

# THE MERCANTILE INVESTMENT TRUST PLC

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Half Year Report & Accounts for the six months ended 31st July 2017

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 capital 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 closed ended investment funds (including investment trusts).

## Benchmark

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

## Capital Structure

At 31st July 2017, the Company's issued share capital comprised 94,449,218 ordinary shares of 25p each, including 11,322,144 shares held in Treasury.

At 31st July 2017, the Company also had in issue a £3.85 million 4.25% perpetual debenture and a £175 million 6.125% debenture repayable on 25th February 2030.

## Management Company and Company Secretary

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

## 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.

## AIC

The Company is a member of the Association of Investment Companies.

## Website

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

# Half Year Performance

Total returns (includes dividends reinvested)

**+14.5%**

Return to shareholders<sup>1</sup>

**+16.2%**

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

**+10.7%**

Benchmark return<sup>3</sup>

## 5 Year Performance

(Figures have been rebased to 100 as at 31st July 2012)



## Financial Data

	31st July 2017	31st January 2017	% Change
Shareholders' funds (£'000)	1,913,888	1,744,143	+9.7
Number of shares in issue (excluding shares held in Treasury)	83,127,074	86,980,419	
Net asset value per share with debt at par value	2,302.4p	2,005.2p	+14.8
Net asset value per share with debt at fair value <sup>4</sup>	2,206.3p	1,921.0p	+14.8
Net asset value return with dividends reinvested	+16.2%	+6.1%	
Share price	1,982.0p	1,755.0p	+12.9
Share price discount to net asset value per share with debt at par value	13.9%	12.5%	
Share price discount to net asset value per share with debt at fair value	10.1%	8.6%	
Gearing	3.0%	2.5%	
Ongoing Charges	0.44%	0.48%	

A glossary of terms and alternative performance measures is provided on page 18.

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

<sup>2</sup>Source: J.P. Morgan/Morningstar, using net asset value per share, cum income, with debt at par value..

<sup>3</sup>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.

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

# About the Company

## Chairman's Statement



Angus Gordon Lennox

I am delighted to write my first statement as Chairman of your Company and to report that the Mercantile has performed strongly in the first half of this financial year.

### Performance

The Company's return on net assets for the six months to 31st July 2017 was +16.2%, which compares favourably to the return of +10.7% from the Company's benchmark index, the FTSE All-Share, excluding FTSE 100 constituents and investment trusts. The return to shareholders was +14.5%, as the discount at which the shares trade widened slightly over the half year.

### Returns and Dividends

The revenue return in the first half of the Company's current financial year increased to 32.61 pence per share, compared with 27.19 pence per share for the corresponding period last year.

A second interim dividend of 10.50 pence per share has been declared by the Board, payable on 1st November 2017 to shareholders on the register at close of business on 29th September 2017. Together with the first interim dividend of 10.50 pence paid on 1st August 2017 this brings the total dividend for the year to date to 21.00 pence (2016: 20.50 pence). The Board is confident that there will be a third interim dividend of 10.50 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 full financial year. However the Board recognises shareholders' desire for a growing dividend in line with the Company's investment policy, whilst retaining a healthy revenue reserve.

### Discount and Share Buy Backs

The Board has continued to use its share repurchase authority to enhance the net asset value and to attempt to address any imbalance between the supply of and demand for the Company's shares in the market. In the six months to 31st July 2017, a total of 3,853,345 shares was repurchased at a cost of £72.6m. All of those shares were repurchased into Treasury and the total number of shares held in Treasury at the half year end was 11,322,144. Those shares are available for reissue by the Board, but only at a premium to net asset value.

### Gearing

The Company has maintained a moderate level of gearing and ended the six month period 3.0% geared.

### Management Fee

As reported in the last annual report, during the year the Board was pleased to reach agreement with JPMorgan on a reduction in the management fee. With effect from 1st February 2017 the fee has been reduced from 0.5% of the Company's market capitalisation to 0.475% and it will further reduce to 0.45% with effect from 1st February 2018. This agreement recognises the changing conditions within the fund management industry and it ensures that the Company's shareholders benefit from an ongoing charges ratio that remains amongst the most competitive in the investment trust market.

