079,000 (2018: £43,790,000). Further information on dividends is given in note 10 on pages 49 and 50.

¹Comparative figures for the year ended 31st January 2018 have been restated following the sub-division of each existing ordinary share of 25p into ten ordinary shares of 2.5p each on 25th May 2018.

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

The 'Total' column of this statement is the profit and loss account of the Company and the 'Revenue' and 'Capital' columns represent supplementary information prepared under guidance issued by the Association of Investment Companies.

Net return/(loss) on ordinary activities after taxation represents the profit/(loss) for the year and also Total Comprehensive Income.

The notes on pages 44 to 60 form an integral part of these financial statements.

Financial Statements – continued

Statement of Changes in Equity for the year ended 31st January 2019

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve ¹ £'000	Total shareholders' funds £'000
At 31st January 2017	23,612	23,459	13,158	1,633,936	49,978	1,744,143
Repurchase of shares into Treasury	—	—	—	(98,559)	—	(98,559)
Net return on ordinary activities	—	—	—	361,866	51,292	413,158
Dividends paid in the year (note 10)	—	—	—	—	(39,149)	(39,149)
At 31st January 2018	23,612	23,459	13,158	1,897,243	62,121	2,019,593
Repurchase of shares into Treasury	—	—	—	(56,804)	—	(56,804)
Net return on ordinary activities	—	—	—	(221,602)	59,750	(161,852)
Dividends paid in the year (note 10)	—	—	—	—	(47,193)	(47,193)
At 31st January 2019	23,612	23,459	13,158	1,618,837	74,678	1,753,744

¹This reserve forms the distributable reserve of the Company and may be used to fund distributions to investors via dividend payments.

The notes on pages 44 to 60 form an integral part of these financial statements.

Financial Statements – continued

Statement of Financial Position at 31st January 2019

	Notes	2019 £'000	2018 £'000
Fixed assets			
Investments held at fair value through profit or loss	11	1,754,994	2,090,612
Current assets			
Debtors	13	7,783	13,836
Cash and short term deposits		83,047	6,636
Cash equivalents: liquidity fund		99,974	99,895
Creditors: amounts falling due within one year	14	190,804 (14,285)	120,367 (13,713)
Net current assets		176,519	106,654
Total assets less current liabilities		1,931,513	2,197,266
Creditors: amounts falling due after more than one year	15	(177,769)	(177,673)
Net assets		1,753,744	2,019,593
Capital and reserves			
Called up share capital	16	23,612	23,612
Share premium	17	23,459	23,459
Capital redemption reserve	17	13,158	13,158
Capital reserves	17	1,618,837	1,897,243
Revenue reserve	17	74,678	62,121
Total shareholders' funds		1,753,744	2,019,593
Net asset value per share¹	18	221.3p	246.6p

¹Comparative figures for the year ended 31st January 2018 have been restated following the sub-division of each existing ordinary share of 25p into ten ordinary shares of 2.5p each on 25th May 2018.

The financial statements on pages 40 to 60 were approved and authorised for issue by the Directors on 5th April 2019 and are signed on their behalf by:

Angus Gordon Lennox

Director

The notes on pages 44 to 60 form an integral part of these financial statements.

The Mercantile Investment Trust plc

Registered in England, company registration number 20537

Financial Statements – continued

Statement of Cash Flows for the year ended 31st January 2019

	Notes	2019 £'000	2018 £'000
Net cash outflow from operations before dividends and interest	19	(8,370)	(8,384)
Dividends received		63,984	56,647
Interest received		958	404
Overseas tax recovered/(paid)		315	(1)
Interest paid		(10,883)	(10,881)
Net cash inflow from operating activities		46,004	37,785
Purchases of investments		(592,224)	(699,483)
Sales of investments		728,000	773,842
Settlement of foreign currency contracts		—	(2)
Net cash inflow from investing activities		135,776	74,357
Dividends paid		(47,193)	(39,149)
Repurchase of shares into Treasury		(58,097)	(104,520)
Net cash outflow from financing activities		(105,290)	(143,669)
Increase/(decrease) in cash and cash equivalents		76,490	(31,527)
Cash and cash equivalents at start of year		106,531	138,058
Cash and cash equivalents at end of year		183,021	106,531
Increase/(decrease) in cash and cash equivalents		76,490	(31,527)
Cash and cash equivalents consist of:	20		
Cash and short term deposits		83,047	6,636
Cash held in JPMorgan Sterling Liquidity Fund		99,974	99,895
Total		183,021	106,531

The notes on pages 44 to 60 form an integral part of these financial statements.

Financial Statements – continued

Notes to the Financial Statements for the year ended 31st January 2019

1. Accounting Policies

(a) Basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include fixed asset investments at fair value, in accordance with the Companies Act 2006, FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' of the United Kingdom Generally Accepted Accounting Practice ('UK GAAP') and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (the revised 'SORP') issued by the Association of Investment Companies in November 2014 and updated in February 2018.

All of the Company's operations are of a continuing nature.

The financial statements have been prepared on a going concern basis. The disclosures on going concern on page 29 of the Directors' Report form part of these financial statements.

The policies applied in these financial statements are consistent with those applied in the preceding year.

(b) Valuation of investments

The Company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. The portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy and information is provided internally on that basis to the Company's Board of Directors.

Accordingly, upon initial recognition the investments are designated by the Company as 'held at fair value through profit or loss'. They are included initially at fair value which is taken to be their cost, excluding expenses incidental to purchase which are written off to capital at the time of acquisition. Subsequently the investments are valued at fair value, which are quoted bid prices for investments traded in active markets. For investments which are not traded in active markets, unlisted and restricted investments, the Board takes into account the latest traded prices, other observable market data and asset values based on the latest management accounts.

All purchases and sales are accounted for on a trade date basis.

(c) Accounting for reserves

Gains and losses on sales of investments including the related foreign exchange gains and losses, realised gains and losses on cash and cash equivalents, realised gains and losses on foreign currency contracts, management fee and finance costs allocated to capital and any other capital charges, are included in the Statement of Comprehensive Income and dealt with in capital reserves within 'Gains/(losses) on sales of investments'.

Increases and decreases in the valuation of investments held at the year end including the related foreign exchange gains and losses, are included in the Statement of Comprehensive Income and dealt with in capital reserves within 'Net movement in investment holding gains and losses'.

(d) Income

Dividends receivable from equity shares are included in revenue on an ex-dividend basis except where, in the opinion of the Board, the dividend is capital in nature, in which case it is included in capital.

UK dividends are included net of tax credits. Overseas dividends are included gross of any withholding tax.

Special dividends are looked at individually to ascertain the reason behind the payment. This will determine whether they are treated as revenue or capital.

Where the Company has elected to receive scrip dividends in the form of additional shares rather than in cash, the amount of the cash dividend foregone is recognised in revenue. Any excess in the value of the shares received over the amount of the cash dividend is recognised in capital.

Interest receivable from debt securities, together with any premiums or discounts on purchase, are allocated to revenue on a time apportionment basis so as to reflect the effective interest of those securities.

Deposit interest receivable is taken to revenue on an accruals basis.

Underwriting commission is recognised in revenue where it relates to shares that the Company is not required to take up.

Where the Company is required to take up a proportion of the shares underwritten, the same proportion of commission received is deducted from the cost of the shares taken up, with the balance taken to revenue.

Financial Statements – continued

(e) Expenses

All expenses are accounted for on an accruals basis. Expenses are allocated wholly to the revenue with the following exceptions:

- The management fee is allocated 30% to revenue and 70% to capital, in line with the Board's expected long term split of revenue and capital return from the Company's investment portfolio.
- Expenses incidental to the purchase of an investment are included within the cost of the investment and those incidental to the sale are deducted from the sale proceeds. These expenses are commonly referred to as transaction costs and comprise brokerage commission and stamp duty. Details of transaction costs are given in note 11 on page 50.

(f) Finance costs

Finance costs are accounted for on an accruals basis using the effective interest method.

Finance costs are allocated 30% to revenue and 70% to capital, in line with the Board's expected long term split of revenue and capital return from the Company's investment portfolio.

(g) Financial instruments

Cash and cash equivalents may comprise cash (including demand deposits which are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value) as well as cash equivalents. Liquidity funds are considered cash equivalents as they are held for cash management purposes as an alternative to cash.

Other debtors and creditors do not carry any interest, are short term in nature and are accordingly stated at nominal value, with debtors reduced by appropriate allowances for estimated irrecoverable amounts.

