

The Mercantile Investment Trust plc

Annual Report & Accounts for the year ended 31st January 2013



Features

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Objective

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

Investment Policy

- To emphasise growth from medium and smaller companies. 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 investment companies (including investment trusts).

Benchmark

The FTSE All-Share Index excluding constituents of the FTSE 100 Index and investment trusts.

Capital Structure

At 31st January 2013 the Company's share capital comprised 98,455,719 ordinary shares of 25p each.

At 31st January 2013, 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

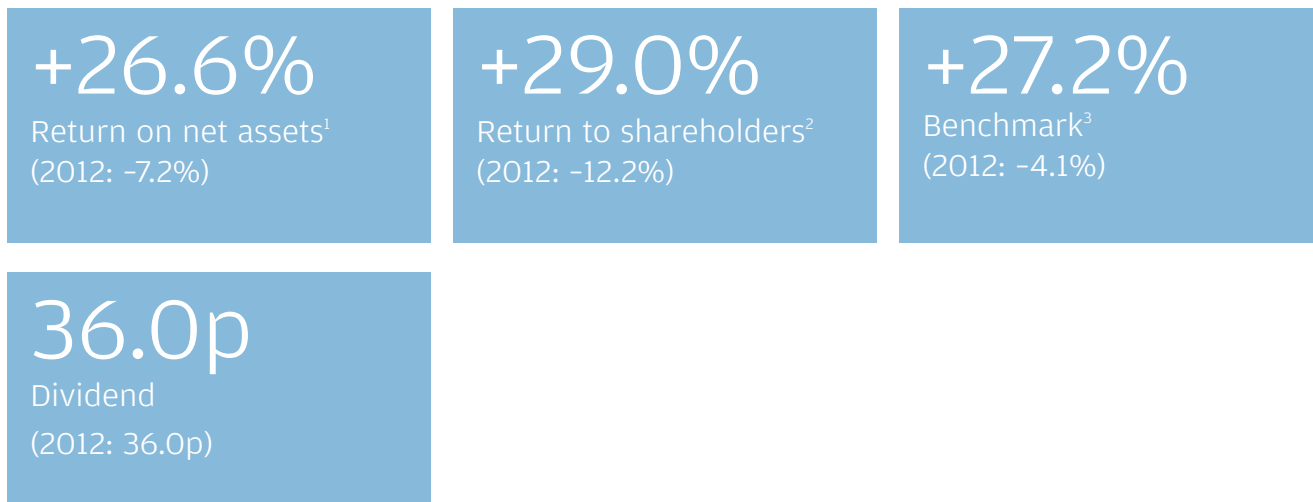
The Company employs JPMorgan Asset Management (UK) Limited ('JPMAM' or the 'Manager') to manage its assets.

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.

Financial Highlights

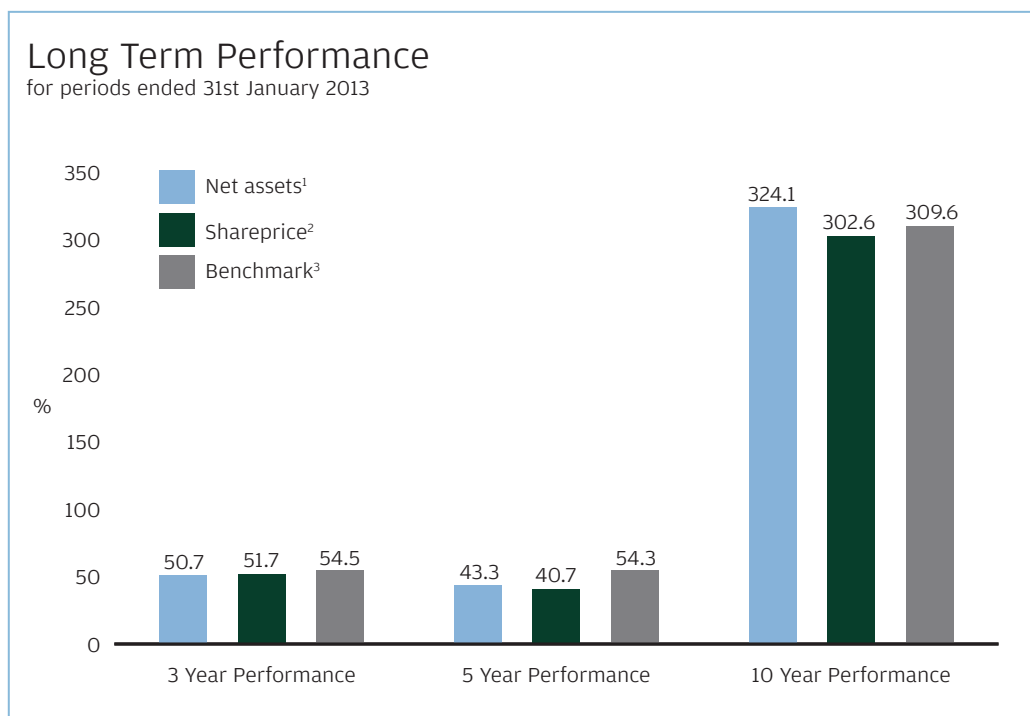
Total returns (includes dividends reinvested)



¹Source: J.P. Morgan.

²Source: Morningstar.

³Source: Russell/Mellon CAPS. The Company's benchmark is the FTSE All-Share Index (excluding FTSE 100 constituents and investment trusts).



A glossary of terms and definitions is provided on page 56.

¹Source: J.P. Morgan.

²Source: Morningstar.

³Source: Russell/Mellon CAPS. The Company's benchmark is the FTSE All-Share Index (excluding FTSE 100 constituents and investment trusts).

Chairman's Statement



Over the year to 31st January 2013, the Company delivered a positive share price return of 29.0%. Although the Managers marginally underperformed the Company's benchmark with a return of 26.6%, against 27.2% for the benchmark, this was more than made up for by a narrowing of the discount.

Returns and Dividends

Earnings per share increased by 0.6 % for the year, from 31.9 p to 32.1p.

The Company has paid three interim dividends of 6.0p per ordinary share, and the Directors have declared a fourth quarterly interim dividend of 18.0p, giving a total dividend of 36.0p for the year, maintaining last year's dividend of 36.0p.

In order to even out the flow of dividends paid during the year, the Board intends to increase the level of the three interim dividends from 6.0p to 8.0p per ordinary share throughout the current year ending 31st January 2014. This is a rebalancing exercise and will not necessarily result in an increased total amount for the year. The level of the final interim dividend will be determined by the Board towards the end of the financial year and will depend on the level of dividends received and anticipated by the Company and take account of the Company's revenue reserve.

Share Buy Backs

During the year under review a total of 255,000 shares were repurchased for cancellation, amounting to 0.26% of issued share capital at the beginning of the year, at a total cost of £2.79 million. Share buy backs during the year under review have added approximately 0.37 pence to the net asset value per share.

The Board continues to use the share repurchase authority to manage imbalances between the supply and demand of the Company's shares, thereby reducing the volatility of the discount. The Board believes that, to date, this mechanism has been helpful and therefore proposes and recommends that the powers to repurchase up to 14.99% of the Company's shares for cancellation be renewed for a further period.

Gearing

The Company ended the year with gearing of 3%. During the year the gearing varied between 3% net cash and 15% geared. It is the Board's intention to continue to operate within the range of 10% net cash and 20% geared, under normal market conditions, and, at the present time, the Company is employing minimal gearing. Gearing is regularly discussed between the Board and the Investment Manager. The Company does not currently have a borrowing facility in place other than the Company's outstanding debenture issues.

Board

All Directors stand for annual re-election. I refer you to the Directors' biographies on pages 17 and 18 for further details.

The Board undertakes a formal and rigorous evaluation of its performance, and that of the individual Directors including myself as the

Chairman. The Directors conduct an assessment of performance each year, which is compiled into a report to the Nomination Committee which in turn reports its conclusions to the Board.

Investment Managers

During the year under review, the Company's investment management team appointed by JPMorgan comprised Martin Hudson, Guy Anderson who joined the team in a senior capacity in August last year, and Anthony Lynch. As I explained in my statement last year, a detailed review of the Manager was conducted during 2012, which has led to some changes in the way that the portfolio is managed. The Board believes that these changes have been beneficial to the management of the Company's assets.

The Board will continue to monitor the performance of the Manager on a regular basis.

Annual General Meeting

The Company's one hundred and twenty seventh Annual General Meeting will be held at Trinity House, Tower Hill, London EC3N 4DH on Wednesday, 22nd May 2013 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. The meeting will be followed by a buffet lunch which will give shareholders an opportunity to meet the Board, the Investment Managers and representatives of JPMAM. I look forward to seeing as many of you as possible at the meeting.

Outlook

The outlook for the current year looks more favourable than at this time last year despite the continuing instability of the Eurozone, the weakening of Sterling, and the issues surrounding the US fiscal cliff. The opportunities are more likely to be company specific as the focus within corporates moves from cost efficiency to investing for growth, taking advantage of strong balance sheets and the cheap credit on offer to publicly listed companies which can be used to fund both capital expenditure and acquisitions. Against this backdrop, UK mid and small sized companies are attractively valued and offer the Managers opportunities to increase shareholder value.

Hamish Leslie Melville

Chairman

21st March 2013

For further information, please contact:

Juliet Dearlove

For and on behalf of

JPMorgan Asset Management (UK) Limited - Company Secretary

020 7742 4000

Investment Managers' Report

Contributions to total returns in the year ended 31st January 2013

	%
Benchmark total return	+27.2
Stock/Sector selection	-0.2
Gearing/Cash effect	+0.9
Effect of management fee	-0.5
Cost of debentures	-0.8
Return on net assets	+26.6
Effect of decrease in discount	+2.4
Return to shareholders	+29.0

Source: Xamin/JPMAM/AIC/Morningstar.

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

A glossary of terms and definitions is provided on page 56.

Market Background

Last year was a very positive one for stock markets globally as they weathered some huge uncertainties, of which the biggest were the intensification of the Eurozone sovereign debt crisis, doubts over the outlook for the Chinese economy and worries about the US budget deficit. Although estimates both for economic growth and company profits were revised downwards throughout the year, Central Banks offered the promise of continuing cheap credit. This has given the politicians time to address structural problems and has allowed assets to reflate.

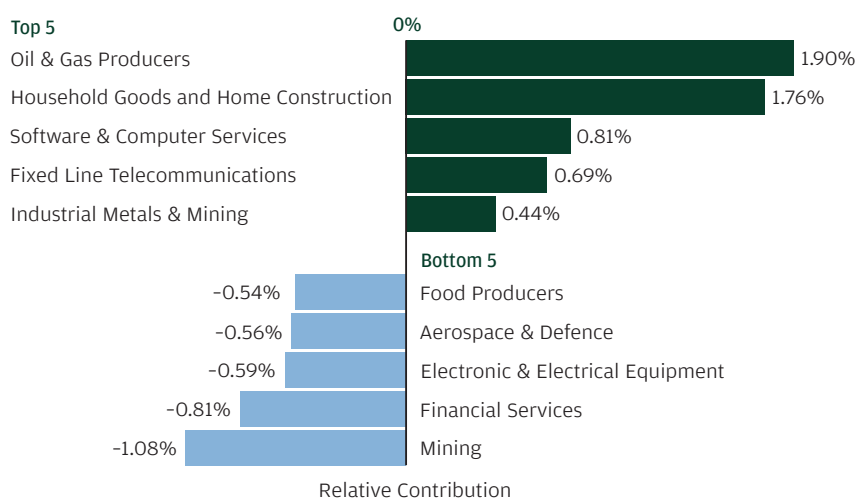
Mid and small sized UK equities performed strongly in the year ended 31st January 2013.

Performance

The net asset value total return for the year ended 31st January 2013 was 26.6% which was 0.6% behind the Company's benchmark index, the FTSE All-Share excluding FTSE 100 constituents and investment companies, which returned 27.2%. The FTSE 100 index returned 15.5% for the period, with mid and small sized companies performing much more strongly than larger quoted companies last year.

