

# The Mercantile Investment Trust plc

Half Year Report & Accounts for the six months ended 31st July 2014



# 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 with net dividends reinvested.

## Capital Structure

At 31st July 2014, the Company's issued share capital comprised 98,240,719 ordinary shares of 25p each.

At 31st July 2014, 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 Funds Limited ('JPMF') as its Manager and Company Secretary.

## Website

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

## FCA regulation of 'non-mainstream pooled investments'

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

The shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an investment trust.

# Half Year Performance

Total returns (includes dividends reinvested)

**-4.7%**

Return to shareholders<sup>1</sup>

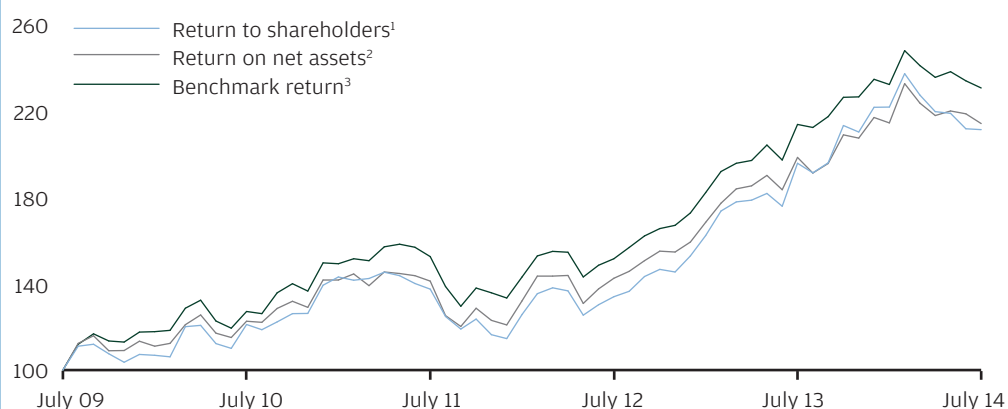
**-0.4%**

Return on net assets<sup>2</sup>

**-0.7%**

Benchmark return<sup>3</sup>

## 5 Year Performance (figures have been rebased to 100 as at 31st July 2009)



## Financial Data

	31st July 2014	31st January 2014	% change
Shareholders' funds (£'000)	1,658,873	1,687,910	-1.7
Number of shares in issue	98,240,719	98,240,719	
Net asset value per share with debt at par value (p)	1,688.6p	1,718.1	-1.7
Net asset value per share with debt at fair value <sup>4</sup> (p)	1,647.1p	1,688.6	-2.5
Net asset value return with dividends reinvested (%)	-0.4%	+27.7%	
Share price (p)	1,454.0p	1,550.0	-6.2
Share price discount to net asset value per share with debt at par value	13.9%	9.8%	
Share price discount to net asset value per share with debt at fair value	11.7%	8.2%	
Gearing/(net cash) <sup>5</sup>	(2.6)%	8.9%	
Ongoing Charges <sup>6</sup>	0.49%	0.48%	

A glossary of terms and definitions is provided on page 16.

<sup>1</sup>Source: Morningstar.

<sup>2</sup>Source: J.P. Morgan.

<sup>3</sup>Source: Russell/Mellon Caps. The Company's benchmark is the FTSE All-Share Index excluding constituents of the FTSE 100 Index and Investment trusts with net dividends reinvested.

<sup>4</sup>The 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.

<sup>5</sup>Gearing 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.

<sup>6</sup>Estimated annualised management fee and all other operating expenses, excluding finance costs, expressed as a percentage of the average of the daily net assets during the period. Ongoing charges are calculated in accordance with guidance issued by the Association of Investment Companies in May 2012.

# Chairman's Statement



## Performance and Market Review

The Company's net asset value total return in the six months to 31st July 2014 was -0.4%, marginally ahead of the return of -0.7% from our benchmark index, the FTSE All-Share, excluding FTSE 100 constituents and investment trusts. The share price return was -4.7% due to an increase in the discount to NAV which occurred during the period in common with a number of other investment trusts.

## Returns and Dividends

The income received from investments in the first half of the current year is lower than that for the half year ended 31st July 2013. The primary reason for the reduction in income is the lower level of gearing employed over the period. This averaged 2.5% over the six month period, compared to an average of 8.1% over the same period last year, reflecting the Investment Managers' caution in the light of material UK and global political event risk and current valuation levels, as explained further in their report on page 4.