The debenture in issue is classified as financial liability at amortised cost. It was initially measured at the proceeds net of direct issue costs and subsequently measured at amortised cost. The amortisation of direct issue costs are accounted for on an accruals basis in the Statement of Comprehensive Income using the effective interest method.

Derivative transactions which the Company may enter into comprises forward exchange contract, the purpose of which is to manage currency risk arising from the Company's investing activities. The Company does not use derivative financial instruments for speculative purposes.

The Company does not apply hedge accounting.

(h) Taxation

Current tax is provided at the amounts expected to be paid or recovered.

Deferred tax is provided on all timing differences that have originated but not reversed by the balance sheet date. Deferred tax liabilities are recognised for all taxable timing differences, but deferred tax assets are only recognised to the extent that it is more likely than not that taxable profits will be available against which those timing differences can be utilised.

Tax relief is allocated to expenses charged to capital on the 'marginal basis'. On this basis, if taxable income is capable of being entirely offset by revenue expenses, then no tax relief is transferred to the capital column.

Deferred tax is measured at the tax rate which is expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates that have been enacted or substantively enacted at the balance sheet date and is measured on an undiscounted basis.

(i) Value Added Tax ('VAT')

Expenses are disclosed inclusive of the related irrecoverable VAT. Recoverable VAT is calculated using the partial exemption method, based on the proportion of zero rated supplies to total supplies.

(j) Functional currency

The Company is required to identify a functional currency, being the currency of the primary economic environment in which the Company operates. The Board, having regard to the currency of the Company's share capital and the predominant currency in which its shareholders operate, has determined that sterling is the functional currency. Sterling is also the currency in which the financial statements are presented.

Transactions denominated in foreign currencies are converted at actual exchange rates as at the date of the transaction. Monetary assets, liabilities and equity investments held at fair value, denominated in foreign currencies at the year end are translated at the rates of exchange prevailing at the year end.

Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in revenue or capital, depending on whether the gain or loss is of a revenue or capital nature. Gains and losses on investments arising from a change in exchange rates are included in 'Investment holding gains and losses' for investments still held at year end, and in 'Gains and losses on sales of investments' for investments sold during the year.

Financial Statements – continued

1. Accounting Policies – continued

(k) Dividends payable

Dividends are included in the financial statements in the year in which they are approved by shareholders.

(l) Repurchase of ordinary shares for cancellation

The cost of repurchasing ordinary shares including the related stamp duty and transactions costs is charged to 'Capital reserves' and dealt with in the Statement of Changes in Equity. Share repurchase transactions are accounted for on a trade date basis.

The nominal value of ordinary share capital repurchased and cancelled is transferred out of 'Called up share capital' and into 'Capital redemption reserve'.

(m) Repurchase of shares into Treasury

The cost of repurchasing shares into Treasury, including the related stamp duty and transaction costs is charged to 'Capital reserves' and dealt with in the Statement of Changes in Equity. Share repurchase transactions are accounted for on a trade date basis. Where shares held in Treasury are subsequently cancelled, the nominal value of those shares is transferred out of 'Called up share capital' and into 'Capital redemption reserve'.

Should shares held in Treasury be reissued, the sales proceeds will be treated as a realised profit up to the amount of the purchase price of those shares and will be transferred to capital reserves. The excess of the sales proceeds over the purchase price will be transferred to share premium.

2. Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements on occasion requires the Directors to make judgements, estimates and assumptions that affect the reported amounts in the primary financial statements and the accompanying disclosures. These assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in the current and future periods, depending on circumstance.

The Directors do not believe that any significant accounting judgements or estimates have been applied to this set of financial statements, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

3. (Losses)/gains on investments held at fair value through profit or loss

	2019 £'000	2018 £'000
Gains on investments held at fair value through profit or loss based on historical cost	126,322	158,623
Amounts recognised in investment holding gains and losses in the previous year in respect of investments sold during the year	(187,064)	(110,015)
(Losses)/gains on sales of investments based on the carrying value at the previous balance sheet date	(60,742)	48,608
Net movement in investment holding gains and losses	(148,123)	326,223
Other capital charges	(15)	(13)
Total capital (losses)/gains on investments held at fair value through profit or loss	(208,880)	374,818

Financial Statements – continued

4. Income

	2019 £'000	2018 £'000
Income from investments:		
UK dividends	49,279	42,107
Special dividends	7,543	7,308
Property income distribution from UK REITs	1,820	1,450
Overseas dividends	6,393	6,141
Scrip dividends	328	646
	65,363	57,652
Interest receivable and similar income:		
Interest from liquidity fund	664	336
Deposit interest	294	68
Underwriting commission	37	236
	995	640
Total income	66,358	58,292

5. Management fee

	2019			2018		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Management fee	2,177	5,079	7,256	2,264	5,282	7,546

Details of the management fee are given in the Directors' Report on page 23.

6. Other administrative expenses

	2019 £'000	2018 £'000
Administration expenses	758	706
Directors' fees ¹	297	288
Savings scheme costs ²	118	119
Auditors' remuneration for audit services ³	37	36
Auditors' remuneration for all other services	2	2
	1,212	1,151

¹Full disclosure is given in the Directors' Remuneration Report on pages 30 and 32.

²These amounts were paid to the Manager for the administration of saving scheme products. Includes £20,000 (2018: £20,000) irrecoverable VAT.

³Includes £7,000 (2018: £6,000) irrecoverable VAT.

Financial Statements – continued

7. Finance costs

	2019			2018		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Debenture interest	3,264	7,618	10,882	3,264	7,617	10,881
Amortisation of debenture issue costs	29	68	97	29	68	97
	3,293	7,686	10,979	3,293	7,685	10,978

8. Taxation

(a) Analysis of tax charge in the year

	2019 £'000	2018 £'000
Overseas withholding tax (refund)/charge	(75)	292
Total tax (refund)/charge for the year	(75)	292

(b) Factors affecting the total tax charge for the year

The total tax charge for the year is higher (2018: lower) than the Company's applicable rate of corporation tax for the year of 19.00% (2018: 19.16%). The factors affecting the total tax charge for the year are as follows:

	2019			2018		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net return/(loss) on ordinary activities before taxation	59,675	(221,602)	(161,927)	51,584	361,866	413,450
Net return/(loss) on ordinary activities before taxation multiplied by the Company's applicable rate of corporation tax of 19.00% (2018: 19.16%)	11,338	(42,104)	(30,766)	9,884	69,334	79,218
Effects of:						
Non taxable scrip dividends	(62)	—	(62)	(124)	—	(124)
Non taxable UK dividends	(9,363)	—	(9,363)	(8,068)	—	(8,068)
Non taxable overseas dividends	(2,648)	—	(2,648)	(2,578)	—	(2,578)
Non taxable capital losses/(gains)	—	39,679	39,679	—	(71,818)	(71,818)
Unrelieved expenses	671	965	1,636	886	2,484	3,370
Disallowed interest	64	1,460	1,524	—	—	—
Overseas withholding tax (refund)/charge	(75)	—	(75)	292	—	292
Total tax (refund)/charge for the year	(75)	—	(75)	292	—	292

(c) Deferred taxation

The Company has an unrecognised deferred tax asset of £48,188,000 (2018: £46,724,000) based on a prospective corporation tax rate of 17% (2018: 17%). The UK corporation tax rate is enacted to fall to 17% effective on 1st April 2020. The deferred tax asset has arisen due to the cumulative excess of deductible expenses over taxable income of the Company's portfolio, it is not likely that this asset will be utilised in the foreseeable future and therefore no asset has been recognised in the financial statements.

Given the Company's status as an investment trust company and the intention to continue meeting the conditions required to obtain approval, the Company has not provided for deferred tax on any capital gains or losses arising on the revaluation or disposal of investments.

Financial Statements – continued

9. Return/(loss) per share

	2019 £'000	2018 £'000
Revenue return	59,750	51,292
Capital (loss)/return	(221,602)	361,866
Total (loss)/return per share	(161,852)	413,158
Weighted average number of shares in issue during the year ¹	800,340,427	838,079,040
Revenue return per share ¹	7.47p	6.12p
Capital (loss)/return per share ¹	(27.69)p	43.18p
Total (loss)/return per share¹	(20.22)p	49.30p

¹Comparative figures for the year ended 31st January 2018 have been restated following the sub-division of each existing ordinary shares of 25p into ten ordinary shares of 2.5p each on 25th May 2018.