The bar chart shows the relative contributions to performance for the year for the five best and five worst sectors within the portfolio. The green bars to the right show positive contributors relative to the benchmark index and reflect both sector weighting and stock selection. The blue bars to the left show the negative relative contributors.

Sector performance contribution analysis. Year to 31st January 2013



Source: Factset

This shows that the most positive contributor was the Oil and Gas Producers sector where, following its discovery of substantial gas reserves offshore Mozambique, Cove Energy agreed a cash takeover approach from Thailand's PTT at a substantial premium. Takeovers were substantial contributors for the portfolio last year, with the strong

performance from the Software and Computer Services sector reflecting an agreed cash takeover for Logica by CGI and also Misys completing its agreed cash takeover by Vista. The positive Fixed Line Telecommunications sector performance reflected an agreed cash takeover of Cable & Wireless Worldwide by Vodafone. However, when takeover approaches fail, share prices can fall substantially and the negative contribution from the Aerospace and Defence sector reflected the decision by Carlyle not to make a formal bid for Chemring following its initial approach. Similarly, African Barrick Gold failed to agree a price with China National Gold Group following a takeover approach and its share price fell sharply in January. The Mining sector also suffered a poor performance from Petropavlovsk, another gold miner which continued to disappoint the market on output and cost of production, and which we sold during the year. The Financial Services sector was a strong performer last year as asset values generally reflat and the negative relative contribution to the portfolio from that sector reflects that the portfolio was too underweight in a strong sector, representing a missed opportunity.

Another sector which performed strongly was Home Construction. Profit forecasts for the housebuilders were increased throughout the year as they delivered better than expected profit margins as a result of both strong cost control and judicious land purchases. Housebuilding is attracting strong Government support in terms of both funding for first time buyers and relaxation of planning rules as there is a structural shortage of new homes to meet anticipated new household formation. Further, a return to historic new build rates would add 2.4% to UK GDP as each house built creates 3.5 direct jobs and one indirect job.

Activity

The investment managers have the flexibility to operate within a gearing range of 10% net cash to 20% geared and a more specific tactical range is agreed regularly with the Board.

Over the course of the year gearing was reduced from 15% at 31st January 2012 to 3% at 31st January 2013 reflecting the fact that, whilst we remain positive, the market for UK mid and small sized stocks has performed strongly whilst profit forecasts have been reduced. Stocks have been steadily re-rated since we increased gearing against a difficult economic backdrop in October 2011.

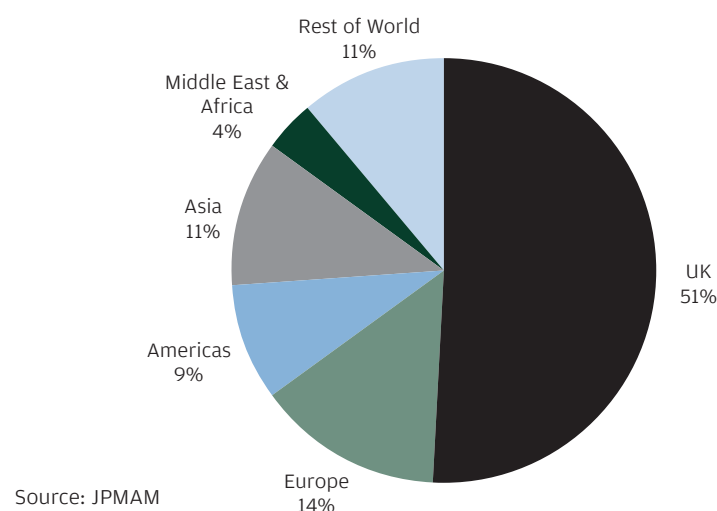
The portfolio continues to retain its style of broad diversification across all sectors, comprising 130 stocks of which 85 are mid-sized companies and 45 are smaller companies. The ten largest holdings represent 22.2% of total assets less liabilities.

Of the ten, which are shown on page 11, Persimmon, Jardine Lloyd Thompson, Cable and Wireless Communications and Phoenix Group were all in the top ten a year ago and the other six stocks were already substantial holdings within the portfolio. At the beginning of the year, as it became clearer that the housebuilders were generating both profits and cash ahead of market expectations, we added to our positions and housebuilders now account for five of the ten largest holdings. Both Berkeley Group and Persimmon have committed to paying substantial cash dividends to shareholders over the course of several years. Turning to the six largest investments of one year ago which are no longer in the

Investment Managers' Report – continued

top ten: two were taken over, Cove Energy and Misys; two were sold on promotion into the FTSE 100 index, Wood Group and Pennon; Laird was sold following a failed takeover approach from Cooper Industries and the position in African Barrick Gold was reduced.

Geographic Revenue Exposures



The pie chart above shows, by geography, where the revenues of the companies in which we are invested are generated. Whilst UK mid and small sized companies tend to be more domestic in their focus than the larger FTSE 100 companies, nearly half of the revenue generated by the companies we are invested in is derived from overseas markets. So whilst, for example, the housebuilders focus is on the UK domestic market, we can also access growth markets around the world through our investments in companies involved in insurance, manufacturing, telecommunications, food ingredients, mining and oil and gas production.

Portfolio Size Distribution

Market capitalisation	Benchmark index weighting %	Fund weighting %	Relative weighting %
More than £1.5bn	47.4	44.2	-3.2
£1.0bn to £1.5bn	18.8	20.9	2.1
£500m to £1.0bn	21.0	17.6	-3.4
£300m to £500m	6.7	3.9	-2.8
£100m to £300m	5.3	10.8	5.5
£50m to £100m	0.7	0.4	-0.3
Less than £50m	0.1	2.2	2.1
Total	100.0	100.0	0.0

As at 31st January 2013

The table above shows that our holdings in companies which have a market capitalisation of more than £1 billion account for nearly two

thirds of the portfolio. We focus on those successful larger companies which are progressing towards promotion into the FTSE 100 index and also on relatively small quoted companies which can offer superior growth prospects. We are relatively overweight in smaller companies with market capitalisations of less than £300 million. At that size they are often overlooked by the professional investment community. Our intensive research process is designed to find the winners of tomorrow before they become better known. During the year we held more than 300 research meetings with companies and this remains an important part of our investment process when evaluating companies.

Outlook

We continue to believe that mid and small sized companies are the most interesting part of the UK stockmarket; it is where new themes emerge, profit growth tends to be higher, growth companies can prosper, value opportunities are present and merger and acquisitions activity is a constant theme. Although it is a more volatile part of the stockmarket, a consistent approach to investing in mid and small sized equities brings substantial rewards over the longer term.

In general, quoted mid and small sized companies' balance sheets are robust, cost cutting over the last five years has increased profit margins and dividend growth is strong. Smaller companies are the growth engine of the economy and policy makers recognise that they can create substantial numbers of new jobs.

In the absence of substantial further disruptive macro-economic news, UK mid and small sized companies enjoyed a strong performance last year. A resurgence of takeover activity demonstrated that acquirers believe there is real value in the stockmarket at current levels despite the generally subdued prospects for economic growth. We believe that we shall continue to see further acquisition activity in mid and small sized equities. Whilst we do not actively seek to buy acquisition targets, the same companies which are attractive to us are often attractive to corporate buyers; those which have market leading positions within their industries, profitable, cash generative growth prospects and strong management teams.

At the stock level, we are positive about the number of attractive opportunities that we continue to find in the mid and small sized company arena despite the difficult economic backdrop.

Martin Hudson
Guy Anderson
Anthony Lynch
Investment Managers

21st March 2013

Summary of Results

	2013	2012	
Total returns for the year ended 31st January			
Return on net assets ¹	+26.6%	-7.2%	
Return to shareholders ²	+29.0%	-12.2%	
Benchmark ³	+27.2%	-4.1%	
Net asset value and discount at 31st January			% change
Shareholders' funds (£'000)	1,361,433	1,110,361	+22.6
Net asset value per share with debt at par value	1,382.8p	1,124.9p	+22.9
Net asset value per share with debt at fair value ⁴	1,351.2p	1,088.2p	+24.2
Share price discount to net asset value with debt at par value	15.3%	16.4%	
Share price discount to net asset value with debt at fair value ⁴	13.3%	13.6%	
Market Data			
FTSE All-Share Index (capital only) (excluding FTSE 100 Index constituents and investment trusts) ⁵	2,658.0	2,153.3	+23.4
Share price	1,171.0p	940.0p	+24.6
Revenue for the year ended 31st January			
Net revenue available for shareholders (£'000)	31,643	31,555	+0.3
Return per share	32.1p	31.9p	+0.6
Dividend per share	36.0p	36.0p	0.0
Ongoing Charges⁶	0.49%	0.51%	
Gearing⁷	2.7%	14.3%	

A glossary of terms and definitions is provided on page 56.

¹Source: J.P. Morgan.

²Source: Morningstar.

³Source: Russell/Mellon CAPS. The Company's benchmark is the FTSE All-Share Index excluding constituents of the FTSE 100 Index and investment trusts.

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.

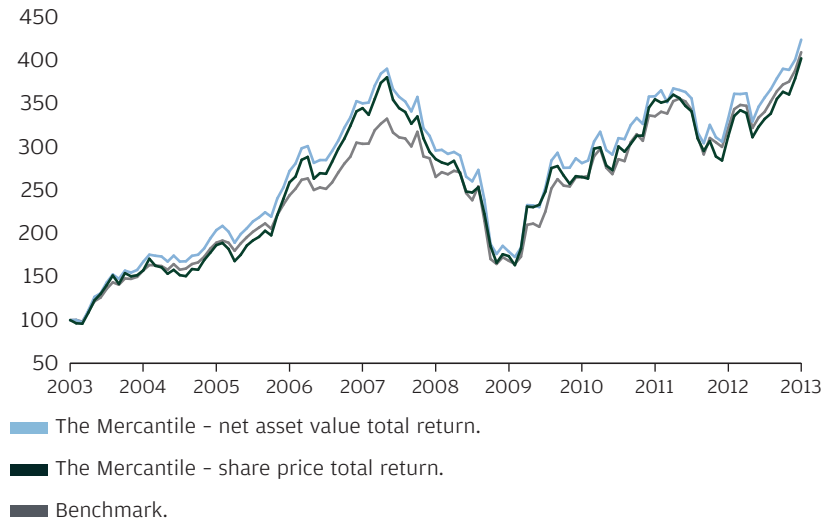
⁶Management fee and all other operating expenses excluding finance costs, expressed as a percentage of the average daily net assets during the year. Ongoing Charges are calculated in accordance with guidance issued by the Association of Investment Companies in May 2012 and replaces the Total Expense Ratio published in previous years. The comparative figure represents the expenses calculated as above, expressed as a percentage of the average month end net asset values during the year, in line with TER methodology.

⁷Gearing represents the excess amount above shareholders' funds of total assets (including net current assets/liabilities) less cash/cash equivalents, expressed as a percentage of the shareholders' funds. If the amount so calculated is negative, this is shown as a 'net cash' position.

Performance

Ten Year Performance

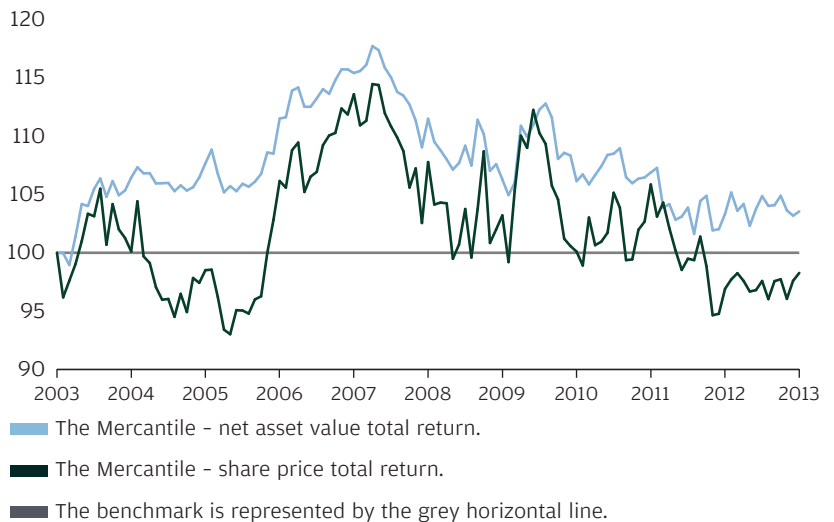
Figures have been rebased to 100 at 31st January 2003



Source: Morningstar, Russell/Mellon CAPS.

