The Mercantile Investment Trust plc

Annual Report & Accounts for the year ended 31st January 2015

J.P.Morgan
Asset Management

Features

Contents

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 January 2015 the Company's share capital comprised 97,704,635 ordinary shares of 25p each.

At 31st January 2015, 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
During the year under review until 30th June 2014, the Company employed JPMorgan Asset Management (UK) Limited ('JPMAM') to manage its assets. With effect from 1st July 2014, JPMorgan Funds Limited ('JPMF') was appointed Manager, following its approval as an Alternative Investment Fund Manager by the Financial Conduct Authority. JPMF delegates the management of the Company's portfolio to JPMAM.

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.

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 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.

Financial Highlights

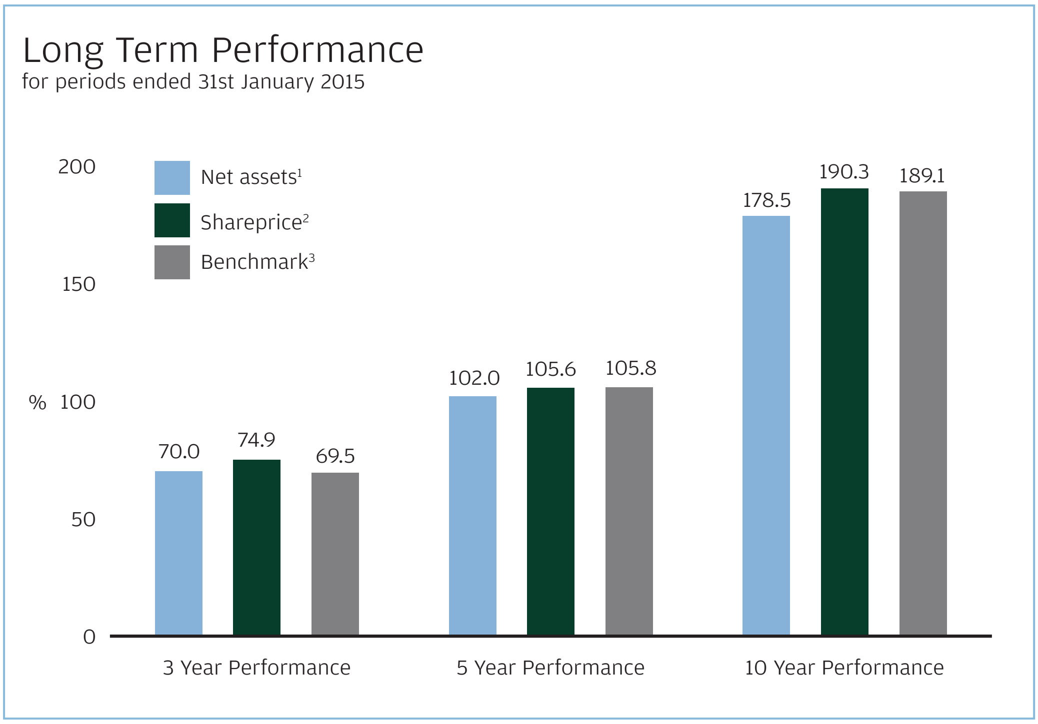
Total returns (includes dividends reinvested)

+4.4%
Return on net assets[1]
(2014: +27.7%)

-0.7%
Return to shareholders[2]
(2014: +36.6%)

+4.6%
Benchmark[3]
(2014: +27.5%)

41.0p
Dividend
(2014: 40.0p)



A glossary of terms and definitions is provided on page 66.

[1]Source: J.P. Morgan, using net asset value per share with debt at par value.

[2]Source: Morningstar.

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

Strategic Report

Chairman's Statement

Over the year to 31st January 2015, performance was slightly disappointing. The Managers marginally underperformed the Company's benchmark with a return of 4.4% against 4.6% for the benchmark. Share price total return was –0.7%.

Returns and Dividends

Earnings per share reduced over the year, from 47.5p to 42.1p, following lower revenue against the previous year. This reduction has resulted from changes in the portfolio, a lowering of special dividend receipts and the level of gearing employed.

The Company has paid three interim dividends of 8.0p per ordinary share, and the Directors have declared a fourth quarterly interim dividend of 17.0p, giving a total dividend of 41.0p for the year, an increase on last year's dividend of 40.0p. The yield continues to compare favourably with the Company's small and mid cap investing peers.

In order to even out the flow of dividends paid during the year, the Board intends to increase the level of each of the three interim dividends from 8.0p to 10.0p per ordinary share throughout the current year ending 31st January 2016. This is a rebalancing exercise and will not necessarily result in an increased total amount for the year. The level of the fourth 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. The Board recognises the importance of a strong revenue reserve in protecting the dividend flow for shareholders. The Company continues to receive an inflow of special dividends and to the extent that they are not distributed, they will assist in strengthening the balance sheet.

Share Buy backs and Discount

During the year under review a total of 536,084 shares were repurchased for cancellation, amounting to 0.55% of issued share capital at the beginning of the year, at a total cost of £7.93 million. Share buy backs during the year under review have added approximately 1.3p to the net asset value per share.

The Board's objective continues to be 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 discount widened during the year from 9.8% to 14.6%, in common with many of our peers. 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 net cash of 0.9%. During the year the gearing varied between 8.7% geared and 3.7% net cash. It is the Board's intention to continue to operate within the range of 10% net cash to 20% geared, under normal market conditions. Gearing is regularly discussed between the Board and the Investment Manager. In addition to the Company's debenture gearing, the Company took out a three year bank facility on 6th November 2013 of £50 million, with Scotiabank Ireland.

Board

I am delighted that Sandy Nairn has agreed to take on the role of the Senior Independent Director, with effect from 3rd December 2014.

Harry Morley was appointed a Director at the conclusion of the 2014 Annual General Meeting, and he will stand for election at the forthcoming AGM. It is planned that he will become Chairman of the Audit Committee from the conclusion of the forthcoming AGM.

I would particularly like to thank Ian Russell on behalf of the Board for the excellent work he has performed as Chairman of the Audit Committee, a role which he has carried out with distinction for eight years.

All other Directors will stand for annual re-election, in line with the Company's policy. I refer you to the Directors' biographies on pages 22 and 23 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 the structure of the Board and the Board's performance each year, which is compiled into a report to the Nomination Committee which in turn reports its conclusions to the Board. An external facilitator was used in 2014, details of which are set out in the Corporate Governance Report.

Investment Managers

During the year under review, the Company's investment management team appointed by J.P. Morgan comprised Martin Hudson, Guy Anderson and Anthony Lynch. Since the year end some changes have been implemented, resulting in Guy Anderson and Martin Hudson each taking responsibility for 50% of the portfolio and Guy Anderson taking responsibility for communications with the Board. Anthony Lynch works across the whole portfolio. They are supported by Tim Lewis, an analyst, as well as the J.P. Morgan Asset Management European Equity Group. These changes have been put in place by J.P. Morgan as part of a planned evolutionary process of 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 ninth Annual General Meeting will be held at Trinity House, Tower Hill, London EC3N 4DH on Wednesday 20th May 2015 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 J.P. Morgan. I look forward to seeing as many of you as possible at the meeting.

Outlook

Following two years of exceptional returns, last year saw volatility increase and markets consolidate gains as geopolitical events took centre stage, overshadowing the UK economy's strongest year since before the recession. Looking forward it now seems that the recent decline in the oil price and ongoing excess supply issues are likely to be a net positive for the UK domestic economy and in particular should favour smaller companies over the FTSE 100 which is more heavily weighted towards natural resource companies.

Global GDP growth by contrast has continued to disappoint, with conflict in Ukraine, Greek economic instability and slowing growth in China all concerning investors. Central banks have increasingly looked to further rate cuts and quantitative easing in order to stimulate economies and avoid deflation.

In the UK, companies and investors have already moved their focus to what is currently being described as the most uncertain General Election in almost a century. Although the Company has remained virtually ungeared since the year end, the Managers feel there are likely to be opportunities for enhanced stock picking and utilising the Company's gearing in the coming 12 months.

Hamish Leslie Melville
Chairman 27th March 2015

For further information, please contact:
Juliet Dearlove
For and on behalf of
JPMorgan Funds Limited – Company Secretary
020 7742 4000

Strategic Report – continued

Investment Managers' Report

Contributions to total returns in the year ended 31st January 2015

	%
Benchmark total return	4.6
Stock/Asset – selection/allocation	1.2
Cost of Gearing/Cash effect	-0.4
Effect of Management fee/Other Expenses	-0.5
Cost of debentures	-0.6
Repurchase of shares for cancellation	0.1
Return on net assets	4.4
Effect of increase in discount	-5.1
Return to shareholders	-0.7

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 66.

Market Background

Last year was a turbulent, but ultimately positive, year for the UK equity market. The preceding two years had 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 through calendar year 2014, the market would thus require delivery of these expectations. Against this background, and given the broader macroeconomic and geopolitical uncertainties, an increase in volatility was thus anticipated.

The key annual results season through the first quarter of the year was disappointing, and this, combined with political uncertainty, speculation about when interest rates would rise and global deflationary pressure halted further market progress. In addition, renewed investor interest in larger companies following bid approaches from the US for Shire and AstraZeneca, marked the beginning of a six month period through which the small and medium-sized companies underperformed the broader market.

The market remained volatile through the summer, before weakening substantially in September and October after a string of disappointing economic indicators at home and abroad, a lull in the domestic housing recovery, global deflationary pressures and lingering uncertainty over Central Bank actions around the world. In addition, the US enforced new laws prohibiting tax inversion deals, reducing the financial logic for a number of takeovers of UK firms and this became reflected in share prices, particularly among larger pharmaceuticals companies.

In the final quarter of the year, small and medium-sized companies rallied, supported by weakening oil prices. As a net importer of resources, lower prices have provided an unexpected boost to UK GDP projections. Furthermore, it has had the additional effect of lowering inflation projections, increasing the likelihood of interest rates being held lower for longer. Given their lower relative commodity exposure, small and medium-sized companies also outperformed their larger peers through this period, regaining much of the earlier underperformance.

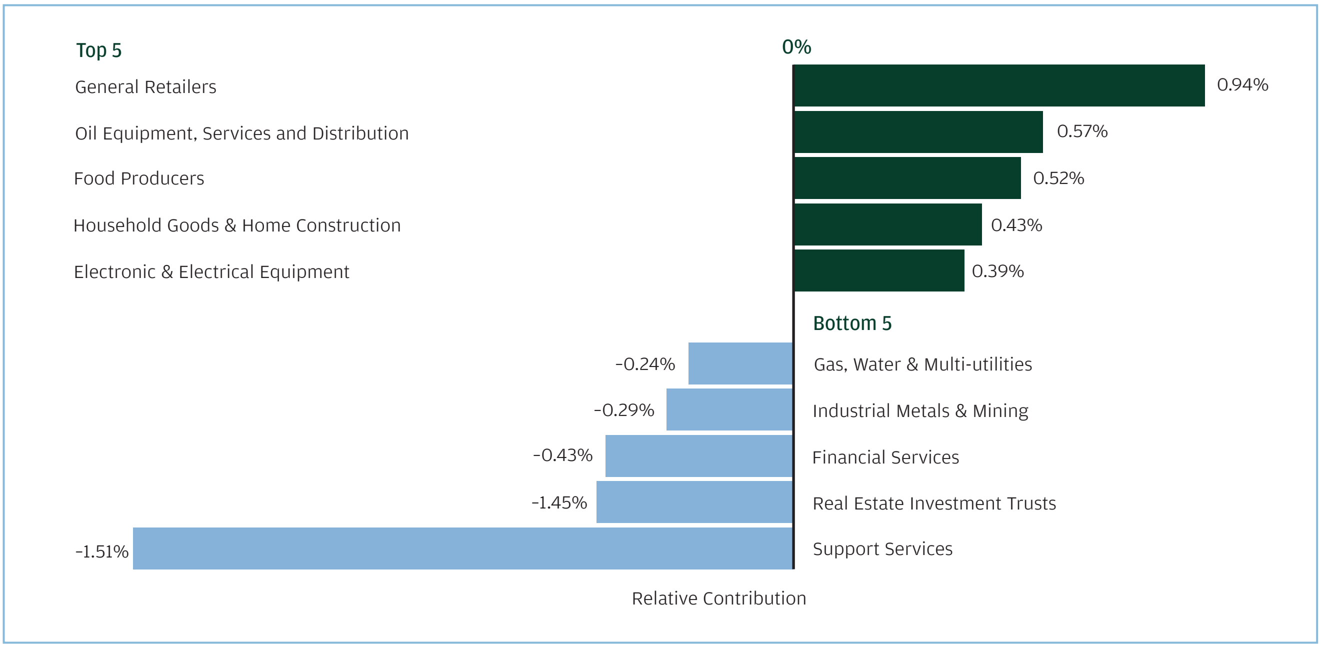
Portfolio Performance

Your Company produced a total return on net assets of 4.4% for the year ended 31st January 2015. This compares to the Company's benchmark, the FTSE All-Share index excluding FTSE 100 constituents and investment companies, which returned 4.6%. The Company's discount to its net asset value widened through the year, resulting in a return to shareholders of –0.7%.

Earnings per share for the year fell to 42.1p (2014: 47.5p) reflecting a reduced level of income received from investments. This was primarily due to three factors. First, ordinary dividends collected by the fund fell as the portfolio was repositioned towards a number of recent new issues that did not pay full dividends for the year. Secondly, special dividends fell as we reduced our position in Housebuilders, a number of which have been returning significant amounts of cash. Thirdly, the portfolio was in aggregate less geared through the year, which affects the amount of dividends collected.

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, whilst the blue bars to the left show the negative relative contributors.