10. Dividends

(a) Dividends paid and declared

	2019 £'000	2018 £'000
Dividends paid		
Unclaimed dividends refunded to the Company ¹	(11)	(19)
2018 fourth quarterly dividend of 2.15p ² (2017: 1.525p ²) paid to shareholders in May	17,334	12,987
First quarterly dividend of 1.25p (2018: 1.05p ²) paid to shareholders in August	10,041	8,830
Second quarterly dividend of 1.25p (2018: 1.05p ²) paid to shareholders in November	9,923	8,719
Third quarterly dividend of 1.25p (2018: 1.05p ²) paid to shareholders in February	9,906	8,632
Total dividends paid in the year	47,193	39,149
	2019 £'000	2018 £'000
Dividend declared		
Fourth quarterly dividend of 2.55p (2018: 2.15p ²) payable to shareholders in May	20,209	17,609

¹Represents dividends which remain unclaimed after a period of 12 years and thereby become the property of the Company.

²The dividend rate has been restated following the sub-division of each existing ordinary share of 25p into ten ordinary shares of 2.5p each on 25th May 2018.

All dividends paid and declared in the year have been funded from the revenue reserve.

The fourth quarterly dividend declared in respect of the year ended 31st January 2018 amounted to £17,609,000. However, the actual payment amounted to £17,334,000 due to share repurchases after the balance sheet date but prior to the share register record date.

The fourth quarterly dividend has been declared in respect of the year ended 31st January 2019. In accordance with the accounting policy of the Company, this dividend will be reflected in the financial statements for the year ending 31st January 2020.

(b) Dividends for the purposes of Section 1158 of the Corporation Tax Act 2010 ('Section 1158')

The requirements of Section 1158 are considered on the basis of dividends declared in respect of the financial year as shown below. The revenue available for distribution by way of dividend for the year is £59,750,000 (2018: £51,292,000).

The maximum amount of income that the Company is permitted to retain under Section 1158 is £9,953,000 (2018: £8,744,000), calculated as 15% of total income. Therefore the minimum distribution required by way of dividend is £49,797,000 (2018: £42,548,000).

Financial Statements – continued

10. Dividends – continued

(b) Dividends for the purposes of Section 1158 of the Corporation Tax Act 2010 ('Section 1158') – continued

	2019 £'000	2018 £'000
First quarterly dividend of 1.25p (2018: 1.05p ¹) paid to shareholders in August	10,041	8,830
Second quarterly dividend of 1.25p (2018: 1.05p ¹) paid to shareholders in November	9,923	8,719
Third quarterly dividend of 1.25p (2018: 1.05p ¹) paid to shareholders in February	9,906	8,632
Fourth quarterly dividend declared of 2.55p (2018: 2.15p ¹) payable in May	20,209	17,609
	50,079	43,790

¹The dividend rate has been restated following the sub-division of each existing ordinary share of 25p into ten Ordinary shares of 2.5p each on 25th May 2018.

11. Investments

	2019 £'000	2018 £'000
Investments listed on a recognised stock exchange	1,678,249	2,015,678
Investments listed on AIM and unlisted investments	76,745	74,934
	1,754,994	2,090,612

	Listed UK £'000	AIM and Unlisted £'000	Total £'000
Opening book cost	1,454,920	28,229	1,483,149
Opening investment holding gains	560,758	46,705	607,463
Opening valuation	2,015,678	74,934	2,090,612
Movements in the year:			
Purchases at cost	578,847	15,557	594,404
Sales proceeds	(713,182)	(7,975)	(721,157)
(Losses)/gains on sales of investments based on the carrying value at the previous balance sheet date	(61,030)	288	(60,742)
Net movement in investment holding gains and losses	(142,064)	(6,059)	(148,123)
	1,678,249	76,745	1,754,994
Closing book cost	1,444,130	38,588	1,482,718
Closing investment holding gains	234,119	38,157	272,276
Total investments held at fair value through profit or loss	1,678,249	76,745	1,754,994

Stamp duty and brokerage commission on purchases during the year amounted to £2,570,000 (2018: £2,728,000) and £416,000 (2018: £637,000) respectively. Brokerage commission on sales during the year amounted to £401,000 (2018: 692,000).

Investments include Alternative Investment Market stocks which are valued at £72,571,000 (2018: £70,751,000).

During the year, prior year investment holding gains amounting to £187,064,000 have been transferred to gains on sales of investments as disclosed in note 17.

Financial Statements – continued

12. Significant interests

Details of investments in which the Company has an interest of 3% or more of the nominal value of the allotted shares of any class and which are valued in the portfolio in excess of £10 million, are as follows:

Name of company	Country of registration	Class of share	% of class held
MP Evans	UK	Ordinary	4.7
Mortgage Advice Bureau	UK	Ordinary	3.8
VP	UK	Ordinary	3.5
Morgan Sindall	UK	Ordinary	3.5

In addition to the above, the Company has interests of 3% or more in the share capital of another 3 (2018: 2) investee companies.

The Company does not exercise significant influence over the operating and financial policies of the above mentioned companies which are therefore not considered to be associated companies. The total value of investments in which the Company had an interest of 3% or more at 31st January 2019 was £79,692,000 (2018: £80,517,000).

13. Current assets

	2019 £'000	2018 £'000
Debtors		
Securities sold awaiting settlement	5,016	11,875
Dividends and interest receivable	2,554	1,928
Overseas tax recoverable	185	—
Other debtors	28	33
	7,783	13,836

The Directors consider that the carrying amount of debtors approximates to their fair value.

Cash and cash equivalents

Cash and cash equivalents comprise bank balances, short term deposits and liquidity funds. The carrying amount of these represents their fair value.

14. Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Securities purchased awaiting settlement	9,338	7,486
Repurchases of the Company's own shares awaiting settlement	—	1,293
Other creditors and accruals	4,947	4,934
	14,285	13,713

The Directors consider that the carrying amount of creditors falling due within one year approximates to their fair value.

Financial Statements – continued

15. Creditors: amounts falling due after more than one year

	2019 £'000	2018 £'000
£175 million 6.125% debenture stock ¹	173,919	173,823
£3.85 million 4.25% perpetual debenture stock ²	3,850	3,850
	177,769	177,673

¹The £175 million 6.125% debenture stock is repayable at par on 25th February 2030 and is secured by a floating charge over the assets of the Company.

²The £3.85 million 4.25% debenture stock is irredeemable and secured by a floating charge over the assets of the Company. The debenture is repayable at 105% if the Company goes into default and the security is enforced.

16. Called up share capital

	2019 £'000	2018 £'000
Ordinary shares allotted and fully paid:		
Opening Balance of 81,900,039 shares of 25p each (2018: 86,980,419) shares excluding shares held in Treasury	20,475	21,745
Repurchase of 1,490,680 shares into Treasury (2018: 5,080,380)	(373)	(1,270)
Subtotal of 80,409,359 (2018: 81,900,039) shares of 25p each excluding shares held in Treasury	20,102	20,475
Sub-division of 80,409,359 shares of 25p each into 804,093,590 shares of 2.5p each	—	—
Repurchase of 11,601,409 shares of 2.5p each into Treasury (2018: nil)	(290)	—
Subtotal of 792,492,181 (2018: 819,000,390 ¹) shares of 2.5p each excluding shares held in Treasury	19,812	20,475
151,999,999 (2018: 125,491,790 ¹) shares held in Treasury	3,800	3,137
Closing Balance of 944,492,180 (2018: 944,492,180 ¹) shares of 2.5p each including shares held in Treasury	23,612	23,612

During the year, prior to the sub-division, the Company repurchased 1,490,680 shares (2018: 5,080,380 shares) for a total consideration of £31,592,119 (2018: £98,559,000) and after the sub-division of shares, a further 11,601,409 shares were repurchased into Treasury for a total consideration of £25,212,318, amounting to 3.2% (2018: 5.8%) of issued share capital at the beginning of the year.

¹Comparative figures have been restated following the sub-division of each existing ordinary share of 25p into ten ordinary shares of 2.5p each on 25th May 2018.