Performance relative to Benchmark

Figures have been rebased to 100 at 31st January 2003



Source: Morningstar, Russell/Mellon CAPS.

Ten Year Financial Record

At 31st January	2003	2004	2005 ¹	2006	2007	2008	2009	2010	2011	2012	2013
Total assets less current liabilities (£'m)	791.5	1,156.8	1,321.0	1,621.5	1,920.5	1,384.9	874.1	1,212.3	1,414.3	1,287.5	1,538.6
Net asset value per share (p)	434.6	703.5	842.6	1,090.6	1,394.4	1,158.3	681.5	1,015.6	1,249.3	1,124.9	1,382.8
Share price (p)	408.5	620.0	713.5	965.0	1,258.0	1,020.0	592.5	860.0	1,109.0	940.0	1,171.0
Year to 31st January											
Gross revenue (£'000)	34,584	34,050	34,970	39,899	45,493	51,684	51,750	32,248	32,237	37,384	37,447
Revenue available for shareholders (£'000)	24,169	24,555	24,820	29,373	35,043	44,345	43,028	23,703	26,769	31,555	31,643
Return per share (p)	17.8	18.1	18.3	21.8	27.5	39.8	41.7	23.2	26.9	31.9	32.1
Dividend per share (net) (p) ²	18.0	18.8	19.8	21.8	25.0	38.0	36.0	36.0	36.0	36.0	36.0
Discount	6.0	11.9	15.3	11.5	9.8	11.9	13.0	15.3	11.2	16.4	15.3
Gearing/(net cash)	13.1	12.6	15.5	11.2	2.0	(5.2)	2.8	11.9	8.9	14.3	2.7
Ongoing Charges ³	0.73	0.69	0.60	0.56	0.55	0.59	0.56	0.54	0.49	0.51	0.49
Rebased to 100 at 31st January 2003											
Net asset value per share	100.0	161.9	193.9	250.9	320.8	266.5	156.8	233.7	287.5	258.8	318.2
Net asset value per share - total return ⁴	100.0	167.5	204.0	272.2	350.5	296.0	179.1	281.5	358.7	332.7	424.1
Share price	100.0	151.8	174.7	236.2	308.0	249.7	145.0	210.5	271.5	230.1	286.7
Share price - total return ⁴	100.0	157.5	186.7	259.2	345.0	286.1	173.9	265.5	355.2	312.1	402.6
Benchmark ⁴	100.0	157.4	189.5	244.2	303.7	265.5	168.5	265.2	335.6	322.0	409.6
Return per share	100.0	101.7	102.8	122.5	154.5	223.6	234.3	130.3	151.1	179.2	180.3
Dividends per share ²	100.0	104.4	110.0	121.1	138.9	211.1	200.0	200.0	200.0	200.0	200.0

¹The results for the year ended 31st January 2005 have been restated, where necessary, in accordance with Financial Reporting Standards 21, 25 and 26. Years prior to 2005 have not been restated.

²2008 includes ordinary dividends of 34.0p and a special dividend of 4.0p.

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. Ongoing Charges are calculated in accordance with guidance issued by the Association of Investment Companies in May 2012 and replaces the Total Expense Ratio published on previous years. The comparative figure represents the expenses calculated as above, expressed as a percentage of the average month-end net asset values during the year, in line with TER methodology.

⁴Source: Morningstar, Russell/Mellon CAPS.

Ten Largest Investments

Company	At 31st January 2013		At 31st January 2012	
	Valuation £'000	% ¹	Valuation £'000	% ¹
Persimmon Persimmon designs, builds and develops residential housing. The company has regional branches in Yorkshire, the North East and North West, Scotland, the Midlands, Anglia, Wessex, Thames Valley, the South East, South Coast, South West and Wales.	52,297	3.4	32,665	2.5
Jardine Lloyd Thompson Jardine Lloyd Thompson operates in the wholesale insurance and reinsurance industry. The company's businesses offer marine, aviation, property and casualty plans, in addition to reinsurance services. Jardine Lloyd Thompson, which operates as a Lloyd's broker, also provides a range of innovative risk solutions and transactional services.	43,853	2.9	37,145	2.9
Cable & Wireless Communications Cable & Wireless Communications is a global full service telecommunications business providing mobile, broadband and fixed line services to 13 million customers in a range of developed and developing territories.	41,270	2.7	37,659	2.9
Bovis Homes² Bovis Homes operates three regional housebuilding businesses in the United Kingdom and has a Southern focus.	38,934	2.5	20,155	1.6
Phoenix Holdings Phoenix Holdings offers life insurance and asset management services, and manages pension funds.	31,438	2.0	31,761	2.5
Berkeley² Berkeley is a residential and commercial property development company focusing on urban regeneration and mixed-use developments. The company purchases and develops land, in addition to constructing homes and apartment complexes throughout the South of England.	28,981	1.9	18,705	1.5
Mondi² Mondi is an integrated paper and packaging group. The company manufactures packaging paper, converted packaging products and office paper. Mondi has operations and interests in Western Europe, Emerging Europe and South Africa. Dually-listed company with MND SJ.	27,778	1.8	6,867	0.5
Hiscox² Hiscox is a group of companies that operate in the United Kingdom insurance market. The company's services include underwriting managed syndicates, underwriting a range of personal and commercial insurance and other underwriting services. Hiscox provides its services for customers in the United Kingdom and Continental Europe.	26,510	1.7	23,806	1.9
Barratt Developments² Barratt Developments develops and builds properties. The group's UK operations include the building of houses and housing complexes, general building and civil engineering services, participation in urban renewal and the development of commercial properties.	25,593	1.7	15,854	1.2
Bellway² Bellway is a holding company whose subsidiaries build residential houses and conduct associated trading activities. The subsidiaries build starter or first time buyer homes, featuring two and three bedroom semi-detached houses, apartments and terraced houses. The company operates in England, Wales and Scotland.	25,384	1.6	14,522	1.1
Total³	342,038	22.2		

All of the above investments are listed in the UK.

¹Based on total assets less current liabilities of £1,539m (2012: £1,287m).

²Not included in the ten largest investments at 31st January 2012.

³At 31st January 2012, the value of the ten largest investments amounted to £314.6m representing 24.4% of total assets less current liabilities.

Portfolio Analyses

Listed Equity Market Capitalisation

at 31st January

	2013 %	2012 %
UK FTSE Mid 250 Companies	73.5	78.1
UK Smaller Companies	18.3	19.3
UK FTSE 100	–	1.0
UK Unquoted	0.3	0.3
Overseas Companies	–	0.5
Net Current Assets	7.9	0.8
Total	100.0	100.0

Based on total assets less current liabilities of £1,539m (2012: £1,287m).

Sector Analysis

at 31st January

	Portfolio 2013 %	Benchmark 2013 %	Portfolio 2012 %	Benchmark 2012 %
Financials	23.5	23.8	23.1	19.8
Consumer Services	17.0	20.8	16.7	18.1
Consumer Goods	15.6	7.7	11.5	5.7
Industrials	13.7	23.5	15.5	24.1
Oil & Gas	6.9	4.7	8.7	5.5
Telecommunications	5.1	2.8	5.0	2.4
Basic Materials	4.2	6.8	6.4	8.9
Technology	4.2	5.8	8.7	11.7
Health Care	1.4	1.9	1.3	1.8
Utilities	0.5	2.2	2.3	2.0
Net Current Assets	7.9	–	0.8	–
Total	100.0	100.0	100.0	100.0

Based on total assets less current liabilities of £1,539m (2012: £1,287m).

List of Investments

at 31st January 2013

Company	Value of holding		% of net assets ⁵	
	31 January 2013 £'000	31 January 2012 £'000	31 January 2013	31 January 2012
Financials				
Jardine Lloyd Thompson	43,853	37,145	3.2	3.3
Phoenix Holdings	31,438	31,761	2.3	2.9
Hiscox	26,510	23,806	1.9	2.1
Catlin	24,392	20,221	1.8	1.8
Amlin	21,036	—	1.5	—
Lancashire	18,465	—	1.4	—
Savills	16,383	—	1.2	—
St James's Place	14,749	—	1.1	—
Derwent London	14,106	12,992	1.0	1.2
Beazley	13,932	6,078	1.0	0.5
Jupiter Fund Management	13,173	—	1.0	—
International Personal Finance	13,031	4,454	1.0	0.4
IG	12,474	16,588	0.9	1.5
London Stock Exchange	11,400	17,681	0.8	1.6
Brewin Dolphin	10,985	9,212	0.8	0.8
Great Portland Estates	9,713	16,965	0.7	1.5
Man	8,459	—	0.6	—
Rathbone Brothers	7,420	4,386	0.5	0.4
Close Brothers	5,928	9,669	0.4	0.9
Shore Capital ¹	4,452	4,091	0.3	0.4
Big Yellow	4,100	—	0.3	—
Shaftesbury	4,045	14,964	0.3	1.3
Cenkos Securities ¹	3,408	1,704	0.3	0.2
London & Stamford	3,394	3,539	0.2	0.3
Camellia	3,371	2,909	0.2	0.3
Mountview Estates	3,123	2,783	0.2	0.3
Helical Bar	3,077	3,163	0.2	0.3
Cazenove Capital ²	2,453	2,020	0.2	0.2
Provident Financial	2,164	—	0.2	—
Channel Islands Property	2,148	2,127	0.2	0.2
Panmure Gordon ¹	2,032	606	0.2	0.1
F&C Asset Management	1,976	—	0.2	—
Serviced Office	1,513	—	0.2	—
Marwyn Management Partners	1,050	2,200	0.1	0.2
WH Ireland ¹	896	1,425	0.1	0.1
Cluff Natural Resources ¹	435	—	—	—
Brookwell ¹	210	387	—	—
	361,294			

List of Investments – continued

Company	Value of holding		% of net assets ⁵	
	31 January 2013 £'000	31 January 2012 £'000	31 January 2013	31 January 2012
Consumer Services				
Aegis	24,033	19,575	1.8	1.8
Mitchells & Butlers	19,162	16,149	1.4	1.5
Daily Mail	18,993	13,853	1.4	1.2
William Hill	18,505	19,853	1.4	1.8
Inchcape	17,014	9,371	1.2	0.8
Ladbroke's	16,423	–	1.2	–
888	15,914	1,013	1.2	0.1
Bwin.Party Digital Entertainment	14,417	12,631	1.1	1.1
Stagecoach	13,117	3,166	1.0	0.3
Millennium & Copthorne Hotels	11,060	12,620	0.8	1.1
Sports Direct International	10,983	5,424	0.8	0.5
Debenhams	10,248	–	0.8	–
Carphone Warehouse	9,712	–	0.7	–
Chime Communications	8,973	7,797	0.7	0.7
Young & Co's Brewery ¹	8,814	7,205	0.6	0.6
WH Smith	8,586	–	0.6	–
Spirit Pub	7,303	1,371	0.5	0.1
Sportech	6,756	3,949	0.5	0.4
M&C Saatchi ¹	5,866	3,881	0.4	0.3
Halfords	3,740	–	0.3	–
Ashley (Laura)	3,226	2,509	0.2	0.2
Dixons Retails	2,745	–	0.2	–
United Business Media	2,434	5,415	0.2	0.5
Mothercare	1,546	–	0.2	–
H.R.Owen ¹	1,504	1,433	0.1	0.1
Peel Hotels ¹	496	459	–	–
	261,570			
Consumer Goods				
Persimmon	52,297	32,665	3.8	2.9
Bovis Homes	38,934	20,155	2.9	1.8
Berkeley	28,981	18,705	2.1	1.7
Barratt Developments	25,593	15,854	1.9	1.4
Bellway	25,384	14,522	1.9	1.3
Taylor Wimpey	24,172	14,967	1.8	1.3
MP Evans ¹	16,211	13,827	1.2	1.2
New Britain Palm Oil	12,375	–	0.9	–
Cranswick	5,795	4,559	0.4	0.4
Headlam	4,552	–	0.3	–
R.E.A. ¹	3,537	3,579	0.3	0.3
Anglo-Eastern Plantations	3,141	3,114	0.2	0.3
	240,972			