A second interim dividend of 8.0 pence per share has been declared by the Board, payable on 31st October 2014 to shareholders on the register at close of business on 3rd October 2014. Together with the first interim dividend of 8.0 pence paid on 1st August 2014 this brings the total dividend for the year to date to 16.0 pence (2013: 16.0 pence). The Board anticipates that there will be a third interim dividend of 8.0 pence to be paid in early February 2015.

The level of the fourth interim dividend will depend on income received by the Company for the balance of the current financial year and a prudent view to be adopted by the Board, taking account of the level of the Company's Revenue Reserve.

## Share Buy Backs

The Board has continued to consider share repurchases in order to enhance the asset value. However, in the six months to 31st July 2014, in accordance with advice from the Company's brokers, no shares were repurchased for cancellation. The discount, cum income with debt at fair value, has ranged between 7.8% and 13.9% in the period from 1st February 2014 to 10th September 2014, with the average discount during the period of 10.8%.

**Alternative Investment Fund Managers Directive ('AIFMD' or 'Directive')**

JPMorgan Funds Limited ('JPMF'), which is authorised by the Financial Conduct Authority as an Alternative Investment Fund Manager, was appointed as Manager and Company Secretary to the Company, effective 1st July 2014. This change of entity does not in any way affect the actual management of the portfolio which will continue to be managed under a delegated authority by JPMorgan Asset Management (UK) Limited. The Company Secretarial support will continue to be conducted as previously. No extra fees are being charged by any JPMorgan entity as a result of the Company's AIFMD obligations.

Although JPMorgan Chase Bank, N.A. will continue as the Company's custodian, the new requirements of a depositary function are now being undertaken by Bank of New York Mellon.

**Outlook**

The UK has continued to recover strongly from the downturn and is now expected to be the fastest growing of the G7 economies in 2014. Despite this progress heightened geopolitical uncertainty has caused equity markets to stall this year as investors weigh up potential tail risks that could hamper recovery.

Notwithstanding these short term considerations, the Board continues to believe that UK mid and small cap companies will continue to deliver strong returns to investors over the longer term.

For and on behalf of the Board

**Hamish Leslie Melville**

Chairman

29th September 2014

# Investment Managers' Report

The previous two years provided exceptional returns for investors in small and medium-sized companies, as the market re-rated in anticipation of an improving economic environment that would facilitate higher company profits. To achieve continued positive returns, the market would thus require delivery of these expectations. Whilst there have clearly been pockets of the market in which this has occurred, in aggregate the key annual results season was somewhat disappointing, and this, coupled with macroeconomic and geopolitical developments, led to market turbulence. Against this background your Company's total return on net assets was -0.4%, which was slightly ahead of the benchmark return for the FTSE All-Share Index excluding FTSE 100 constituents and Investment Trusts, which was -0.7%.

Whilst our views on the long-term attractiveness of investing in small and medium-sized companies remain positive, the higher valuations coupled with an increasing number of exogenous risks led us to reduce gearing for the portfolio from 8.9% geared at 31st January to 2.6% net cash at 31st July 2014. In addition to this change, and as a result of various stock specific opportunities, there was a shift in the mix of the portfolio, with exposure to consumer goods lowered in favour of consumer services. We took some profits from the house builders, reducing our holding from 16.9% of the portfolio at the beginning of the period to 9.5% at 31st July. Conversely, we invested in a number of new issues that are within the consumer services sector, including SSP Group, an operator of food and beverage outlets in travel locations, and several retailers, including B&M European Value Retail, Card Factory and Poundland, each of which are gaining substantial market share with their value-driven offerings.

Since the period end, reflecting the lower valuations and expectations in the market, we have reinvested such that the portfolio is now modestly geared, and we continue to find new investment opportunities. We believe that the favourable dynamics of investing in small and medium-sized companies will drive returns over the long-term.