Financial Statements – continued

17. Capital and reserves

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves			Total shareholders' funds £'000
				Gains/(losses) on sales of investments £'000	Investment holding gains/(losses) £'000	Revenue reserve ¹ £'000	
Opening balance	23,612	23,459	13,158	1,289,780	607,463	62,121	2,019,593
Net foreign currency gains on cash and cash equivalents	—	—	—	42	—	—	42
Losses on sales of investments based on the carrying value at the previous balance sheet date	—	—	—	(60,742)	—	—	(60,742)
Net movement in investment holding gains and losses	—	—	—	—	(148,123)	—	(148,123)
Transfer on disposal of investments	—	—	—	187,064	(187,064)	—	—
Repurchase of shares into Treasury	—	—	—	(56,804)	—	—	(56,804)
Management fee and finance costs charged to capital	—	—	—	(12,764)	—	—	(12,764)
Other capital charges	—	—	—	(15)	—	—	(15)
Dividends paid in the year	—	—	—	—	—	(47,193)	(47,193)
Retained revenue for the year	—	—	—	—	—	59,750	59,750
Closing balance	23,612	23,459	13,158	1,346,561	272,276	74,678	1,753,744

¹This reserve forms the distributable reserve of the Company and may be used to fund distributions to investors via dividend payments.

18. Net asset value per share

	2019	2018
Net assets (£'000)	1,753,744	2,019,593
Number of shares in issue ¹	792,492,181	819,000,390
Net asset value per share ¹	221.3p	246.6p

¹Comparative figures for the year ended 31st January 2018 have been restated following the sub-division of each existing ordinary share of 25p into ten ordinary shares of 2.5p each on 25th May 2018.

19. Reconciliation of net (loss)/return on ordinary activities before finance costs and taxation to net cash outflow from operations before dividends and interest

	2019 £'000	2018 £'000
Net (loss)/return on ordinary activities before finance costs and taxation	(150,948)	424,428
Add capital losses/(less capital return) on ordinary activities before finance costs and taxation	213,917	(369,551)
Scrip dividends received as income	(328)	(646)
Increase in accrued income and other debtors	(621)	(273)
Increase in accrued expenses	14	35
Management fee charged to capital	(5,079)	(5,282)
Overseas withholding tax	(425)	(61)
Dividends received	(63,984)	(56,647)
Interest received	(958)	(404)
Realised gains on foreign currency transactions	42	17
Net cash outflow from operations before dividends and interest	(8,370)	(8,384)

Financial Statements – continued

20. Analysis of changes in net (debt)/cash

	At 31st January 2018 £'000	Cash flow £'000	Other exchange movements £'000	Non cash movements £'000	At 31st January 2019 £'000
Cash at bank and in hand	636	(331)	42	—	347
Short term deposits	6,000	76,700	—	—	82,700
Cash equivalents: liquidity fund	99,895	79	—	—	99,974
Total cash and cash equivalents	106,531	76,448	42	—	183,021
Debentures falling due after more than five years	(177,673)	—	—	(96)	(177,769)
Closing net (debt)/cash	(71,142)	76,448	42	(96)	5,252

21. Contingent liabilities and capital commitments

At the balance sheet date there were no contingent liabilities or capital commitments (2018: same).

22. Transactions with the Manager and related parties

Details of the management contract are set out in the Directors' Report on page 23. The management fee payable to the Manager for the year was £7,256,000 (2018: £7,546,000) of which £nil (2018: £nil) was outstanding at the year end.

During the year £118,000 (2018: £119,000) was payable to the Manager for the administration of savings scheme products, of which £8,000 (2018: £8,000) was outstanding at the year end.

Included in administration expenses in note 6 on page 47 are safe custody fees amounting to £31,000 (2018: £32,000) payable to JPMorgan Chase of which £4,000 (2018: £8,000) was outstanding at the year end.

During the year, brokerage commission on dealing transactions amounted to £4,000 (2018: £74,000) was payable to JPMorgan subsidiaries of which £nil (2018: £nil) was outstanding at the year end.

The Company also holds cash in JPMorgan Sterling Liquidity Fund, managed by JPMorgan. At the year end this was valued at £100.0 million (2018: £99.9 million). Income amounting to £664,000 (2018: £336,000) was receivable during the year of which £nil (2018: £nil) was outstanding at the year end.

Handling charges on dealing transactions amounting to £15,000 (2018: £13,000) were payable to JPMorgan Chase during the year of which £2,000 (2018: £2,000) was outstanding at the year end.

At the year end, total cash of £347,000 (2018: £636,000) was held with JPMorgan Chase. A net amount of interest of £nil (2018: £2,000) was receivable by the Company during the year from JPMorgan Chase of which £nil (2018: £nil) was outstanding at the year end.

Full details of Directors' remuneration and shareholdings can be found on page 31 and in note 6 on page 47.

23. Disclosures regarding financial instruments measured at fair value

The Company's financial instruments within the scope of FRS 102 that are held at fair value comprise its investment portfolio and derivative financial instruments.

The investments are categorised into a hierarchy consisting of the following three levels:

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

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset.

Details of the valuation techniques used by the Company are given in note 1(b) on page 44.

Financial Statements – continued

The following table sets out the fair value measurements using the FRS 102 hierarchy at 31st January.

	2019		2018	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Level 1	1,750,820	—	2,086,428	—
Level 3 ¹	4,174	—	4,184	—
Total	1,754,994	—	2,090,612	—

¹Consists only of the holding of unquoted stock of Tennants Consolidated which is still held at 31st January 2019.

There was no transfers between Level 1, 2 and 3 during the year (2018: same). A reconciliation of the fair value measurements using valuation techniques using non-observable data is set out below.

	2019		
	Equity Investments £'000	Fixed Interest Investment £'000	Total £'000
Level 3			
Opening balance	4,090	94	4,184
Change in fair value of unquoted investment during the year	(10)	—	(10)
Closing balance	4,080	94	4,174
	2018		
	Equity Investments £'000	Fixed Interest Investment £'000	Total £'000
Level 3			
Opening balance	3,512	94	3,606
Change in fair value of unquoted investment during the year	578	—	578
Closing balance	4,090	94	4,184

24. Financial instruments' exposure to risk and risk management policies

As an investment trust, the Company invests in equities for the long term so as to secure its investment objective stated on the 'Features' page. In pursuing this objective, the Company is exposed to a variety of financial risks that could result in a reduction in the Company's net assets or a reduction in the profits available for dividends.

These financial risks include market risk (comprising interest rate risk and market price risk), liquidity risk and credit risk. The Directors' policy for managing these risks is set out below. The Company has no significant direct exposure to foreign exchange risk. A proportion of the dividends received by the Company are paid in currencies other than sterling. Therefore a significant movement in exchange rates could impact the portfolio yield, however the Board considers this to be a relatively low risk. The Company Secretary, in close co-operation with the Board and the Manager, co-ordinates the Company's risk management strategy.

The objectives, policies and processes for managing the risks and the methods used to measure the risks that are set out below, have not changed from those applying in the comparative year.

The Company's classes of financial instruments are as follows:

- investments in UK equity shares and other securities, which are held in accordance with the Company's investment objective;
- cash held within a liquidity fund;
- short term debtors, creditors and cash arising directly from its operations; and
- a debenture issued by the Company, the purpose of which is to finance the Company's operations.

Financial Statements – continued

24. Financial instruments' exposure to risk and risk management policies – continued

(a) Market risk

The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. This market risk comprises two elements – interest rate risk and market price risk. Information to enable an evaluation of the nature and extent of these two elements of market risk is given in parts (i) and (ii) of this note, together with sensitivity analyses where appropriate. The Board reviews and agrees policies for managing these risks and these policies have remained unchanged from those applying in the comparative year. The Manager assesses the exposure to market risk when making each investment decision and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

(i) Interest rate risk

Interest rate movements may affect the level of income receivable on cash deposits, the liquidity fund and the interest payable on variable rate borrowings when interest rates are reset. There is no 'fair value' interest rate risk attached to the Company's fixed rate debenture in issue, as it is carried in the accounts at amortised cost.

Management of interest rate risk

Liquidity and borrowings are managed with the aim of increasing returns to shareholders. The Company's gearing policy is to limit gearing within the range of 10% net cash to 20% geared where gearing is defined as investments expressed as a percentage of total net assets.

Interest rate exposure

The two series of debentures issued by the Company both carry fixed rates of interest and were issued as a planned level of gearing. This debenture stock is carried in the Company's Statement of Financial Position at amortised cost rather than fair value. Hence movement in interest rates will not affect equity but may have an impact on the share price and discount which is not likely to be material.

The Company has no significant holdings of fixed interest rate securities whose fair value would be affected by interest rate movements.

The exposure of financial assets and financial liabilities to floating interest rates, giving cash flow interest rate risk when rates are reset, is shown below:

	2019 £'000	2018 £'000
Exposure to floating interest rates:		
Cash at bank and short term deposits	83,047	6,636
JPMorgan Sterling Liquidity Fund	99,974	99,895
Total exposure	183,021	106,531

Interest receivable on cash balances, or paid on overdrafts, is at a margin below or above LIBOR respectively (2018: same).