Company	Value of holding		% of net assets ⁵	
	31 January 2013 £'000	31 January 2012 £'000	31 January 2013	31 January 2012
Industrials				
Premier Farnell	19,833	–	1.5	–
SIG	19,205	10,373	1.4	0.9
Hays	17,911	13,562	1.3	1.2
Rentokil Initial	16,529	–	1.2	–
Balfour Beatty	16,380	18,814	1.2	1.7
Electrocomponents	15,033	–	1.1	–
Ricardo	14,806	9,947	1.1	0.9
Travis Perkins	11,290	21,510	0.8	1.9
De La Rue	11,223	–	0.8	–
RPS	9,971	–	0.7	–
Xchanging	9,554	4,014	0.7	0.4
E2V Technologies	8,725	–	0.6	–
RPC	8,455	–	0.6	–
VP	8,033	6,185	0.6	0.6
Kier	6,203	6,170	0.5	0.6
Fisher (James) & Sons	5,884	–	0.4	–
Renold	3,654	3,350	0.3	0.3
BBA Aviation	2,558	6,926	0.2	0.6
Clarke (T)	2,481	–	0.2	–
Tennants Consolidated ^{2,4}	2,629	2,508	0.2	0.2
	210,357			
Oil & Gas				
Premier Oil	16,116	17,054	1.2	1.5
Afren	15,449	–	1.1	–
Ithaca Energy ¹	12,828	–	0.9	–
Soco International	11,157	–	0.8	–
Cairn Energy	10,482	12,258	0.8	1.1
Hunting	9,359	2,519	0.7	0.2
Enquest	7,663	–	0.6	–
Valiant Petroleum ¹	5,410	–	0.4	–
Heritage Oil	4,695	3,740	0.3	0.3
Bowleven	3,462	–	0.3	–
Faroe Petroleum ¹	3,237	2,226	0.2	0.2
Infrastrata ¹	2,498	1,940	0.2	0.2
Trinity Exploration & Production	2,207	–	0.2	–
Argos Resources	1,393	–	0.1	–
	105,956			

List of Investments – continued

Company	Value of holding		% of net assets ⁵	
	31 January 2013 £'000	31 January 2012 £'000	31 January 2013	31 January 2012
Telecommunications				
Cable & Wireless Communications	41,270	37,659	3.0	3.4
Inmarsat	24,570	–	1.8	–
Colt Telecom	12,892	7,691	0.9	0.7
	78,732			
Basic Materials				
Mondi	27,778	6,867	2.0	0.6
African Barrick Gold	16,377	23,827	1.2	2.1
Ferrexpo	7,479	–	0.5	–
Lonmin	6,770	7,883	0.5	0.7
Bumi	6,522	–	0.5	–
	64,926			
Technology				
Invensys	17,185	16,964	1.3	1.5
Wolfson Microelectronics	13,375	9,601	1.0	0.9
Fidessa	9,170	–	0.7	–
Playtech	8,920	4,705	0.7	0.4
Imagination Technologies	7,509	11,897	0.6	1.1
Advanced Computer Software	6,570	–	0.5	–
Fusionex International	1,431	–	0.1	–
	64,160			
Health Care				
Vernalis ¹	9,294	1,913	0.7	0.2
Vectura	4,126	1,682	0.3	0.2
Renovo ¹	3,562	3,182	0.3	0.3
Sphere Medical Holding ¹	2,463	2,941	0.2	0.3
Oxford Biomedica	1,815	3,060	0.2	0.3
	21,260			
Utilities				
Pennon	8,001	29,727	0.6	2.7
	8,001			
Total Portfolio⁶	1,417,228			

¹AIM listed investment.

²Unquoted investment.

³Listed overseas.

⁴Includes a fixed interest investment.

⁵Based on net assets of £1,361m (2012: £1,110m).

⁶The portfolio comprises investments in equity shares and a fixed interest investment.

Board of Directors

Hamish Leslie Melville (Chairman)#

A Director since 1996 and Chairman since September 2003.

Having served as an executive director of Hambros Bank he founded Enskilda Securities. He was then chairman of Capel-Cure Myers Capital Management and then of Dunedin Fund Managers. He was chairman of the Investment Banking Committee of Credit Suisse Securities (Europe) Ltd for 12 years until 2010 when he joined The Royal Bank of Scotland to set up an Investment Banking Committee, leaving in 2012. He has served as chairman or director of a number of UK listed companies, and was chairman of The National Trust for Scotland for three years from 1995.

Sir Richard Beckett**

A Director since September 2009.

Sir Richard was called to the bar in 1965 and took silk in 1987. He was one of the pre-eminent practitioners in regulatory and licensing matters. He is also a non-executive director of JD Wetherspoon Plc.

Helen James**

A Director since September 2011.

Helen is CEO of Investis, a leading digital corporate communications company. She took on this role in October 2012, having been Managing Director and a co-founder of the Company in 2000. Prior to Investis Helen was head of Pan-European Equity Sales at Pasibas. She is also a non-executive director of Edinburgh Worldwide Investment Trust plc.

Sandy Nairn**

A Director since December 2003. He is Chief Executive of Edinburgh Partners Ltd. Previously, he served on the boards of Vebnet (Holdings) plc, Vebnet Ltd, Franklin Templeton Investment Management Limited, Hill Samuel Asset Management International Limited, Waverley General Private Equity Limited and Scottish Widows Investment Partnership Limited.

Board of Directors – continued

Ian Russell*#

A Director since January 2007 and Chairman of the Audit Committee since May 2007. He is Chairman of Johnston Press plc, Advanced Power AG and Remploy Limited. He is also a non-executive director of British Assets Trust plc and British Polythene Industries plc, and an advisor to the Clyde Bergemann Power Group. Previously, he held senior positions with Scottish Power, Tomkins and HSBC.

Jeremy Tigue

A Director since March 2012. He joined F&C Management in 1981 and has been the fund manager of Foreign and Colonial Investment Trust plc since 1997. He was, until January 2013, a Director of the Association of Investment Companies. He is an investment advisor to the BP and British Steel pension funds. A Non-executive Director of Graphite Enterprise Trust plc. He became Chairman of BACIT Limited in 2012.

*A member of the Audit Committee throughout the year.

Jeremy Tigue joined the Audit Committee upon his appointment as a Director on 26th March 2012.

#A member of the Nomination Committee throughout the year.

Jeremy Tigue joined the Nomination Committee on 5th December 2012.

All Directors are considered independent of the Manager.

Directors' Report

The Directors present their report and audited financial statements for the year ended 31st January 2013.

Business Review

Business of the Company

The Company carries on business as an investment trust and was approved by HM Revenue & Customs as an investment trust in accordance with Section 1158 of the Corporation Tax Act 2010, for the year ended 31st January 2012. In the opinion of the Directors, the Company has subsequently conducted its affairs so that it should continue to qualify as an investment trust under the HM Revenue & Customs' qualifying rules.

Approval in previous years is subject to review should there be any subsequent enquiry under Corporation Tax Self Assessment.

The Company is an investment company within the meaning of Section 833 of the Companies Act 2006. 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 2 to 3, and in the Investment Managers' Report on pages 4 to 7.

Investment Objective

The Company's objective is to achieve long term capital growth from a portfolio of UK medium and smaller companies.

Investment Policies and Risk Management

In order to achieve its objective, the Company invests in a diversified portfolio and 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 Limits and Restrictions

- 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 gross assets.
- Investment 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 UK listed investment companies (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 2013, the Company produced a total return to shareholders of 29.0% and a total return on net assets of 26.6%. This compares with the return on the Company's benchmark of 27.2%. At 31st January 2013, the value of the Company's investment portfolio was £1,417 million. The Investment Managers' Report on pages 4 to 7 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 return for the year amounted to £306.3 million (2012: £71.1 million loss) and net total return after deducting interest, management expenses and taxation amounted to £289.4 million (2012: £88.4 million loss). Distributable income for the year amounted to £31.6 million (2012: £31.6 million). The Directors have declared quarterly interim dividends totalling 36p (2012: 36.0p) per ordinary share for the year which totalled £35.5 million (2012: £35.6 million). The year end revenue reserve after allowing for these dividends will amount to £11.7 million (2012: £15.6 million).

Key Performance Indicators ('KPIs')

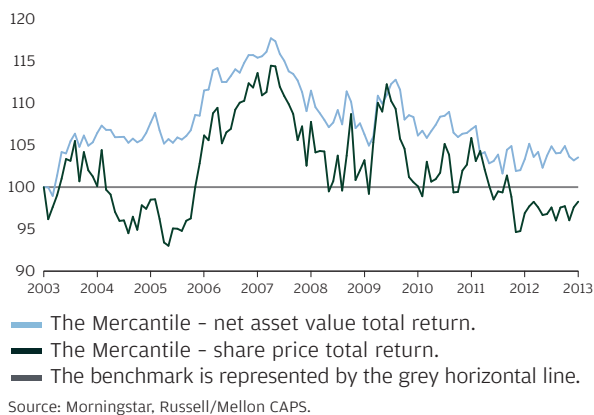
The Board uses a number of financial KPIs to monitor and assess the performance of the Company. The principal KPIs are:

- Performance against the benchmark index
This is the most important KPI by which performance is judged.

Directors' Report – continued

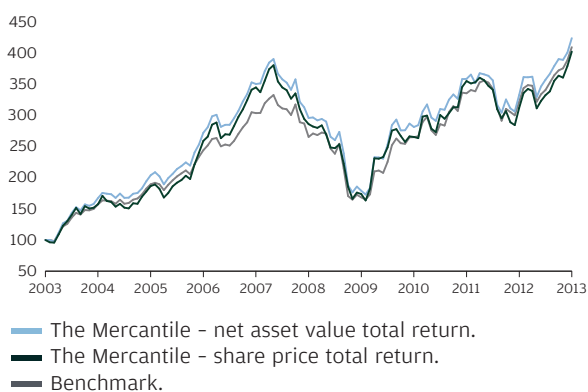
Performance relative to Benchmark Index

Figures have been rebased to 100 at 31st January 2003



Ten Year Performance

Figures have been rebased to 100 at 31st January 2003

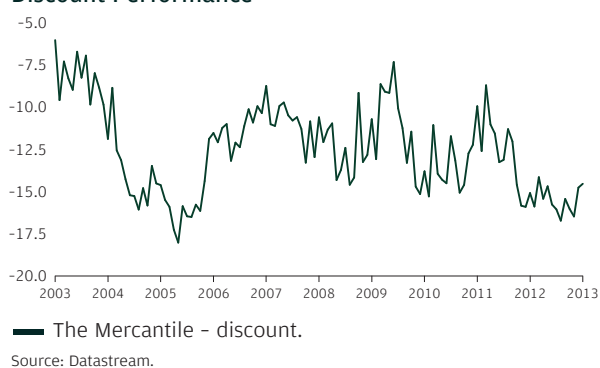


- Performance against the Company's peers
The principal objective is to achieve capital growth relative to the benchmark. The Board also monitors the performance relative to a broad range of competitor funds.
- Performance attribution
The purpose of performance attribution analysis is to assess how the 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 asset allocation and stock selection. Details of the attribution analysis for the year ended 31st January 2013 are given in the Investment Managers' Report on page 4.

- Share price discount to net asset value ('NAV') per share

The Board operates a share repurchase programme that seeks to 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.

Discount Performance



- Ongoing Charges
The Ongoing Charges represent 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 method of calculating the Ongoing Charges has been changed. In previous years, the Total Expense Ratio ('TER') was calculated, which represented the Company's management fee and other operating expenses excluding finance costs, expressed as a percentage of the average month end net assets during the year. The Ongoing Charges for the year ended 31st January 2013 were 0.49% (2012: TER 0.51%). The Board reviews each year an analysis which shows a comparison of the Company's Ongoing Charges and its main expenses with those of its peers.