Sector Performance Contribution Analysis, Year to 31st January 2015



Source: J.P. Morgan Asset Management, B-One.

The largest positive contributor to performance was our overweight position in the General Retailers sector. This was a sector to which we added exposure as the year progressed, reflecting primarily stock specific opportunities, including several new issues, but also motivated by an increasingly positive view of the outlook for UK consumer spending, resulting from projected increases in household cash flows. Dixons Carphone was the largest positive contributor to the fund, and resulted from the merger of two of our existing holdings. We viewed both the financial and strategic rationale for the transaction as compelling, and this remains a significant holding.

Our negative positioning in the Oil Equipment, Services and Distribution sector contributed positively as the share prices of a number of companies which we do not hold, including Amec Foster Wheeler, were impacted by the rapidly declining oil price through the fourth quarter. Having been the largest negative contributor last year, food producers also performed well, principally due to the performance of New Britain Palm Oil which agreed to a takeover approach at an 85% premium.

The largest detractor from performance was the Support Services sector, driven by our holding in Serco, which is no longer held. This investment was made based upon the expectation that whilst it would take time, the new management team would successfully restructure the business, re-establish its position as a UK government outsourcer, and generate significant improvements to profits and cash flows. In the event, the problems uncovered were greater than anticipated, necessitating an expected substantial capital raise and lowering our long-term financial expectations for the business and thus impairing its value.

Portfolio Positioning

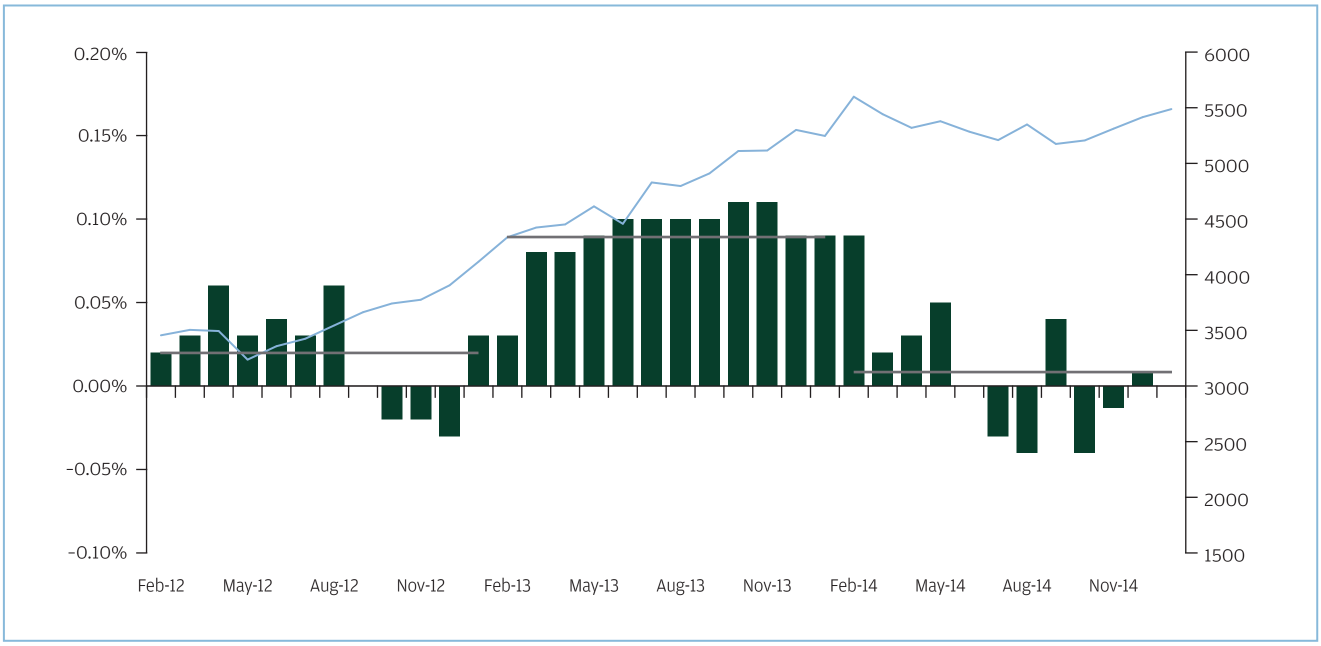
The investment managers have the flexibility to operate within a gearing range of 10% net cash to 20% geared, with a more specific tactical range agreed regularly with the Board. Following two years of exceptional market returns and during which your Company benefitted from being geared, reflecting our

Strategic Report – continued

Investment Managers' Report – continued

expectations of a more volatile environment (as explained above) gearing was reduced such that for the majority of the year the portfolio remained fully invested, albeit un-geared. This is illustrated in the chart below, which shows the level of gearing on the left axis, against market levels on the right axis, for the past three years.

Gearing vs. Benchmark Return, 3 years



Month end gearing levels – LHS.

Fiscal year average.

FTSE All-Share ex 100 ex IT (total return index) – RHS.

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

The portfolio continues to be diversified across all sectors and comprises 131 stocks, of which 86 are mid-sized and 45 are smaller companies, which by value account for 17% of the portfolio. The ten largest investments represent approximately 19% of net assets.

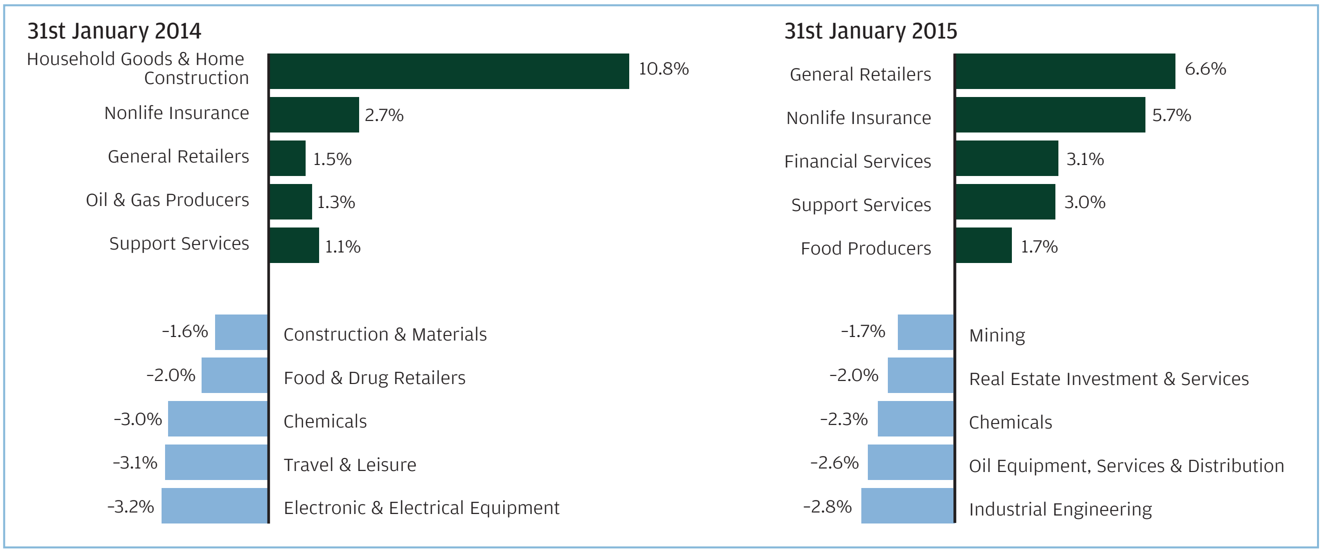
This was a year of significant change for the portfolio, as we recycled capital out of some of our longstanding investments into new ideas. This can be seen from the ten largest holdings, as shown on page 12, as Jardine Lloyd Thompson is the only one that featured last year.

Our significant position in the Housebuilders, which accounted for six of the ten largest holdings last year, was reduced following several years of market outperformance. In addition, following promotion into the FTSE 100, we exited in full from our holdings in Mondi and St. James's Place. New investments were sourced from our existing universe of stocks, such as William Hill and First Group, and from the new issues that came to market, such as SSP Group, TSB Banking Group and B&M European Value Retail. The other new entrants to the top ten were already substantial holdings within the portfolio.

The overall changes to the positioning of the portfolio are illustrated in the table below, which shows how the portfolio's exposure has shifted such that the General Retailers sector is now the largest overweight sector. This reflects bottom-up stock selection combined with a top-down view that UK cyclical indicators, such as employment trends, wage growth and the oil price, are positive for consumers. This overweight position of domestic consumer stocks is funded by underweight positions in resources and resource exposed industries, where the outlook is currently weaker, given the rapid falls in commodity prices towards the end of last year.

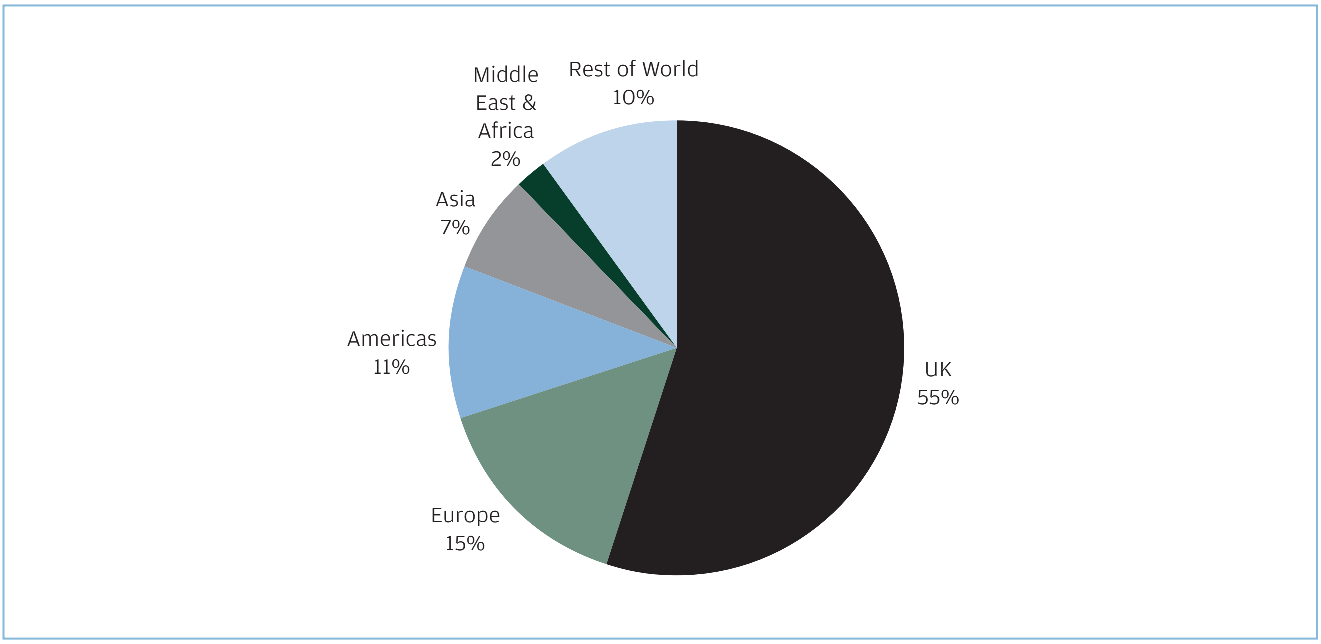
Top 10 Sector Active Positions

Portfolio weights relative to the benchmark weight, January 2014 and January 2015



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

Geographic Revenue Exposures



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

The pie chart above shows, by geography, where the revenues of the companies in which the portfolio is invested are generated. Whilst more than half of this revenue is derived from the UK, there is still material exposure to international growth opportunities through UK quoted mid and small sized companies. Whilst, for example, the focus of the general retailers is in the UK domestic market, the portfolio's investments in insurance, manufacturing, telecommunications and food ingredients companies provide broad international exposure.

Strategic Report – continued

Investment Managers' Report – continued

Outlook

There were a number of events in 2014 that shaped how the overall market and individual stocks performed. In hindsight, the surprise decision of OPEC, driven by Saudi Arabia, to hold crude oil production levels unchanged was certainly one of the more significant. This decision led to a 40% fall in the price of crude oil in just two months, resulting in a near 60% fall from the peak of $115 per barrel of Brent crude in June to the trough of $46 in January. All market changing events have repercussions, but this was the catalyst for an accelerated shift in the shape of the portfolio (as outlined above), and informs our outlook for the current year.

The UK is a net importer of energy and whilst there are a multitude of second order effects, this reduction in import costs is positive for the UK consumer and for UK GDP. The price of commodities declining has a temporary downward effect on inflation, which in turn has two clear derivatives. First, it increases the likelihood of consumers experiencing real wage growth for the first time in the last five years. Second, it pushes out, for a period of time, the point at which interest rate tightening will commence. The combination of these factors has made us incrementally more positive on the outlook for household cash flows and consumer discretionary expenditure, and consequently for those companies, such as retailers, that will benefit from this directly.

Conversely, this dramatic fall in the price of crude oil is negative for those companies that are positively correlated to the commodity price. As a result, and given our view that this is not yet fully reflected in valuations and earnings expectations, we are currently negatively positioned in energy and related industries. However this situation is monitored closely, as a time will come when it will be prudent to reverse this positioning.

In addition to the factors above that are most clearly and directly influencing current portfolio positioning, there are many other elements that affect your Company's overall exposure to the market. The timing of the US interest rate cycle, the EU entering a period of Quantitative Easing and thus driving demand for higher risk assets in the search for yield, the growing geopolitical tensions with Russia or across the Middle East, and the unusually uncertain outcome from the UK General Election are a few such factors.

