

THE MERCANTILE INVESTMENT TRUST PLC

Half Year Report & Accounts for the six months ended 31st July 2016

Discovering Tomorrow's
Market Leaders



J.P.Morgan
Asset Management

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Features

Objective

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

Investment Policy

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

Benchmark

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

Capital Structure

At 31st July 2016, the Company's issued share capital comprised 94,449,218 ordinary shares of 25p each, including 550,000 shares held in Treasury.

At 31st July 2016, the Company also had in issue a £3.85 million 4.25% perpetual debenture and a £175 million 6.125% debenture repayable on 25th February 2030.

Management Company

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

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

Half Year Performance

Total returns (includes dividends reinvested)

-4.0%

Return to shareholders¹

-1.0%

Return on net assets²

+5.7%

Benchmark return³

5 Year Performance

(Figures have been rebased to 100 as at 31st July 2011)



Financial Data

	31st July 2016	31st January 2016	% Change
Shareholders' funds (£'000)	1,775,626	1,853,730	-4.2
Number of shares in issue (excluding shares held in Treasury)	93,899,218	95,957,040	
Net asset value per share with debt at par value	1,891.0p	1,931.8p	-2.1
Net asset value per share with debt at fair value ⁴	1,797.7p	1,864.1p	-3.6
Net asset value return with dividends reinvested	-1.0%	+12.9%	
Share price	1,635.0p	1,727.0p	-5.3
Share price discount to net asset value per share with debt at par value	13.5%	10.6%	
Share price discount to net asset value per share with debt at fair value	9.1%	7.4%	
Net cash	(8.3)%	(4.2)%	
Ongoing Charges	0.49%	0.48%	

A glossary of terms and definitions is provided on page 18.

¹Source: Morningstar.

²Source: J.P. Morgan, using net asset value per share with debt at par value.

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

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

About the Company

Chairman's Statement



Hamish Leslie Melville

The Company's net asset value total return in the six months to 31st July 2016 was -1.0% , compared to a return of $+5.7\%$ from our benchmark index, the FTSE All-Share, excluding FTSE 100 constituents and investment trusts. The share price return was -4.0% .

EU Referendum

The Company's portfolio was positioned, in line with the consensus, for a vote to remain. Since the outcome of the EU referendum the Investment Managers have made some changes to the portfolio, which are explained in the Investment Managers' Report.

Returns and Dividends

The income received from investments in the first half of the Company's current financial year is behind that of the half year ended 31st July 2015. This is predominantly due to the timing of special dividends within the year.

A second interim dividend of 10.25 pence per share has been declared by the Board, payable on 1st November 2016 to shareholders on the register at close of business on 7th October 2016. Together with the first interim dividend of 10.25 pence paid on 1st August 2016 this brings the total dividend for the year to date to 20.50 pence (2015: 20.00 pence). The Board anticipates that there will be a third interim dividend of 10.25 pence to be paid in early February 2017.

The level of the fourth interim dividend will depend on income received by the Company for the balance of the current financial year. The Board recognises shareholders' desire for a growing dividend in line with the Company's investment policy, whilst maintaining a prudent view and monitoring closely the level of the Company's Revenue Reserve.

Discount and Share Buy Backs

The Board has continued to use share repurchase authority to enhance value and manage imbalances between the supply and demand of the Company's shares. In the six months to 31st July 2016, 2,057,822 shares were repurchased at a cost of £34,057,000. Of the shares repurchased, 1,507,822 were cancelled and 550,000 are held in treasury.

Gearing

The Company has maintained a conservative position in relation to gearing and ended the period under review with 8.3% net cash.

Board Apprentice

The Board has agreed to participate in this initiative once again, with the appointment of Anjola Adeniyi on the same basis as the previous Board Apprentice.

Management Fee

Following the regular review of management fees, the Board and the Manager have agreed a reduction in fees. The current rate of 0.50% per annum of the Company's market capitalisation will fall by 10% to 0.45% per annum. This will take effect in two equal steps on 1st February 2017 and 1st February 2018. This will ensure that the Company's ongoing charges ratio remains amongst the lowest in the investment trust market.

About the Company – continued

Outlook

Since the result of the EU referendum market volatility has increased, although economic data releases and company trading statements have generally shown little change from previous indicators. The economy grew slowly during the first half of the year, and continues to improve, although at a more gradual rate. The Board remains confident in the prospects for small- and medium-sized UK companies and the Investment Managers' ability to take advantage of these, particularly in light of the substantial gearing capacity that is available and currently unutilised.