# About the Company – continued

## The Board

Hamish Leslie Melville stepped down as Chairman at the conclusion of the AGM in May this year. Hamish had served as a Director of your Company since 1996 and as Chairman since 2003. On behalf of the Board and shareholders I would like to record our thanks to Hamish for his outstanding service to the Company. Its success over that period is due in no small part to him and his dedication to the interests of all shareholders.

## Outlook

As is so often the case, the outlook is currently somewhat of a curate's egg, with strengthening economic news around the globe resulting in a positive impact on your portfolio companies' sales prospects, partly offset by a worrying geopolitical situation and continued domestic political uncertainty. With such a background we look to our managers to continue to invest conservatively in the highest quality businesses with strong business models which should deliver long term returns to shareholders. With markets at current levels, and given the economic and political backdrop, we do not currently envisage utilising significant amounts of gearing unless an opportunity were to present itself if, for instance, there was a significant market setback.

**Angus Gordon Lennox**  
Chairman

28th September 2017

# About the Company – continued

## Investment Managers' Report

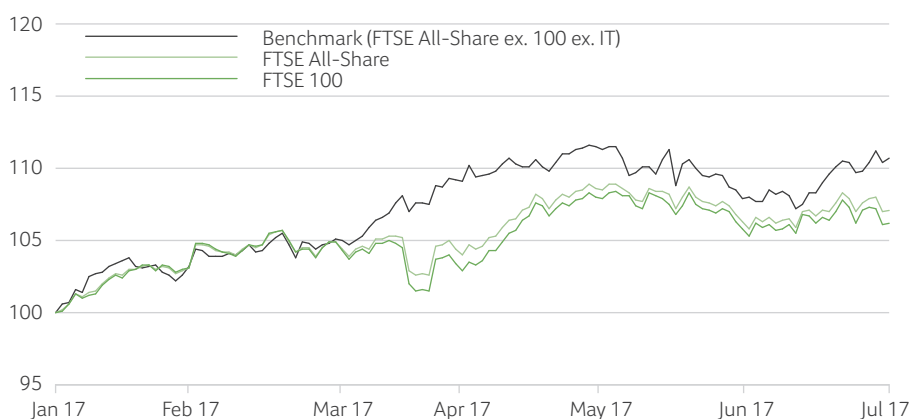


### Market Background

Following on from its robust performance last year, the positive trajectory of the UK equity market continued through the first half of this financial year, with a total return of +7.1% (as represented by the FTSE All-Share index). The market was encouraged by the combination of a relatively resilient domestic economy, versus fairly low expectations, and improving international economic growth prospects. In contrast, it absorbed in relaxed fashion the various geopolitical events and associated risks, including the Conservatives' misjudged calling of a General Election and the uncertainty emanating from the Brexit negotiations.

Having fallen behind the FTSE 100 last year, the performance of medium and smaller companies (the 'benchmark') improved, with a return of +10.7% compared with the +6.2% return from the FTSE 100.