While viewing the next 12 months with more optimism we remain cognisant of such exogenous risks, and so the portfolio is fully invested but un-geared. This leaves capacity to deploy further capital into the market in the event of increased volatility presenting an opportunity, as confidence in growth increases or as these risks unwind.

We believe that the favourable dynamics of investing in small and medium-sized companies will continue to drive superior returns over the long-term.

Guy Anderson
Martin Hudson
Anthony Lynch
Investment Managers

27th March 2015

Summary of Results

	2015	2014	
Total returns for the year ended 31st January			
Return on net assets[1]	+4.4%	+27.7%	
Return to shareholders[2]	-0.7%	+36.6%	
Benchmark[3]	+4.6%	+27.5%	
Net asset value and discount at 31st January			% change
Shareholders' funds (£'000)	1,713,096	1,687,910	+1.5
Net asset value per share with debt at par value	1,753.3p	1,718.1p	+2.0
Net asset value per share with debt at fair value[4]	1,678.8p	1,688.6p	-0.6
Share price discount to net asset value with debt at par value	14.6%	9.8%	
Share price discount to net asset value with debt at fair value[4]	10.8%	8.2%	
Market Data			
FTSE All-Share Index (capital only) (excluding FTSE 100 Index constituents and investment trusts)[5]	3,359.5	3,299.2	+1.8
Share price	1,498.0p	1,550.0p	-3.4
Ordinary shares in issue	97,704,635	98,240,719	
Revenue for the year ended 31st January			
Net revenue available for shareholders (£'000)	41,352	46,646	-11.3
Return per share	42.1p	47.5p	-11.4
Dividend per share	41.0p	40.0p	+2.5
Ongoing Charges[6]	0.49%	0.48%	
Gearing[7]	-0.9%	8.9%	

A glossary of terms and definitions is provided on page 66.

[1]Source: J.P. Morgan.

[2]Source: Morningstar.

[3]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.

[4]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.

[5]Source: Datastream.

[6]Ongoing charges represents the management fee and all other operating expenses excluding finance costs, expressed as a percentage of the average daily net assets during the year and are calculated in accordance with guidance issued by the Association of Investment Companies in May 2012.

[7]Gearing represents the excess amount above shareholders' funds of total assets expressed as a percentage of the shareholders' funds. Total assets include total investments and net current assets/liabilities less cash/cash equivalents and excluding bank loans of less than one year. If the amount calculated is negative, this is shown as a 'net cash' position.

Strategic Report – continued

Performance

Ten Year Performance

Figures have been rebased to 100 at 31st January 2005

The Mercantile – net asset value total return.

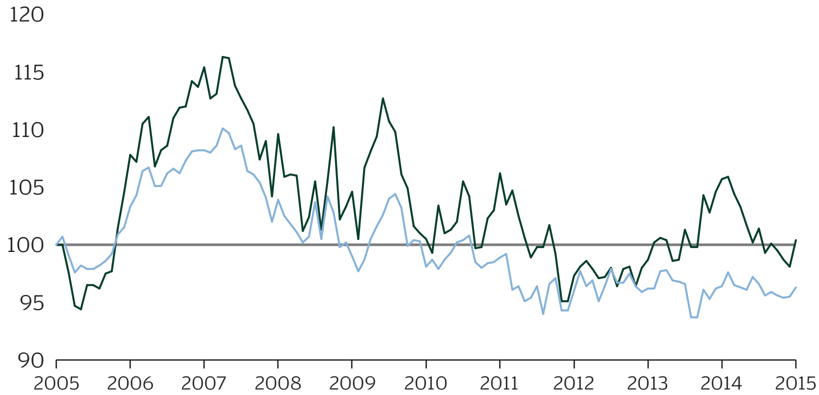
The Mercantile – share price total return.

Benchmark.

Source: Morningstar, Russell/Mellon CAPS.

Performance relative to Benchmark

Figures have been rebased to 100 at 31st January 2005



The Mercantile – net asset value total return.

The Mercantile – share price total return.

The benchmark is represented by the grey horizontal line.

Source: Morningstar, Russell/Mellon CAPS.

Ten Year Financial Record

At 31st January	2005[1]	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total assets less current liabilities (£'m)	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	1,865.2	1,890.5
Net asset value per share (p)	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	1,718.1	1,753.3
Share price (p)	713.5	965.0	1,258.0	1,020.0	592.5	860.0	1,109.0	940.0	1,171.0	1,550.0	1,498.0
Year to 31st January											
Gross revenue (£'000)	34,970	39,899	45,493	51,684	51,750	32,248	32,237	37,384	37,447	53,104	48,136
Revenue available for shareholders (£'000)	24,820	29,373	35,043	44,345	43,028	23,703	26,769	31,555	31,643	46,646	41,352
Return per share (p)	18.3	21.8	27.5	39.8	41.7	23.2	26.9	31.9	32.1	47.5	42.1
Dividend per share (net) (p)[2]	19.8	21.8	25.0	38.0	36.0	36.0	36.0	36.0	36.0	40.0	41.0
Discount	15.3	11.5	9.8	11.9	13.0	15.3	11.2	16.4	15.3	9.8	14.6
Gearing/(net cash)	15.5	11.2	2.0	(5.2)	2.8	11.9	8.9	14.3	2.7	8.9	(0.9)
Ongoing Charges[3]	0.60	0.56	0.55	0.59	0.56	0.54	0.49	0.51	0.49	0.48	0.49
Rebased to 100 at 31st January 2005											
Net asset value per share	100.0	129.4	165.5	137.5	80.9	120.5	148.3	133.5	164.1	203.9	208.1
Net asset value per share – total return[4]	100.0	133.0	173.2	145.3	88.2	137.9	175.8	163.8	208.8	266.7	278.5
Share price	100.0	135.2	176.3	143.0	83.0	120.5	155.4	131.7	164.1	217.2	210.0
Share price – total return[4]	100.0	138.8	184.8	153.2	93.2	141.2	188.9	166.0	214.1	292.4	290.3
Benchmark[4]	100.0	128.8	160.1	139.8	89.1	140.5	177.8	170.6	217.0	276.5	289.1
Return per share	100.0	119.1	150.3	217.5	227.9	126.8	147.1	174.2	175.4	259.3	230.1
Dividends per share[2]	100.0	110.1	126.3	191.9	181.8	181.8	181.8	181.8	181.8	202.0	202.0

[1] The results for the year ended 31st January 2005 have been restated, where necessary, in accordance with Financial Reporting Standards 21, 25 and 26.

[2] 2008 includes ordinary dividends of 34.0p and a special dividend of 4.0p.

[3] Ongoing 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 and are calculated in accordance with guidance issued by the Association of Investment Companies in May 2012. (2009 to 2011 Total Expense Rate the average of the month end net assets; 2008 and prior years; expressed as the average of the opening and closing net assets).

[4] Source: Morningstar, Russell/Mellon CAPS.

Strategic Report – continued

Ten Largest Investments

Company	At 31st January 2015 Valuation £'000	%[1]	At 31st January 2014 Valuation £'000	%[1]
Catlin[2] Catlin underwrites specialty insurance and reinsurance worldwide. The group specialises in property and casualty treaty reinsurance, structured risk and other coverages, as well as professional indemnity, property, general liability, Directors' and office liability and commercial crime coverage for UK policyholders.	63,099	3.7	18,609	1.0
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.	30,558	1.8	56,240	3.1
B&M European Value Retail[3] B&M European Value Retail operates as a general merchandise discount retailer. The company sells products ranging from electronics to home goods.	29,838	1.7	–	–
Cobham[2] Cobham designs and manufactures a wide range of equipment, specialised systems and components for the aerospace, defense, energy, and electronics industries. The company products include refuelling equipment, aviation oxygen systems, weapon system containers, and rescue and navigation lights.	29,287	1.7	27,691	1.5
Dixons Carphone[2, 5] Dixons Carphone specialises as an electrical and telecommunications retailer and services company. The company operates retail stores across its various brands throughout Europe.	29,138	1.7	–	–
SSP Group[3] SSP is a holding company that, through its subsidiaries, offers catering and concession services within the UK, Europe, Asia and North America.	29,005	1.7	–	–
SEGRO[3] SEGRO is a property investment and development company that provides flexible business space across Europe. SEGRO's property portfolio includes offices, light industrial, logistics, warehouses and datacentre properties.	28,899	1.7	–	–
Hikma Pharmaceuticals[3] Hikma Pharmaceuticals is a multinational pharmaceutical group focused on developing, manufacturing, and marketing a range of both branded and non-branded generic and in-licensed pharmaceutical products. The company's operations are conducted in the United States, the Middle East, and North Africa region, as well as Europe.	28,569	1.7	–	–
Amlin[2] Amlin is an insurance and reinsurance business operating in the Lloyd's market. The company provides insurance cover to commercial enterprises. Amlin offers risk management solutions to the following areas, aviation, international property and casualty, marine, and UK commercial business clients worldwide.	28,410	1.6	20,263	1.1
William Hill[3] William Hill provides bookmaking services in the United Kingdom. The group, which operates licensed betting offices, telephone based-betting operations, and online betting, offers odds and takes bets on an assortment of sporting and other events. William Hill's betting offices provide access to real-time sports information via television and audio satellite links.	27,704	1.6	–	–
Total[4]	**324,507**	**18.9**		

All of the above investments are listed in the UK.

[1]Based on total portfolio of £1,722m (2014: £1,832m).

[2]Not Included in the ten largest investments at 31st January 2014.

[3]Not held in the portfolio at 31st January 2014.

[4]At 31st January 2014, the value of the ten largest investments amounted to £447m representing 24.4% of the total portfolio.

[5]Due to the merger of Carphone Warehouse and Dixon Retail on 15 May 2014. At 31st January 2014, the Company held £16.0m and £15.7m respectively.

Portfolio Analyses

Listed Equity Market Capitalisation

at 31st January

	2015 %	2014 %
UK FTSE Mid sized	75.9	78.5
UK FTSE Small & Fledgling	13.3	8.9
UK AIM	7.3	7.0
UK FTSE 100	3.3	5.2
UK Unquoted	0.2	0.3
Overseas	–	0.1
Total	100.0	100.0

Based on total portfolio of £1,722m (2014: £1,832m).

Sector Analysis

at 31st January

	Portfolio 2015 %[1]	Benchmark 2015 %	Portfolio 2014 %[1]	Benchmark 2014 %
Financials	31.3	25.4	27.6	25.6
Consumer Services	28.0	20.0	15.2	19.0
Industrials	24.8	26.6	19.6	26.0
Consumer Goods	5.9	6.8	18.1	8.2
Technology	4.1	4.0	4.0	3.8
Health Care	3.5	4.5	1.3	2.5
Telecommunications	1.3	2.6	3.8	2.7
Oil & Gas	0.6	3.9	5.7	4.7
Basic Materials	0.5	4.6	3.8	5.5
Utilities	–	1.6	0.9	2.0
Total	100.0	100.0	100.0	100.0

[1]Based on total portfolio of £1,722m (2014: £1,832m).

Strategic Report – continued

List of Investments

at 31st January 2015

Company	Value of holding 31st January 2015 £'000	Value of holding 31st January 2014 £'000	% of total portfolio[5] 31st January 2015	% of total portfolio[5] 31st January 2014
Financials				
Catlin	63,099	18,609	3.7	1.0
Jardine Lloyd Thompson	30,558	56,240	1.8	3.1
SEGRO	28,899	–	1.7	–
Amlin	28,410	20,263	1.6	1.1
Derwent London	26,561	18,761	1.5	1.0
TSB Banking Group	26,044	–	1.5	–
Jupiter Fund Management	25,572	21,355	1.5	1.2
Close Brothers	24,809	19,332	1.4	1.1
Intermediate Capital Group	22,505	15,775	1.3	0.9
IG	22,006	19,108	1.3	1.0
Beazley	21,968	17,183	1.3	0.9
Hiscox	21,218	22,213	1.2	1.2
Man	17,147	7,817	1.0	0.4
Provident Financial	17,128	5,386	1.0	0.3
Helical Bar	16,545	11,284	1.0	0.6
International Personal Finance	15,852	16,151	0.9	0.9
Henderson	15,671	8,281	0.9	0.5
Brewin Dolphin	14,328	15,616	0.8	0.9
3i Group	13,776	28,931	0.8	1.6
St Modwen Properties	13,065	7,192	0.8	0.4
Great Portland Estates	12,685	7,346	0.7	0.4
Workspace Group	8,303	–	0.5	–
Arrow Global	8,041	3,064	0.5	0.2
Shore Capital[1]	8,007	8,543	0.5	0.5
Cenkos Securities[1]	7,775	7,609	0.5	0.4
Rathbone Brothers	6,588	4,968	0.4	0.3
Market Tech[1]	6,000	–	0.3	–
Mortgage Advice Bureau[1]	5,160	–	0.3	–
Grainger	3,473	9,547	0.2	0.5
Inspired Capital[1]	2,850	–	0.2	–
Channel Islands Property[2]	2,127	2,105	0.1	0.1
Panmure Gordon[1]	1,002	2,092	0.1	0.1
	537,172		**31.3**	
Consumer Services				
B&M European Value Retail	29,838	–	1.7	–
Dixons Carphone[7]	29,138	–	1.7	–
SSP	29,005	–	1.7	–
William Hill	27,704	–	1.6	–
FirstGroup	27,263	–	1.6	–
Inchcape	26,622	21,042	1.6	1.1
Domino's Pizza	21,828	–	1.3	–
Stagecoach	20,866	24,002	1.2	1.3
Card Factory	19,980	–	1.2	–
Poundland	17,625	–	1.0	–
WH Smith	16,740	12,504	1.0	0.7
Rightmove	16,212	8,848	0.9	0.5