**Martin Hudson**  
**Guy Anderson**  
**Anthony Lynch**

29th September 2014

# List of Investments

at 31st July 2014

Company	Sector	Value £'000	%
Persimmon	Consumer Goods	62,192	3.9
Serco	Industrials	42,752	2.7
Jardine Lloyd Thompson	Financials	40,005	2.5
Berkeley Group	Consumer Goods	29,513	1.8
SSP Group	Consumer Services	28,032	1.7
TSB Banking Group	Financials	27,950	1.7
Cobham	Industrials	27,512	1.7
Wood Group (John)	Oil & Gas	27,247	1.7
Catlin	Financials	27,073	1.7
Amlin	Financials	26,568	1.7
B&M European Value Retail	Consumer Services	25,515	1.6
Daily Mail & General Trust	Consumer Services	24,218	1.5
Ricardo	Industrials	23,920	1.5
Hiscox	Financials	23,915	1.5
Jupiter Fund Management	Financials	23,592	1.5
Inchcape	Consumer Services	23,148	1.4
Hays	Industrials	22,299	1.4
Taylor Wimpey	Consumer Goods	21,698	1.3
Capital & Counties Properties	Financials	21,304	1.3
Derwent London	Financials	20,162	1.3
Close Brothers	Financials	20,145	1.3
Bodycote	Industrials	19,665	1.2
International Personal Finance	Financials	19,159	1.2
Dixons Retail	Consumer Services	18,612	1.2
IG	Financials	18,605	1.2
Beazley	Financials	18,571	1.2
Hikma Pharmaceuticals	Health Care	18,259	1.1
Morgan Advanced Materials	Industrials	16,470	1.0
Poundland	Consumer Services	16,451	1.0
Carphone Warehouse	Consumer Services	16,398	1.0
Xchanging	Industrials	15,874	1.0
Keller Group	Industrials	15,670	1.0
Card Factory	Consumer Services	15,477	1.0
Intermediate Capital Group	Financials	15,359	1.0
Ladbroke	Consumer Services	14,770	0.9
Brewin Dolphin	Financials	14,601	0.9
Bellway	Consumer Goods	14,431	0.9
Northgate	Industrials	14,420	0.9
MP Evans <sup>1</sup>	Consumer Goods	14,392	0.9
Moneysupermarket.com	Consumer Services	13,853	0.9
Inmarsat	Telecommunications	13,711	0.9
Safecharge International Group <sup>1</sup>	Industrials	13,605	0.8
WH Smith	Consumer Services	13,560	0.8
Greencore	Consumer Goods	13,460	0.8
Go-Ahead Group	Consumer Services	13,131	0.8
Kenmare Resources	Basic Materials	13,056	0.8
De La Rue	Industrials	13,041	0.8
Bovis Homes	Consumer Goods	12,643	0.8
Henderson	Financials	12,545	0.8

## List of Investments continued

Company	Sector	Value £'000	%
Helical Bar	Financials	11,865	0.7
Premier Oil	Oil & Gas	11,852	0.7
CSR	Technology	11,611	0.7
New Britain Palm Oil <sup>1</sup>	Consumer Goods	11,502	0.7
Bowleven <sup>1</sup>	Oil & Gas	11,489	0.7
Rightmove Group	Consumer Services	11,484	0.7
Vernalis <sup>1</sup>	Health Care	11,458	0.7
Man Group	Financials	11,377	0.7
Young & Co's Brewery <sup>1</sup>	Consumer Services	11,325	0.7
3i Group	Financials	11,322	0.7
Atkins (WS)	Industrials	11,081	0.7
Halfords	Consumer Services	11,040	0.7
Fidessa	Technology	10,910	0.7
St Modwen Properties	Financials	10,833	0.7
RPS	Industrials	10,800	0.7
Exova Group	Industrials	10,703	0.7
Pace	Technology	10,477	0.7
Provident Financial	Financials	10,422	0.6
QinetiQ Group	Industrials	10,340	0.6
Premier Farnell	Industrials	10,291	0.6
Hochschild Mining	Basic Materials	10,040	0.6
Advanced Computer Software <sup>1</sup>	Technology	9,992	0.6
Stagecoach	Consumer Services	9,845	0.6
VP	Industrials	9,804	0.6
Cenkos Securities <sup>1</sup>	Financials	9,803	0.6
Spirit Pub	Consumer Services	9,673	0.6
Laird	Technology	9,511	0.6
Savills	Financials	9,370	0.6
Mitchells & Butlers	Consumer Services	9,170	0.6
Zoopla Property Group	Consumer Services	9,072	0.6
Grainger	Financials	8,849	0.6
Ocado Group	Consumer Services	8,808	0.5
Hunting	Oil & Gas	8,717	0.5
Micro Focus International	Technology	8,500	0.5
Lookers	Consumer Services	8,231	0.5
Just Eat	Consumer Services	8,193	0.5
Renold	Industrials	8,177	0.5
Howden Joinery Group	Industrials	8,060	0.5
Shore Capital <sup>1</sup>	Financials	7,912	0.5
Soco International	Oil & Gas	7,894	0.5
Great Portland Estates	Financials	7,765	0.5
SIG	Industrials	7,374	0.5
Dechra Pharmaceuticals	Health Care	7,371	0.5
APR Energy	Industrials	7,336	0.5
Berendsen	Industrials	6,785	0.4
ISG <sup>1</sup>	Industrials	6,489	0.4
Chime Communications	Consumer Services	6,439	0.4
Robert Walters	Industrials	6,436	0.4
Dunelm	Consumer Services	6,319	0.4