### UK Equity Market Total Return (31st January to 31st July 2017)

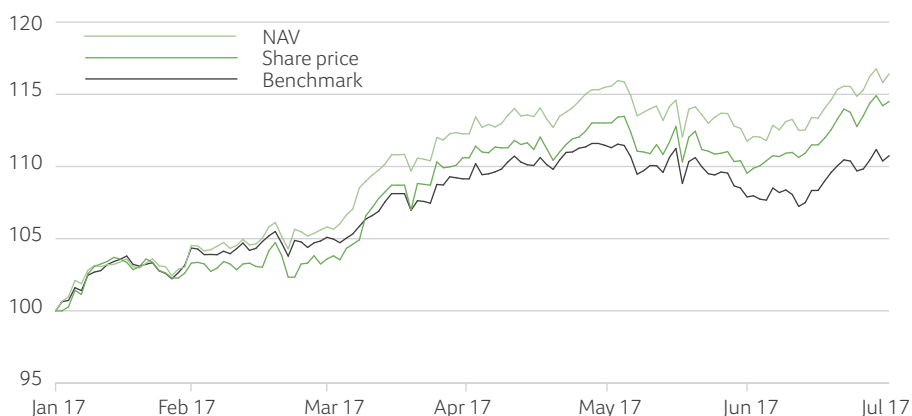


<sup>1</sup>The benchmark is represented by the FTSE All-Share, excluding FTSE 100 constituents and investment trusts; by value the benchmark is approximately 90% medium sized companies and 10% smaller companies

### Portfolio performance and positioning

Against this backdrop your Company had a positive six months; the return on net assets was +16.2%, ahead of the +10.7% return from the benchmark.

### Mercantile and Benchmark Total Return (31st January to 31st July 2017)





## About the Company – continued

This positive relative performance has been delivered largely from a combination of sector allocation and stock selection, with a further benefit achieved from the use of gearing in a positive market.

Pleasingly, the positive contribution from asset allocation and stock selection has been achieved across a diverse range of sectors and individual stocks, as opposed to a limited number of significant wins. The largest contributors were the financial services sector with success across a number of holdings including most notably our position in 3i, the private equity investor and the oil services sector where our decision to minimise exposure given various industry and company specific challenges faced has added relative value.

Having increased the level of gearing through the end of last year, the portfolio benefited from the rising market and gearing peaked at over 6% in March, before being reduced to around 3% at the half year end.

While there have been some alterations to the portfolio during the period reflecting stock specific opportunities or changes, the aggregate shape and key end market exposures remain substantially unchanged. The most significant of these are the industrials companies, many of whom including Spirax-Sarco Engineering and Bodycote are benefiting from improving industrial production globally. In addition the portfolio remains invested in a broad array of generally more domestically oriented businesses, such as Just Eat, which are benefitting from structural growth opportunities in their specific end markets and niches.

### Outlook

Lead indicators of economic growth have undoubtedly displayed improving momentum across the globe since the fourth quarter of 2016 and after what have been several sluggish years this is translating into improving end markets for many of the companies that we meet. In the UK the economic outlook is not as strong but the economy is proving to be more resilient than had been expected and monetary policy has been accommodating. These factors combined should provide a positive backdrop for equities.

In contrast to this, the geopolitical landscape presents a host of risks, some of which could present far-reaching challenges in the future but which have not yet caused a discernible impact. The lack of volatility in financial markets has been a surprise, but will not last forever. At this stage the portfolio remains modestly geared.

We remain committed to identifying and investing in those companies that have strong business models, are suitably financed and are well placed to succeed. We expect that the favourable dynamics of medium- and small-sized companies will continue to drive superior returns over the long-term.

**Guy Anderson**  
**Martin Hudson**  
**Anthony Lynch**  
Investment Managers

28th September 2017



# Investment Review

## List of Investments

at 31st July 2017

Company	Value £'000	Company	Value £'000
<b>Industrials</b>		<b>Consumer Services</b>	
DS Smith	51,012	Inchcape	41,048
Spirax-Sarco Engineering	39,996	Just Eat	38,346
Halma	39,656	Auto Trader	37,485
Melrose Industries	35,859	Moneysupermarket.com	29,059
Bodycote	35,724	Rightmove	28,194
BBA Aviation	30,219	Saga	27,890
Weir	28,595	B&M European Value Retail	27,689
RPC	27,384	National Express	26,616
Polypipe	25,030	JD Sports Fashion	22,976
Vesuvius	22,718	Playtech	21,375
Grafton	22,474	WH Smith	20,932
Morgan Sindall	21,188	SSP	20,870
Hays	20,504	UBM	19,939
Electrocomponents	20,150	Card Factory	19,629
Marshalls	19,473	William Hill	16,574
Ibstock	18,092	ZPG	14,937
VP	17,922	Ladbrokes Coral	12,207
Morgan Advanced Materials	17,644	Cineworld	11,971
G4S	17,304	Young & Co's Brewery 'A' <sup>1</sup>	9,003
Ricardo	17,127	Daily Mail & General Trust 'A'	7,447
Renishaw	15,634	Lookers	6,242
Coats	15,603	Trinity Mirror	5,530
Hill & Smith	15,410	4imprint	5,433
Keller	12,665	M&C Saatchi <sup>1</sup>	4,907
Diploma	11,424	Gocompare.Com	4,804
Fenner	10,148	Peel Hotels <sup>1</sup>	1,289
Rentokil Initial	10,109		
Ultra Electronics	7,984		
Renold	6,990		
XP Power	5,315		
	<b>639,353</b>		<b>482,392</b>