Company	Value of holding 31st January 2015 £'000	Value of holding 31st January 2014 £'000	% of total portfolio[5] 31st January 2015	% of total portfolio[5] 31st January 2014
Moneysupermarket.com Group	15,738	10,959	0.9	0.6
Go-Ahead Group	14,764	12,030	0.9	0.6
Just Eat	12,474	–	0.7	–
Lookers	12,127	7,796	0.7	0.4
Daily Mail & General Trust	12,054	27,787	0.7	1.5
Halfords	11,097	10,541	0.6	0.6
Ocado Group	10,763	–	0.6	–
Mitchells & Butlers	10,460	11,029	0.6	0.6
Young & Co's Brewery[1]	10,278	11,104	0.6	0.6
National Express	9,286	–	0.5	–
Greggs	9,190	–	0.5	–
Saga	7,772	–	0.5	–
M&C Saatchi[1]	7,750	7,718	0.4	0.4
Pets At Home Group	7,563	–	0.4	–
Zoopla Property Group	7,380	–	0.4	–
Trinity Mirror	6,726	5,332	0.4	0.3
Dunelm	6,654	1,752	0.4	0.1
Patisserie Holdings[1]	5,854	–	0.3	–
Chime Communications	4,988	10,688	0.3	0.6
Home Retail	4,430	4,800	0.3	0.3
Mccoll's Retail	4,287	–	0.3	–
Johnston Press	3,568	5,875	0.2	0.3
Koovs[1]	1,932	–	0.1	–
Boohoo.Com[1]	1,744	–	0.1	–
Peel Hotels[1]	1,029	1,054	0.1	0.1
	482,729		**28.0**	
Industrials				
Cobham	29,287	27,691	1.7	1.5
Howden Joinery Group	25,975	23,800	1.5	1.3
DCC	25,651	–	1.5	–
Ricardo	24,739	25,188	1.4	1.4
Hays	23,481	29,063	1.4	1.6
Northgate	19,817	16,360	1.2	0.9
Bodycote	19,312	18,388	1.1	1.0
Vesuvius	17,428	10,679	1.0	0.6
Safecharge International Group[1]	16,359	–	0.9	–
Rentokil Initial	15,713	–	0.9	–
HellermannTyton	14,726	–	0.9	–
Rexam	14,577	–	0.8	–
Berendsen	14,309	–	0.8	–
Xchanging	14,118	16,032	0.8	0.9
Polypipe	13,597	–	0.8	–
Morgan Advanced Materials	13,523	8,388	0.8	0.5
Atkins (WS)	13,469	10,332	0.8	0.6
QinetiQ Group	11,500	–	0.7	–

Strategic Report – continued

List of Investments – continued

Company	Value of holding 31st January 2015 £'000	Value of holding 31st January 2014 £'000	% of total portfolio[5] 31st January 2015	% of total portfolio[5] 31st January 2014
Michael Page	10,971	–	0.6	–
RPC	10,481	–	0.6	–
E2V Technologies	8,223	–	0.5	–
Premier Farnell	8,135	18,714	0.5	1.0
Marshalls	7,865	–	0.5	–
Keller Group	7,822	–	0.5	–
VP	7,805	16,745	0.5	0.9
Renold	7,418	7,584	0.4	0.4
ISG[1]	7,112	3,402	0.4	0.2
Smith (DS)	5,890	23,760	0.3	1.3
Robert Walters	5,665	7,616	0.3	0.4
Connect	4,597	–	0.3	–
Clarke (T)	3,212	2,759	0.2	0.1
Charles Taylor	2,543	–	0.1	–
Interserve	2,377	–	0.1	–
Exova Group	223	–	–	–
	427,920		**24.8**	
Consumer Goods				
Greencore	24,120	10,674	1.4	0.6
New Britain Palm Oil	20,735	7,358	1.2	0.4
Berkeley Group	12,846	40,961	0.7	2.2
MP Evans[1]	11,360	14,174	0.7	0.8
Tate & Lyle	8,718	–	0.5	–
Fevertree Drinks[1]	7,964	–	0.5	–
Taylor Wimpey	7,469	38,050	0.4	2.1
Barratt Developments	6,640	44,525	0.4	2.4
Anglo-Eastern Plantations	2,505	2,901	0.1	0.2
	102,357		**5.9**	
Technology				
CSR	18,773	15,459	1.1	0.8
Pace	13,819	7,146	0.8	0.4
Laird	12,206	10,633	0.7	0.6
Fidessa	11,659	13,854	0.7	0.7
Micro Focus International	10,017	6,728	0.6	0.4
Fusionex International[1]	4,085	7,740	0.2	0.4
	70,559		**4.1**	
Health Care				
Hikma Pharmaceuticals	28,569	–	1.7	–
Dechra Pharmaceuticals	10,466	7,440	0.6	0.4
Vernalis[1]	9,380	13,109	0.5	0.7
Genus	6,227	–	0.4	–
Vectura	5,875	–	0.3	–
	60,517		**3.5**	

Company	Value of holding 31st January 2015 £'000	Value of holding 31st January 2014 £'000	% of total portfolio[5] 31st January 2015	% of total portfolio[5] 31st January 2014
Telecommunications				
Inmarsat	22,750	28,346	1.3	1.6
	22,750		**1.3**	
Oil & Gas				
Bowleven[1]	8,345	4,266	0.5	0.2
Egdon Resources[1]	875	–	0.1	–
Infrastrata[1]	817	1,726	–	0.1
Tethys Petroleum	656	–	–	–
Argos Resources[1]	237	761	–	–
	10,930		**0.6**	
Basic Materials				
Victrex	3,497	–	0.2	–
Tennants Consolidated[3,4]	2,889	2,839	0.2	0.1
International Ferro Metals	1,085	3,034	0.1	0.2
	7,471		**0.5**	
Total Portfolio[6]	**1,722,405**		**100.0**	

[1]AIM listed investment.
[2]Listed Overseas.
[3]Unquoted investment.
[4]Includes a fixed interest investment.
[5]Based on total portfolio of £1,722m (2014: £1,832m).
[6]The portfolio comprises investments in equity shares and a fixed interest investment.
[7]Due to the merger of Carphone Warehouse and Dixon Retail on 15 May 2014. At 31st January 2014, the Company held £16.0m and £15.7m respectively.

Strategic Report – continued

Business Review

Objective and Strategy of the Company

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

Structure of the Company

The Company is an investment company within the meaning of Section 833 of the Companies Act 2006 and has been approved by HM Revenue & Customs as an investment trust (for the purposes of Sections 1158 and 1159 of the Corporation Tax Act 2010). As a result the Company is not liable for taxation on capital gains. The Directors have no reason to believe that approval will not continue to be retained. The Company is not a close company for taxation purposes.

A review of the Company's activities and prospects is given in the Chairman's Statement on pages 2 and 3, and in the Investment Managers' Report on pages 4 to 8.

Investment Policies and Risk Management

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

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

Investment Restrictions and Guidelines

- The Company invests in medium and smaller companies which are listed mainly on the London Stock Exchange.
- At time of purchase the maximum exposure to any individual stock is 8% of 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 2015, the Company produced a total return to shareholders of –0.7% and a total return on net assets of +4.4%. This compares with the return on the Company's benchmark of +4.6%. At 31st January 2015, the value of the Company's investment portfolio was £1,722 million. The Investment Managers' Report on pages 4 to 8 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

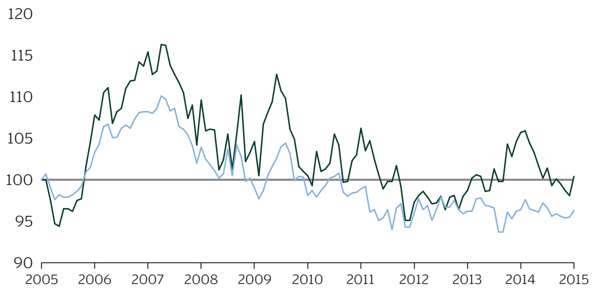
Gross total return for the year amounted to £92.0 million (2014: £389.3 million) and net total return after deducting interest, management expenses and taxation amounted to £72.4 million (2014: £370.5 million). Distributable income for the year amounted to £41.4 million (2014: £46.6 million). The Directors have declared quarterly interim dividends totalling 41.0p (2014: 40.0p) per ordinary share for the year which totalled £40.2 million (2014: £39.3 million). The year end revenue reserve after allowing for these dividends will amount to £20.3 million (2014: £19.1 million).

Key Performance Indicators ('KPIs')

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

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

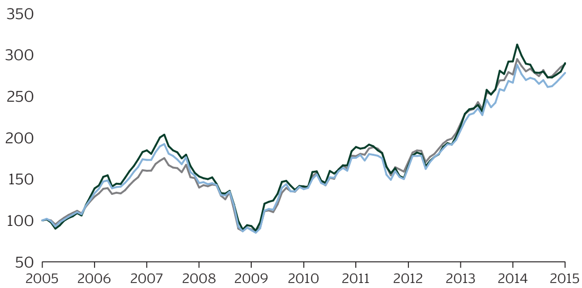
Performance relative to Benchmark Index
Figures have been rebased to 100 at 31st January 2005



The Mercantile - net asset value total return.
The Mercantile - share price total return.
The benchmark is represented by the grey horizontal line.

Source: Morningstar, Russell/Mellon CAPS.

Ten Year Performance
Figures have been rebased to 100 at 31st January 2005



The Mercantile - net asset value total return.
The Mercantile - share price total return.
Benchmark.

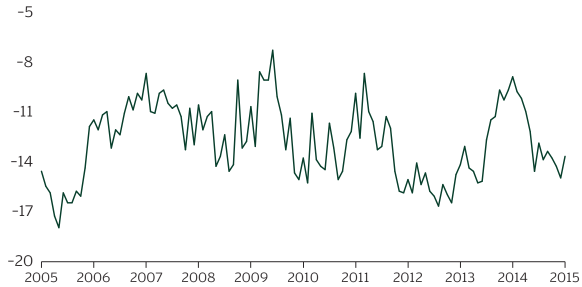
Source: Morningstar, Russell/Mellon CAPS.

- **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 2015 are given in the Investment Managers' Report on page 5.

- **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



The Mercantile - discount.

Source: Datastream.

- **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 Ongoing Charges for the year ended 31st January 2015 were 0.49% (2014: 0.48%). 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 536,084 ordinary shares for cancellation (nominal value £134,000). This amount represented 0.55% 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 865,375 further shares for cancellation since the year end (as at 25th March 2015).

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:

Strategic Report – continued

Business Review – continued

- 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. JPMF provides the Directors with timely and accurate management information, including performance data and attribution analyses, revenue estimates, liquidity reports and shareholder analyses. The Board monitors the implementation and results of the investment process with the Investment Managers, who attend all Board meetings, and reviews data which show statistical measures of the Company's risk profile. The Investment Managers employ the Company's gearing tactically, within a strategic range set by the Board.
- Accounting, Legal and Regulatory: In order to qualify as an investment trust, the Company must comply with Section 1158 of the Corporation Tax Act 2010 ('Section 1158'). Details of the Company's approval are given under 'Structure of the Company' 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 JPMF and the results reported to the Board each month. The Company must also comply with the provisions of the Companies Act and, since its shares are listed on the London Stock Exchange, the UKLA Listing Rules and Disclosure & Transparency Rules ('DTRs'). A breach of the Companies Act could result in the Company and/or the Directors being fined or the subject of criminal proceedings. Breach of the UKLA Listing Rules or DTRs could result in the Company's shares being suspended from listing which in turn would breach Section 1158. The Board relies on the services of its Company Secretary, JPMF, to ensure compliance with The Companies Act and The UKLA Listing Rules.
- 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 26 to 31.
- Operational: Disruption to, or failure of, JPMF's accounting, dealing or payments systems or the custodian's records could prevent accurate reporting and monitoring of the Company's financial position. Details of how the Board monitors the services provided by JPMF and its associates and the key elements designed to provide effective risk management and internal control are included within the Risk Management and Internal Control section of the Corporate Governance report on pages 30 and 31.
- Going concern: Pursuant to the Sharman Report, Boards are now advised to consider going concern as a potential risk, whether or not there is an apparent issue arising in relation thereto. Going concern is considered rigorously on an ongoing basis and the Board's statement on going concern is detailed on page 24.
- Financial: The financial risks faced by the Company include market price risk, interest rate risk, liquidity risk and credit risk. Bank counterparties are subject to regular credit analysis by the Manager and regular consideration at meetings of the Board. In addition the Board receives regular reports on the Manager's monitoring and mitigation of credit risks on share transactions carried out by the Company. Further details are disclosed in note 24 on pages 57 to 61.

Gender Representation

At 31st January 2015, there were five male Directors and one female Director on the Board. The Company has no employees. The Board's policy on diversity is set out on page 28.

Employees, Social, Community and Human Rights Issues

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

Social, Environmental and Human Rights

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.

Greenhouse Gas Emissions

The Company is managed by JPMF, has no employees and all of its Directors are non-executive, the day to day activities being carried out by third parties. There are therefore no disclosures to be made in respect of employees. The Company has no premises, consumes no electricity, gas or diesel fuel and consequently does not have a measurable carbon footprint. *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.*

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 8.

By order of the Board
Juliet Dearlove, for and on behalf of
JPMorgan Funds Limited,
Company Secretary

27th March 2015

Governance

Board of Directors

Hamish Leslie Melville (Chairman)#

A Director since 1996 and Chairman since 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.

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 Paribas. She is also a non-executive director of Edinburgh Worldwide Investment Trust plc.

Harry Morley

A Director since 21st May 2014.