Hamish Leslie Melville
Chairman

22nd September 2016

About the Company – continued

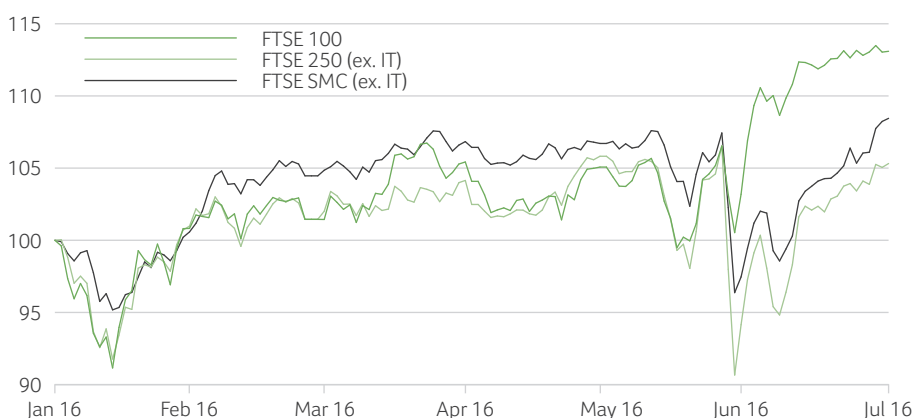
Investment Managers' Report



Market Background

The UK equity market experienced a period of increased volatility through the first six months of your Company's financial year. Having recovered from the start of year sell-off that was driven primarily by concerns that the Chinese economy was slowing, as well as the growth outlook more broadly, the UK market generated minor gains up until June, when the focus turned more sharply to the UK referendum. Following the vote to leave the EU there was an immediate and sharp sell-off. This was then recouped through July following a swift political transition to Theresa May as Prime Minister and the actions of the Bank of England to reduce interest rates and introduce a further round of Quantitative Easing.

Market performance FYTD (31st January 2016 – 31st July 2016)



However, underlying this aggregate view of the market there has been notable divergence in performance at a stock and sector level. In the immediate aftermath of the referendum result, stock performance diverged significantly as different assets were re-priced – with the change in FX rates (Sterling depreciated by ~10% against the US Dollar, and by nearly the same against the Euro) and the increased uncertainty on the outlook for the domestic economy being the two most obvious areas of focus. In broad terms this led to significant outperformance of international and defensive earners, and underperformance of domestic and cyclical earners. This was reflected in a stronger relative performance from the FTSE 100, which is more international and has lower exposure to the domestic cyclical sectors.

Portfolio performance and positioning

Against this backdrop, your Company had a challenging six months; the return on net assets over the period was -1.0%, behind the 5.7% return from the benchmark, the FTSE All-Share Index excluding FTSE 100 constituents and Investment Trusts. Reflecting a widening of the discount, the share price total return was -4.0% for the period.

Given the portfolio positioning prior to the vote – overweight domestic consumer and underweight international – this negative relative performance was suffered in the final week of June after the referendum vote, during the period of market dislocation.

Since the referendum on the 23rd June and reflecting the increased level of uncertainty on the outlook for the UK economy, we have made some changes to the positioning of the portfolio. This has resulted in a somewhat more concentrated portfolio (99 holdings from

About the Company – continued

114 the week of the vote) and an increase in the level of net cash from 4.4% net cash at the start of the year to 8.3% at the period end (and 5.2% net cash at the time of writing). The aim of this repositioning has been to focus on those companies where the investment case is less dependent upon a favourable UK macroeconomic environment, or where the valuation remains compelling.

As a result of these changes, the portfolio is now more evenly balanced between domestically and internationally derived revenue and from a sector perspective has slightly lower exposure to the domestic consumer in favour of greater exposure to industrials.

Outlook

Global economic growth remains positive but muted, and Central Bank policies, including those of The Bank of England, continue to support asset prices but do not diminish the longer term risks. The vote to leave the EU has also introduced uncertainty into the outlook for the UK economy, and while initial economic indicators have been encouraging, it is too early to understand fully the ramifications of this process.