# Investment Review – continued

## List of Investments – continued

Company	Value £'000	Company	Value £'000
<b>Financials</b>		<b>Real Estate</b>	
Intermediate Capital	38,819	SEGRO	25,506
Phoenix	33,375	Great Portland Estates	16,563
Beazley	32,768	LondonMetric Property	13,352
Hiscox	31,777	Savills	13,116
Jupiter Fund Management	30,943	Shaftesbury	4,856
Close Brothers	30,107		<b>73,393</b>
3i	28,035	<b>Basic Materials</b>	
Man	26,064	KAZ Minerals	19,026
TP ICAP	25,562	Synthomer	15,712
Brewin Dolphin	16,572	Polymetal	12,638
John Laing	16,557	Evrax	5,710
Jardine Lloyd Thompson	15,833	Tennants Consolidated 'A' <sup>2</sup>	2,143
Arrow Global	12,550	Tennants Consolidated <sup>2</sup>	1,947
IG	11,702	Tennants Consolidated Preference 15.00% <sup>2,3</sup>	94
Mortgage Advice Bureau <sup>1</sup>	5,691		<b>57,270</b>
Cenkos Securities <sup>1</sup>	4,079	<b>Health Care</b>	
	<b>360,434</b>	NMC Health	26,025
<b>Consumer Goods</b>		Indivior	18,806
Bellway	43,998	Abcam <sup>1</sup>	6,406
Berkeley	35,649		<b>51,237</b>
Cranswick	24,045	<b>Oil &amp; Gas</b>	
MP Evans <sup>1</sup>	19,092	Cairn Energy	11,123
Countryside Properties	17,965	Cape	7,106
Fevertree Drinks <sup>1</sup>	15,251	Faroe Petroleum <sup>1</sup>	4,872
Taylor Wimpey	10,498	BowLeven <sup>1</sup>	3,600
Headlam	7,008		<b>26,701</b>
Galliford Try	3,881	<b>Utilities</b>	
Games Workshop	1,437	Drax	10,349
	<b>178,824</b>		<b>10,349</b>
<b>Technology</b>		<b>Telecommunications</b>	
Sophos	23,914	Telecom Plus	5,219
Micro Focus	23,202		<b>5,219</b>
FDM	11,264	<b>Total Investments<sup>4</sup></b>	<b>1,970,430</b>
Softcat	11,120		
Fidessa	8,814		
Alfa Financial Software	6,944		
	<b>85,258</b>		

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

<sup>2</sup>Unquoted investment.

<sup>3</sup>Fixed interest investment.

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

# Investment Review – continued

## Portfolio Analyses

### Listed Equity Market Capitalisation

	31st July 2017 % <sup>1</sup>	31st January 2017 % <sup>1</sup>
UK FTSE Mid sized	83.0	84.4
UK FTSE Small & Fledgling	7.2	7.1
UK FTSE 100	5.8	3.5
UK AIM	3.8	4.7
UK Unquoted	0.2	0.2
Overseas	—	0.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

<sup>1</sup>Based on total investments of £1,970m (31st January 2017: £1,787m).