Harry is CEO of Armajaro Asset Management LLP. He is a non-executive Director of Bibendum Wine Holdings Ltd. Previously he was Group Finance Director of Armajaro Holdings Ltd. He was Co-founder and CFO of Tragus Holdings Ltd, owner of Café Rouge and Bella Italia restaurant chains, backed by ECI Partners, and also worked in the shipping industry for P&O. He qualified as a chartered accountant with Price Waterhouse.

He joined the Audit Committee on 22nd September 2014 and the Nomination Committee on 3rd December 2014.

Sandy Nairn*#

A Director since 2003 and Senior Independent Director since December 2014. 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.

Sandy is the sole shareholder of Nairn Capital Ltd, which holds a 30% interest in Goodhart Partners LLP.

Ian Russell*#

A Director since January 2007 and Chairman of the Audit Committee since May 2007. He is Chairman of Johnston Press plc and Remploy Limited. On 8th March 2014 he left the Board of Advanced Power AG. He is also a non-executive director of British Assets Trust plc, British Polythene Industries plc and HICL Infrastructure Company Limited, 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 was the fund manager of Foreign and Colonial Investment Trust plc from 1997 to July 2014. He was, until January 2013, a Director of the Association of Investment Companies. He is a Non-executive Director of Graphite Enterprise Trust plc, The Monks Investment Trust plc and Standard Life Equity Income Trust plc. He is Chairman of BACIT Limited.

*A member of the Audit Committee throughout the year.

#A member of the Nomination Committee throughout the year.

All Directors are considered independent of the Manager.

Governance – continued

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31st January 2015.

A number of disclosures previously incorporated in the Directors' Report are now included in the Strategic Report. These include: Structure of the Company; Investment Objective; Investment Policies and Risk Management; Investment Restrictions and Guidelines; Performance; Total Return, Revenue and Dividends; KPIs; Share Capital; Principal Risks; Gender Representation; Employee, Social, Community and Human Rights Issues and Future Developments.

Management of the Company

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

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

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

The Board conducts a formal evaluation of the performance of, and contractual relationship with, the Manager on an annual basis. No separate Management Engagement Committee has been established because all Directors are considered to be independent of the Manager and, given the nature of the Company's business, it is felt that all Directors should take part in the review process.

The Alternative Investment Fund Managers Directive ('AIFMD')

JPMF, an affiliate of JPMAM, has been appointed as the Company's alternative investment fund manager ('AIFM'). JPMF has been approved as an AIFM by the Financial Conduct Authority ('FCA'). For the purposes of the AIFMD the Company is an alternative investment fund ('AIF').

The Company entered into a new investment management agreement with JPMF on 1st July 2014. JPMF has delegated responsibility for the day to day management of the Company's portfolio to JPMAM. JPMF is required to ensure that a depositary is appointed to the Company. The Company therefore has appointed BNY Mellon Trust and Depositary (UK) Limited ('BNY') as its depositary. BNY has delegated its safekeeping function to the custodian, JPMorgan Chase Bank, N.A., however, BNY remains responsible for the oversight of the custody of the Company's assets and for monitoring its cash flows.

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

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 JPMF, or any of its associated companies that charge an underlying fee, 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 18), risk management policies (see page 20), capital management policies and procedures (see page 62), 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.

Directors

The Directors of the Company during the year and subsequent to the year end, are detailed on pages 22 and 23.

Details of Directors' beneficial shareholdings may be found in the Directors' Remuneration Report on pages 32 and 33.

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

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

The Nomination Committee 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:

(a) so far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act) of which the Company's Auditors are unaware; and

(b) each of the Directors has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company's Auditors are aware of that information.

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

Independent Auditors

Further to a review of audit services conducted during the year, details of which are set out on page 29, 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.

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 25th March 2015 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 96,839,260 Ordinary shares, carrying one vote each. Therefore the total voting rights of the Company are 96,839,260. The debenture stock does not carry any voting rights.

Environmental Matters, Social and Community Issues

Information about environmental matters, and social and community issues is set out on pages 30 and 31. 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	11,687,779	11.92
Brewin Dolphin Ltd	10,004,284	10.18
Rathbone Investment Management Ltd	8,806,840	8.98
Chase Nominees Ltd[1]	6,539,944	6.67
Quilter & Co Ltd	5,105,223	5.21
Investec Wealth & Investment Ltd	5,104,175	5.20

[1]Held on behalf of J.P. Morgan Investment Account, 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 Act.

Governance – continued

Directors' Report – continued

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.

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 11 and 12)

The Directors will seek renewal of the authority at the AGM to issue up to 4,841,963 Ordinary shares for cash up to an aggregate nominal amount of £1,210,490 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 63 and 64. This authority will expire at the conclusion of the AGM of the Company in 2016 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 13)

At the Annual General Meeting held in May 2014, 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 20th November 2015 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 14)

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 2015 have totalled 41 pence per share.

Recommendation

The Board considers resolutions 11-14 are likely to promote the success of the Company and are in the best interests of the Company and its shareholders as a whole. The Directors unanimously recommend that you vote in favour of the resolutions as they intend to do in respect of their own beneficial holdings which amount in aggregate to 49,906 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 63 and 64.

Corporate Governance Statement

Compliance

The Company is committed to high standards of corporate governance. This statement, together with the Statement of Directors' Responsibilities on page 35, 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 best practice provisions of the UK Corporate Governance Code and the AIC Code throughout the year under review, other than in respect of the engagement of an external recruitment consultancy, which is explained below.

Role of the Board

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

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

At each Board meeting, Directors' interests are considered. These are reviewed carefully, taking into account the circumstances surrounding them, and, if considered appropriate, are approved. It was resolved that there were no actual or indirect interests of a Director which conflicted with the interests of the Company, which arose during the year.

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

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

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

Board Composition

The Board, chaired by 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 22 and 23.

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

A review of Board composition and balance is included as part of the annual performance evaluation of the Board. The Board has considered whether a senior independent director should be appointed and has resolved to appoint Sandy Nairn as its Senior Independent Director with effect from 3rd December 2014.

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

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. In this regard, the Board recommends the re-election of Hamish Leslie Melville and Sandy Nairn who, having served in excess of nine years, retire at this year's AGM. They have a wealth of experience in the financial sector and make a valuable contribution to the workings of the Board. The Board considers that Hamish Leslie Melville demonstrates effective leadership of the Company.

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 described below.

Governance – continued

Directors' Report – continued

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 22 and 23. 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 six Board meetings, three Audit Committee meetings and two Nomination Committee meetings.

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

Director	Board Meetings Attended	Audit Committee Meetings Attended	Nomination Committee Meetings Attended
Hamish Leslie Melville	6	3[1]	2
Sir Richard Beckett[2]	2	1	–
Helen James	6	3	2
Harry Morley[3]	3	2	1
Sandy Nairn	5	3	1
Ian Russell	6	3	2
Jeremy Tigue	6	3	2

[1]Attended by invitation.
[2]Retired on 21st May 2014.
[3]Appointed on 21st May 2014.

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

The 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. Recruitment is managed by the Board directly with lists of candidates drawn up, CVs submitted and detailed interviews conducted with candidates. Harry Morley was appointed a Director on 21st May 2014.

The Committee conducts an annual performance evaluation, to ensure that the Board, all members of the Board and its committees have devoted sufficient time and contributed adequately to the work of the Board.

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

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.

An externally facilitated evaluation is carried out every three years. In 2011 and 2014 evaluations were carried out by Stephenson & Co, which has no other connections with the Company.

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. It is planned that Harry Morley will succeed Ian Russell as Chairman of the Audit Committee, with effect from the conclusion of the forthcoming Annual General Meeting. 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 22 and 23. Mr Leslie Melville is not a member of the Audit Committee, however, he is invited to attend meetings as a guest.

The Committee reviews the actions and judgements of the Manager in relation to the half year and annual accounts and the Company's compliance with the UK Corporate Governance Code. At the request of the Board, the Audit Committee provides confirmation to the Board as to how it has discharged its responsibilities so that the Board may ensure that information presented to it is fair, balanced and understandable, together with details of how it has done so.

During its review of the Company's financial statements for the year ended 31st January 2015, the Audit Committee considered the following significant issues, including those communicated by the Auditors during their reporting:

Significant issue	How the issue was addressed
Going concern	The Directors have considered the Company's investment objective, risk management policies, capital management policies and procedures, the nature of the portfolio and expenditure and cash flow projections. As a result, they have determined that the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future.
Valuation, existence and ownership of investments	The valuation of investments is undertaken in accordance with the accounting policies, disclosed in note 1 to the accounts on page 46. Controls are in place to ensure that valuations are appropriate and existence is verified through custodian reconciliations.
Recognition of investment income	The recognition of investment income is undertaken in accordance with accounting policy note 1(d) to the accounts on page 46. The Board regularly reviews subjective elements of income such as special dividends and agrees their accounting treatment.
Compliance with Sections 1158 and 1159	Approval for the Company as an investment trust under Sections 1158 and 1159 for financial years commencing on or after 1st October 2012 has been obtained and ongoing compliance with the eligibility criteria is monitored on a regular basis.

Having taken all available information into consideration and having discussed the content of the annual report and accounts with the Alternative Investment Fund Manager, Investment Managers, Company Secretary and other third party service providers, the Audit Committee has concluded that the Annual Report and Accounts for the year ended 31st January 2015, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy, and has reported these findings to the Board. The Board's conclusions in this respect are set out in the Statement of Directors' Responsibilities on page 35.

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

The Audit Committee 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 effectiveness and cost effectiveness, the balance of audit and non-audit services, and the independence and objectivity of the external auditors. The Audit Committee also receives confirmations from the Auditors, as part of their reporting, in regard to their objectivity and independence. In the Directors' opinion, the Auditors are considered independent.

The Audit Committee also has a primary responsibility for making recommendations to the Board on the re-appointment and removal of external auditors. A predecessor firm of PricewaterhouseCoopers LLP ('PwC') was appointed on 8th January 1885, shortly after the Company's launch. The audit engagement partner rotates every five years in accordance with ethical guidelines and 2015 is the fifth year for the current partner.

As part of its review of the continuing appointment of the Auditors, the Audit Committee considered the length of tenure of the audit firm, its fee, its independence from JPMF and the Investment Managers and any matters raised during the audit. A formal tender exercise was undertaken in 2014, as a result of which PwC was reappointed. Written submissions were received from five audit firms. These were considered in full by Board representatives and a shortlist of three firms was drawn up. Meetings were held between a Committee of the Board and the shortlisted firms, using a selection checklist. Following these meetings, one firm was chosen, which was discussed with all Directors and the reappointment approved by Board resolution.

The Audit Committee reviews and approves any non-audit services provided by the independent Auditors and assesses the impact of any non-audit work on the ability of the Auditors to remain independent. PwC reviews debenture loan covenants on an annual basis. Otherwise, no such work was undertaken during the year. Details of the fees paid for audit services are included in note 5 on page 49.

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

In order to safeguard the Auditors' objectivity and independence, any significant non-audit services are carried out through a partner other than the audit engagement partner where appropriate. Fees paid for audit services, audit-related services and other non-audit services are set out, where relevant,

Governance – continued

Directors' Report – continued

in note 5 on page 49. There were no significant non-audit engagements during the year under review. The Audit Committee has assessed the impact of any non-audit work carried out and is content with the Auditors' ability to remain independent and objective. The Directors' statement on the Company's system of risk management and internal control is set out below and on page 31.

Terms of Reference

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.

Relations with Shareholders

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

All shareholders have the opportunity, and are encouraged, to attend the Company's Annual General Meeting at which the Directors and representatives of the Manager are available in person to meet with shareholders and answer questions. In addition, a presentation is given by the Investment Managers who review the 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 69. The Chairman can also be contacted via the Company's website by following the 'Ask the Chairman' link at www.mercantileit.co.uk.

The Company's Annual Report and Accounts is published in time to give shareholders at least 20 working days' notice of the Annual General Meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to submit questions via the Company's website or write to the Company Secretary at the address shown on page 69.

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

Risk Management and Internal Control

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

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

Since investment management, custody of assets and all administrative services are provided to the Company by the Manager and its associates and BNY, the Company's system of risk management and internal control mainly consists of monitoring the services provided by the Manager and its associates and BNY, 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 20). 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 the Manager. 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, depositary and custodian regulated by the Financial Conduct Authority (FCA), whose responsibilities are clearly defined in a written agreement.

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

Manager's Compliance department which regularly monitors compliance with FCA rules.

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

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

- reviews the terms of the management agreement and receives regular reports from the Manager's Compliance department;
- reviews reports on the risk management and internal controls and the operations of its Depositary, BNY Mellon Trust & Depositary (UK) Limited, and its Custodian, JPMorgan Chase Bank, which are themselves independently reviewed; and
- reviews every six months an independent report on the risk management and internal controls and the operations of the Manager.

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 2015, 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 the Manager.

The following is a summary of the policy statements of JPMorgan Asset Management (UK) Limited ('JPMAM') on corporate governance, voting policy and social and environmental issues, which has been reviewed and endorsed by the Board. Details of social and environmental issues are included in the Strategic Report on page 21.

Corporate Governance

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

Proxy Voting

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

Stewardship/Engagement

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

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

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

JPMAM's Voting Policy and Corporate Governance Guidelines are available on request from the Company Secretary or can be downloaded from JPMAM's website: http://www.jpmorganinvestmenttrusts.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 Funds Limited,
Company Secretary

27th March 2015

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

Governance – continued

Directors' Remuneration Report

The Board presents the Directors' Remuneration Report for the year ended 31st January 2015, which has been prepared this Report in accordance with the requirements of Section 421 of the Companies Act 2006 as amended.

The law requires the Company's Auditor to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included in their report on pages 36 to 41.

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

Directors' Remuneration Policy

The Directors' Remuneration Policy Report is subject to a triennial binding vote and therefore an ordinary resolution to approve this report will be put to shareholders at the forthcoming Annual General Meeting. The policy subject to the vote, is set out in full below and is currently in force.