Against this backdrop, we have maintained our conservative view on the aggregate level of market exposure and the portfolio currently holds 5.2% net cash, leaving us as before with plenty of capacity (from the net cash and the gearing facilities) to take advantage of any investment opportunities that result from market- or company-specific events. We believe that the key is to focus on investing in those companies that have strong business models, are suitably financed and are well placed to succeed.

We remain committed to this approach and are confident about the investment opportunities that can be found in our market, and we expect that the favourable dynamics of investing in medium- and small-sized companies will continue to drive superior returns over the long-term.

Guy Anderson
Martin Hudson
Anthony Lynch
Investment Managers

22nd September 2016

Investment Review

List of Investments

at 31st July 2016

Company	Sector	Value £'000	%
Domino's Pizza	Consumer Services	55,147	3.4
Micro Focus International	Technology	50,836	3.1
Smith (DS)	Industrials	41,249	2.5
IG	Financials	38,874	2.4
Just Eat	Consumer Services	38,843	2.4
Auto Trader Group	Consumer Services	37,453	2.3
SEGRO	Financials	36,938	2.3
Inchcape	Consumer Services	36,245	2.2
Halma	Industrials	35,904	2.2
Smurfit Kappa Group	Industrials	34,223	2.1
Rentokil Initial	Industrials	33,730	2.1
Greencore	Consumer Goods	31,055	1.9
RPC	Industrials	30,101	1.8
Bellway	Consumer Goods	28,910	1.8
Phoenix Group	Financials	28,890	1.8
Moneysupermarket.com Group	Consumer Services	28,507	1.8
Saga	Consumer Services	28,313	1.7
Hiscox	Financials	28,090	1.7
Rightmove	Consumer Services	27,547	1.7
Jardine Lloyd Thompson	Financials	27,524	1.7
Intermediate Capital Group	Financials	26,931	1.7
Ricardo	Industrials	26,377	1.6
Beazley	Financials	25,363	1.6
Keller Group	Industrials	24,992	1.5
Close Brothers	Financials	23,292	1.4
Atkins (WS)	Industrials	22,082	1.4
Polymetal International	Basic Materials	21,684	1.3
Card Factory	Consumer Services	21,335	1.3
Cranswick	Consumer Goods	20,963	1.3
Jupiter Fund Management	Financials	20,590	1.3
Playtech	Consumer Services	20,228	1.2
Shaftesbury	Financials	19,954	1.2
NMC Health	Health Care	19,707	1.2
Sophos Group	Technology	19,539	1.2
3i Group	Financials	18,495	1.1
Renishaw	Industrials	18,206	1.1
QinetiQ Group	Industrials	17,639	1.1
Man Group	Financials	17,501	1.1
SSP Group	Consumer Services	17,458	1.1
B&M European Value Retail	Consumer Services	16,982	1.0
Bodycote	Industrials	16,628	1.0
BBA Aviation	Industrials	16,599	1.0
WH Smith	Consumer Services	16,350	1.0
Grafton Group	Industrials	16,343	1.0
National Express	Consumer Services	15,369	0.9
Morgan Advanced Materials	Industrials	15,141	0.9
Howden Joinery Group	Industrials	14,919	0.9
Spirax-Sarco Engineering	Industrials	14,807	0.9