Interest rate sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to a 1% (2018: 1%) increase or decrease in interest rates in regards to the Company's monetary financial assets and financial liabilities. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's monetary financial instruments held at the balance sheet date with all other variables held constant.

	2019		2018	
	1% Increase in rate £'000	1% Decrease in rate £'000	1% Increase in rate £'000	1% Decrease in rate £'000
Statement of Comprehensive Income – return after taxation				
Revenue return	1,830	(1,830)	1,065	(1,065)
Net assets	1,830	(1,830)	1,065	(1,065)

In the opinion of the Directors, this sensitivity analysis may not be representative of the Company's future exposure to interest rate changes due to fluctuations in the level of cash balances.

Financial Statements – continued

(ii) Other price risk

Other price risk includes changes in market prices, other than those arising from interest rate risk, which may affect the value of equity investments.

Management of other price risk

The Board meets on at least four occasions each year to consider the asset allocation of the portfolio and the risk associated with particular industry sectors. The investment management team has responsibility for monitoring the portfolio, which is selected in accordance with the Company's investment objective and seeks to ensure that individual stocks meet an acceptable risk/reward profile.

Other price risk exposure

The Company's total exposure to changes in market prices at 31st January comprises its holdings in total investments as follows:

	2019 £'000	2018 £'000
Investments held at fair value through profit or loss	1,754,994	2,090,612

The above data is broadly representative of the exposure to other price risk during the year.

Concentration of exposure to other price risk

An analysis of the Company's investments is given on pages 13 to 16. This shows that the majority of the investments' value is in the UK. Accordingly there is a concentration of exposure to that country. However it should be noted that an investment may not be entirely exposed to the economic conditions in its country of domicile or of listing.

Other price risk sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to an increase or decrease of 10% (2018: 10%) in the fair values of the Company's equities. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's equities, adjusting for changes in the management fee but with all other variables held constant.

	2019		2018	
	10% Increase in fair value £'000	10% Decrease in fair value £'000	10% Increase in fair value £'000	10% Decrease in fair value £'000
Statement of Comprehensive Income – return after taxation				
Revenue return	(237)	237	(298)	298
Capital return	174,947	(174,947)	208,366	(208,366)
Total return after taxation	174,710	(174,710)	208,068	(208,068)
Net assets	174,710	(174,710)	208,068	(208,068)

(b) Liquidity risk

This is the risk that the Company will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Management of the risk

Liquidity risk is not significant as the Company's assets comprise mainly readily realisable securities, which can be sold to meet funding requirements if necessary. Short term flexibility is achieved through the use of overdraft facilities.

The Board's policy is for the Company to remain fully invested in normal market conditions and that short term borrowings be used to manage short term liabilities and working capital requirements and to gear the Company as appropriate.

Financial Statements – continued

24. Financial instruments' exposure to risk and risk management policies – continued

(b) Liquidity risk – continued

Liquidity risk exposure

Contractual maturities of the financial liabilities, based on the earliest date on which payment can be required are as follows:

	2019			Total £'000
	Three months or less £'000	More than three months but not more than one year £'000	More than one year £'000	
Creditors: amounts falling due within one year				
Securities purchased awaiting settlement	9,338	—	—	9,338
Other creditors and accruals	233	—	—	233
Debenture stock – interest ¹	5,441	5,441	—	10,882
Creditors: amounts falling due after more than one year				
Debenture stock – principal ²	—	—	178,850	178,850
Debenture stock – interest ¹	—	—	114,542	114,542
	15,012	5,441	293,392	313,845

	2018			Total £'000
	Three months or less £'000	More than three months but not more than one year £'000	More than one year £'000	
Creditors: amounts falling due within one year				
Securities purchased awaiting settlement	7,486	—	—	7,486
Repurchase of the Company's own shares awaiting settlement	1,293	—	—	1,293
Other creditors and accruals	220	—	—	220
Debenture stock – interest ¹	5,441	5,441	—	10,882
Creditors: amounts falling due after more than one year				
Debenture stock – principal ²	—	—	178,850	178,850
Debenture stock – interest ¹	—	—	125,424	125,424
	14,440	5,441	304,274	324,155

¹The liabilities shown above represent future contractual payments and therefore differ from the amounts shown in the statement of Financial Position.

²Includes £3,850,000 4.25% debenture stock which is irredeemable and secured by a floating charge over the assets of the Company.

The outflow of cash in connection with the debenture stock could occur earlier if the Company were to repurchase debentures for cancellation or if the Company goes into default and the security is enforced.

Financial Statements – continued

(c) Credit risk

Credit risk is the risk that the failure of the counterparty to a transaction to discharge its obligations under that transaction could result in loss to the Company.

Management of credit risk

Portfolio dealing

The Company invests in markets that operate Delivery Versus Payment ('DVP') settlement. The process of DVP mitigates the risk of losing the principal of a trade during the settlement process. The Manager continuously monitors dealing activity to ensure best execution, a process that involves measuring various indicators including the quality of trade settlement and incidence of failed trades. Counterparty lists are maintained and adjusted accordingly.

Cash and cash equivalents

Counterparties are subject to regular credit analysis by the Manager and deposits can only be placed with counterparties that have been approved by JPMAM's Counterparty Risk Group. The Board regularly reviews the counterparties used by the Manager. At the year end the cash balance of £6 million was placed with BRED Banque Populaire, in line with the Board's concentration guidelines. The JPMorgan Sterling Liquidity Fund has a AAA rating.

Exposure to JPMorgan Chase

JPMorgan Chase Bank is the custodian of the Company's assets. The custody agreement grants a general lien over the securities credited to the securities account. The Company's assets are segregated from JPMorgan Chase Bank's own trading assets and are therefore protected from creditors in the event that JPMorgan Chase Bank were to cease trading. However, no absolute guarantee can be given to investors on the protection of all of the assets of the Company.

Credit risk exposure

The amounts shown in the Statements of Financial Position under debtors and cash and cash equivalents represent the maximum exposure to credit risk at the current and comparative year ends.

(d) Fair values of financial assets and financial liabilities

All financial assets and liabilities are either carried in the Statement of Financial Position at fair value or the Statement of Financial Position amount is a reasonable approximation of fair value except for the debenture stock which the Company has in issue. The fair value of this debenture stock has been calculated using discounted cash flow techniques, using the yield on a similarly dated gilt plus a margin based on the five year average for the AA Barclays Sterling Corporate Bond spread.

	Carrying value		Fair value	
	2019 £'m	2018 £'m	2019 £'m	2018 £'m
£175 million 6.125% debenture stock 25th February 2030	173.9	173.8	247.0	245.8
£3.85 million 4.25% perpetual debenture stock	3.9	3.9	6.7	6.5
	177.8	177.7	253.7	252.3

Financial Statements – continued

25. Capital management policies and procedures

The Company's debt and capital structure comprises the following:

	2019 £'000	2018 £'000
Debt		
£175 million 6.125% debenture stock 25th February 2030	173,919	173,823
£3.85 million 4.25% perpetual debenture stock	3,850	3,850
	177,769	177,673
Equity		
Called up share capital	23,612	23,612
Reserves	1,730,132	1,995,981
	1,753,744	2,019,593
Total debt and equity	1,931,513	2,197,266

The Company's capital management objectives are to ensure that it will continue as a going concern and to maximise the income and capital return to its equity shareholders through an appropriate level of gearing.

The Board's gearing policy is to operate within a range of 10% net cash to 20% geared in normal market conditions.

	2019 £'000	2018 £'000
Investments held at fair value through profit or loss	1,754,994	2,090,612
Net assets	1,753,744	2,019,593
Gearing	0.1%	3.5%

The Board, with the assistance of the Manager, monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

- the planned level of gearing, which takes into account the Manager's views on the market;
- the need to buy back equity shares, either for cancellation or to hold in Treasury, which takes into account the share price discount or premium;
- the opportunity for issues of new shares, including issues from Treasury; and
- the level of dividend distributions in excess of that which is required to be distributed.

26. Subsequent events

The Directors have evaluated the period since the year end and have not noted any subsequent events.

Regulatory Disclosures

ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE ('AIFMD') DISCLOSURES (UNAUDITED)

Leverage

For the purposes of the Alternative Investment Fund Managers Directive ('AIFMD'), leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Company's exposure and its net asset value and is calculated on a gross and a commitment method in accordance with AIFMD. Under the gross method, exposure represents the sum of the Company's positions without taking into account any hedging and netting arrangements. Under the commitment method, exposure is calculated after certain hedging and netting positions are offset against each other.