Company	Sector	Value £'000	%
Pets At Home Group	Consumer Services	6,241	0.4
Cable & Wireless Communications	Telecommunications	6,171	0.4
Rathbone Brothers	Financials	6,075	0.4
M&C Saatchi <sup>1</sup>	Consumer Services	6,063	0.4
Sports Direct International	Consumer Services	5,941	0.4
Trinity Mirror	Consumer Services	5,933	0.4
Home Retail	Consumer Services	5,164	0.3
Just Retirement Group	Financials	4,985	0.3
Brown (N)	Consumer Services	4,965	0.3
Johnston Press	Consumer Services	4,633	0.3
Electrocomponents	Industrials	4,528	0.3
Mccoll's Retail	Consumer Services	4,379	0.3
Patisserie Holdings <sup>1</sup>	Consumer Services	3,884	0.2
Fusionex International <sup>1</sup>	Technology	3,816	0.2
Saga	Financials	3,763	0.2
Boohoo.Com <sup>1</sup>	Consumer Services	3,703	0.2
Arrow Global	Financials	3,030	0.2
Inspired Capital <sup>1</sup>	Financials	2,992	0.2
Anglo-Eastern Plantations	Consumer Goods	2,941	0.2
Tennants Consolidated <sup>2,3</sup>	Basic Materials	2,889	0.2
Interserve	Industrials	2,828	0.2
Clarke (T)	Industrials	2,718	0.2
Avanta Serviced Office <sup>1</sup>	Industrials	2,450	0.2
Egdon Resources <sup>1</sup>	Oil & Gas	2,350	0.1
Mountview Estates	Financials	2,108	0.1
Channel Islands Property <sup>1</sup>	Financials	2,105	0.1
International Ferro Metals	Basic Materials	2,003	0.1
AO World	Consumer Services	1,954	0.1
Morgan Sindall Group	Industrials	1,827	0.1
Koovs <sup>1</sup>	Consumer Services	1,736	0.1
Senior	Industrials	1,662	0.1
Infrastrata <sup>1</sup>	Oil & Gas	1,590	0.1
Trinity Exploration & Production <sup>1</sup>	Oil & Gas	1,491	0.1
Tethys Petroleum <sup>1</sup>	Oil & Gas	1,386	0.1
Panmure Gordon <sup>1</sup>	Financials	1,191	0.1
Peel Hotels <sup>1</sup>	Consumer Services	917	0.1
Argos Resources <sup>1</sup>	Oil & Gas	694	-
Ithaca Energy <sup>1</sup>	Oil & Gas	548	-
Cluff Natural Resources <sup>1</sup>	Oil & Gas	349	-
Providence Resources <sup>1</sup>	Oil & Gas	171	-
Brookwell <sup>2</sup>	Financials	141	-
<b>Total<sup>4</sup></b>		<b>1,606,981</b>	<b>100.0</b>

<sup>1</sup>AIM listed investment.

<sup>2</sup>Unquoted investment.

<sup>3</sup>Includes a fixed interest investment.

<sup>4</sup>The portfolio comprises investments in equity shares and a fixed interest investment.