### Sector Analysis

	31st July 2017		31st January 2017	
	Portfolio % <sup>1</sup>	Benchmark %	Portfolio % <sup>1</sup>	Benchmark %
Industrials <sup>2</sup>	32.5	30.3	29.8	30.7
Consumer Services	24.5	20.7	27.3	20.1
Financials <sup>3</sup>	18.3	15.0	19.7	22.2
Consumer Goods	9.1	8.0	7.6	7.3
Technology	4.3	2.2	3.9	2.0
Real Estate <sup>3</sup>	3.7	9.3	4.8	2.9
Basic Materials	2.9	4.3	2.4	4.2
Health Care	2.6	4.5	1.6	3.5
Oil & Gas	1.3	3.0	1.9	4.3
Utilities	0.5	1.2	0.7	1.4
Telecommunications	0.3	1.5	0.3	1.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

<sup>1</sup>Based on total investments of £1,970m (31st January 2017: £1,787m).

<sup>2</sup>Melrose Industries has been reclassified from Financials to Industrials.

<sup>3</sup>Due to benchmark reclassifications, certain companies have been reclassified from Financials to Real Estate during the year.

# Financial Statements

## Statement of Comprehensive Income for the six months ended 31st July 2017

	(Unaudited) Six months ended 31st July 2017			(Unaudited) Six months ended 31st July 2016			(Audited) Year ended 31st January 2017		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>Gains/(losses) on investments held at fair value through profit or loss</b>	—	242,731	242,731	—	(41,344)	(41,344)	—	45,220	45,220
Net foreign currency gains/(losses)	—	16	16	—	(9)	(9)	—	(2)	(2)
Income from investments	30,823	—	30,823	29,443	—	29,443	55,112	—	55,112
Interest receivable and similar income	411	—	411	337	—	337	1,257	—	1,257
<b>Gross return/(loss)</b>	<b>31,234</b>	<b>242,747</b>	<b>273,981</b>	<b>29,780</b>	<b>(41,353)</b>	<b>(11,573)</b>	<b>56,369</b>	<b>45,218</b>	<b>101,587</b>
Management fee	(1,067)	(2,491)	(3,558)	(1,101)	(2,570)	(3,671)	(2,173)	(5,071)	(7,244)
Other administrative expenses	(575)	—	(575)	(759)	—	(759)	(1,382)	—	(1,382)
<b>Net return/(loss) on ordinary activities before finance costs and taxation</b>	<b>29,592</b>	<b>240,256</b>	<b>269,848</b>	<b>27,920</b>	<b>(43,923)</b>	<b>(16,003)</b>	<b>52,814</b>	<b>40,147</b>	<b>92,961</b>
Finance costs	(1,653)	(3,857)	(5,510)	(1,674)	(3,905)	(5,579)	(3,335)	(7,783)	(11,118)
<b>Net return/(loss) on ordinary activities before taxation</b>	<b>27,939</b>	<b>236,399</b>	<b>264,338</b>	<b>26,246</b>	<b>(47,828)</b>	<b>(21,582)</b>	<b>49,479</b>	<b>32,364</b>	<b>81,843</b>
Taxation	(222)	—	(222)	(421)	—	(421)	(183)	—	(183)
<b>Net return/(loss) on ordinary activities after taxation</b>	<b>27,717</b>	<b>236,399</b>	<b>264,116</b>	<b>25,825</b>	<b>(47,828)</b>	<b>(22,003)</b>	<b>49,296</b>	<b>32,364</b>	<b>81,660</b>
<b>Return/(loss) per share (note 5)</b>	<b>32.61p</b>	<b>278.09p</b>	<b>310.70p</b>	<b>27.19p</b>	<b>(50.36)p</b>	<b>(23.17)p</b>	<b>53.20p</b>	<b>34.93p</b>	<b>88.13p</b>

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

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

The 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 2017 (unaudited)

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve <sup>1</sup> £'000	Total £'000
<b>At 31st January 2017</b>	23,612	23,459	13,158	1,633,936	49,978	1,744,143
Repurchase of shares into Treasury	—	—	—	(72,573)	—	(72,573)
Net return on ordinary activities	—	—	—	236,399	27,717	264,116
Dividends paid in the period	—	—	—	—	(21,798)	(21,798)
<b>At 31st July 2017</b>	23,612	23,459	13,158	1,797,762	55,897	1,913,888