Share Capital

During the year the Company repurchased a total of 255,000 ordinary shares for cancellation (nominal value £63,750). This amount represented 0.26% of the issued share capital at the beginning of the year. 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 repurchased no further shares for cancellation since the year end.

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.

Principal Risks

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 asset 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 by the Manager. JPMAM 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 'Business of the Company' above. 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 continually monitored by JPMAM 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 & 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, JPMAM, to ensure compliance with The Companies Act and The UKLA Listing Rules.
- **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 report on pages 23 to 28.
- **Operational:** Disruption to, or failure of, JPMAM's accounting, dealing or payments systems or the custodian's records could prevent accurate reporting and monitoring of the Company's financial position. Details of how the Board monitors the services provided by JPMAM 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 report on pages 26 and 27.
- **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 daily 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 23 on pages 47 to 51.

Future Developments

Clearly, the future development of the Company is dependent upon the success of the Company's investment strategy in the light of economic and equity market developments. The Investment Managers discuss the outlook in their report on page 7.

Management of the Company

The Manager and Secretary is JPMorgan Asset Management (UK) Limited ('JPMAM'). JPMAM is employed 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.

JPMAM is a wholly-owned subsidiary of JPMorgan Chase Bank which, through other subsidiaries, also

Directors' Report – continued

provides banking, dealing and custodian services to the Company.

The Board conducts a formal evaluation of the Manager on an annual basis. The evaluation includes consideration of the investment strategy and process of the Manager, performance against the benchmark over the long term and the support that the Company receives from JPMAM. In the year under review the Board retained an independent expert assist with the review of the Manager. Following the outcome of this review, the Board agreed with the Manager changes to the investment management team and reporting practices. As a result of this process, the Board confirms that it is satisfied that the continuing appointment of the Manager is in the interests of shareholders as a whole.

Management Fee

The management fee is charged at the rate of 0.5% 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 JPMAM, or any of its associated companies, they are excluded from the calculation and therefore attract no fee.

Going Concern

The Directors believe that having considered the Company's investment objective (see page 19), risk management policies (see page 21), capital management policies and procedures (see page 52), the nature of the portfolio and expenditure projections, that the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future. For these reasons, they consider that there is reasonable evidence to continue to adopt the going concern basis in preparing the accounts.

Payment Policy

It is the Company's policy to obtain the best terms for all business and therefore there are no standard payment terms. In general, the Company agrees with its suppliers the terms on which business will take place and it is the Company's policy to abide by these terms. As at 31st January 2013, the Company had no outstanding trade creditors.

Directors

The Directors of the Company during the year and subsequent to the year end, together with their beneficial interests in the Company's ordinary share capital, were:

	31st January 2013	1st February 2012 or at date of appointment
Hamish Leslie Melville	30,000	30,000
Sir Richard Beckett	4,100	4,100
The Right Hon. The Earl of Halifax	n/a	2,000
Helen James ¹	650	650
Sandy Nairn	5,000	5,000
Charles Peel	n/a	33,100
Ian Russell	5,000	5,000
Jeremy Tigue ²	5,176	0

¹non-beneficial holding

²on 4th February 2013 Jeremy Tigue acquired 26 shares through the Company's Dividend Re-investment Plan, taking his shareholding at the date of this report to 5202.

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

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

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:

- 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
- 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.

Independent Auditors

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

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 item of special business will be proposed at the forthcoming Annual General Meeting:

Authority to allot new shares and to disapply statutory pre-emption rights (resolutions 10 and 11)

The Directors will seek renewal of the authority at the AGM to issue up to 4,922,785 Ordinary shares for cash up to an aggregate nominal amount of £1,230,696 such amount being equivalent to 5% of the present issued ordinary share capital as at the last practicable date before the publication of this document. The full text of the resolutions is set out in the Notice of Meeting on pages 53 to 54. This authority will expire at the conclusion of the AGM of the Company in 2014 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. The Company currently does not hold any shares in the capital of the Company in Treasury.

Authority to repurchase the Company's shares for cancellation (resolution 12)

At the Annual General Meeting held in May 2012, shareholders gave authority to the Company to enable it to purchase up to 14.99% of its then issued share capital. This authority will expire on 22nd November 2013 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 net asset value ('NAV') enhances the NAV of the remaining shares.

Approval of dividend policy (resolution 13)

The Directors seek approval of the Company's dividend policy to continue to pay four quarterly interim dividends, which in the year ended 31st January 2013 have totalled 36 pence per share.

Recommendation

The Board considers resolutions 10-13 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 49,952 shares representing approximately 0.05% 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 53 to 54.

Corporate Governance Compliance

The Company is committed to high standards of corporate governance. This statement, together with the Statement of Directors' Responsibilities on page 30, indicates how the Company has applied the principles of good governance of the Financial Reporting Council 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

Directors' Report – continued

best practice provisions of the UK Corporate Governance Code and the AIC Code throughout the year under review, other than in respect of the provisions relating to the appointment of a senior independent director and the engagement of an external recruitment consultancy, both of which are explained below.

Role of the Board

A management agreement between the Company and JPMAM sets out the matters over which the Manager has authority. 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, JPMAM, 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 Hamish Leslie Melville, 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 17 and 18.

A review of Board composition and balance is included as part of the annual performance evaluation of the Board. The Board has considered whether a senior independent director should be appointed and has concluded that, as the Board consists entirely of non-executive directors, this is unnecessary.

Tenure

The Chairman and Sandy Nairn, having been Directors of the Company for more than nine years, have retained their independence by submitting to annual re-election.

Directors are initially appointed until the following Annual General Meeting when, under the Company's Articles of Association, it is required that they be elected 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 re-election. In accordance with the UK Corporate Governance Code, from 2011 onwards, Directors continuing in office have sought annual re-election.

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.

The Board recommends the election and re-election of the Directors who each seek election and re-election at this year's 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 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 17 and 18. Directors who are not members of Committees may attend at the invitation of the Chairman.

The table below details the number of Board, Audit Committee and Nomination Committee meetings attended by each Director. During the year there were five Board meetings, two Audit Committee meetings and one Nomination Committee meeting.

Director	Board Meetings Attended	Audit Committee Meetings Attended	Nomination Committee Meetings Attended
Hamish Leslie Melville	5	2 ¹	1
Sir Richard Beckett	5	2	1
The Right Hon. The Earl of Halifax ²	2	1	0
Helen James	5	2	1
Sandy Nairn	5	2	1
Charles Peel ²	2	1	0
Ian Russell	5	2	1
Jeremy Tigue	5	2	1

¹Attended by invitation.

²Retired on 23rd May 2012.

Board Committees

Nomination Committee

The Nomination Committee, chaired by Hamish Leslie Melville, consists of 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.

The Board has a wide network of contacts within the field of financial services and beyond, and believes that the engagement of the services of an external recruitment consultancy is consequently unnecessary at present, although this will be kept under review. Jeremy Tigue was appointed a Director on 26th March 2012.

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

On an annual basis each Director submits a list of potential conflicts of interest for approval at the Nomination Committee meeting. These are considered carefully, taking into account the circumstances surrounding them, and, if considered appropriate, are approved for a period of one year.

Audit Committee

The Audit Committee, chaired by Ian Russell, consists of all the Directors other than the Chairman and meets at least twice each year. The members of the Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the Committee for details of their qualifications see pages 17 and 18.

The Committee reviews the actions and judgements of the Manager in relation to the half year and annual accounts and the Company's compliance with the UK Corporate Governance Code. It reviews the terms of the management agreement and 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 cost effectiveness, the balance of audit and non-audit services, and the independence and objectivity of the external auditors. In the Directors' opinion, the Auditors are considered independent.

The Audit Committee also has a primary responsibility for making recommendations to the Board on the re-appointment and removal of external auditors.

Representatives of the Company's Auditors attend the Audit Committee meeting at which the draft Annual Report & Accounts are considered. Having reviewed the performance of the external auditors, 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 5 on page 39. There were no significant non-audit engagements during the year under review. Representatives of the Company's auditors attend the Committee meeting at which the draft annual report and accounts are considered. The Directors' statement on the Company's system of risk management and internal control is set out on pages 26 and 27.

Both the Nomination Committee and the Audit 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.

Directors' Report – continued

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 four times a year by way of the Annual Report and Accounts, Half Year Financial Report and two Interim Management Statements. 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 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 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 57.

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 57.

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

Section 992 Companies Act 2006

The following disclosures are made in accordance with Section 992 Companies Act 2006.

Capital Structure

The Company's capital structure is summarised on the inside front cover of this report.

Voting Rights in the Company's shares

As at 20th March 2013 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 98,455,719 Ordinary shares, carrying one vote each. Therefore the total voting rights of the Company are 98,455,719.

Environmental Matters, Social and Community Issues

Information about environmental matters, and social and community issues is set out on pages 27 and 28. The Company has no employees.

Notifiable Interests in the Company's Voting Rights

At the year end and the date of this report, the following had declared a notifiable interest in the Company's voting rights:

Shareholders	Number of voting rights	%
AXA Investment Managers UK Ltd	11,682,437	11.85
Brewin Dolphin Ltd	9,949,695	10.09
Rathbone Investment Management Ltd	7,844,301	7.96
Chase Nominees Ltd ¹	6,943,890	7.04
Investec Wealth & Investment Ltd	5,339,435	5.42
Quilter & Co Ltd	4,182,873	4.24
Legal & General Group Plc	3,221,648	3.27

¹Held on behalf of JPMAM Share Plan, ISA and SIPP participants.

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 Acts.

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.

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 JPMAM and its associates, the Company's system of risk management and internal control mainly consists of monitoring the services provided by JPMAM 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 page 21). This process has been in place for the year under review and up to the date of approval of the Annual Report & Accounts and it accords with the Turnbull guidance. The Company does not have an internal audit function of its own, but relies on the internal audit department of JPMAM. This arrangement is kept under annual 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 and custodian regulated by the Financial Services Authority (FSA), 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 JPMAM's Compliance department which regularly monitors compliance with FSA 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 JPMAM'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; and
- the Directors review on a regular basis an independent report on the risk management and internal controls and the operations of JPMAM.

By the means of the procedures set out above, the Board confirms that it has reviewed the effectiveness of the Company's system of risk management and internal control for the year ended 31st January 2013, and to the date of approval of this Annual Report and Accounts.

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.

Corporate Governance and Voting Policy

The Company delegates responsibility for voting to JPMAM.

The following is a summary of JPMAM's policy statements on corporate governance, voting policy and social and environmental issues, which has been reviewed and endorsed by the Board.

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.

Directors' Report – continued

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.

Social & Environmental

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. JPMAM is also a signatory to Carbon Disclosure Project. JPMorgan Chase is a signatory to the Equator Principles on managing social and environmental risk in project finance.

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
Juliet Dearlove, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Company Secretary
21st March 2013

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 has prepared this report in accordance with the requirements of Section 421 of the Companies Act 2006. An ordinary resolution to approve this report will be put to the members at the forthcoming Annual General Meeting.

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 auditors' opinion is included in their report on page 31.

There were no changes to Directors' fees during the year under review. Directors' fees were last raised with effect from 1st July 2011, when they were raised from £45,000 to £60,000 for the Chairman, from £35,000 to £40,000 for the Chairman of the Audit Committee and from £30,000 to £33,000 for the other Directors. Directors' fees were previously increased in 2007. The independent consultant engaged to conduct the Board evaluation as detailed in the 2012 Annual Report, considered the new fee levels in his report, issued in 2011, concluding that he believed them to be both competitive and appropriate for a company of this size and nature.

The Nomination Committee reviews Directors' 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 relevant third parties on the level of fees paid to the directors of the Company's peers and within the investment trust industry generally. The Directors' fees are not performance-related. Any increase in the aggregate level of Directors' fees requires both Board and shareholder approval.

The Board's policy 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 and the Chairman of the Audit Committee are paid higher fees than the other Directors, reflecting the greater time commitment involved in fulfilling those roles.

The terms and conditions of the Directors' appointments are set out in formal letters of appointment. Details of the Board's policy on tenure are set out on page 24.