Investment Review – continued

List of Investments – continued

Company	Sector	Value £'000	%
VP	Industrials	14,359	0.9
SIG	Industrials	14,092	0.9
Marshalls	Industrials	13,940	0.9
Hill & Smith Holdings	Industrials	13,897	0.9
Polypipe	Industrials	13,322	0.8
Brewin Dolphin	Financials	13,153	0.8
Cairn Energy	Oil & Gas	13,012	0.8
Daily Mail & General Trust	Consumer Services	12,556	0.8
Young & Co's Brewery ¹	Consumer Services	12,507	0.8
Laird	Technology	12,465	0.8
888	Consumer Services	12,174	0.8
Tullett Prebon	Financials	12,125	0.8
JD Sports Fashion	Consumer Services	12,067	0.7
Berkeley Group	Consumer Goods	12,064	0.7
M.P. Evans ¹	Consumer Goods	11,842	0.7
Novae Group	Financials	10,860	0.7
Zoopla Property Group	Consumer Services	9,810	0.6
Softcat	Technology	9,576	0.6
Synthomer	Basic Materials	9,221	0.6
Taylor Wimpey	Consumer Goods	8,528	0.5
Fevertree Drinks ¹	Consumer Goods	8,396	0.5
Mitchells & Butlers	Consumer Services	8,233	0.5
Ascential	Consumer Services	7,612	0.5
Charles Taylor	Industrials	7,217	0.4
International Personal Finance	Financials	7,078	0.4
Arrow Global	Financials	6,747	0.4
Aveva Group	Technology	6,433	0.4
M&C Saatchi ¹	Consumer Services	6,238	0.4
Shawbrook Group	Financials	6,088	0.4
Faroe Petroleum ¹	Oil & Gas	5,912	0.4
Ocado Group	Consumer Services	5,596	0.3
Renold	Industrials	5,440	0.3
Ibstock	Industrials	5,124	0.3
Cenkos Securities ¹	Financials	5,098	0.3
Fidessa	Technology	4,975	0.3
Countryside Properties	Consumer Goods	4,763	0.3
Lookers	Consumer Services	4,153	0.3
Forterra	Industrials	4,137	0.3
Evraz	Basic Materials	4,106	0.2
Mortgage Advice Bureau ¹	Financials	4,033	0.2
Trinity Mirror	Consumer Services	3,965	0.2
Shore Capital ¹	Financials	3,781	0.2
Tennants Consolidated ^{2,3}	Basic Materials	3,605	0.2
Bowleven ¹	Oil & Gas	2,853	0.2
Clarke (T)	Industrials	2,436	0.2
Anglo-Eastern Plantations	Consumer Goods	2,396	0.2
Channel Islands Property ⁴	Financials	2,170	0.1
Egdon Resources ¹	Oil & Gas	1,924	0.1

Investment Review – continued

Company	Sector	Value £'000	%
Helical Bar	Financials	1,514	0.1
Peel Hotels ¹	Consumer Services	1,265	0.1
DFS Furniture	Consumer Services	391	—
Total ⁵		1,629,102	100.0

¹AIM listed investment.

²Unquoted investment.

³Includes a fixed interest investment.

⁴Listed Overseas.

⁵The portfolio comprises investments in equity shares and a fixed interest investment.

Investment Review – continued

Portfolio Analyses

Listed Equity Market Capitalisation

	31st July 2016 % ¹	31st January 2016 % ¹
UK FTSE Mid Sized	88.0	78.9
UK FTSE Small & Fledgling	5.4	9.3
UK AIM	3.9	5.9
UK FTSE 100	2.4	5.6
UK Unquoted	0.2	0.2
Overseas	0.1	0.1
Total	100.0	100.0

¹Based on total investments of €1,629m (31st January 2016: €1,776m).

Sector Analysis

	31st July 2016		31st January 2016	
	Portfolio % ¹	Benchmark %	Portfolio % ¹	Benchmark %
Industrials	29.0	29.5	24.1	28.1
Consumer Services	28.0	20.0	28.9	24.2
Financials	23.6	25.0	28.5	24.6
Consumer Goods	7.9	6.3	11.6	6.9
Technology	6.4	3.6	4.3	2.8
Basic Materials	2.4	5.2	0.5	3.7
Oil & Gas	1.5	3.5	1.4	3.4
Health Care	1.2	3.6	0.7	3.5
Telecommunications	—	1.8	—	1.3
Utilities	—	1.5	—	1.5
Total	100.0	100.0	100.0	100.0

¹Based on total investments of €1,629m (31st January 2016: €1,776m).