### 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 <sup>1</sup> £'000	Total £'000
<b>At 31st January 2016</b>	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)
<b>At 31st July 2016</b>	23,612	23,459	13,158	1,670,370	45,027	1,775,626

### Year ended 31st January 2017 (audited)

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve <sup>1</sup> £'000	Total £'000
<b>At 31st January 2016</b>	23,989	23,459	12,781	1,752,255	41,246	1,853,730
Repurchase and cancellation of Company's own shares	(377)	—	377	(25,073)	—	(25,073)
Repurchase of shares into Treasury	—	—	—	(125,610)	—	(125,610)
Net return on ordinary activities	—	—	—	32,364	49,296	81,660
Dividends paid in the year	—	—	—	—	(40,564)	(40,564)
<b>At 31st January 2017</b>	23,612	23,459	13,158	1,633,936	49,978	1,744,143

<sup>1</sup>This 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 2017

	(Unaudited) 31st July 2017 £'000	(Unaudited) 31st July 2016 £'000	(Audited) 31st January 2017 £'000
<b>Fixed assets</b>			
Investments held at fair value through profit or loss	1,970,430	1,629,102	1,787,131
<b>Current assets</b>			
Debtors	2,315	3,760	10,945
Cash and short term deposits	25,709	229,834	38,295
Cash equivalents: liquidity funds	99,895	99,762	99,763
	127,919	333,356	149,003
<b>Current liabilities</b>			
<b>Creditors:</b> amounts falling due within one year	(6,837)	(9,304)	(14,415)
<b>Net current assets</b>	121,082	324,052	134,588
<b>Total assets less current liabilities</b>	2,091,512	1,953,154	1,921,719
<b>Creditors:</b> amounts falling due after more than one year	(177,624)	(177,528)	(177,576)
<b>Net assets</b>	1,913,888	1,775,626	1,744,143
<b>Capital and reserves</b>			
Called up share capital	23,612	23,612	23,612
Share premium	23,459	23,459	23,459
Capital redemption reserve	13,158	13,158	13,158
Capital reserves	1,797,762	1,670,370	1,633,936
Revenue reserve	55,897	45,027	49,978
<b>Total equity shareholders' funds</b>	1,913,888	1,775,626	1,744,143
<b>Net asset value per share (note 6)</b>	2,302.4p	1,891.0p	2,005.2p

Registered in England, Company registration number 20537

# Financial Statements – continued

## Statement of Cash Flows for the six months ended 31st July 2017

	(Unaudited) Six months ended 31st July 2017 £'000	(Unaudited) Six months ended 31st July 2016 £'000	(Audited) Year ended 31st January 2017 £'000
Net cash outflow from operations before dividends and interest (note 7)	(3,882)	(4,562)	(8,427)
Dividends received	29,802	28,008	55,055
Interest received	174	581	944
Overseas tax recovered	—	116	412
Interest paid	(5,462)	(5,530)	(11,060)
<b>Net cash inflow from operating activities</b>	<b>20,632</b>	<b>18,613</b>	<b>36,924</b>
Purchases of investments	(372,661)	(385,858)	(732,866)
Sales of investments	439,596	489,166	755,321
Settlement of forward currency contracts	2	—	15
<b>Net cash inflow from investing activities</b>	<b>66,937</b>	<b>103,308</b>	<b>22,470</b>
Dividends paid	(21,798)	(22,044)	(40,564)
Repurchase and cancellation of the Company's own shares	—	(25,073)	(25,073)
Repurchase of shares into Treasury	(78,237)	(7,840)	(118,356)
<b>Net cash outflow from financing activities</b>	<b>(100,035)</b>	<b>(54,957)</b>	<b>(183,993)</b>
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>(12,466)</b>	<b>66,964</b>	<b>(124,599)</b>
Cash and cash equivalents at start of period	138,058	262,644	262,644
Exchange movements	12	(12)	13
Cash and cash equivalents at end of period	125,604	329,596	138,058
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>(12,466)</b>	<b>66,964</b>	<b>(124,599)</b>
<b>Cash and cash equivalents consist of:</b>			
Cash and short term deposits	25,709	229,834	38,295
Cash held in JPMorgan Sterling Liquidity Fund	99,895	99,762	99,763
<b>Total</b>	<b>125,604</b>	<b>329,596</b>	<b>138,058</b>