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

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

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

The Company's Articles of Association stipulate that aggregate fees must not exceed £300,000 per annum. Any increase in this the maximum aggregate amount requires both Board and shareholder approval.

In the year under review, Directors' fees were paid at the following annual rates: Chairman £60,000; Chairman of the Audit Committee £40,000; and other Directors £33,000. With effect from 1st February 2015 fees have been raised to the following annual rates: Chairman £66,000; Chairman of the Audit Committee £48,000; Senior Independent Director £40,000; and other Directors £36,000. Fees were previously raised with effect from 1st July 2011.

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

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

The terms and conditions of Directors' appointments are set out in formal letters of appointment which are available for review at the Company's Annual General Meeting and the Company's registered office. Details of the Board's policy on tenure are set out on page 27.

The Company's Remuneration policy also applies to new Directors.

Directors Remuneration Policy Implementation

The Directors' Remuneration Policy Implementation Report is subject to an annual advisory vote and therefore an ordinary resolution to approve this report will be put to shareholders at the forthcoming Annual General Meeting. There have been changes to the policy compared with the year ended 31st January 2014 as detailed above.

At the Annual General Meeting held on 21st May 2014, of votes cast, 99.73% of votes cast were in favour of (or granted discretion to the Chairman who voted in favour of) the remuneration report and 0.27% voted against. Votes withheld were the equivalent of less than 0.24% of the votes cast.

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

Single total figure of remuneration

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

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

Single total figure table[1]

	Total fees 2015	2014
Hamish Leslie Melville	£60,000	£60,000
Sir Richard Beckett[2]	£10,154	£33,000
Helen James	£33,000	£33,000
Harry Morley[3]	£22,804	n/a
Sandy Nairn	£33,000	£33,000
Ian Russell	£40,000	£40,000
Jeremy Tigue	£33,000	£33,000
Total	£231,958	£232,000

[1]Audited information. Other columns have been omitted because no payments of any other type were made or are applicable.

[2]Retired 21st May 2014.

[3]Appointed 21st May 2014.

Directors' Shareholdings[1]

There are no requirements pursuant to the Company's Articles of Association for the Directors to own shares in the Company. The Directors' beneficial shareholdings are detailed below. The Directors have no other share interests or share options in the Company and no share schemes are available.

	31st January 2015	1st February 2014 or at date of appointment
Hamish Leslie Melville	30,000	30,000
Sir Richard Beckett	n/a	4,100
Helen James[2]	650	650
Harry Morley	2,000	2,000
Sandy Nairn	5,000	5,000
Ian Russell	5,000	5,000
Jeremy Tigue[3]	7,256	5,333
	49,906	52,083

[1]Audited information.

[2]Non-beneficial holding.

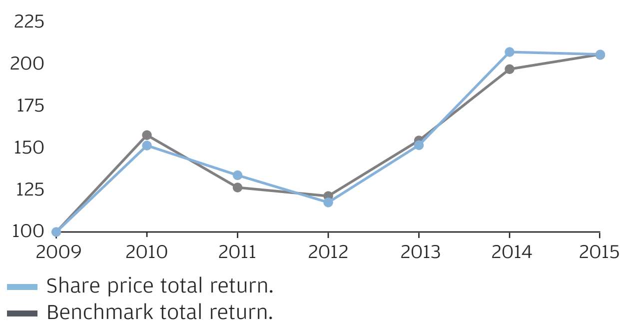
[3]On 4th February 2015 Jeremy Tigue acquired 38 shares through the Company's Dividend Re-investment Plan, taking his shareholding at the date of this report to 7,294.

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

No amounts (2014: nil) were paid to third parties for making available the services of Directors.

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

Six year share price and benchmark total return to 31st January 2015



Source: Morningstar, Russell/Mellon CAPS.

Governance – continued

Directors' Remuneration Report – continued

A table showing the total remuneration for the Chairman over the five years ended 31st January 2015 is below:

Remuneration for the Chairman over the five years ended 31st January 2015

Year ended 31st January	Fees	Performance related benefits received as a percentage of maximum payable[1]
2015	£60,000	n/a
2014	£60,000	n/a
2013	£60,000	n/a
2012	£53,700	n/a
2011	£45,000	n/a

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

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

Expenditure by the Company on remuneration and distributions to shareholders

	Year ended 31st January 2015	2014
Remuneration paid to all Directors	£232,000	£232,000
Distribution to shareholders		
– by way of dividend	£40,187,000	£39,296,000
– by way of share repurchases	£7,927,000	£2,739,000
Total distribution to shareholders	£48,114,000	£42,035,000

For and on behalf of the Board
Hamish Leslie Melville
Chairman

27th March 2015

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 taken as a whole, the annual report and accounts are fair, balanced and understandable, provide the information necessary for shareholders to assess the Company's performance, business model and strategy and that they give a true and fair view of the state of affairs of the Company and of the total return or loss of the Company for that period. In order to provide these confirmations, and in preparing these financial statements, the Directors are required to:

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

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 Strategic Report, 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 on pages 22 and 23 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); and
- give a true and fair view of the assets, liabilities, financial position and net return or loss of the Company together with a description of the principal risks and uncertainties that it faces.

The Strategic Report includes a fair review of the development and performance of the business and position of the Company, together with a description of the principle risks and uncertainties that it faces.

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

The Board confirms that it is satisfied that the annual report and accounts taken as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess the strategy and business model of the Company.

For and on behalf of the Board
Hamish Leslie Melville
Chairman

27th March 2015

Independent Auditors' Report

to the members of The Mercantile Investment Trust plc

Report on the financial statements

Our opinion

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

- give a true and fair view of the state of the Company's affairs as at 31st January 2015 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.

What we have audited

The Mercantile Investment Trust plc's financial statements comprise:

- the Balance Sheet as at 31st January 2015;
- the Income Statement for the year then ended;
- the Cash Flow Statement for the year then ended;
- the Reconciliation of Movements in Shareholders' Funds for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our audit approach

Overview

Materiality:

- Overall materiality: £17.1 million which represents approximately 1% of net assets.

Audit scope:

- The Company is a standalone Investment Trust Company and engages JPMorgan Funds Limited (the 'Manager') to manage its assets.
- We conducted our audit of the financial statements at JPMorgan Corporate & Investment Bank (the 'Administrator') to whom the Manager has, with the consent of the Directors, delegated the provision of certain administrative functions.
- We tailored the scope of our audit taking into account the types of investments within the Company, the involvement of the third parties referred to above, the accounting processes and controls, and the industry in which the Company operates.

Areas of focus:

- Income from investments
- Valuation and existence of investments

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Income from investments *Refer to page 29 (Directors' Report), page 46 (Accounting Policies) and page 49 (Notes to the Financial Statements).* ISAs (UK & Ireland) presume there is a risk of fraud in income recognition because of the pressure management may feel to achieve capital growth in line with the objective of the Company. We focused on the accuracy and completeness of dividend income recognition and its presentation in the Income Statement as set out in the requirements of The Association of Investment Companies Statement of Recommended Practice (the 'AIC SORP'). This is because incomplete or inaccurate income could have a material impact on the Company's net asset value.	We assessed the accounting policy for income recognition for compliance with accounting standards and the AIC SORP and performed testing to check that income had been accounted for in accordance with this stated accounting policy. We found that the accounting policies implemented were in accordance with accounting standards and the AIC SORP, and that income has been accounted for in accordance with the stated accounting policy. We understood and assessed the design and implementation of key controls surrounding income recognition. In addition, we tested dividend receipts by agreeing the dividend rates from a sample of investments to independent third party sources. No misstatements were identified by our testing which required reporting to those charged with governance. To test for completeness, we tested that the appropriate dividends had been received in the year by reference to independent data of dividends declared for a sample of investment holdings in the portfolio. Our testing did not identify any unrecorded dividends. We tested the allocation and presentation of dividend income between the income and capital return columns of the Income Statement in line with the requirements set out in the AIC SORP. We then tested the validity of income and capital special dividends to independent third party sources. We did not find any special dividends that were not treated in accordance with the AIC SORP.

Independent Auditors' Report – continued

Area of focus	How our audit addressed the area of focus
Valuation and existence of investments *Refer to page 29 (Directors' Report), page 46 (Accounting Policies) and page 52 (Notes to the Financial Statements).* The investment portfolio at the year-end principally comprised of listed equity investments of £1,717 million. We focused on the valuation and existence of investments because investments represent the principal element of the net asset value as disclosed on the Balance Sheet in the financial statements.	We tested the valuation of the listed investment portfolio by agreeing the prices used in the valuation to independent third party sources. No misstatements were identified by our testing which required reporting to those charged with governance. We tested the existence of the investment portfolio by agreeing the holdings for investments to an independent custodian confirmation from JPMorgan Chase Bank, N.A. No differences were identified.

How we tailored the audit scope

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

The Company's accounting is delegated to the Administrator who maintain their own accounting records and controls and report to the Manager and the Directors.

As part of our risk assessment, we assessed the control environment in place at both the Manager and the Administrator to the extent relevant to our audit. This assessment of the operating and accounting structure in place at both organisations involved obtaining and reading the relevant control reports issued by the independent auditor of the Manager and the Administrator in accordance with generally accepted assurance standards for such work. We then identified those key controls at the Administrator on which we could place reliance to provide audit evidence. We also assessed the gap period of four months between the period covered by the controls report and the year-end of the Company. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements, including whether we needed to perform additional testing in respect of those key controls to support our substantive work. For the purposes of our audit, we determined that additional testing of controls in place at the Administrator was not required because additional substantive testing was performed.

Materiality

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

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

Overall materiality	£17.1 million (2014: £16.8 million).
How we determined it	1% of net assets.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice for investment trust audits, in the absence of indicators that an alternative benchmark would be appropriate and because we believe this provides an appropriate and consistent year-on-year basis for our audit.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £855,000 (2014: £840,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 24, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the Company's financial statements using the going concern basis of accounting. The going concern basis presumes that the Company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the company's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

• information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report arising from this responsibility.
• the statement given by the Directors on page 35, in accordance with provision C.1.1 of the UK Corporate Governance Code (the 'Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Company's performance, business model and strategy is materially inconsistent with our knowledge of the Company acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
• the section of the Annual Report on page 28, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report arising from this responsibility.

Independent Auditors' Report – continued

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' Remuneration Report – Companies Act 2006 opinion

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

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 35, 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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

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.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Jeremy Jensen (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors, London

27th March 2015

Financial Statements

Income Statement

for the year ended 31st January 2015

	Notes	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000	2014 Revenue £'000	2014 Capital £'000	2014 Total £'000
Gains on investments held at fair value through profit or loss	2	–	43,822	43,822	–	336,198	336,198
Net foreign currency gains/(losses)		–	41	41	–	(13)	(13)
Income from investments	3	47,091	–	47,091	52,385	–	52,385
Other interest receivable and similar income	3	1,045	–	1,045	719	–	719
Gross return		48,136	43,863	91,999	53,104	336,185	389,289
Management fee	4	(2,132)	(4,975)	(7,107)	(1,986)	(4,633)	(6,619)
Other administrative expenses	5	(1,180)	–	(1,180)	(859)	–	(859)
Net return on ordinary activities before finance costs and taxation		44,824	38,888	83,712	50,259	331,552	381,811
Finance costs	6	(3,359)	(7,838)	(11,197)	(3,301)	(7,703)	(11,004)
Net return on ordinary activities before taxation		41,465	31,050	72,515	46,958	323,849	370,807
Taxation	7	(113)	–	(113)	(312)	–	(312)
Net return on ordinary activities after taxation		41,352	31,050	72,402	46,646	323,849	370,495
Return per share	9	42.10p	31.61p	73.71p	47.46p	329.52p	376.98p

Dividends declared in respect of the financial year ended 31st January 2015 total 41.0p (2014: 40.0p) per share amounting to £40,187,000 (2014: £39,296,000). Further information on dividends is given in note 8 on page 51.

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 46 to 62 form an integral part of these accounts.

Reconciliation of Movements in Shareholders' Funds
for the year ended 31st January 2015

	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 31st January 2013	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 paid in the year	–	–	–	–	(41,279)	(41,279)
At 31st January 2014	24,560	23,459	12,210	1,592,851	34,830	1,687,910
Repurchase and cancellation of the Company's own shares	(134)	–	134	(7,927)	–	(7,927)
Net return on ordinary activities	–	–	–	31,050	41,352	72,402
Dividends paid in the year	–	–	–	–	(39,289)	(39,289)
At 31st January 2015	24,426	23,459	12,344	1,615,974	36,893	1,713,096

The notes on pages 46 to 62 form an integral part of these accounts.