Financial Statements

Statement of Comprehensive Income for the six months ended 31st July 2016

	(Unaudited) Six months ended 31st July 2016			(Unaudited) Six months ended 31st July 2015			(Audited) Year ended 31st January 2016		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments held at fair value through profit or loss	—	(41,344)	(41,344)	—	225,998	225,998	—	177,274	177,274
Net foreign currency (losses)/gains	—	(9)	(9)	—	15	15	—	85	85
Income from investments	29,443	—	29,443	32,565	—	32,565	55,783	—	55,783
Interest receivable and similar income	337	—	337	522	—	522	1,065	—	1,065
Gross return/(loss)	29,780	(41,353)	(11,573)	33,087	226,013	259,100	56,848	177,359	234,207
Management fee	(1,101)	(2,570)	(3,671)	(1,097)	(2,560)	(3,657)	(2,279)	(5,317)	(7,596)
Other administrative expenses	(759)	—	(759)	(661)	—	(661)	(1,362)	—	(1,362)
Net return/(loss) on ordinary activities before finance costs and taxation	27,920	(43,923)	(16,003)	31,329	223,453	254,782	53,207	172,042	225,249
Finance costs	(1,674)	(3,905)	(5,579)	(1,671)	(3,903)	(5,574)	(3,345)	(7,806)	(11,151)
Net return/(loss) on ordinary activities before taxation	26,246	(47,828)	(21,582)	29,658	219,550	249,208	49,862	164,236	214,098
Taxation	(421)	—	(421)	(162)	—	(162)	(282)	—	(282)
Net return/(loss) on ordinary activities after taxation	25,825	(47,828)	(22,003)	29,496	219,550	249,046	49,580	164,236	213,816
Return/(loss) per share (note 5)	27.19p	(50.36)p	(23.17)p	30.54p	227.30p	257.84p	51.46p	170.47p	221.93p

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

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

The return/(loss) per share represents the profit/(loss) per share for the year and also the total comprehensive income per share.

Financial Statements – continued

Statement of Changes in Equity for the six months ended 31st July 2016 (unaudited)

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve ¹ £'000	Total £'000
At 31st January 2016	23,989	23,459	12,781	1,752,255	41,246	1,853,730
Repurchase and cancellation of the Company's own shares	(377)	—	377	(25,073)	—	(25,073)
Repurchase of shares into Treasury	—	—	—	(8,984)	—	(8,984)
Net (loss)/return on ordinary activities	—	—	—	(47,828)	25,825	(22,003)
Dividends paid in the period	—	—	—	—	(22,044)	(22,044)
At 31st July 2016	23,612	23,459	13,158	1,670,370	45,027	1,775,626

For the six months ended 31st July 2015 (unaudited)

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve ¹ £'000	Total £'000
At 31st January 2015	24,426	23,459	12,344	1,615,974	36,893	1,713,096
Repurchase and cancellation of the Company's own shares	(364)	—	364	(22,939)	—	(22,939)
Net return on ordinary activities	—	—	—	219,550	29,496	249,046
Dividends paid in the period	—	—	—	—	(26,019)	(26,019)
At 31st July 2015	24,062	23,459	12,708	1,812,585	40,370	1,913,184

Year ended 31st January 2016 (audited)

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve ¹ £'000	Total £'000
At 31st January 2015	24,426	23,459	12,344	1,615,974	36,893	1,713,096
Repurchase and cancellation of the Company's own shares	(437)	—	437	(27,955)	—	(27,955)
Net return on ordinary activities	—	—	—	164,236	49,580	213,816
Dividends paid in the year	—	—	—	—	(45,227)	(45,227)
At 31st January 2016	23,989	23,459	12,781	1,752,255	41,246	1,853,730

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

Financial Statements – continued

Statement of Financial Position at 31st July 2016

	(Unaudited) 31st July 2016 £'000	(Unaudited) 31st July 2015 £'000	(Audited) 31st January 2016 £'000
Fixed assets			
Investments held at fair value through profit or loss	1,629,102	1,864,253	1,775,622
Current assets			
Debtors	3,760	13,108	6,185
Cash and cash equivalents	329,596	229,600	262,644
	333,356	242,708	268,829
Current liabilities			
Creditors: amounts falling due within one year	(9,304)	(16,345)	(13,242)
Net current assets	324,052	226,363	255,587
Total assets less current liabilities	1,953,154	2,090,616	2,031,209
Creditors: amounts falling due after more than one year	(177,528)	(177,432)	(177,479)
Net assets	1,775,626	1,913,184	1,853,730
Capital and reserves			
Called up share capital	23,612	24,062	23,989
Share premium	23,459	23,459	23,459
Capital redemption reserve	13,158	12,708	12,781
Capital reserves	1,670,370	1,812,585	1,752,255
Revenue reserve	45,027	40,370	41,246
Total equity shareholders' funds	1,775,626	1,913,184	1,853,730
Net asset value per share (note 6)	1,891.0p	1,987.8p	1,931.8p