# Portfolio Analyses

Listed Equity Market Capitalisation	31st July	31st January
	2014	2014
	%	%
UK FTSE Mid sized	76.5	78.5
UK Smaller and Fledgling	9.4	8.9
UK AIM	9.0	7.0
UK FTSE 100	4.9	5.2
UK Unquoted	0.2	0.3
Overseas	–	0.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Based on total investments of £1,607m (31st January 2014: £1,832m).

Sector Analysis	31st July 2014		31st January 2014	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %
Financials	28.6	24.4	27.6	25.6
Consumer Services	24.1	19.4	15.2	19.0
Industrials	22.2	26.1	19.6	26.0
Consumer Goods	11.3	7.8	18.1	8.2
Oil & Gas	4.5	5.6	5.7	4.7
Technology	4.0	3.8	4.0	3.8
Health Care	2.3	3.3	1.3	2.5
Basic Materials	1.7	5.0	3.8	5.5
Telecommunications	1.3	2.6	3.8	2.7
Utilities	–	2.0	0.9	2.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Based on total investments of £1,607m (31st January 2014: £1,832m).

# Income Statement

for the six months ended 31st July 2014

	(Unaudited) Six months ended 31st July 2014			(Unaudited) Six months ended 31st July 2013			(Audited) Year ended 31st January 2014		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments held at fair value through profit or loss	–	(24,696)	(24,696)	–	221,244	221,244	–	336,198	336,198
Net foreign currency gains/(losses)	–	5	5	–	(13)	(13)	–	(13)	(13)
Income from investments	28,781	–	28,781	31,611	–	31,611	52,385	–	52,385
Other interest receivable and similar income	305	–	305	697	–	697	719	–	719
<b>Gross return/(loss)</b>	<b>29,086</b>	<b>(24,691)</b>	<b>4,395</b>	<b>32,308</b>	<b>221,231</b>	<b>253,539</b>	<b>53,104</b>	<b>336,185</b>	<b>389,289</b>
Management fee	(1,139)	(2,658)	(3,797)	(922)	(2,150)	(3,072)	(1,986)	(4,633)	(6,619)
Other administrative expenses	(439)	–	(439)	(383)	–	(383)	(859)	–	(859)
<b>Net return on ordinary activities before finance costs and taxation</b>	<b>27,508</b>	<b>(27,349)</b>	<b>159</b>	<b>31,003</b>	<b>219,081</b>	<b>250,084</b>	<b>50,259</b>	<b>331,552</b>	<b>381,811</b>
Finance costs	(1,685)	(3,925)	(5,610)	(1,647)	(3,843)	(5,490)	(3,301)	(7,703)	(11,004)
<b>Net return/(loss) on ordinary activities before taxation</b>	<b>25,823</b>	<b>(31,274)</b>	<b>(5,451)</b>	<b>29,356</b>	<b>215,238</b>	<b>244,594</b>	<b>46,958</b>	<b>323,849</b>	<b>370,807</b>
Taxation (note 4)	(15)	–	(15)	(17)	–	(17)	(312)	–	(312)
<b>Net return/(loss) on ordinary activities after taxation</b>	<b>25,808</b>	<b>(31,274)</b>	<b>(5,466)</b>	<b>29,339</b>	<b>215,238</b>	<b>244,577</b>	<b>46,646</b>	<b>323,849</b>	<b>370,495</b>
<b>Return/(loss) per share (note 5)</b>	<b>26.27p</b>	<b>(31.83)p</b>	<b>(5.56)p</b>	<b>29.84p</b>	<b>218.93p</b>	<b>248.77p</b>	<b>47.46p</b>	<b>329.52p</b>	<b>376.98p</b>

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

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.