The Company's maximum and actual leverage levels at 31st January 2019 are shown below:

	Gross Method	Commitment Method
Leverage Exposure		
Maximum limit	200%	200%
Actual	110%	110%

JPMorgan Funds Limited (the 'Management Company') is the authorised manager of The Mercantile Investment Trust plc (the 'Company') and is part of the J.P. Morgan Chase & Co. group of companies. In this section, the terms 'J.P. Morgan' or 'Firm' refer to that group, and each of the entities in that group globally, unless otherwise specified.

This section of the annual report has been prepared in accordance with the Alternative Investment Fund Managers Directive (the 'AIFMD'), the European Commission Delegated Regulation supplementing the AIFMD, and the 'Guidelines on sound remuneration policies' issued by the European Securities and Markets Authority under the AIFMD. The information in this section is in respect of the most recent complete remuneration period ('Performance Year') as at the reporting date.

This section has also been prepared in accordance with the relevant provisions of the Financial Conduct Authority Handbook (FUND 3.3.5).

JPMF Remuneration Policy

A summary of the Remuneration Policy currently applying to the Management Company (the 'Remuneration Policy Statement') can be found at <https://am.jpmorgan.com/gb/en/asset-management/gim/per/legal/emea-remuneration-policy>. This Remuneration Policy Statement includes details of how remuneration and benefits are calculated, including the financial and non-financial criteria used to evaluate performance, the responsibilities and composition of the Firm's Compensation and Management Development Committee, and the measures adopted to avoid or manage conflicts of interest. A copy of this policy can be requested free of charge from the Management Company.

The Remuneration Policy applies to all employees of the Management Company, including individuals whose professional activities may have a material impact on the risk profile of the Management Company or the Alternative Investment Funds it manages ('AIFMD Identified Staff'). The AIFMD Identified Staff include members of the Board of the Management Company (the 'Board'), senior management, the heads of relevant Control Functions, and holders of other key functions. Individuals are notified of their identification and the implications of this status on at least an annual basis.

The Board reviews and adopts the Remuneration Policy on an annual basis, and oversees its implementation, including the classification of AIFMD Identified Staff. The Board last reviewed and adopted the Remuneration Policy that applied for the 2018 Performance Year in June 2018 with no material changes and was satisfied with its implementation.

Regulatory Disclosures – continued

Quantitative Disclosures

The table below provides an overview of the aggregate total remuneration paid to staff of the Management Company in respect of the 2018 Performance Year and the number of beneficiaries. These figures include the remuneration of all staff of JP Morgan Asset Management (UK) Ltd (the relevant employing entity) and the number of beneficiaries, both apportioned to the Management Company on an Assets Under Management ('AUM') weighted basis.

Due to the Firm's operational structure, the information needed to provide a further breakdown of remuneration attributable to the Company is not readily available and would not be relevant or reliable. However, for context, the Management Company manages 32 Alternative Investment Funds and 2 UCITS (with 32 sub-funds) as at 31st December 2018, with a combined AUM as at that date of €12.6 billion and £13.3 billion respectively.

	Fixed remuneration	Variable remuneration	Total remuneration	Number of beneficiaries
All staff (USD\$'000s)	14,408	8,631	23,039	107

The aggregate 2018 total remuneration paid to AIFMD Identified Staff was USD \$64,884,000, of which USD \$12,470,000 relates to Senior Management and USD \$56,414,000 relates to other Identified Staff¹.

¹Since 2017, the AIFMD identified staff disclosures includes employees of the companies to which portfolio management has been formally delegated in line with the latest ESMA guidance.

SECURITIES FINANCING TRANSACTIONS REGULATION ('SFTR') DISCLOSURES (UNAUDITED)

The Company does not engage in Securities Financing Transactions (as defined in Article 3 of Regulation (EU) 2015/2365, securities financing transactions include repurchase transactions, securities or commodities lending and securities or commodities borrowing, buy-selling back transactions or sell-buy back transactions and margin lending transactions) or Total Return Swaps. Accordingly, disclosures required by Article 13 of the Regulation are not applicable for the year ended 31st January 2019.

Shareholder Information

Notice of Annual General Meeting

Notice is hereby given that the one hundred and thirty third Annual General Meeting of The Mercantile Investment Trust plc will be held at Trinity House, Tower Hill, London EC3N 4DH on Thursday, 23rd May 2019 at 12.00 noon for the following purposes:

1. To receive the Directors' Report, the Annual Accounts and the Auditors' Report for the year ended 31st January 2019.
2. To approve the Company's Remuneration Policy.
3. To approve the Directors' Remuneration Report for the year ended 31st January 2019.
4. To reappoint Heather Hopkins as a Director of the Company.
5. To reappoint Helen James as a Director of the Company.
6. To reappoint Graham Kitchen as a Director of the Company.
7. To reappoint Angus Gordon Lennox as a Director of the Company.
8. To reappoint Harry Morley as a Director of the Company.
9. To reappoint Jeremy Tigue as a Director of the Company.
10. To reappoint PricewaterhouseCoopers LLP as auditors to the Company and to authorise the Directors to determine their remuneration.

Special Business:

To consider the following resolutions:

Authority to allot new shares – Ordinary Resolution

11. THAT the Directors of the Company be and they are hereby generally and unconditionally authorised (in substitution of any authorities previously granted to the Directors) pursuant to and in accordance with Section 551 of the Companies Act 2006 (the 'Act') to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company ('rights') up to an aggregate nominal amount of £990,615, representing approximately 5% of the Company's issued share capital as at 4th April 2019, provided that this authority shall expire at the conclusion of the Annual General Meeting of the Company held in 2020 unless renewed at a general meeting prior to such time, save that the Company may before such expiry make offers or agreements which would or might require shares to be allotted or rights to be granted after such expiry and so that the Directors of the Company may allot shares and grant rights in pursuance of such offers or agreements as if the authority conferred hereby had not expired.

Authority to disapply pre-emption rights on allotment of relevant securities – Special Resolution

12. THAT subject to the passing of Resolution 11 set out above, the Directors of the Company be and they are hereby empowered pursuant to Sections 570 and 573 of the Act to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authority conferred by Resolution 11 or by way of the sale of treasury shares as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of £990,615, representing approximately 5% of the issued share capital as at 4th April 2019 at a price of not less than the net asset value per share and shall expire upon the expiry of the general authority conferred by Resolution 11 above, save that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and so that the Directors of the Company may allot equity securities in pursuance of such offers or agreements as if the power conferred hereby had not expired.

Authority to repurchase the Company's shares – Special Resolution

13. THAT the Company be generally and subject as hereinafter appears unconditionally authorised in accordance with Section 701 of the Act to make market purchases (within the meaning of Section 693 of the Act) of its issued shares on such terms and in such manner as the Directors may from time to time determine.

PROVIDED ALWAYS THAT

- (i) the maximum number of ordinary shares hereby authorised to be purchased shall be that number of ordinary shares which is equal to 14.99% of the Company's issued share capital as at the date of the passing of this resolution;
- (ii) the minimum price which may be paid for an ordinary share shall be the nominal value;
- (iii) the maximum price which may be paid for an ordinary share or unit shall be an amount equal to the highest of:
 - (a) 105% of the average of the middle market quotations for an ordinary share taken from and calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is contracted to be purchased; or
 - (b) the price of the last independent trade; or
 - (c) the highest current independent bid;
- (iv) any purchase of ordinary shares will be made in the market for cash at prices below the prevailing net asset value per ordinary share (as determined by the Directors);

Shareholder Information – continued

- (v) the authority hereby conferred shall expire on 22nd November 2020 unless the authority is renewed at the Company's Annual General Meeting in 2020 or at any other general meeting prior to such time; and
- (vi) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which contract will or may be executed wholly or partly after the expiry of such authority and may make a purchase of ordinary shares pursuant to any such contract.

Approval of dividend policy – Ordinary Resolution

14. THAT the shareholders approve the Company's dividend policy to continue to pay four quarterly interim dividends.

By order of the Board
Jonathan Latter
For and on behalf of
JPMorgan Funds Limited,
Company Secretary

12th April 2019

Notes

These notes should be read in conjunction with the notes on the reverse of the proxy form.