Company registration number 20537

Financial Statements – continued

Statement of Cash Flows for the six months ended 31st July 2016

	(Unaudited) Six months ended 31st July 2016 £'000	(Unaudited) Six months ended 31st July 2015 £'000	(Audited) Year ended 31st January 2016 £'000
Net cash outflow from operations before dividends and interest (note 7)	(4,562)	(4,689)	(9,076)
Dividends received	28,008	31,132	53,827
Interest received	581	341	840
Overseas tax recovered	116	—	—
Interest paid	(5,530)	(5,528)	(11,058)
Net cash inflow from operating activities	18,613	21,256	34,533
Purchases of investments	(385,858)	(435,209)	(726,385)
Sales of investments	489,166	499,949	838,773
Settlement of forward currency contracts	—	2	(21)
Net cash inflow from investing activities	103,308	64,742	112,367
Dividends paid	(22,044)	(26,019)	(45,227)
Repurchase and cancellation of the Company's own shares	(25,073)	(27,184)	(32,201)
Repurchase of shares into Treasury	(7,840)	—	—
Net cash outflow from financing activities	(54,957)	(53,203)	(77,428)
Increase in cash and cash equivalents	66,964	32,795	69,472
Cash and cash equivalents at start of period	262,644	193,167	193,167
Exchange movements	(12)	—	5
Cash and cash equivalents at end of period	329,596	225,962	262,644
Increase in cash and cash equivalents	66,964	32,795	69,472
Cash and cash equivalents consist of:			
Cash and short term deposits	229,834	229,600	162,719
Bank overdraft	—	(3,638)	—
Cash held in JPMorgan Sterling Liquidity Fund	99,762	—	99,925
Total	329,596	225,962	262,644

Financial Statements – continued

Notes to the Financial Statements for the six months ended 31st July 2016

1. Financial Statements

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

The figures and financial information for the year ended 31st January 2016 are extracted from the latest published financial statements of the Company and do not constitute statutory accounts for that year. Those financial statements have been delivered to the Registrar of Companies and including the report of the auditors which was unqualified and did not contain a statement under either section 498(2) or 498(3) of the Companies Act 2006.

2. Accounting Policies

The financial statements are prepared in accordance with the Companies Act 2006, United Kingdom Generally Accepted Accounting Practice ('UK GAAP'), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and 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 November 2014.

FRS 104 'Interim Financial Reporting', issued by the Financial Reporting Council ('FRC') in March 2015 has been applied in preparing this condensed set of financial statements for the six months ended 31st July 2016.

In March 2016, the FRC published amendments to FRS 102 concerning fair value hierarchy disclosures. These amendments are effective for accounting periods beginning on or after 1st January 2017. The Company has elected to adopt these amendments early in these interim financial statements. Full disclosure is given in note 7.

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

The accounting policies applied to this condensed set of financial statements are consistent with those applied in the financial statements for the year ended 31st January 2016.

3. Dividends paid¹

	(Unaudited) Six months ended 31st July 2016 £'000	(Unaudited) Six months ended 31st July 2015 £'000	(Audited) Year ended 31st January 2016 £'000
Unclaimed dividends refunded to the Company ²	(26)	(1)	(14)
Fourth quarterly dividend of 13.0p (2015: 17.0p) paid to shareholders in May	12,422	16,395	16,395
First quarterly dividend of 10.25p (2015: 10.0p) paid to shareholders in August (2015: July)	9,648	9,625	9,625
Second quarterly dividend of 10.0p (2015: 8.0p) paid to shareholders in November	n/a	n/a	9,625
Third quarterly dividend of 10.0p (2015: 8.0p) paid to shareholders in February	n/a	n/a	9,596
Total dividends paid in the period	22,044	26,019	45,227

¹All dividends paid in the period have been funded from the Revenue Reserve.

²Represents dividends which remain unclaimed after a period of twelve years and thereby become the property of the Company.

A second quarterly dividend of 10.25p (2015: 10.0p) per share, amounting to £9,625,000 (2015: £9,625,000), has been declared payable in respect of the six months ended 31st July 2016.