The Company does not operate any type of incentive 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 paid compensation for loss of office. No other payments are made to Directors, other than the reimbursement of reasonable out-of-pocket expenses incurred in connection with attending the Company's business.

A graph showing the Company's share price total return compared with its benchmark index, the FTSE All-Share Index excluding FTSE 100 constituents and investment trusts, over the last five years is shown below.

Five year share price and benchmark total return to 31st January



Source: Morningstar, Russell/Mellon CAPS.

Directors' Remuneration

(Audited Information) Directors' Name	2013 £	2012 £
Hamish Leslie Melville (Chairman)	60,000	53,750
Sir Richard Beckett	33,000	31,750
The Right Hon. The Earl of Halifax ¹	10,408	31,750
Helen James ²	33,000	12,015
Sandy Nairn	33,000	31,750
Charles Peel ¹	10,408	31,750
Ian Russell	40,000	37,916
Jeremy Tigue ³	28,044	n/a
Total	247,860	230,681

¹Retired 23rd May 2012.

²Appointed 21st September 2011.

³Appointed 26th March 2012.

By order of the Board
Juliet Dearlove, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Company Secretary
21st March 2013

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 and applicable law). Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and 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, Directors' Remuneration Report and Statement of Corporate Governance that comply with that law and those regulations.

Each of the Directors, whose names and functions are listed in the Directors' Report 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; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

The financial statements are published on the www.mercantileit.co.uk website, which is managed by the Manager. The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

For and on behalf of the Board
Hamish Leslie Melville
Chairman

21st March 2013

Independent Auditors' Report

To the members of The Mercantile Investment Trust plc

We have audited the financial statements of The Mercantile Investment Trust plc for the year ended 31st January 2013 which comprise the Income Statement, Reconciliation of Movements in Shareholders' Funds, Balance Sheet, Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 30, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, 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 this opinion, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report & Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31st January 2013 and of its net return and cash flows for the year then ended;

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 22, in relation to going concern;
- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Jeremy Jensen (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

21st March 2013

Notes:

- The maintenance and integrity of The Mercantile Investment Trust plc website (www.mercantileit.co.uk) is the responsibility of JPMAM; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the accounts since they were initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income Statement

for the year ended 31st January 2013

	Notes	2013			2012		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on investments held at fair value through profit or loss							
	2	–	269,028	269,028	–	(108,508)	(108,508)
Net foreign currency losses		–	(136)	(136)	–	(6)	(6)
Income from investments	3	36,200	–	36,200	36,700	–	36,700
Other interest receivable and similar income	3	1,247	–	1,247	684	–	684
Gross return/(loss)		37,447	268,892	306,339	37,384	(108,514)	(71,130)
Management fee	4	(1,494)	(3,485)	(4,979)	(1,496)	(3,492)	(4,988)
Other administrative expenses	5	(985)	–	(985)	(900)	–	(900)
Net return/(loss) on ordinary activities before finance costs and taxation		34,968	265,407	300,375	34,988	(112,006)	(77,018)
Finance costs	6	(3,293)	(7,685)	(10,978)	(3,389)	(7,907)	(11,296)
Net return/(loss) on ordinary activities before taxation		31,675	257,722	289,397	31,599	(119,913)	(88,314)
Taxation	7	(32)	–	(32)	(44)	–	(44)
Net return/(loss) on ordinary activities after taxation		31,643	257,722	289,365	31,555	(119,913)	(88,358)
Return/(loss) per share	9	32.09p	261.34p	293.43p	31.88p	(121.13)p	(89.25)p

Dividends declared in respect of the financial year ended 31st January 2013 total 36.0p (2012: 36.0p) per share amounting to £35,469,000 (2012: £35,583,000). Further information on dividends is given in note 8 on page 41.

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. The total column represents all the information that is required to be disclosed in a Statement of Total Recognised Gains and Losses ('STRGL'). For this reason, a STRGL has not been presented.

There is no material difference between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalents.

The notes on pages 36 to 52 form an integral part of these accounts.

Reconciliation of Movements in Shareholders' Funds

for the year ended 31st January 2013

	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 31st January 2011	24,759	23,459	12,011	1,139,698	37,339	1,237,266
Repurchase and cancellation of the Company's own shares	(81)	–	81	(2,976)	–	(2,976)
Net (loss)/return on ordinary activities	–	–	–	(119,913)	31,555	(88,358)
Dividends paid in the year	–	–	–	–	(35,571)	(35,571)
At 31st January 2012	24,678	23,459	12,092	1,016,809	33,323	1,110,361
Repurchase and cancellation of the Company's own shares	(64)	–	64	(2,790)	–	(2,790)
Net return on ordinary activities	–	–	–	257,722	31,643	289,365
Dividends paid in the year	–	–	–	–	(35,503)	(35,503)
At 31st January 2013	24,614	23,459	12,156	1,271,741	29,463	1,361,433

The notes on pages 36 to 52 form an integral part of these accounts.

Balance Sheet

at 31st January 2013

	Notes	2013 £'000	2012 £'000
Fixed assets			
Investments held at fair value through profit or loss	10	1,417,228	1,276,856
Current assets			
Debtors	12	2,723	2,115
Cash and short term deposits		139,879	18,447
Creditors: amounts falling due within one year	13	142,602 (21,207)	20,562 (9,963)
Net current assets		121,395	10,599
Total assets less current liabilities		1,538,623	1,287,455
Creditors: amounts falling due after more than one year	14	(177,190)	(177,094)
Net assets		1,361,433	1,110,361
Capital and reserves			
Called up share capital	15	24,614	24,678
Share premium account	16	23,459	23,459
Capital redemption reserve	16	12,156	12,092
Capital reserves	16	1,271,741	1,016,809
Revenue reserve	16	29,463	33,323
Total equity shareholders' funds		1,361,433	1,110,361
Net asset value per share	17	1,382.8p	1,124.9p

The accounts on pages 32 to 52 were approved and authorised for issue by the Directors on 21st March 2013 and are signed on their behalf by:

Hamish Leslie Melville
Chairman

The notes on pages 36 to 52 form an integral part of these accounts.

The Mercantile Investment Trust plc

Company registration number 20537

Cash Flow Statement

for the year ended 31st January 2013

	Notes	2013 £'000	2012 £'000
Net cash inflow from operating activities	18	31,897	30,632
Servicing of finance			
Interest paid		(10,882)	(11,216)
Net cash outflow from servicing of finance		(10,882)	(11,216)
Taxation			
Overseas tax recovered		52	30
Financial investment			
Purchases of investments		(729,134)	(956,066)
Sales of investments		867,478	918,124
Other capital charges		(21)	(20)
Net cash inflow/(outflow) from financial investment		138,323	(37,962)
Dividends paid		(35,503)	(35,571)
Net cash inflow/(outflow) before financing		123,887	(54,087)
Financing			
Repurchase and cancellation of the Company's own shares		(2,319)	(1,990)
Repayment of short term loan		–	(15,000)
Net cash outflow from financing		(2,319)	(16,990)
Increase/(decrease) in cash in the year	19	121,568	(71,077)

The notes on pages 36 to 52 form an integral part of these accounts.

Notes to the Accounts

for the year ended 31st January 2013

1. Accounting Policies

(a) Basis of accounting

The accounts are prepared in accordance with the Companies Act 2006, 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 'SORP') issued by the Association of Investment Companies in January 2009. All of the Company's operations are of a continuing nature.

The accounts have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of investments at fair value through profit or loss.

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

(b) Valuation of investments

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. This 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.

(c) Accounting for reserves

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

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

(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.

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 taken to revenue on a receipts 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.

Property income distributions are taken to revenue on an accruals basis.

(e) Expenses

All expenses are accounted for on an accruals basis. Expenses are allocated wholly to the revenue column of the income statement 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 10 on page 42.

(f) Finance costs

Finance costs are accounted for on an accruals basis using the effective interest method and in accordance with the provisions of FRS 25 'Financial Instruments: Presentation' and FRS 26 'Financial Instruments: Measurement'.

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.

Breakage costs incurred on the early repayment of loans are charged 100% to capital.

(g) Financial instruments

Cash and short term deposits may comprise cash and demand deposits which are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

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 debentures in issue, bank loans and overdrafts are measured at amortised cost. They are recorded at the proceeds received net of direct issue costs. Finance costs, including any premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis using the effective interest method.

(h) Taxation

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

Deferred tax is accounted for in accordance with FRS 19: 'Deferred Tax'.

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 probable that taxable profits will be available against which those timing differences can be utilised.

Tax relief is allocated to expenses charged to the capital column of the income statement 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) Foreign currency

In accordance with FRS 23: 'The effects of changes in Foreign Exchange Rates' the Company is required to nominate a functional currency, being the currency in which the Company predominantly 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 the also the currency in which the accounts 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.

(k) Dividends payable

In accordance with FRS 21: 'Events after the Balance Sheet Date', dividends are included in the accounts in the year in which they are paid.

(l) Repurchases 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 Reconciliation of Movement in Shareholders' Funds. 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'.

Notes to the Accounts – continued

	2013 £'000	2012 £'000
2. Gains/(losses) on investments held at fair value through profit or loss		
Gains on investments held at fair value through profit or loss based on historical cost	25,347	76,019
Amounts recognised in investment holding gains and losses in the previous year in respect of investments sold during the year	21,941	(96,933)
Gains/(losses) on sales of investments based on the carrying value at the previous balance sheet date	47,288	(20,914)
Net movement in investment holding gains and losses	221,754	(87,580)
Other capital charges	(14)	(14)
Total capital gains/(losses) on investments held at fair value through profit or loss	269,028	(108,508)

	2013 £'000	2012 £'000
3. Income		
Income from investments		
UK dividends	26,225	29,524
Property income distributions	724	731
Overseas dividends	8,899	5,005
Scrip dividends	352	1,440
	36,200	36,700
Other interest receivable and similar income		
Underwriting commission	943	375
Deposit interest	304	309
	1,247	684
Total income	37,447	37,384

	2013			2012		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
4. Management fee						
Management fee ¹	1,494	3,485	4,979	1,496	3,492	4,988

¹Details of the management fee are given in the Directors' Report on page 22.

	2013	2012
	£'000	£'000
5. Other administrative expenses		
Administration expenses	584	516
Directors' fees ¹	248	231
Savings scheme costs ²	115	115
Auditors' remuneration for audit services ³	36	36
Auditors' remuneration for all other services ⁴	2	2
	985	900

¹Full disclosure is given in the Directors' Remuneration Report on page 29.

²These amounts were paid to JPMAM for the marketing and administration of saving scheme products.

³Includes £7,000 (2012: £7,000) irrecoverable VAT.

⁴Includes £200 (2012: £200) irrecoverable VAT.

	2013			2012		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
6. Finance costs						
Interest on bank loans and overdrafts	–	–	–	95	221	316
Debenture interest	3,264	7,618	10,882	3,265	7,618	10,883
Amortisation of debenture issue costs	29	67	96	29	68	97
	3,293	7,685	10,978	3,389	7,907	11,296

Notes to the Accounts – continued

	2013 £'000	2012 £'000
7. Taxation		
(a) Analysis of tax charge in the year		
Overseas withholding tax	32	44
Current tax charge for the year	32	44

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

The tax assessed for the year is lower (2012: higher) than the Company's applicable rate of corporation tax for the year of 24.33% (2012: 26.32%). The factors affecting the current tax charge for the year are as follows:

	2013			2012		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net return/(loss) on ordinary activities before taxation	31,675	257,722	289,397	31,599	(119,913)	(88,314)
Net return on ordinary activities before taxation multiplied by the Company's applicable rate of corporation tax of 24.33% (2012: 26.32%)	7,707	62,704	70,411	8,317	(31,561)	(23,244)
Effect of:						
Non taxable scrip dividends	(86)	–	(86)	(379)	–	(379)
Non taxable UK dividend income	(6,380)	–	(6,380)	(7,771)	–	(7,771)
Non taxable overseas dividend income	(2,165)	–	(2,165)	(1,317)	–	(1,317)
Non taxable capital (gains)/losses	–	(65,422)	(65,422)	–	28,561	28,561
Unrelieved expenses	924	2,718	3,642	1,150	3,000	4,150
Overseas withholding tax	32	–	32	44	–	44
	32	–	32	44	–	44

(c) Deferred taxation

The Company has an unrecognised deferred tax asset of £43,368,000 (2012: £43,396,000) based on a prospective corporation tax rate of 23% (2012: 25%). The reduction in the standard rate of corporation tax was substantively enacted on 12th July 2012 and is effective from 1st April 2013. The deferred tax asset has arisen due to the cumulative excess of deductible expenses over taxable income. Given the composition 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 accounts.