# Reconciliation of Movements in Shareholders' Funds

for the six months ended 31st July 2014 (unaudited)

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
<b>At 31st January 2014</b>	24,560	23,459	12,210	1,592,851	34,830	1,687,910
Net return on ordinary activities	–	–	–	(31,274)	25,808	(5,466)
Dividends appropriated in the period	–	–	–	–	(23,571)	(23,571)
<b>At 31st July 2014</b>	24,560	23,459	12,210	1,561,577	37,067	1,658,873

Six months ended 31st July 2013 (unaudited)

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
<b>At 31st January 2013</b>	24,614	23,459	12,156	1,271,741	29,463	1,361,433
Repurchase and cancellation of the Company's own shares	(54)	–	54	(2,739)	–	(2,739)
Net return on ordinary activities	–	–	–	215,238	29,339	244,577
Dividends appropriated in the period	–	–	–	–	(25,561)	(25,561)
<b>At 31st July 2013</b>	24,560	23,459	12,210	1,484,240	33,241	1,577,710

Year ended 31st January 2014 (audited)

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
<b>At 31st January 2013</b>	24,614	23,459	12,156	1,271,741	29,463	1,361,433
Repurchase and cancellation of the Company's own shares	(54)	–	54	(2,739)	–	(2,739)
Net return on ordinary activities	–	–	–	323,849	46,646	370,495
Dividends appropriated in the year	–	–	–	–	(41,279)	(41,279)
<b>At 31st January 2014</b>	24,560	23,459	12,210	1,592,851	34,830	1,687,910

# Balance Sheet

at 31st July 2014

	(Unaudited) 31st July 2014 £'000	(Unaudited) 31st July 2013 £'000	(Audited) 31st January 2014 £'000
<b>Fixed assets</b>			
Investments held at fair value through profit or loss	1,606,981	1,753,615	1,831,759
<b>Current assets</b>			
Derivative financial instruments	–	–	1
Debtors	28,540	9,936	16,925
Cash and short term deposits	220,594	5,320	27,211
	249,134	15,256	44,137
<b>Creditors: amounts falling due within one year</b>	(19,907)	(13,923)	(10,699)
<b>Net current assets</b>	229,227	1,333	33,438
<b>Total assets less current liabilities</b>	1,836,208	1,754,948	1,865,197
<b>Creditors: amounts falling due after more than one year</b>	(177,335)	(177,238)	(177,287)
<b>Net assets</b>	1,658,873	1,577,710	1,687,910
<b>Capital and reserves</b>			
Called up share capital	24,560	24,560	24,560
Share premium	23,459	23,459	23,459
Capital redemption reserve	12,210	12,210	12,210
Capital reserves	1,561,577	1,484,240	1,592,851
Revenue reserve	37,067	33,241	34,830
<b>Shareholders' funds</b>	1,658,873	1,577,710	1,687,910
<b>Net asset value per share (note 6)</b>	1,688.6p	1,606.0p	1,718.1p

Company registration number 20537

# Cash Flow Statement

for the six months ended 31st July 2014

	(Unaudited) Six months ended 31st July 2014 £'000	(Unaudited) Six months ended 31st July 2013 £'000	(Audited) Year ended 31st January 2014 £'000
Net cash inflow from operating activities (note 7)	23,074	25,357	44,648
Net cash outflow from servicing of finance	(5,528)	(5,425)	(10,892)
Overseas tax recovered	27	–	–
Net cash inflow/(outflow) from capital expenditure and financial investment	199,377	(124,719)	(100,935)
Dividends paid	(23,571)	(25,561)	(41,279)
Net cash (outflow)/inflow from management of liquid resources	(193,300)	–	112,800
Net cash outflow from financing	–	(4,198)	(4,196)
<b>Increase/(decrease) in cash in the period</b>	<b>79</b>	<b>(134,546)</b>	<b>146</b>
<b>Reconciliation of net cash flow to movement in net funds/(debt)</b>			
Increase/(decrease) in cash in the period	79	(134,546)	146
Net cash inflow/(outflow) from management of liquid resources	193,300	–	(112,800)
Exchange movements	4	(13)	(14)
Other movements	(48)	(48)	(97)
Changes in net funds/(debt) arising from cash flows	193,335	(134,607)	(112,765)
Net debt at the beginning of the period	(150,076)	(37,311)	(37,311)
<b>Net funds/(debt) at the end of the period</b>	<b>43,259</b>	<b>(171,918)</b>	<b>(150,076)</b>
<b>Represented by:</b>			
Cash and short term deposits	220,594	5,320	27,211
Debentures falling due after more than five years	(177,335)	(177,238)	(177,287)
<b>Net funds/(debt)</b>	<b>43,259</b>	<b>(171,918)</b>	<b>(150,076)</b>

# Notes to the Accounts

for the six months ended 31st July 2014

## 1. Financial Statements

The information contained within the accounts in this half year report has not been audited or reviewed by the Company's auditors.