Financial Statements – continued

Balance Sheet

at 31st January 2015

	Notes	2015 £'000	2014 £'000
Fixed assets			
Investments held at fair value through profit or loss	10	1,722,405	1,831,759
Current assets			
Derivative financial instruments	12	–	1
Debtors	13	2,573	16,925
Cash and short term deposits	13	193,167	27,211
		195,740	44,137
Creditors: amounts falling due within one year	14	(27,666)	(10,699)
Net current assets		168,074	33,438
Total assets less current liabilities		1,890,479	1,865,197
Creditors: amounts falling due after more than one year	15	(177,383)	(177,287)
Net assets		1,713,096	1,687,910
Capital and reserves			
Called up share capital	16	24,426	24,560
Share premium account	17	23,459	23,459
Capital redemption reserve	17	12,344	12,210
Capital reserves	17	1,615,974	1,592,851
Revenue reserve	17	36,893	34,830
Total equity shareholders' funds		1,713,096	1,687,910
Net asset value per share	18	1,753.3p	1,718.1p

The accounts on pages 42 to 62 were approved and authorised for issue by the Directors on 27th March 2015 and are signed on their behalf by:

Hamish Leslie Melville
Chairman

The notes on pages 46 to 62 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 2015

	Notes	2015 £'000	2014 £'000
Net cash inflow from operating activities	19	39,852	44,648
Servicing of finance			
Interest paid		(11,057)	(10,892)
Net cash outflow from servicing of finance		(11,057)	(10,892)
Taxation			
Overseas tax recovered		62	–
Financial investment			
Purchases of investments		(1,148,222)	(876,282)
Sales of investments		1,328,276	775,371
Other capital charges		(27)	(24)
Net cash inflow/(outflow) from financial investment		180,027	(100,935)
Dividends paid		(39,289)	(41,279)
Net cash inflow/(outflow) before financing		169,595	(108,458)
Management of liquid resources			
Net (purchases)/sales of Term Deposits		(165,900)	112,800
Net cash (outflow)/inflow from management of liquid resources		(165,900)	112,800
Financing			
Repurchase of ordinary shares and cancellation of the Company's own shares		(3,681)	(4,196)
Net cash outflow from financing		(3,681)	(4,196)
Net increase in cash for the year	20	14	146

The notes on pages 46 to 62 form an integral part of these accounts.

Financial Statements – continued

Notes to the Financial Statements – continued

for the year ended 31st January 2015

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.

Overseas dividends are shown gross of any withholding tax.

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

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

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

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

Underwriting commission is 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 52.

(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 term 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.

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

The 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.

Financial Statements – continued

Notes to the Financial Statements – continued

1. Accounting Policies – continued

(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 also the currency in which the accounts are presented. Exchange gains and losses on investments held at fair value through profit or loss are included within 'Gains or Losses on investments held at fair value through profit or loss'.

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

Any gains or loss arising on monetary assets from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in revenue or capital, depending on whether the gain or loss is of a revenue or capital nature. Gains and losses on investment arising from and change in exchange rates are included in the Income Statement within 'Gains and losses on investments held at fair value through profit or loss'.

(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'.

	2015 £'000	2014 £'000
2. Gains 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	160,795	115,466
Amounts recognised in investment holding gains and losses in the previous year in respect of investments sold during the year	(246,618)	(61,231)
(Losses)/gains on sales of investments based on the carrying value at the previous balance sheet date	(85,823)	54,235
Net movement in investment holding gains	129,680	281,988
Other capital charges	(35)	(25)
Total capital gains on investments held at fair value through profit or loss	43,822	336,198

	2015 £'000	2014 £'000
3. Income		
Income from investments:		
UK dividends	32,314	32,264
UK special dividends	8,184	10,098
Total UK dividends	40,498	42,362
Property income distributions	869	1,611
Overseas dividends	5,724	8,387
Scrip dividends	–	25
	47,091	52,385
Other interest receivable and similar income		
Underwriting commission	558	581
Deposit interest	487	138
	1,045	719
Total income	48,136	53,104

	2015			2014		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
4. Management fee						
Management fee[1]	2,132	4,975	7,107	1,986	4,633	6,619

[1]Details of the management fee are given in the Directors' Report on page 24.

	2015 £'000	2014 £'000
5. Other administrative expenses		
Administration expenses[1]	791	474
Directors' fees[2]	232	232
Savings scheme costs[3]	118	115
Auditors' remuneration for audit services[4]	37	36
Auditors' remuneration for all other services	2	2
	1,180	859

[1]Includes £7,000 paid to Goodhart Partners LLP (see biography of Sandy Nairn on page 19).

[2]Full disclosure is given in the Directors' Remuneration Report on pages 32 and 33.

[3]These amounts were paid to the Manager for the marketing and administration of saving scheme products.

[4]Includes £6,000 (2014: £6,000) irrecoverable VAT.

Financial Statements – continued

Notes to the Financial Statements – continued

	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000	2014 Revenue £'000	2014 Capital £'000	2014 Total £'000
6. Finance costs						
Interest on bank loans and overdrafts	65	153	218	–	1	1
Debenture interest	3,265	7,618	10,883	3,272	7,635	10,907
Amortisation of debenture issue costs	29	67	96	29	67	96
	3,359	7,838	11,197	3,301	7,703	11,004

	2015 £'000	2014 £'000
7. Taxation		
(a) Analysis of tax charge in the year		
Overseas withholding tax	113	312
Current tax charge for the year	113	312

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

The tax assessed for the year is lower (2014: lower) than the Company's applicable rate of corporation tax for the year of 21.32% (2014: 23.16%). The factors affecting the current tax charge for the year are as follows:

	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000	2014 Revenue £'000	2014 Capital £'000	2014 Total £'000
Net return on ordinary activities before taxation	41,465	31,050	72,515	46,958	323,849	370,807
Net return on ordinary activities before taxation multiplied by the Company's applicable rate of corporation tax of 21.32% (2014: 23.16%)	8,840	6,620	15,460	10,875	75,003	85,878
Effect of:						
Non taxable scrip dividends	–	–	–	(6)	–	(6)
Non taxable UK dividend income	(8,634)	–	(8,634)	(9,811)	–	(9,811)
Non taxable overseas dividend income	(1,220)	–	(1,220)	(1,942)	–	(1,942)
Non taxable capital gains	–	(9,352)	(9,352)	–	(77,860)	(77,860)
Unrelieved expenses	1,014	2,732	3,746	884	2,857	3,741
Overseas withholding tax	113	–	113	312	–	312
	113	–	113	312	–	312

(c) Deferred taxation

The Company has an unrecognised deferred tax asset of £44,455,000 (2014: £40,941,000) based on a prospective corporation tax rate of 20% (2014: 20%). 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.

8. Dividends

(a) Dividends paid and declared

	2015 £'000	2014 £'000
Unclaimed dividends refunded to the Company[1]	(7)	(8)
2014 fourth quarterly dividend of 16.0p (2013: 18.0p) paid to shareholders in May	15,719	17,710
First quarterly dividend of 8.0p (2014: 8.0p) paid to shareholders in August	7,859	7,859
Second quarterly dividend of 8.0p (2014: 8.0p) paid to shareholders in October	7,859	7,859
Third quarterly dividend of 8.0p (2014: 8.0p) paid to shareholders in February[2]	7,859	7,859
Total dividends paid in the year	39,289	41,279

[1]Represents dividends which remain unclaimed after a period of twelve years and thereby become the property of the Company.
[2]Paid to the Registrars in January.

	2015 £'000	2014 £'000
Fourth quarterly dividend declared of 17.0p (2014: 16.0p) payable to shareholders in May	16,610	15,719

The fourth quarterly dividend has been declared in respect of the year ended 31st January 2015. In accordance with the accounting policy of the Company, this dividend will be reflected in the accounts for the year ending 31st January 2016.

(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 £41,352,000 (2014: £46,646,000).

	2015 £'000	2014 £'000
First quarterly dividend of 8.0p (2014: 8.0p) paid in August	7,859	7,859
Second quarterly dividend of 8.0p (2014: 8.0p) paid in October	7,859	7,859
Third quarterly dividend of 8.0p (2014: 8.0p) paid in February	7,859	7,859
Fourth quarterly dividend of 17.0p (2014: 16.0p) payable in May	16,610	15,719
	40,187	39,296

9. Return per share

The revenue return per share is based on the revenue earnings attributable to the ordinary shares of £41,352,000 (2014: £46,646,000) and on the weighted average number of ordinary shares in issue during the year of 98,228,869 (2014: 98,277,527).

The capital gain per share is based on the capital gain attributable to the ordinary shares of £31,050,000 (2014: £323,849,000) and on the weighted average number of ordinary shares in issue during the year of 98,228,869 (2014: 98,277,527).

The total gain per share is based on the total gain attributable to the ordinary shares of £72,402,000 (2014: £370,495,000) and on the weighted average number of ordinary shares in issue during the year of 98,228,869 (2014: 98,277,527).

Financial Statements – continued

Notes to the Financial Statements – continued

	2015 £'000	2014 £'000
10. Investments		
Investments listed on a recognised stock exchange	1,593,602	1,691,860
Investments listed on AIM and unlisted investments	128,803	139,899
	1,722,405	1,831,759

	Listed UK £'000	Listed Overseas £'000	AIM and Unlisted £'000	Total £'000
Opening book cost	1,248,391	19,053	105,568	1,373,012
Opening investment holding gains/(losses)	426,531	(2,115)	34,331	458,747
Opening valuation	1,674,922	16,938	139,899	1,831,759
Movements in the year:				
Purchases at cost	1,111,082	1,797	47,400	1,160,279
Sales – proceeds	(1,238,733)	(6,509)	(68,248)	(1,313,490)
Losses on sales of investments based on the carrying value at the previous balance sheet date	(73,323)	(12,226)	(274)	(85,823)
Reclassification of holdings from Listed to AIM	(13,730)	–	13,730	–
Reclassification of holdings from Unlisted to Overseas Listed	–	2,170	(2,170)	–
Net movement in investment holding gains and losses	131,257	(43)	(1,534)	129,680
	1,591,475	2,127	128,803	1,722,405
Closing book cost	1,280,334	2,170	98,092	1,380,596
Closing investment holding gains	311,141	(43)	30,711	341,809
Total investments held at fair value through profit or loss	1,591,475	2,127	128,803	1,722,405

Stamp duty and brokerage commission on purchases during the year amounted to £4,267,000 (2014: £4,098,000) and £1,102,000 (2014: £1,050,000) respectively. Brokerage commission on sales during the year amounted to £1,417,000 (2014: £995,00).

Investments include Alternative Investment Market stocks which are valued at £125,914,000 (2014: £134,790,000).

During the year, prior year investment holding gains amounting to £246,618,000 have been transferred to gains on sales of investments as disclosed in note 17.

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	5.1
Safe charge International Group	UK	Ordinary	4.3
Xchanging	UK	Ordinary	3.7
Helical Bar	UK	Ordinary	3.7
Young & Co.'s Brewery	UK	Ordinary	3.6

The Company has interests of 3% or more in the share capital of 26 (2014: 29) 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 2015 was £184,045,000 (2014: £256,495,000).

	2015 £'000	2014 £'000
12. Current assets		
Derivative financial instruments		
Forward foreign currency contracts	–	1

	2015 £'000	2014 £'000
13. Current assets		
Debtors		
Securities sold awaiting settlement	1,021	15,807
Dividends and interest receivable	1,098	919
Taxation recoverable	346	64
Other debtors	108	135
	2,573	16,925

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. At the year ended 31st January 2015 the Company held cash of £367,000 (2014: £311,000) and £193 million (2014: £27 million) 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. Refer to note 24(c) for further details.

	2015 £'000	2014 £'000
14. Creditors: amounts falling due within one year		
Securities purchased awaiting settlement	17,876	5,819
Repurchases of the Company's own shares awaiting settlement	4,246	–
Other creditors and accruals	5,544	4,880
	27,666	10,699

The Company has a £50 million multicurrency revolving credit facility with Scotiabank (Ireland) Limited, but was undrawn at the year end. The facility is unsecured but is subject to covenants and restriction which are customary for a facility of this nature, all of which have been met. Further details of the credit facility are given in note 24(a)(i) page 58. The bank loan at the prior year was undrawn on this facility.

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

	2015 £'000	2014 £'000
15. 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]	173,533	173,437
	177,383	177,287

[1]The £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.

[2]The £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.

Financial Statements – continued

Notes to the Financial Statements – continued

	2015 £'000	2014 £'000
16. Called up share capital		
Ordinary shares allotted and fully paid:		
Opening balance of 98,240,719 (2014: 98,455,719) shares of 25p each	24,560	24,614
Repurchase and cancellation of 536,084 (2014: 215,000) shares	(134)	(54)
Closing balance of 97,704,635 (2014: 98,240,719) shares of 25p each	24,426	24,560

During the year, the Company repurchased 536,084 (2014: 215,000) ordinary shares, nominal value £134,000 (2014: 54,000), for cancellation, representing 0.55% of the issued shares at the beginning of the year, for a total consideration of £7,927,000 (2014: 2,739,000).

				Capital reserves			
	Called up share capital £'000	Share premium £'000	Capital reserve £'000	Gains on redemption investments £'000	Investment sales of gains £'000	Revenue reserve £'000	Total £'000
17. Reserves							
Opening balance	24,560	23,459	12,210	1,134,103	458,748	34,830	1,687,910
Net currency gains on cash and short term deposits held during the year	–	–	–	41	–	–	41
Unrealised gains/(losses) on foreign currency contracts	–	–	–	1	(1)	–	–
Losses on sales of investments based on the carrying value at the previous balance sheet date	–	–	–	(85,823)	–	–	(85,823)
Net movement in investment holding gains and losses	–	–	–	–	129,680	–	129,680
Transfer on disposal of investments	–	–	–	246,618	(246,618)	–	–
Repurchase and cancellation of the Company's own shares	(134)	–	134	(7,927)	–	–	(7,927)
Management fee and finance costs charged to capital	–	–	–	(12,813)	–	–	(12,813)
Other capital charges	–	–	–	(35)	–	–	(35)
Dividends appropriated in the year	–	–	–	–	–	(39,289)	(39,289)
Retained revenue for the year	–	–	–	–	–	41,352	41,352
Closing balance	24,426	23,459	12,344	1,274,165	341,809	36,893	1,713,096

18. Net asset value per share

The net asset value per share is based on the net assets attributable to the ordinary shareholders of £1,713,096,000 (2014: £1,687,910,000) and on the 97,704,635 (2014: 98,240,719) shares in issue at the year end.