4. Taxation

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

Financial Statements – continued

5. Return/(loss) per share

	(Unaudited) Six months ended 31st July 2016 £'000	(Unaudited) Six months ended 31st July 2015 £'000	(Audited) Year ended 31st January 2016 £'000
Return/(loss) per share is based on the following:			
Revenue return	25,825	29,496	49,580
Capital (loss)/return	(47,828)	219,550	164,236
Total (loss)/return	(22,003)	249,046	213,816
Weighted average number of shares in issue	94,976,088	96,589,828	96,340,857
Revenue return per share	27.19p	30.54p	51.46p
Capital (loss)/return per share	(50.36)p	227.30p	170.47p
Total (loss)/return per share	(23.17)p	257.84p	221.93p

6. Net asset value per share

	(Unaudited) Six months ended 31st July 2016	(Unaudited) Six months ended 31st July 2015	(Audited) Year ended 31st January 2016
Net assets (£'000)	1,775,626	1,913,184	1,853,730
Number of shares in issue	93,899,218	96,248,541	95,957,040
Net asset value per share	1,891.0p	1,987.8p	1,931.8p

7. Reconciliation of total return on ordinary activities before finance costs and taxation to net cash outflow from operations before dividends and interest

	(Unaudited) Six months ended 31st July 2016 £'000	(Unaudited) Six months ended 31st July 2015 £'000	(Audited) Year ended 31st January 2016 £'000
Net (loss)/return on ordinary activities before finance costs and taxation	(16,003)	254,782	225,249
Add: capital loss/(Less: capital return) on ordinary activities before finance costs and taxation	43,923	(223,453)	(172,042)
Scrip dividends received as income	—	(479)	(601)
Increase in accrued income and other debtors	(985)	(535)	(800)
Decrease in accrued expenses	(148)	(565)	(489)
Management fee charged to capital	(2,570)	(2,560)	(5,317)
Overseas withholding tax	(193)	(419)	(510)
Dividends received	(28,008)	(31,132)	(53,827)
Interest received	(581)	(341)	(840)
Realised gains on foreign currency transactions	3	13	101
Net cash outflow from operations before dividends and interest	(4,562)	(4,689)	(9,076)

Financial Statements – continued

8. Fair valuation of investments

The fair value hierarchy analysis for investments held at fair value at the period end is as follows:

	(Unaudited) Six months ended 31st July 2016		(Unaudited) Six months ended 31st July 2015		(Audited) Year ended 31st January 2016	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Level 1: Quoted prices for identical instruments in active markets	1,625,497	—	1,861,364	—	1,772,744	—
Level 3: Valuation techniques using non-observable data ¹	3,605	—	2,889	—	2,878	—
Total	1,629,102	—	1,864,253	—	1,775,622	—

¹Consists only of the holding of unquoted stock of Tennants Consolidated.

9. Net funds

	(Unaudited) Six months ended 31st July 2016 £'000	(Unaudited) Six months ended 31st July 2015 £'000	(Audited) Year ended 31st January 2016 £'000
Cash and cash equivalents	329,596	225,962	262,644
Debentures falling due after more than five years	(177,528)	(177,432)	(177,479)
Net funds	152,068	48,530	85,165

10. Subsequent event

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

Shareholder Information

Interim Management Report

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

Principal Risks and Uncertainties

The principal risks and uncertainties faced by the Company fall into the following broad categories: investment and strategy; market; accounting, legal and regulatory; corporate governance and shareholder relations; operational and financial. Information on each of these areas is given in the Directors' Report within the Annual Report and Accounts for the year ended 31st January 2016.

Related Parties Transactions

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

Going Concern

The Directors believe, having considered the Company's investment objectives, risk management policies, capital management policies and procedures, nature of the portfolio and expenditure projections, that the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future and, more specifically, that there are no material uncertainties pertaining to the Company that would prevent its ability to continue in such operation existence for at least twelve months from the date of the approval of this half yearly financial report. For these reasons, they consider there is sufficient evidence to continue to adopt the going concern basis in preparing the accounts.

Directors' Responsibilities

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

- (i) the condensed set of financial statements contained within the half year financial report has been prepared in accordance with FRS 104 'Interim Financial Reporting' and gives a true and fair view of the state of affairs of the Company, and of the assets, liabilities, financial position and net return of the Company as at 31st July 2016 as required by the UK Listing Authority Disclosure Guidance and Transparency Rules ('DTRs') 4.2.4R; and
- (ii) the interim management report includes a fair review of the information required by 4.2.7R and 4.2.8R of the DTRs.

In order to provide these confirmations, and in preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business;

and the Directors confirm that they have done so.

For and on behalf of the Board.