# Financial Statements – continued

## Notes to the Financial Statements for the six months ended 31st July 2017

### 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 2017 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 have been prepared in accordance with the Companies Act 2006, FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' of the United Kingdom Generally Accepted Accounting Practice ('UK GAAP') and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (the revised 'SORP') issued by the Association of Investment Companies in November 2014 and updated in January 2017.

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 2017.

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 2017.

### 3. Dividends paid

	(Unaudited) Six months ended 31st July 2017 £'000	(Unaudited) Six months ended 31st July 2016 £'000	(Audited) Year ended 31st January 2017 £'000
Unclaimed dividends refunded to the Company <sup>1</sup>	(19)	(26)	(26)
Fourth quarterly dividend of 15.25p (2016: 13.0p) paid to shareholders in May	12,987	12,422	12,422
First quarterly dividend of 10.5p (2016: 10.25p) paid to shareholders in August	8,830	9,648	9,648
Second quarterly dividend of 10.25p (2016: 10.0p) paid to shareholders in November	n/a	n/a	9,471
Third quarterly dividend of 10.25p (2016: 10.0p) paid to shareholders in February	n/a	n/a	9,049
<b>Total dividends paid in the period</b>	<b>21,798</b>	<b>22,044</b>	<b>40,564</b>

<sup>1</sup>Represents dividends which remain unclaimed after a period of six years and thereby become the property of the Company.

All dividends paid in the period/year have been funded from the revenue profits.

A second quarterly dividend of 10.5p (2016: 10.25p) per share, amounting to £8,728,000 (2016: £9,471,000), has been declared payable in respect of the six months ended 31st July 2017.

### 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 2017 £'000	(Unaudited) Six months ended 31st July 2016 £'000	(Audited) Year ended 31st January 2017 £'000
Return/(loss) per share is based on the following:			
Revenue return	27,717	25,825	49,296
Capital return/(loss)	236,399	(47,828)	32,364
<b>Total return/(loss)</b>	<b>264,116</b>	<b>(22,003)</b>	<b>81,660</b>
Weighted average number of shares in issue	85,006,681	94,976,088	92,666,092
Revenue return per share	32.61p	27.19p	53.20p
Capital return/(loss) per share	278.09p	(50.36)p	34.93p
<b>Total return/(loss) per share</b>	<b>310.70p</b>	<b>(23.17)p</b>	<b>88.13p</b>

## 6. Net asset value per share

	(Unaudited) Six months ended 31st July 2017	(Unaudited) Six months ended 31st July 2016	(Audited) Year ended 31st January 2017
Net assets (£'000)	1,913,888	1,775,626	1,744,143
Number of shares in issue	83,127,074	93,899,218	86,980,419
Net asset value per share	2,302.4p	1,891.0p	2,005.2p

## 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 2017 £'000	(Unaudited) Six months ended 31st July 2016 £'000	(Audited) Year ended 31st January 2017 £'000
Net return/(loss) on ordinary activities before finance costs and taxation	269,848	(16,003)	92,961
(Less: capital return)/Add: capital loss on ordinary activities before finance costs and taxation	(240,256)	43,923	(40,147)
Scrip dividends received as income	(389)	—	(102)
(Increase)/decrease in accrued income and other debtors	(627)	(985)	318
Decrease in accrued expenses	(1)	(148)	(106)
Management fee charged to capital	(2,491)	(2,570)	(5,071)
Overseas withholding tax	8	(193)	(251)
Dividends received	(29,802)	(28,008)	(55,055)
Interest received	(174)	(581)	(944)
Realised gains/(losses) on foreign currency transactions	2	3	(30)
<b>Net cash outflow from operations before dividends and interest</b>	<b>(3,882)</b>	<b>(4,562)</b>	<b>(8,427)</b>