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.

	2013 £'000	2012 £'000
8. Dividends		
(a) Dividends paid and declared		
Unclaimed dividends refunded to the Company ¹	(6)	(70)
2012 fourth quarterly dividend of 18.0p (2011: 18.0p) paid to shareholders in May	17,762	17,826
First quarterly dividend of 6.0p (2012: 6.0p) paid to shareholders in August	5,917	5,942
Second quarterly dividend of 6.0p (2012: 6.0p) paid to shareholders in November	5,915	5,942
Third quarterly dividend of 6.0p (2012: 6.0p) paid to shareholders in February ²	5,915	5,931
Total dividends paid in the year	35,503	35,571

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

²Paid to the Registrars in January.

	2013 £'000	2012 £'000
Fourth quarterly dividend declared of 18.0p (2012: 18.0p) payable to shareholders in May	17,722	17,768

The fourth quarterly dividend has been declared in respect of the year ended 31st January 2013. In accordance with the accounting policy of the Company, this dividend will be reflected in the accounts for the year ending 31st January 2014.

(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 £31,643,000 (2012: £31,555,000).

	2013 £'000	2012 £'000
First quarterly dividend of 6.0p (2012: 6.0p) paid in August	5,917	5,942
Second quarterly dividend of 6.0p (2012: 6.0p) paid in November	5,915	5,942
Third quarterly dividend of 6.0p (2012: 6.0p) paid in February	5,915	5,931
Fourth quarterly dividend of 18.0p (2012: 18.0p) payable in May	17,722	17,768
	35,469	35,583

9. Return/(loss) per share

The revenue return per share is based on the revenue earnings attributable to the ordinary shares of £31,643,000 (2012: £31,555,000) and on the weighted average number of ordinary shares in issue during the year of 98,614,681 (2012: 98,998,335).

The capital gain per share is based on the capital gain attributable to the ordinary shares of £257,722,000 (2012: £119,913,000 loss) and on the weighted average number of ordinary shares in issue during the year of 98,614,681 (2012: 98,998,335).

The total gain per share is based on the total gain attributable to the ordinary shares of £289,365,000 (2012: £88,358,000 loss) and on the weighted average number of ordinary shares in issue during the year of 98,614,681 (2012: 98,998,335).

Notes to the Accounts – continued

	2013 £'000	2012 £'000
10. Investments		
Investments listed on a recognised stock exchange	1,318,842	1,157,257
Investments listed on AIM and unlisted investments	98,386	119,599
	1,417,228	1,276,856

	Listed in UK £'000	Listed Overseas £'000	AIM and Unlisted £'000	Total £'000
Opening book cost	1,175,028	4,115	103,418	1,282,561
Opening investment holding (losses)/gains	(23,586)	1,700	16,181	(5,705)
Opening valuation	1,151,442	5,815	119,599	1,276,856
Movements in the year:				
Purchases at cost	662,463	–	77,692	740,155
Sales – proceeds	(720,185)	(4,903)	(143,737)	(868,825)
(Losses)/gains on sales of investments based on the carrying value at the previous balance sheet date	(4,555)	796	51,047	47,288
Net movement in investment holding gains and losses	229,677	(1,708)	(6,215)	221,754
	1,318,842	–	98,386	1,417,228
Closing book cost	1,091,004	8	88,226	1,179,238
Closing investment holding (losses)/gains	227,838	(8)	10,160	237,990
Total investments held at fair value through profit or loss	1,318,842	–	98,386	1,417,228

Transaction costs on purchases during the year amounted to £4,115,000 (2012: £5,306,000) and on sales during the year amounted to £1,177,000 (2012: £1,151,000). These costs comprise stamp duty and brokerage commission.

Investments include Alternative Investment Market stocks which are valued at £93,305,000 (2012: £115,071,000).

During the year, prior year investment holding gains amounting to £21,941,000 have been transferred to gains on sales of investments as disclosed in note 16.

11. 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
Ricardo	UK	Ordinary	7.1
MP Evans	UK	Ordinary	5.8
Wolfson Microelectronics	UK	Ordinary	5.7
Bovis Homes	UK	Ordinary	4.9
Cable & Wireless Communications	UK	Ordinary	4.0
888 Holdings	UK	Ordinary	4.0
Ithaca Energy	UK	Ordinary	4.0

The Company has interests of 3% or more in the share capital of 37 (2012: 38) 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 2013 was £262,980,000 (2012: £337,458,000).

	2013 £'000	2012 £'000
12. Current assets		
Debtors		
Securities sold awaiting settlement	1,757	410
Dividends and interest receivable	844	1,592
Taxation recoverable	18	67
Other debtors	104	46
	2,723	2,115

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

Cash and short term deposits

Cash and short term deposits comprises bank balances and short term deposits. The carrying amount of these represents their fair value. Cash balances in excess of a predetermined amount are placed on short term deposit at market rates of interest.

	2013 £'000	2012 £'000
13. Creditors: amounts falling due within one year		
Securities purchased awaiting settlement	14,397	3,728
Repurchases of the Company's own shares awaiting settlement	1,457	986
Other creditors and accruals	5,353	5,249
	21,207	9,963

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

	2013 £'000	2012 £'000
14. Creditors: amounts falling due after more than one year		
Falling due after more than five years		
£3,850,000 4.25% perpetual debenture stock ¹	3,850	3,850
£175 million 6.125% debenture stock ²	173,340	173,244
	177,190	177,094

¹The £3,850,000 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.

²The £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.

Notes to the Accounts – continued

	2013 £'000	2012 £'000
15. Called up share capital		
Ordinary shares allotted and fully paid:		
Opening balance of 98,710,719 (2012: 99,035,719) shares of 25p each	24,678	24,759
Repurchase and cancellation of 255,000 (2012: 325,000) shares	(64)	(81)
Closing balance of 98,455,719 (2012: 98,710,719) shares of 25p each	24,614	24,678

During the year, the Company made market purchases of 255,000 of its own shares, nominal value £63,750, for cancellation, representing 0.26% of the shares outstanding at the beginning of the year. The total consideration paid for these shares amounted to £2,790,000.

	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserves			Total £'000
				Gains on sales of investments £'000	Investment holding gains £'000	Revenue reserve £'000	
16. Reserves							
Opening balance	24,678	23,459	12,092	1,022,514	(5,705)	33,323	1,110,361
Net currency losses on cash and short term deposits held during the year	–	–	–	(136)	–	–	(136)
Gains on sales of investments based on the carrying value at the previous balance sheet date	–	–	–	47,288	–	–	47,288
Net movement in investment holding gains and losses	–	–	–	–	221,754	–	221,754
Transfer on disposal of investments	–	–	–	(21,941)	21,941	–	–
Repurchase and cancellation of the Company's own shares	(64)	–	64	(2,790)	–	–	(2,790)
Management fee and finance costs charged to capital	–	–	–	(11,170)	–	–	(11,170)
Other capital charges	–	–	–	(14)	–	–	(14)
Dividends appropriated in the year	–	–	–	–	–	(35,503)	(35,503)
Retained revenue for the year	–	–	–	–	–	31,643	31,643
Closing balance	24,614	23,459	12,156	1,033,751	237,990	29,463	1,361,433

17. Net asset value per share

The net asset value per share is based on the net assets attributable to the ordinary shareholders of £1,361,433,000 (2012: £1,110,361,000) and on the 98,455,719 (2012: 98,710,719) shares in issue at the year end.

	2013 £'000	2012 £'000
18. Reconciliation of net return/(loss) on ordinary activities before finance costs and taxation to net cash inflow from operating activities		
Total return/(loss) on ordinary activities before finance costs and taxation	300,375	(77,018)
Less capital (return)/loss on ordinary activities before finance costs and taxation	(265,407)	112,006
Scrip dividends received as income	(352)	(1,440)
Decrease in dividends and interest receivable	748	191
Decrease in other debtors	1	5
(Decrease)/increase in accrued expenses	(209)	403
Management fee charged to capital	(3,165)	(3,492)
Overseas withholding tax	(94)	(23)
Net cash inflow from operating activities	31,897	30,632

	At 31st January 2012 £'000	Cash flow £'000	Other exchange movement £'000	Non cash movements £'000	At 31st January 2013 £'000
19. Analysis of changes in net debt					
Cash and short term deposits	18,447	121,568	(136)	–	139,879
Debentures falling due after more than five years	(177,094)	–	–	(96)	(177,190)
Net debt	(158,647)	121,568	(136)	(96)	(37,311)

20. Contingent liabilities and capital commitments

At the balance sheet date there were no contingent liabilities or capital commitments.

21. Transactions with JPMorgan

Details of the management contract are set out in the Directors' Report on page 22. The management fee payable to JPMorgan Asset Management (UK) Limited ('JPMAM') for the year was £4,979,000 (2012: £4,988,000) of which £457,000 (2012: £352,000) was outstanding at the year end.

During the year £115,000 (2012: £115,000) was payable to JPMAM for the marketing and administration of savings scheme products, of which £16,000 (2012: £8,000) was outstanding at the year end.

Included in administration expenses in note 5 on page 39 are safe custody fees amounting to £17,000 (2012: £22,000) payable to JPMorgan Chase of which £3,000 (2012: £10,000) was outstanding at the year end.

During the year, brokerage commission and stamp duty on dealing transactions amounting to £523,000 (2012: £1,250,000) was payable to JPMorgan subsidiaries of which £nil (2012: £nil) was outstanding at the year end.

Handling charges on dealing transactions amounting to £14,000 (2012: £14,000) were payable to JPMorgan Chase during the year of which £2,000 (2012: £8,000) was outstanding at the year end.

At the year end, a bank balance of £139.9 million (2012: £18.4 million) was held with JPMorgan Chase. A net amount of interest of £0.3 million (2012: £0.3 million) was receivable by the Company during the year from JPMorgan Chase of which £nil (2012: £nil) was outstanding at the year end.

Notes to the Accounts – continued

22. Disclosures regarding financial instruments measured at fair value

The Company's financial instruments that are held at fair value comprise its investment portfolio.

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

Level 1 – valued using quoted prices in active markets.

Level 2 – valued by reference to valuation techniques using observable inputs other than quoted market prices included within Level 1.

Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data.

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 36.

The following table sets out the fair value measurements using the FRS 29 hierarchy at 31st January:

	2013			Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
Financial assets held at fair value through profit or loss at 31st January 2013				
Equity investments	1,412,147	–	4,987	1,417,134
Fixed interest investment	–	–	94	94
Total	1,412,147	–	5,081	1,417,228

	2012			Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
Financial assets held at fair value through profit or loss at 31st January 2012				
Equity investments	1,270,607	1,721	4,434	1,276,762
Fixed interest investment	–	–	94	94
Total	1,270,607	1,721	4,528	1,276,856

There have been no transfers between Levels 1 and 2 during the year (2012: nil). A reconciliation of the fair value measurements in Level 3 is set out below.

	2013		Total £'000
	Equity investments £'000	Fixed interest investment £'000	
Level 3 financial assets held at fair value through profit or loss at 31st January 2013			
Opening balance	4,434	94	4,528
Net movement in investment holding gains and losses	553	–	553
Closing balance	4,987	94	5,081

There have been no transfers into or out of Level 3 during the year.

	Equity investments £'000	2012 Fixed interest investment £'000	Total £'000
Level 3 financial assets held at fair value through profit or loss at 31st January 2012			
Opening balance	5,871	94	5,965
Sales proceeds	(1,894)	–	(1,894)
Gains on sales of investments based on the carrying value at the previous balance sheet date	2	–	2
Net movement in investment holding gains and losses	455	–	455
Closing balance	4,434	94	4,528

The transfer into Level 3 related to one stock which was suspended at the prior year end, pending delisting from the FTSE Small-Cap Index.