1. A member entitled to attend and vote at the Meeting may appoint another person(s) (who need not be a member of the Company) to exercise all or any of his rights to attend, speak and vote at the Meeting. A member can appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attaching to different shares held by him.
2. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Your proxy could be the Chairman, another director of the Company or another person who has agreed to attend to represent you. Details of how to appoint the Chairman or another person(s) as your proxy or proxies using the proxy form are set out in the notes to the proxy form. If a voting box on the proxy form is left blank, the proxy or proxies will exercise his/their discretion both as to how to vote and whether he/they abstain(s) from voting. Your proxy must attend the Meeting for your vote to count. Appointing a proxy or proxies does not preclude you from attending the Meeting and voting in person.
3. Any instrument appointing a proxy, to be valid, must be lodged in accordance with the instructions given on the proxy form, no later than 12.00 noon two business days prior to the Meeting (i.e. excluding weekends and bank holidays).
4. You may change your proxy instructions by returning a new proxy appointment. The deadline for receipt of proxy appointments also applies in relation to amended instructions. Any attempt to terminate or amend a proxy appointment received after the relevant deadline will be disregarded. Where two or more valid separate appointments of proxy are received in respect of the same share in respect of the same Meeting, the one which is last received (regardless of its date or the date of its signature) shall be treated as replacing and revoking the other or others as regards that share; if the Company is unable to determine which was last received, none of them shall be treated as valid in respect of that share.
5. To be entitled to attend and vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members as at 6.30 p.m. two business days prior to the Meeting (the 'specified time'). If the Meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original Meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned Meeting. If however the Meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members as at 6.30 p.m. two business days prior to the adjourned Meeting or, if the Company gives notice of the adjourned Meeting, at the time specified in that notice. Changes to entries on the register after this time shall be disregarded in determining the rights of persons to attend or vote at the meeting or adjourned meeting.
6. Entry to the Meeting will be restricted to shareholders and their proxy or proxies, with guests admitted only by prior arrangement.

Shareholder Information – continued

7. A corporation, which is a shareholder, may appoint an individual(s) to act as its representative(s) and to vote in person at the Meeting (see instructions given on the proxy form). In accordance with the provisions of the Companies Act 2006, each such representative(s) may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company, provided that they do not do so in relation to the same shares. It is therefore no longer necessary to nominate a designated corporate representative. Representatives should bring to the meeting evidence of their appointment, including any authority under which it is signed.
8. Members that satisfy the thresholds in Section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter relating to: (a) the audit of the Company's accounts (including the Auditors' report and the conduct of the audit) that are to be laid before the AGM; or (b) any circumstances connected with an Auditor of the Company ceasing to hold office since the previous AGM; which the members propose to raise at the meeting. The Company cannot require the members requesting the publication to pay its expenses. Any statement placed on the website must also be sent to the Company's Auditors no later than the time it makes its statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required to publish on its website pursuant to this right.
9. Pursuant to Section 319A of the Companies Act 2006, the Company must cause to be answered at the AGM any question relating to the business being dealt with at the AGM which is put by a member attending the meeting except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the meeting or if it would involve the disclosure of confidential information.
10. Under sections 338 and 338A of the 2006 Act, members meeting the threshold requirements in those sections have the right to require the Company: (i) to give, to members of the Company entitled to receive notice of the Meeting, notice of a resolution which those members intend to move (and which may properly be moved) at the Meeting; and/or (ii) to include in the business to be dealt with at the Meeting any matter (other than a proposed resolution) which may properly be included in the business at the Meeting. A resolution may properly be moved, or a matter properly included in the business unless: (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of any inconsistency with any enactment or the Company's constitution or otherwise); (b) it is defamatory of any person; or (c) it is frivolous or vexatious. A request made pursuant to this right may be in hard copy or electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be accompanied by a statement setting out the grounds for the request, must be authenticated by the person(s) making it and must be received by the Company not later than the date that is six clear weeks before the Meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.
11. A copy of this notice has been sent for information only to persons who have been nominated by a member to enjoy information rights under Section 146 of the Companies Act 2006 (a 'Nominated Person'). The rights to appoint a proxy can not be exercised by a Nominated Person: they can only be exercised by the member. However, a Nominated Person may have a right under an agreement between him and the member by whom he was nominated to be appointed as a proxy for the Meeting or to have someone else so appointed. If a Nominated Person does not have such a right or does not wish to exercise it, he may have a right under such an agreement to give instructions to the member as to the exercise of voting rights.
12. In accordance with Section 311A of the Companies Act 2006, the contents of this notice of meeting, details of the total number of shares in respect of which members are entitled to exercise voting rights at the AGM, the total voting rights members are entitled to exercise at the AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Company's website www.mercantileit.co.uk.
13. The register of interests of the Directors and connected persons in the share capital of the Company and the Directors' letters of appointment are available for inspection at the Company's registered office during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted). It will also be available for inspection at the Annual General Meeting. No Director has any contract of service with the Company.
14. You may not use any electronic address provided in this Notice of meeting to communicate with the Company for any purposes other than those expressly stated.
15. As an alternative to completing a hard copy Form of Proxy/Voting Instruction Form, you can appoint a proxy or proxies electronically by visiting www.sharevote.co.uk. You will need your Voting ID, Task ID and Shareholder Reference Number (this is the series of numbers printed under your name on the Form of Proxy/Voting Instruction Form). Alternatively, if you have already registered with Equiniti Limited's online portfolio service, Shareview, you can submit your Form of Proxy at www.shareview.co.uk. Full instructions are given on both websites.
16. As at 4th April 2019 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 944,492,180 Ordinary shares (of which 151,999,999 are held in Treasury, representing 16.1% of the shares in issue), carrying one vote each. Therefore the total voting rights in the Company are 792,492,181.

Electronic appointment – CREST members

CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the Meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. See further instructions on the proxy form.

Shareholder Information – continued

Glossary of Terms and Alternative Performance Measures ('APM's) (Unaudited)

Return to shareholders (APM)

Total return to shareholders, on a last traded price to last traded price basis, assuming that all dividends received were reinvested, without transaction costs, into the shares of the Company at the time the shares were quoted ex-dividend.

Total return calculation	Page	Year ended 31st January 2019	Year ended 31st January 2018	
Opening share price (p)	10	215.0	175.5	(a)
Closing share price (p)	10	192.0	215.0	(b)
Total dividend adjustment factor ¹		1.029512	1.024290	(c)
Adjusted closing share price (p) (d = b x c)		197.7	220.2	(d)
Total return to shareholders (e = d / a – 1)		-8.1%	25.5%	(e)

¹The dividend adjustment factor is calculated on the assumption that the dividends paid out by the Company are reinvested into the shares of the Company at the last traded price quoted at the ex-dividend date.

Return on net assets with debt at fair value (APM)

The Company's debt (debenture) is valued in the Statement of Financial Position (on page 42) at amortised cost, which is materially equivalent to the repayment value of the debt on the assumption that it is held to maturity. This is often referred to as 'Debt at Par Value'.

The current replacement or market value of the debt, which assumes it is repaid and renegotiated under current market conditions, is often referred to as the 'Debt at Fair Value'. This fair value is explained in note 24(d) (on page 59) of the financial statements. The difference between fair and par values of the debt is subtracted from the NAV to derive the NAV with debt at fair value. The fair value of the £3.85 million perpetual debenture and the £175 million debenture issued by the Company have been calculated using discounted cash flow techniques, using the yield from similar dated gilt plus a margin based on the five year average for the AA Barclays Sterling Corporate Bond spread.

Total return calculation	Page	Year ended 31st January 2019	Year ended 31st January 2018	
Opening cum-income NAV per share with debt at fair value (p)	10	237.5	192.1	(a)
Closing cum-income NAV per share debt at fair value (p)	10	211.7	237.5	(b)
Total dividend adjustment factor ²		1.026484	1.021770	(c)
Adjusted closing cum-income NAV per share (d = b x c)		217.3	242.7	(d)
Total return on net assets with debt at fair value (e = d / a – 1)		-8.5%	26.3%	(e)

²The dividend adjustment factor is calculated on the assumption that the dividends paid out by the Company are reinvested into the shares of the Company at the cum-income NAV at the ex-dividend date.

Return on net assets with debt at par value (APM)

Total return on net asset value ('NAV') per share, on a bid value to bid value basis, assuming that all dividends paid out by the Company were reinvested, without transaction costs, into the shares of the Company at the NAV per share at the time the shares were quoted ex-dividend.