The figures and financial information for the year ended 31st January 2014 are extracted from the latest published accounts of the Company and do not constitute statutory accounts for that year. Those accounts have been delivered to the Registrar of Companies including the report of the auditors which was unqualified and did not contain a statement under either section 498(2) or 498(3) of the Companies Act 2006.

## 2. Accounting policies

The accounts have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice and with the Statement of Recommend Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued in January 2009.

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

The accounting policies applied to these interim accounts are consistent with those applied in the accounts for the year ended 31st January 2014.

## 3. Dividends

	(Unaudited) Six months ended 31st July 2014 £'000	(Unaudited) Six months ended 31st July 2013 £'000	(Audited) Year ended 31st January 2014 £'000
Unclaimed dividends refunded to the Company	(7)	(8)	(8)
Fourth quarterly dividend of 16.0p (2013: 18.0p) paid to shareholders in May	15,719	17,710	17,710
First quarterly dividend of 8.0p (2013: 8.0p) paid to shareholders in August	7,859	7,859	7,859
Second quarterly dividend of 8.0p paid to shareholders in November	n/a	n/a	7,859
Third quarterly dividend of 8.0p paid to shareholders in January	n/a	n/a	7,859
	23,571	25,561	41,279

A second quarterly dividend of 8.0p (2013: 8.0p) per share, amounting to £7,859,000 (2013: £7,859,000), has been declared payable in respect of the six months ended 31st July 2014.

## 4. Taxation

The Company's effective corporation tax rate is nil, as deductible expenses exceed taxable income. The tax charge comprises overseas withholding tax.

## Notes to the Accounts continued

### 5. Return per share

	(Unaudited) Six months ended 31st July 2014 £'000	(Unaudited) Six months ended 31st July 2013 £'000	(Audited) Year ended 31st January 2014 £'000
(Loss)/return per share is based on the following:			
Revenue return	25,808	29,339	46,646
Capital (loss)/return	(31,274)	215,238	323,849
<b>Total (loss)/return</b>	<b>(5,466)</b>	<b>244,577</b>	<b>370,495</b>
Weighted average number of shares in issue	98,240,719	98,314,946	98,277,527
Revenue return per share	26.27p	29.84p	47.46p
Capital (loss)/return per share	(31.83)p	218.93p	329.52p
<b>Total (loss)/return per share</b>	<b>(5.56)p</b>	<b>248.77p</b>	<b>376.98p</b>

### 6. Net asset value per share

Net asset value per share is calculated by dividing shareholders' funds by the number of shares in issue at 31st July 2014 of 98,240,719 (31st July 2013: 98,240,719 and 31st January 2014: 98,240,719).

### 7. Reconciliation of net return on ordinary activities before finance costs and taxation to net cash inflow from operating activities

	(Unaudited) Six months ended 31st July 2014 £'000	(Unaudited) Six months ended 31st July 2013 £'000	(Audited) Year ended 31st January 2014 £'000
Net return on ordinary activities before finance costs and taxation	159	250,084	381,811
Less capital loss/(return) on ordinary activities before finance costs and taxation	27,349	(219,081)	(331,552)
Scrip dividends received as income	—	—	(25)
Increase in net debtors and accrued income	(1,404)	(2,679)	(75)
Decrease in accrued expenses and other debtors	(61)	(243)	(200)
Management fee charged to capital	(2,658)	(2,470)	(4,953)
Overseas withholding tax	(311)	(254)	(358)
<b>Net cash inflow from operating activities</b>	<b>23,074</b>	<b>25,357</b>	<b>44,648</b>



# Interim Management Report

The Company is required to make the following disclosures in its half year report.

## Principal Risks and Uncertainties

The principal risks and uncertainties faced by the Company fall into the following broad categories: investment and strategy; market; accounting, legal and regulatory; corporate governance and shareholder relations; operational and financial. Information on each of these areas is given in the Directors' Report within the Annual Report and Accounts for the year ended 31st January 2014.

## Related Parties Transactions

During the first six months of the current financial year, no transactions with related parties have taken place which have materially affected the financial position or the performance of the Company.

## Going Concern

The Directors believe, having considered the Company's investment objectives, risk management policies, capital management policies and procedures, 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 there is sufficient evidence to continue to adopt the going concern basis in preparing the accounts.