23. 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 Secretary, in close cooperation with the Board and the Manager, coordinates the Company's risk management policy. The Company has no significant direct exposure to foreign exchange risk.

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

(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 and the interest payable on variable rate borrowings when interest rates are re-set.

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 90% to 120% where gearing is defined as investments expressed as a percentage of total net assets.

Notes to the Accounts – continued

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

(a) Market risk – continued

(i) Interest rate risk – continued

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 balance sheet 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 Company does not normally hold a significantly high level of cash balances and there is an overdraft facility available when required.

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

	2013 £'000	2012 £'000
Exposure to floating interest rates		
Cash at bank and short term deposits	139,879	18,447
Total exposure	139,879	18,447

Interest receivable on cash balances, or paid on overdrafts, is at a margin below or above LIBOR respectively (2012: same).

The above year end amounts are not representative of the exposure to interest rates during the year as the level of cash balances and drawings on the loan facility have fluctuated. The maximum and minimum net cash balances during the year are as follows:

	2013 £'000	2012 £'000
Maximum interest rate exposure during the year – net cash balances	191,707	186,949
Minimum interest rate exposure during the year – net cash balances	18,447	18,447

Interest rate sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to a 1% (2012: 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.

	2013		2012	
	1% Increase in rate £'000	1% Decrease in rate £'000	1% Increase in rate £'000	1% Decrease in rate £'000
Income statement – return after taxation				
Revenue return	1,399	(1,399)	184	(184)
Capital return	–	–	–	–
Total return after taxation	1,399	(1,399)	184	(184)
Net assets	1,399	(1,399)	184	(184)

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.

(ii) Market price risk

Market 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 market 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.

Market price risk exposure

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

	2013 £'000	2012 £'000
Equity investments held at fair value through profit or loss	1,417,134	1,276,762

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

Concentration of exposure to market price risk

An analysis of the Company's investments is given on pages 13 to 15. 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.

Market 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% (2012: 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.

	2013		2012	
	10% Increase in fair value £'000	10% Decrease in fair value £'000	10% Increase in fair value £'000	10% Decrease in fair value £'000
Income statement - return after taxation				
Revenue return	(213)	213	(192)	192
Capital return	141,227	(141,227)	127,230	(127,230)
Total return after taxation	141,014	(141,014)	127,038	(127,038)
Net assets	141,014	(141,014)	127,038	(127,038)

(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.

Notes to the Accounts – continued

23. 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:

	2013			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	14,397	–	–	14,397
Repurchases of the Company's own shares awaiting settlement	1,457	–	–	1,457
Other creditors and accruals	5,353	–	–	5,353
Debenture stock - interest	5,441	–	–	5,441
Creditors: amounts falling due after more than one year				
Debenture stock - principal	–	–	178,850	178,850
Debenture stock - interest	–	5,441	179,834	185,275
	26,648	5,441	358,684	390,773

	2012			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	3,728	–	–	3,728
Repurchases of the Company's own shares awaiting settlement	986	–	–	986
Other creditors and accruals	552	–	–	552
Debenture stock - interest	5,441	–	–	5,441
Creditors: amounts falling due after more than one year				
Debenture stock - principal	–	–	178,850	178,850
Debenture stock - interest	–	5,441	190,716	196,157
	10,707	5,441	369,566	385,714

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.

(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 DVP (Delivery Versus Payment) 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

Counterparties are subject to daily credit analysis by the Manager and trades can only be placed with counterparties that have a minimum credit rating of A1/P1 from Standard & Poor's and Moody's respectively.

Exposure to JPMorgan Chase Bank

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 following amounts shown in the Balance Sheet, represent the maximum exposure to credit risk at the current and comparative year end.

	2013		2012	
	Balance sheet £'000	Maximum exposure £'000	Balance sheet £'000	Maximum exposure £'000
Fixed assets - investments held at fair value through profit or loss	1,417,228	–	1,276,856	–
Current assets				
Debtors - securities sold awaiting settlement, dividends and interest receivable and other debtors	2,723	2,723	2,115	2,115
Cash and short term deposits	139,879	139,879	18,447	18,447
	1,559,830	142,602	1,297,418	20,562

No debtors are past their due date and none have been provided for.

Cash and short term deposits comprises balances held at banks that have a minimum credit rating of A1/P1 (2012: A1/P1) from Standard & Poor's and Moody's respectively.

(d) Fair values of financial assets and financial liabilities

All financial assets and liabilities are either carried in the balance sheet at fair value or the balance sheet 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 5 year average for the AA Barclays Sterling Corporate Bond spread.

	Carrying value		Fair value	
	2013 £'m	2012 £'m	2013 £'m	2012 £'m
£175 million 6.125% debenture stock 25th February 2030	173.3	173.2	219.2	209.9
£3.85 million 4.25% perpetual debenture stock	3.9	3.9	3.4	3.4
	177.2	177.1	222.6	213.3

Notes to the Accounts – continued

24. Capital management policies and procedures

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

	2013 £'000	2012 £'000
Debt		
£175 million 6.125% debenture stock 25th February 2030	173,340	173,244
£3.85 million 4.25% perpetual debenture stock	3,850	3,850
	177,190	177,094
Equity		
Called up share capital	24,614	24,678
Reserves	1,336,819	1,085,683
	1,361,433	1,110,361
Total debt and equity	1,538,623	1,287,455

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 policy is to limit gearing within the range 10% net cash to 20% geared. Gearing for this purpose is defined as the excess amount above shareholders' funds of Total Assets (including net current assets/liabilities) less cash/cash equivalents, expressed as a percentage of net assets.

	2013 £'000	2012 £'000
Investments at fair value	1,417,228	1,276,856
Current assets excluding cash	2,723	2,115
Current liabilities excluding bank loans	(21,207)	(9,963)
Total Assets	1,398,744	1,269,008
Net assets	1,361,433	1,110,361
Gearing	2.7%	14.3%

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.

Notice of Annual General Meeting

Notice is hereby given that the one hundred and twenty seventh Annual General Meeting of The Mercantile Investment Trust plc will be held at Trinity House, Tower Hill, London EC3N 4DH on 22nd May 2013 at 12 noon for the following purposes:

1. To receive the Directors' Report, the Annual Accounts and the Auditors' Report for the year ended 31st January 2013.
2. To approve the Directors' Remuneration Report for the year ended 31st January 2013.
3. To re-elect Hamish Leslie Melville as a Director of the Company.
4. To re-elect Sandy Nairn as a Director of the Company.
5. To re-elect Ian Russell as a Director of the Company.
6. To re-elect Sir Richard Beckett as a Director of the Company.
7. To re-elect Helen James as a Director of the Company.
8. To re-elect Jeremy Tigue as a Director of the Company.
9. To reappoint PricewaterhouseCoopers LLP as auditors to the Company and to authorise the Directors to determine their remuneration.

Special Business:

To consider the following resolution:

Authority to allot new shares - Ordinary Resolution

10. 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 £1,230,696, representing approximately 5% of the Company's issued share capital as at the date of the passing of this resolution, provided that this authority shall

expire at the conclusion of the Annual General Meeting of the Company held in 2014 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

11. THAT subject to the passing of Resolution 10 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 10 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 £1,230,696 representing approximately 5% of the issued share capital as at the date of the passing of this resolution 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 10 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

12. 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 14,758,512 or if less, that number of ordinary

Notice of Annual General Meeting – continued

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 25p;
- (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);
- (v) the authority hereby conferred shall expire on 21st November 2014 unless the authority is renewed at the Company's Annual General Meeting in 2014 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

13. THAT the shareholders approve the Company's dividend policy to continue to pay four quarterly interim dividends, which in the year under review have totalled 36 pence per share.

By order of the Board
JPMorgan Asset Management (UK) Limited,
Company Secretary

28th March 2013

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 p.m. 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 6.00 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 6.00 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.
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 Auditor's 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 20th March 2013 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 98,455,719 Ordinary shares, carrying one vote each. Therefore the total voting rights in the Company are 98,455,719.

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.

Warning to shareholders - Boiler Room Scams

In recent years, many companies have become aware that their shareholders have been targeted by unauthorised overseas-based brokers selling what turn out to be non-existent or high risk shares, or expressing a wish to buy their shares. If you receive unsolicited investment advice or requests:

- Make sure you get the correct name of the person or organisation
- Check that they are properly authorised by the FSA before getting involved, by visiting www.fsa.gov.uk/pages/register/
- Report the matter to the FSA by calling 0845 606 1234
- If the calls persist, hang up.

More detailed information on this can be found on the Money Advice Service website www.moneyadvice.org.uk

Glossary of Terms and Definitions

Return on Net Assets

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 into the shares of the Company at the NAV per share at the time the shares were quoted ex-dividend.

In accordance with industry practice, dividends payable which have been declared but which are unpaid at the balance sheet date are deducted from the NAV per share when calculating the return on net assets.

Return to Shareholders

Total return to the investor, on a mid-market price to mid-market 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.

Benchmark Return

Total return on the benchmark, on a mid-market value to mid-market value basis, assuming that all dividends received were reinvested, without transaction costs, into the shares of the underlying companies at 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 'track' this index and consequently, there may be some divergence between the Company's performance and that of the benchmark.

Ongoing Charges

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 net assets during the year and is calculated in accordance with guidance issued by the Association of Investment Companies.

The method of calculating the Ongoing Charges (2012: Total Expense Ratio or 'TER') has changed. The TER represented the Company's management fee and all other operating expenses excluding interest, expressed as a percentage of the average of the month end net assets during the year.

Gearing/(Net Cash)

The excess amount above shareholders' funds of total asset less cash and cash equivalents, expressed

as percentage of shareholders' funds. If the amount so calculated is negative, this is shown as a 'net cash' position.

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

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's shares to trade at a discount than at a premium.

Performance Attribution

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

Performance Attribution Definitions:

Asset Allocation

Measures the impact of allocating assets differently to those in the benchmark, via the portfolio's weighting in different countries, 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.

Cash Effect

Measures the impact on relative performance arising from holding cash balances.

Effect of 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.

Interest Expense

The payment of interest has a negative effect on relative performance.

Proposed Dividend - Use of Prior Year Revenue Reserve

Measures the negative effect on relative performance of making dividend distributions in excess of the revenue return after taxation for the year.

Gearing Effect

Measures the impact on relative performance arising from borrowings.

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
Interim Management Statements announced	June/December
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. JPMorgan has been the Company's manager and secretary since its appointment in 1976. 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

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 Independent, 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. They may also be purchased and held through the J.P. Morgan Investment Account, J.P. Morgan ISA and J.P. Morgan SIPP. These products are all available on the online wealth manager service, J.P. Morgan WealthManager+ available at www.jpmorganwealthmanagerplus.co.uk.

Dividend Re-investment Plan

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

Manager and Secretary

JPMorgan Asset Management (UK) Limited

Company's Registered Office

Finsbury Dials
20 Finsbury Street
London EC2Y 9AQ
Telephone number: 020 7742 4000

Please contact Juliet Dearlove for company secretarial and administrative matters.

Custodian

JPMorgan Chase Bank, N.A.
25 Bank Street
Canary Wharf
London E14 5JP

Registrars

Equiniti Limited
Reference 1101
Aspect House
Spencer Way
Lancing
West Sussex BN99 6DA
Telephone number: 0871 384 2329

Calls to this number cost 8p per minute plus network extras. Lines open 8.30 am to 5.30 pm, Monday to Friday. The overseas helpline number is +44 (0)121 415 7047.

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
Oriol Securities Limited
125 Wood Street
London EC2V 7AN

Savings Product Administrators

For queries on the J.P. Morgan Investment Account, J.P. Morgan ISA and J.P. Morgan SIPP, see contact details on the back cover of this report.



The Association of
Investment Companies A member of the AIC

J.P. Morgan Helpline
Freephone 0800 20 40 20 or +44 (0)20 7742 9995

Your telephone call may be recorded for your security

www.mercantileit.co.uk