Hamish Leslie Melville
Chairman

22nd September 2016

Shareholder Information – continued

Glossary of Terms and Definitions

Return to shareholders

Total return to the investor, on a mid-market price to mid-market price basis, assuming that all dividends received were reinvested, without transaction costs, in the shares of the Company at the time the shares were quoted ex-dividend.

Return on net assets

Total return on net asset value ('NAV') per share, on a bid value to bid value basis, assuming that all dividends paid out by the Company were reinvested in the shares of the Company at the NAV per share at the time the shares were quoted ex-dividend.

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

Benchmark return

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

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

Gearing/Net Cash

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

Ongoing Charges

Management fee and all other operating expenses, excluding finance costs, expressed as a percentage of the average daily net assets during the period. The ongoing charges are calculated in accordance with guidance issued by the Association of Investment Companies in May 2012. The figures as at 31st July 2016 are estimated annualised figures based on the six months to 31st July 2016.

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

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

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% Treasury Gilt 22/07/2068.

The margin applied on the 5 year average for the AA Barclays Sterling Corporate Bond spread at 31st July 2016 was 1.13%.

Shareholder Information – continued

Where to buy J.P. Morgan Investment Trusts

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

1. Directly from J.P. Morgan

Investment Account

The Company's shares are available in the J.P. Morgan Investment Account, which facilitates both regular monthly investments and occasional lump sum investments in the Company's ordinary shares. Shareholders who would like information on the Investment Account should call J.P. Morgan Asset Management free on 0800 20 40 20 or visit its website at am.jpmorgan.co.uk/investor

Stocks & Shares Individual Savings Accounts (ISA)

The Company's shares are eligible investments within a J.P. Morgan ISA. For the 2016/17 tax year, from 6th April 2016 and ending 5th April 2017, the total ISA allowance is £15,240. Details are available from J.P. Morgan Asset Management free on 0800 20 40 20 or via its website at am.jpmorgan.co.uk/investor

2. Via a third party provider

Third party providers include;

AJ Bell	Interactive Investor
Alliance Trust Savings	James Brearley
Barclays Stockbrokers	James Hay
Bestinvest	Selftrade
Charles Stanley Direct	TD Direct
Hargreaves Lansdown	The Share Centre

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

3. Through a professional adviser

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

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

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

Information about the Company

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 and J.P. Morgan ISA. These products are all available on the online service at jpmorgan.co.uk/online

Financial Conduct Authority

Beware of share fraud

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

How to avoid share fraud

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

Report a scam

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

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

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

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



In association with:
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Group

Information about the Company

Financial Calendar

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

*or nearest following business day.

History

The Mercantile Investment & General Trust Company Limited was formed in December 1884 with issued capital of £500,000. The Company merged with three other investment trusts in 1960 under a scheme of arrangement and changed its name to The Mercantile Investment Trust Limited. In 1982 the Company became The Fleming Mercantile Investment Trust plc. JPMorgan has been the Company's manager and secretary since its appointment in 1976. In April 2008, the Company adopted its present name, The Mercantile Investment Trust plc.

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

Directors

Hamish Leslie Melville (Chairman)
Angus Gordon Lennox
Helen James
Harry Morley
Sandy Nairn
Ian Russell
Jeremy Tighe

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 and J.P. Morgan ISA. These products are all available online at www.jpmorgan.co.uk/online

Dividend Reinvestment Plan

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

Manager and Company Secretary

JPMorgan Funds Limited

Company's Registered Office

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

Please contact Juliet Dearlove for company secretarial and administrative matters.

Depository

BNY Mellon Trust and Depository (UK) Limited
BNY Mellon Centre
160 Queen Victoria Street
London EC4V 4LA

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

Registrars

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

Calls to this number cost 10p per minute plus network charges. Other providers' costs may vary. Lines open 8.30 am to 5.30 pm, Monday to Friday. The overseas helpline number is +44 (0)121 415 0225

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

Independent Auditors

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

Brokers

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

Winterflood Securities Limited
The Atrium Building
Cannon Bridge House
London EC4R 2GA

Savings Product Administrators

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

aic

The Association of
Investment Companies

A member of the AIC

J.P. Morgan Helpline
Freephone 0800 20 40 20 or +44 (0)1268 444470
Telephone lines are open Monday to Friday, 9 a.m. to 5.30 p.m.

Your telephone call may be recorded for your security

www.mercantileit.co.uk