## 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 2017		(Unaudited) Six months ended 31st July 2016		(Audited) Year ended 31st January 2017	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Level 1	1,966,246	—	1,625,497	—	1,783,525	—
Level 3 <sup>1</sup>	4,184	—	3,605	—	3,606	—
<b>Total</b>	<b>1,970,430</b>	<b>—</b>	<b>1,629,102</b>	<b>—</b>	<b>1,787,131</b>	<b>—</b>

<sup>1</sup>Consists only of the holding of unquoted stock of Tennants Consolidated.

### 9. Net (debt)/funds

	(Unaudited) Six months ended 31st July 2017 £'000	(Unaudited) Six months ended 31st July 2016 £'000	(Audited) Year ended 31st January 2017 £'000
Cash and cash equivalents	125,604	329,596	138,058
Debentures falling due after more than five years	(177,624)	(177,528)	(177,576)
<b>Net (debt)/funds</b>	<b>(52,020)</b>	<b>152,068</b>	<b>(39,518)</b>

### 10. Subsequent events

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; accounting, legal and regulatory; corporate governance and shareholder relations; operational and cybercrime; 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 2017.

### 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- notify the Company's shareholders in writing about the use, if any, of disclosure exemptions in FRS102 in the preparation of the financial statements

and the Directors confirm that they have done so.

For and on behalf of the Board.

**Angus Gordon Lennox**  
Chairman

28th September 2017

# Shareholder Information – continued

## Glossary of Terms and Alternative Performance Measures

### Return to shareholders

Total return to the investor, on a last traded price to last traded 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 (see page 2).

### 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 (see page 2).

### Benchmark return

Total return on the benchmark, on a closing-market value to closing-market value basis, assuming that all dividends received were reinvested, without transaction costs, in the shares of the underlying companies at the time the shares were quoted ex-dividend (see page 2).

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 (see page 2).

### 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 2017 are estimated annualised figures based on the six months to 31st July 2017 (see page 2).

### 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 (see page 2). 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](http://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 2017/18 tax year, from 6th April 2017 and ending 5th April 2018, the total ISA allowance is £20,000. The shares are also available in a J.P. Morgan Junior ISA. 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](http://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
FundsNetwork	The Share Centre
Hargreaves Lansdown	Trustnet Direct

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](http://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](http://fca.org.uk)

## Be ScamSmart

### Investment scams are designed to look like genuine investments

#### Spot the warning signs

Have you been:

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

If so, you might have been contacted by fraudsters.

### Avoid investment fraud

#### 1 Reject cold calls

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

#### 2 Check the FCA Warning List

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

#### 3 Get impartial advice

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

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

### Report a Scam

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

If you have lost money to investment fraud, you should report it to Action Fraud on 0300 123 2040 or online at [www.actionfraud.police.uk](http://www.actionfraud.police.uk)

**Find out more at**  
[www.fca.org.uk/scamsmart](http://www.fca.org.uk/scamsmart)





# 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

Angus Gordon Lennox (Chairman)  
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](http://www.mercantileit.co.uk), where the share price is updated every 15 minutes during trading hours.

## Website

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

## Share Transactions

The Company's shares may be dealt in directly through a stockbroker or professional adviser acting on an investor's behalf. They may also be purchased and held through the J.P. Morgan Investment Account, J.P. Morgan ISA and J.P. Morgan Junior ISA. These products are all available on the online service at [jpmorgan.co.uk/online](http://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 Jonathan Latter 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](http://www.shareview.co.uk).

## Independent Auditors

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

## Brokers

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

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

## Savings Product Administrators

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



The Association of  
Investment Companies

A member of the AIC

J.P. Morgan Helpline  
Freephone 0800 20 40 20 or +44 (0)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](http://www.mercantileit.co.uk)