Shareholder Information – continued

	Page	Year ended 31st January 2019	Year ended 31st January 2018	
Total return calculation				
Opening cum-income NAV per share with debt at par value (p)	10	246.6	200.5	(a)
Closing cum-income NAV per share with debt at par value (p)	10	221.3	246.6	(b)
Total dividend adjustment factor ²		1.025444	1.020846	(c)
Adjusted closing cum-income NAV per share (p) (d = b x c)		226.9	251.7	(d)
Total return on net assets (e = d / a – 1)		–8.0%	25.5%	(e)

²The dividend adjustment factor is calculated on the assumption that the dividends paid out by the Company are reinvested into the shares of the Company at the cum-income NAV at the ex-dividend date.

Benchmark total return

Total return on the benchmark, on a closing-market value to closing-market value basis, assuming that all dividends received were reinvested, without transaction costs, in the shares of the underlying companies at the time the shares were quoted ex-dividend.

The benchmark is a recognised index of stocks which should not be taken as wholly representative of the Company's investment universe. The Company's investment strategy does not follow or 'track' this index and consequently, there may be some divergence between the Company's performance and that of the benchmark.

Gearing/(Net Cash) (APM)

Gearing represents the excess amount above shareholders' funds of total investments, expressed as a percentage of the shareholders' funds. If the amount calculated is negative, this is shown as a 'net cash' position.

	Page	Year ended 31st January 2019 £'000	Year ended 31st January 2018 £'000	
Gearing calculation				
Investments held at fair value through profit or loss	42	1,754,994	2,090,612	(a)
Net assets	42	1,753,744	2,019,593	(b)
Gearing (c = a / b – 1)		0.1%	3.5%	(c)

Ongoing Charges (APM)

The ongoing charges represent the Company's management fee and all other operating expenses excluding finance costs payable, expressed as a percentage of the average of the daily cum-income net assets during the year and is calculated in accordance with guidance issued by the Association of Investment Companies.

	Page	Year ended 31st January 2019 £'000	Year ended 31st January 2018 £'000	
Ongoing charges calculation				
Management fee	47	7,256	7,546	
Other administrative expenses	47	1,212	1,151	
Total management fee and other administrative expenses		8,468	8,697	(a)
Average daily cum-income net assets		1,901,714	1,919,395	(b)
Ongoing Charges (c = a / b)		0.45%	0.45%	(c)

Shareholder Information – continued

Share Price Discount/Premium to Net Asset Value ('NAV') per Share (APM)

If the share price of an investment trust is lower than the NAV per share, the shares are said to be trading at a discount. The discount is shown as a percentage of the NAV per share. The opposite of a discount is a premium. It is more common for an investment trust company's shares to trade at a discount than at a premium (page 10).

Performance attribution

Analysis of how the Company achieved its recorded performance relative to its benchmark.

Performance Attribution Definitions:

Sector Allocation

Measures the impact of allocating assets differently from those in the benchmark, via the portfolio's weighting in different sectors or asset types.

Stock Selection

Measures the effect of investing in securities to a greater or lesser extent than their weighting in the benchmark, or of investing in securities which are not included in the benchmark.

Gearing/(net cash)

Measures the impact on returns of borrowings or cash balances on the Company's relative performance.

Management fee/Other expenses

The payment of fees and expenses reduces the level of total assets, and therefore has a negative effect on relative performance.

Repurchase of shares

Measure the effect on relative performance of repurchasing the Company's own shares at a price which is less than the net asset value per share.

Where to Buy J.P. Morgan Investment Trusts

You can invest in a J.P. Morgan investment trust through the following:

1. Via a third party provider

Third party providers include;

AJ Bell	Hargreaves Lansdown
Alliance Trust Savings	Interactive Investor
Barclays Smart Investor	Selftrade
Charles Stanley Direct	The Share Centre
FundsNetwork	

Please note this list is not exhaustive and the availability of individual trusts may vary depending on the provider. These websites are third party sites and J.P. Morgan Asset Management does not endorse or recommend any. Please observe each site's privacy and cookie policies as well as their platform charges structure.

2. Through a professional adviser

Professional advisers are usually able to access the products of all the companies in the market and can help you find an investment that suits your individual circumstances. An adviser will let you know the fee for their service before you go ahead. You can find an adviser at unbiased.co.uk

You may also buy investment trusts through stockbrokers, wealth managers and banks.

To familiarise yourself with the Financial Conduct Authority (FCA) adviser charging and commission rules, visit fca.org.uk

Be ScamSmart

Investment scams are designed to look like genuine investments

Spot the warning signs

Have you been:

- contacted out of the blue
- promised tempting returns and told the investment is safe
- called repeatedly, or
- told the offer is only available for a limited time?

If so, you might have been contacted by fraudsters.

Avoid investment fraud

1 Reject cold calls

If you've received unsolicited contact about an investment opportunity, chances are it's a high risk investment or a scam. You should treat the call with extreme caution. The safest thing to do is to hang up.

2 Check the FCA Warning List

The FCA Warning List is a list of firms and individuals we know are operating without our authorisation.

3 Get impartial advice

Think about getting impartial financial advice before you hand over any money. Seek advice from someone unconnected to the firm that has approached you.

Remember: if it sounds too good to be true, it probably is!

Report a Scam

If you suspect that you have been approached by fraudsters please tell the FCA using the reporting form at www.fca.org.uk/consumers/report-scam-unauthorised-firm. You can also call the FCA Consumer Helpline on **0800 111 6768**

If you have lost money to investment fraud, you should report it to Action Fraud on 0300 123 2040 or online at www.actionfraud.police.uk

Find out more at
www.fca.org.uk/scamsmart



Information about the Company

Financial Calendar

Financial year end	31st January
Final results announced	March/April
Half year end	31st July
Half year results announced	September
Dividends on ordinary shares paid to shareholders	*1st August, 1st November, 1st February, 1st May
Interest on 4.25% perpetual debenture stock paid	1st June, 1st December
Interest on 6.125% debenture paid	25th February, 25th August
Annual General Meeting	May

*or nearest following business day.

History

The Mercantile Investment & General Trust Company Limited was formed in December 1884 with issued capital of £500,000. The Company merged with three other investment trusts in 1960 under a scheme of arrangement and changed its name to The Mercantile Investment Trust Limited. In 1982 the Company became The Fleming Mercantile Investment Trust plc. In April 2008, the Company adopted its present name, The Mercantile Investment Trust plc.

A publication entitled 'The Mercantile Investment Trust plc 125 years' is available from the Company Secretary.

Company Numbers

Company Registration number: 20537
London Stock Exchange number: 0579403
ISIN: GB0005794036
Bloomberg ticker: MRC LN
LEI: 549300BGX3CJHLP2H42

Market Information

The Company's shares are listed on the London Stock Exchange. The market price is shown daily in the Financial Times, The Guardian, The Times, The Daily Telegraph, The Scotsman and on the JPMorgan internet site at www.mercantileit.co.uk, where the share price is updated every fifteen minutes during trading hours.

Website

www.mercantileit.co.uk

Share Transactions

The Company's shares may be dealt in directly through a stockbroker or professional adviser acting on an investor's behalf.

Dividend Reinvestment Plan

The Company operates a dividend reinvestment plan. For further information please contact the Registrars (details below).

Manager and Company Secretary

JPMorgan Funds Limited

Company's Registered Office

60 Victoria Embankment
London EC4Y 0JP
Telephone number: 020 7742 4000

Please contact Jonathan Latter for Company Secretarial and administrative matters.

Depository

The Bank of New York Mellon (International) Limited
1 Canada Square
London E14 5AL

The Depository has appointed JPMorgan Chase Bank, N.A. as the Company's custodian.

Registrars

Equiniti Limited
Reference 1101
Aspect House
Spencer Way
Lancing
West Sussex BN99 6DA
Telephone number: 0371 384 2329

Lines open 8.30 a.m. to 5.30 p.m. Monday to Friday. Calls to the helpline will cost no more than a national rate call to a 01 or 02 number. Callers from overseas should dial +44 121 415 0225.

Notifications of changes of address and enquiries regarding share certificates or dividend cheques should be made in writing to the Registrar quoting reference 1101. Registered shareholders can obtain further details on their holdings on the internet by visiting www.shareview.co.uk.

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London SE1 2RT

Brokers

Cenkos Securities plc
6, 7, 8 Tokenhouse Yard
London EC2R 7AS

Winterflood Securities Limited
The Atrium Building
Cannon Bridge House
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The Association of
Investment Companies

A member of the AIC

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Telephone lines are open Monday to Friday, 9 a.m. to 5.30 p.m.

Your telephone call may be recorded for your security

www.mercantileit.co.uk