	2015 £'000	2014 £'000
19. Reconciliation of net return on ordinary activities before finance costs and taxation to net cash inflow from operating activities		
Net return on ordinary activities before finance costs and taxation	83,712	381,811
Less capital return on ordinary activities before finance costs and taxation	(38,888)	(331,552)
Scrip dividends received as income	–	(25)
Increase in dividends and interest receivable	(179)	(75)
Decrease/(increase) in other debtors	27	(31)
Increase/(decrease) in accrued expenses	612	(169)
Management fee charged to capital	(4,975)	(4,953)
Overseas withholding tax	(457)	(358)
Net cash inflow from operating activities	39,852	44,648

	At 31st January 2014 £'000	Cash flow £'000	Other exchange movement £'000	Non cash movements £'000	At 31st January 2015 £'000
20. Analysis of changes in net debt					
Cash at bank and in hand	311	14	42	–	367
Short term deposits	26,900	165,900	–	–	192,800
Total cash and short term deposits	27,211	165,914	42	–	193,167
Debentures falling due after more than five years	(177,287)	–	–	(96)	(177,383)
Net debt	(150,076)	165,914	42	(96)	15,784

21. Contingent liabilities and capital commitments

At the balance sheet date there were no contingent liabilities or capital commitments (2014: same).

22. Transactions with JPMorgan

Details of the management contract are set out in the Directors' Report on page 24. The management fee payable to the Manager for the year was £7,107,000 (2014: £6,619,000) of which £559,000 (2014: £nil) was outstanding at the year end.

During the year £118,000 (2014: £115,000) was payable to the Manager for the marketing and administration of savings scheme products, of which £10,000 (2014: £nil) was outstanding at the year end.

Included in administration expenses in note 5 on page 49 are safe custody fees amounting to £27,000 (2014: £29,000) payable to JPMorgan Chase of which £6,000 (2014: £5,000) was outstanding at the year end.

During the year, brokerage commission on dealing transactions amounted to £348,000 (2014: £145,000) was payable to JPMorgan subsidiaries of which £nil (2014: £nil) was outstanding at the year end.

Handling charges on dealing transactions amounting to £35,000 (2014: £25,000) were payable to JPMorgan Chase during the year of which £11,000 (2014: £3,000) was outstanding at the year end.

At the year end, total cash of £367,000 (2014: £311,000) was held with JPMorgan Chase. A net amount of interest of £500 (2014: £500) was receivable by the Company during the year from JPMorgan Chase of which £nil (2014: £nil) was outstanding at the year end.

Details of fees paid to Directors are included in the Directors' Renumeration Report on page 32 and in note 5 on page 49.

Financial Statements – continued

Notes to the Financial Statements – continued

23. 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 46.

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

	2015			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets held at fair value through profit or loss at 31st January 2015				
Equity investments	1,719,516	–	2,795	1,722,311
Fixed interest investment	–	–	94	94
Total	1,719,516	–	2,889	1,722,405

	2014			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets held at fair value through profit or loss at 31st January 2014				
Equity investments	1,826,650	–	5,015	1,831,665
Fixed interest investment	–	–	94	94
Total	1,826,650	–	5,109	1,831,759

There was one stock transfered from level 3 to level 1 during the year (2014: nil). A reconciliation of the fair value measurements in Level 3 is set out below.

	2015		
	Equity investments £'000	Fixed interest investment £'000	Total £'000
Level 3 financial assets held at fair value through profit or loss at 31st January 2015			
Opening balance	5,015	94	5,109
Purchase	–	–	–
Sales	170	–	170
Transfer out of level 3	(2,127)	–	(2,127)
Gains on sales of investments based on the carrying value at the previous balance sheet date	(170)	–	(170)
Net movement in investment holding gains and losses	(93)	–	(93)
Closing balance	2,795	94	2,889

	Equity investments £'000	2014 Fixed interest investment £'000	Total £'000
Level 3 financial assets held at fair value through profit or loss at 31st January 2014			
Opening balance	4,987	94	5,081
Purchase	521	–	521
Sales	(3,947)	–	(3,947)
Transfers into Level 3	2,148	–	2,148
Gains on sales of investments based on the carrying value at the previous balance sheet date	2,848	–	2,848
Net movement in investment holding gains and losses	(1,542)	–	(1,542)
Closing balance	5,015	94	5,109

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.

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

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

These financial risks include market risk (comprising interest rate risk and market price risk), liquidity risk and credit risk. The Directors' policy for managing these risks is set out below. The Company 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 reset.

Management of interest rate risk

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

Financial Statements – continued

Notes to the Financial Statements – continued

24. 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 reset, is shown below:

	2015 £'000	2014 £'000
Exposure to floating interest rates		
Cash at bank and short term deposits	193,167	27,211
Total exposure	193,167	27,211

Interest receivable on cash balances, or paid on overdrafts, is at a margin below or above LIBOR respectively (2014: 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:

	2015 £'000	2014 £'000
Maximum interest rate exposure during the year – net cash balances	246,572	146,081
Minimum interest rate exposure during the year – net cash balances	27,211	2,009

Interest rate sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to a 1% (2014: 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.

	2015		2014	
	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	1,932	(1,932)	272	(272)
Capital return	–	–	–	–
Total return after taxation	1,932	(1,932)	272	(272)
Net assets	1,932	(1,932)	272	(272)

The Company has a £50 million multicurrency revolving credit facility with Scotiabank (Ireland) Limited. Under the terms of this facility, interest is payable at a rate of LIBOR as quoted on the market for the loan period plus a margin, plus Mandatory Costs, which are the lender's cost of complying with certain regulatory requirements of the Bank of England. The facility was not utilised during the year and was undrawn at the year end (2014: same).

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:

	2015 £'000	2014 £'000
Equity investments held at fair value through profit or loss	1,722,405	1,831,759

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 14 to 17. 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% (2014: 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.

	2015		2014	
	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	(258)	258	(275)	275
Capital return	171,638	(171,638)	182,535	(182,535)
Total return after taxation	171,380	(171,380)	182,260	(182,260)
Net assets	171,380	(171,380)	182,260	(182,260)

Financial Statements – continued

Notes to the Financial Statements – continued

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

(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.

Liquidity risk exposure

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

	2015			
	Three months or less £'000	More than three months but not more than one year £'000	More than one year £'000	Total £'000
Creditors: amounts falling due within one year				
Securities purchased awaiting settlement	17,876	–	–	17,876
Repurchase of Company's own shares awaiting settlement	4,246	–	–	4,246
Other creditors and accruals	4,088	–	–	4,088
Debenture stock – interest	5,441	5,441	–	10,882
Creditors: amounts falling due after more than one year				
Debenture stock – principal[1]	–	–	178,850	178,850
Debenture stock – interest	–	–	158,070	158,070
	31,651	5,441	336,920	374,012

	2014			
	Three months or less £'000	More than three months but not more than one year £'000	More than one year £'000	Total £'000
Creditors: amounts falling due within one year				
Securities purchased awaiting settlement	5,819	–	–	5,819
Other creditors and accruals	168	–	–	168
Debenture stock – interest	5,441	5,441	–	10,882
Creditors: amounts falling due after more than one year				
Debenture stock – principal[1]	–	–	178,850	178,850
Debenture stock – interest	–	–	168,952	168,952
	11,428	5,441	347,802	364,671

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

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

(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 regular credit analysis by the Manager and deposits can only be placed with counterparties that have been approved by JPMAM's Counterparty Risk Group. The Board regularly reviews the counterparties used by the Manager. At the year end the cash balance of £193.0 million was placed across a range of suitably approved counterparties in line with the Board's concentration guidelines.

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.

	2015		2014	
	Balance sheet £'000	Maximum exposure £'000	Balance sheet £'000	Maximum exposure £'000
Fixed assets – investments held at fair value through profit or loss	1,722,405	–	1,831,759	–
Derivative financial instruments	–	–	1	1
Current assets				
Debtors – securities sold awaiting settlement, dividends and interest receivable and other debtors	2,573	2,573	16,925	16,925
Cash and short term deposits	193,167	193,167	27,211	27,211
	1,918,145	195,740	1,875,896	44,137

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

(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	
	2015 £'m	2014 £'m	2015 £'m	2014 £'m
£175 million 6.125% debenture stock 25th February 2030	173.5	173.4	244.8	203.0
£3.85 million 4.25% perpetual debenture stock	3.9	3.9	5.4	3.3
	177.4	177.3	250.2	206.3

Financial Statements – continued

Notes to the Financial Statements – continued

25. Capital management policies and procedures

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

	2015 £'000	2014 £'000
Debt		
£175 million 6.125% debenture stock 25th February 2030	173,533	173,437
£3.85 million 4.25% perpetual debenture stock	3,850	3,850
	177,383	177,287
Equity		
Called up share capital	24,426	24,560
Reserves	1,688,670	1,663,350
	1,713,096	1,687,910
Total debt and equity	1,890,479	1,865,197

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.

	2015 £'000	2014 £'000
Investments at fair value	1,722,405	1,831,759
Current assets excluding cash	2,573	16,926
Current liabilities excluding bank loans	(27,666)	(10,699)
Total Assets	1,697,312	1,837,986
Net assets	1,713,096	1,687,910
Gearing	(0.9)%	8.9%

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

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

26. Subsequent events

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

Shareholder Information

Notice of Annual General Meeting

Notice is hereby given that the one hundred and twenty ninth Annual General Meeting of The Mercantile Investment Trust plc will be held at Trinity House, Tower Hill, London EC3N 4DH on 20th May 2015 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 2015.
2. To approve the Company's Remuneration Policy.
3. To approve the Directors' Remuneration Report for the year ended 31st January 2015.
4. To re-elect Hamish Leslie Melville as a Director of the Company.
5. To re-elect Sandy Nairn as a Director of the Company.
6. To re-elect Ian Russell 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 elect Harry Morley as a Director of the Company.
10. To reappoint PricewaterhouseCoopers LLP as auditors to the Company and to authorise the Directors to determine their remuneration.

Special Business:
To consider the following resolution:

Authority to allot new shares – Ordinary Resolution

11. THAT the Directors of the Company be and they are hereby generally and unconditionally authorised, (in substitution of any authorities previously granted to the Directors), pursuant to and in accordance with Section 551 of the Companies Act 2006 (the 'Act') to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company ('rights') up to an aggregate nominal amount of £1,210,490, 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 2016 unless renewed at a general meeting prior to such time, save that the Company may before such expiry make offers or agreements which would or might require shares to be allotted or Rights to be granted after such expiry and so that the Directors of the Company may allot shares and grant Rights in pursuance of such offers or agreements as if the authority conferred hereby had not expired.

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

12. THAT subject to the passing of Resolution 11 set out above, the Directors of the Company be and they are hereby empowered pursuant to Sections 570 and 573 of the Act to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authority conferred by Resolution 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 £1,210,490 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 11 above, save that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and so that the Directors of the Company may allot equity securities in pursuant of such offers or agreements as if the power conferred hereby had not expired.

Authority to repurchase the Company's shares – Special Resolution

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

    PROVIDED ALWAYS THAT

    (i) the maximum number of ordinary shares hereby authorised to be purchased shall be

Shareholder Information – continued

Notice of Annual General Meeting – continued

14,516,205 or if less, that number of ordinary shares which is equal to 14.99% of the Company's issued share capital as at the date of the passing of this Resolution;

(ii) the minimum price which may be paid for an ordinary share shall be 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 19th November 2016 unless the authority is renewed at the Company's Annual General Meeting in 2016 or at any other general meeting prior to such time; and

(vi) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which contract will or may be executed wholly or partly after the expiry of such authority and may make a purchase of ordinary shares pursuant to any such contract.

Approval of dividend policy – Ordinary Resolution

14. THAT the shareholders approve the Company's dividend policy to continue to pay four quarterly interim dividends, which in the year under review have totalled 41 pence per share.

By order of the Board
JPMorgan Funds Limited,
Company Secretary

7th April 2015

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 25th March 2015 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 96,839,260 Ordinary shares, carrying one vote each. Therefore the total voting rights in the Company are 96,839,260.

Electronic appointment – CREST members

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

Shareholder Information – continued

Glossary of Terms and 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.

Gearing/(Net Cash)
Gearing represents the excess amount above shareholders' funds of total assets expressed as a percentage of the shareholders' funds. Total assets include total investments and net current assets/liabilities less cash/cash equivalents and excluding bank loans of less than one year. If the amount 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.

Fair Value
The fair value of the Company's debentures is calculated using a discounted cash flow technique which applies the yield from a similarly dated gilt to the debentures issued by the Company and adds to that a margin based on the 5 year average for the AA Barclays Sterling Corporate Bond spread.

For the £175 million debenture, the Company takes the yield on 4.75% Treasury Gilt 07/12/2030. For the £3.85 million perpetual debenture, the Company applies the yield on 3.50% War Loan.

The margin applied on the 5 year average for the AA Barclays Sterling Corporate Bond spread at 31st January 2015 was 1.288%.

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.

Cost of Gearing Effect
Measures the impact on relative performance arising from the cost of borrowings.

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

Repurchase of shares for cancellation
Measures the effect on relative performance of repurchasing and cancelling the Company's own shares at a price which is less than the net asset value per share.

Alternative Investment Fund Managers Directive ('AIMFD')
The Company's maximum and actual leverage (see Glossary of Terms and Definitions on page 66) levels at 31st January 2015 are shown below:

Leverage exposure	Gross method	Commitment method
Maximum limit	200%	200%
Actual	121%	121%

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

Information about the Company

Financial Calendar

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

*or nearest following business day.

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

The Association of Investment Companies A member of the AIC

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 & Depositary (UK) Limited
BNY Mellon Centre
160 Queen Victoria Street
London EC4V 4LA

The Depositary employs JPMorgan Chase Bank, N.A. as the Company's custodian.

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