

THE MERCANTILE INVESTMENT TRUST PLC

Half Year Report & Financial Statements for the six months ended 31st July 2018

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.
- To achieve 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 2018, the Company's issued share capital comprised 944,492,180 ordinary shares of 2.5p each, including 145,381,081 shares held in Treasury.

At 31st July 2018, 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. The Company's shares are not classified as 'complex instruments' under the FCA's revised 'appropriateness' criteria adopted in the implementation of MiFID II.

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, 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)

+3.7%

Return to shareholders¹

+3.7%

Return on net assets²

+4.0%

Benchmark return³

Financial Data

	31st July 2018	31st January 2018	% Change
Shareholders' funds (£'000)	2,015,233	2,019,593	-0.2
Number of shares in issue (excluding shares held in Treasury)	799,111,099	819,000,390 ⁴	
Net asset value per share with debt at par value	252.2p	246.6p ⁴	+2.3
Net asset value per share with debt at fair value ⁵	242.8p	237.5p ⁴	+2.3
Return on net assets with dividends reinvested	+3.7%	+25.5%	
Share price	219.5p	215.0p ⁴	+2.1
Share price discount to net asset value per share with debt at par value	13.0%	12.8%	
Share price discount to net asset value per share with debt at fair value	9.6%	9.5%	
Gearing	0.4%	3.5%	
Ongoing Charges	0.44%	0.45%	

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

¹Source: Morningstar.

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

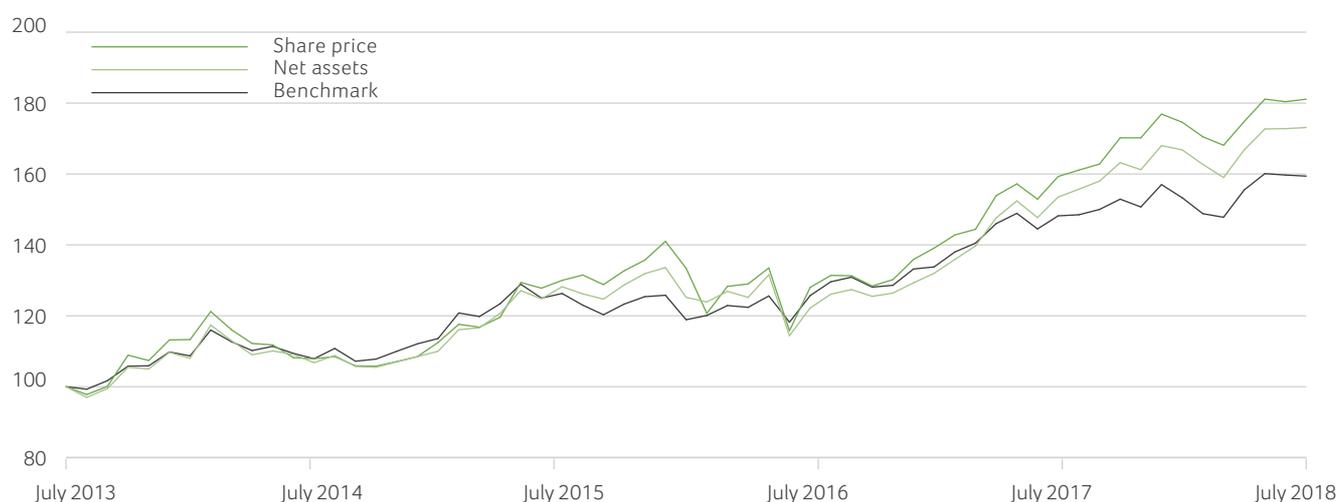
³Source: Russell/Mellon CAPS. The Company's benchmark is the FTSE All-Share Index (excluding constituents of the FTSE 100 and investment trusts) with net dividends reinvested.

⁴Comparative figures for the year ended 31st January 2018 have been restated following the sub-division of each existing ordinary share of 25p into ten ordinary shares of 2.5p each in May 2018.

⁵The 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 Year Performance

(Figures have been rebased to 100 as at 31st July 2013)



About the Company

Chairman's Statement



Angus Gordon Lennox

Performance

Your Company has been successful in navigating choppy and difficult markets and has achieved a positive return on net assets for the six months to 31st July 2018 of +3.7%. Given the nature of markets during the period this is a creditable performance by our Manager, even if very marginally behind the Company's benchmark index. This half year progress follows on from positive returns on net assets in each of the last six full years.

Returns and Dividends

Added to that, the revenue account is in a healthy state. The revenue return in the first half of the Company's current financial year increased to 3.95 pence per share, up from 3.26 pence per share for the corresponding period last year (restated to adjust for the ten for one share split undertaken in May this year). That's a 21% increase.