## Directors' Responsibilities

The Board of Directors confirms that, to the best of its knowledge:

- (i) the condensed set of financial statements contained within the half year financial report has been prepared in accordance with the Accounting Standards Board's Statement 'Half Year Financial Reports'; and
  - (ii) the interim management report includes a fair review of the information required by 4.2.7R and 4.2.8R of the UK Listing Authority Disclosure and Transparency Rules.
- In order to provide these confirmations, and in preparing these financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
  - make judgements and accounting estimates that are reasonable and prudent;
  - state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
  - prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business;
- and the Directors confirm that they have done so.
- For and on behalf of the Board.

**Hamish Leslie Melville**  
Chairman

29th September 2014

# Glossary of Terms and Definitions

## 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, in the shares of the Company at the time the shares were quoted ex-dividend.

## 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 in 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 total return on net assets.

## 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, in the shares of the underlying companies at the time the shares were quoted ex-dividend.

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

## Share price discount/premium to net asset value ('NAV')

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.

## Financial Conduct Authority

### Beware of share fraud

**Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. While high profits are promised, if you buy or sell shares in this way you will probably lose your money.**

#### How to avoid share fraud

- 1 Keep in mind that firms authorised by the FCA are unlikely to contact you out of the blue with an offer to buy or sell shares.
- 2 Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
- 3 Check the Financial Services Register from [www.fca.org.uk](http://www.fca.org.uk) to see if the person and firm contacting you is authorised by the FCA.
- 4 Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
- 5 Use the firm's contact details listed on the Register if you want to call it back.
- 6 Call the FCA on **0800 111 6768** if the firm does not have contact details on the Register or you are told they are out of date.
- 7 Search the list of unauthorised firms to avoid at [www.fca.org.uk/scams](http://www.fca.org.uk/scams).
- 8 Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
- 9 Think about getting independent financial and professional advice before you hand over any money.
- 10 **Remember:** if it sounds too good to be true, it probably is!



In association with:  
**icsa.**  
 Registrars  
 Group

#### Report a scam

If you are approached by fraudsters please tell the FCA using the share fraud reporting form at [www.fca.org.uk/scams](http://www.fca.org.uk/scams), where you can find out more about investment scams.

You can also call the FCA Consumer Helpline on **0800 111 6768**.

If you have already paid money to share fraudsters you should contact Action Fraud on **0300 123 2040**.

**5,000 people contact the Financial Conduct Authority about share fraud each year, with victims losing an average of £20,000**

# Information about the Company

## Financial Calendar

Financial year end	31st January
Final results announced	April
Half year end	31st July
Half year results announced	September
Interim Management Statements announced	May/November
Dividends on ordinary shares paid	*1st August, 1st November, 1st February, 1st May
Interest on 4.25% perpetual debenture stock paid	1st June, 1st December
Annual General Meeting	April/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.

## Directors

Hamish Leslie Melville (Chairman)  
Helen James  
Harry Morley  
Sandy Nairn  
Ian Russell  
Jeremy Tigue

## 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 Scotsman, and on the JPMorgan Internet site at [www.mercantileit.co.uk](http://www.mercantileit.co.uk), where the share price is updated every fifteen minutes during trading hours.

## Website

[www.mercantileit.co.uk](http://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](http://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 Company Secretary**  
JPMorgan Funds Limited

## Company's Registered Office

60 Victoria Embankment  
London EC4Y 0JP  
Telephone number: 020 7742 4000  
Please contact Juliet Dearlove for company secretarial and administrative matters.

## Depositary

BNY Mellon Trust and Depositary (UK) Limited  
BNY Mellon Centre  
160 Queen Victoria Street  
London EC4V 4LA  
The Depositary employs JPMorgan Chase Bank, NA, as the Company's custodian.

## 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 charges. Other providers' costs may vary. 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](http://www.shareview.co.uk).

## Independent Auditors

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

## Brokers

Cenkos Securities plc 6, 7, 8 Tokenhouse Yard London EC2R 7AS	Winterflood Securities Limited The Atrium Building Canon Bridge House 25 Dowgate Hill London EC4R 2GA
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## 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.



JPMorgan 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](http://www.mercantileit.co.uk)