As I explained in my annual statement, the Board has decided to spread out the payment of the total annual dividend more evenly in this current financial year. A first quarterly interim dividend of 1.25 pence was paid on 1st August 2018. A second quarterly interim dividend of 1.25 pence per share has been declared by the Board, payable on 1st November 2018 to shareholders on the register at close of business on 28th September 2018. This brings the total dividend for the year to date to 2.50 pence (2017: 2.10 pence, restated). The Board intends to pay a third quarterly interim dividend of 1.25 pence in early February 2019.

The level of the fourth quarterly interim dividend will depend on income received by the Company for the full financial year. However, in line with the Company's investment policy, the Board recognises shareholders' desire for a growing dividend 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 for ongoing shareholders 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 2018, a total of 6,473,171 shares were repurchased at a cost of £42.6 million. All of those shares were repurchased into Treasury and the total number of shares held in Treasury at the half year end was 145,381,081. Those shares are available for reissue by the Board, but only at a premium to net asset value.

Management Fee Change

The reduction in the management fee, previously reported, has continued to bear fruit and the Company's ongoing charges ratio fell to 0.44% for the half year, down from 0.45% at the last year end. This level is significantly lower than the average for our investment trust peer group, or indeed similar open-ended funds and represents outstanding value for an actively managed portfolio with such a strong long term performance record.

The Board

Sandy Nairn retired from the Board at the conclusion of the Annual General Meeting in May and the Board and shareholders thanked him then for his contribution over the past 15 years.

On 1st July 2018, Heather Hopkins and Graham Kitchen were appointed Directors. Heather has over two decades of experience in data analytics, research, financial services and international business, with expertise in retail distribution. She is Founder and Managing Director of NextWealth Limited which provides research and consultancy to platforms, asset managers and financial advice firms on the future of retail investment distribution. She was previously Head of Platforum, a research and events business.

About the Company – continued

Graham has over 20 years experience managing UK equity funds, including open ended investment companies, investment trusts and pension funds. He was Global Head of Equities at Janus Henderson Investors from 2011 to 2018, having previously been Head of UK Equities at Threadneedle Investments and held various positions at Invesco Asset Management.

I believe we will be well served by Heather and Graham who each bring a wealth of relevant, complementary and different experience to the Board and I am sure they will add great value to the Company in the years ahead.

Ian Russell has decided to step down from the Board with effect from 31st December 2018. Ian has been a Director since January 2007 and chaired the Audit Committee between 2007 and 2015. He was due to retire at the conclusion of the next Annual General Meeting in May 2019, but has decided to step down sooner than originally planned owing to his other business commitments. On behalf of the Board and shareholders I would like to thank him for his considerable contribution to the Company over the past 12 years.

Outlook

Anyone who follows markets or reads the business or even front pages of the newspapers will recognise that we live in uncertain times. Reflecting this, gearing has been steadily reduced over the summer. Brexit, the threat of trade wars, turmoil on the high street, politician's murmurings, geo-political upsets and perhaps other things as yet unrecognised all have the potential to unseat markets for a short while. Despite these, earnings growth remains robust, and although markets worry, our fund managers are certainly earning their fee and, as I said in my opening paragraph have done a creditable job thus far.

As it has done since 1884, The Mercantile will stick to the task ahead and continue to aim to make significant returns for shareholders over the long term, as it has to date. The mid and small size company sector has proven to be one of the top performing sectors over the last 25 years and I believe that it will continue to drive long term performance for our shareholders. By adopting a bottom up approach to finding and investing in well-financed companies with strong business models, I am convinced the underlying strength of those companies will eventually shine through, whatever markets throw at us in the short term.

Your Board has recently met to consider future strategy for investment, the balance sheet, and how we can better spread the good news of The Mercantile amongst a wider audience in this digital and fast changing world. As has been borne out, the area of the market we invest in has consistently produced superior returns, we will use the balance sheet judiciously to enhance those returns, and I am excited about the opportunities that technology offers to ensure that as many people, and potential shareholders, as possible know about the success of The Mercantile. I look forward to keeping you in touch with developments as they emerge and the continued success of your Company.

Angus Gordon Lennox
Chairman

16th October 2018

About the Company – continued

Investment Managers' Report



Market Background

During the first half of the financial year UK medium and smaller companies (the 'Benchmark')¹ generated a total return of 4%.

While the market generated a positive return during this period it was far from immune to the plethora of noise emanating from politicians across the globe, with the sell-off through February and March a result of concerns over possible trade wars and the implications of these for future economic growth. In addition to this the UK must contend with the journey towards Brexit, which is creating substantial uncertainty for financial markets.

Against this somewhat fractious environment, the performance of individual companies remains divided between winners and losers, with those companies whose financial results exceed market expectations being rewarded by share price appreciation and those that stumble or outright miss expectations being viciously punished by the reverse.

Mercantile and Benchmark Total Return (31st January to 31st July 2018)



¹The 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

For the first half of the year the Company achieved a return on net assets of +3.7%.

From a stock selection perspective it was a frustrating six months, with the positive contributions from some of our most successful investments – such as our longstanding holdings in Fever-Tree, the premium mixer company and Softcat, the fast growing technology services distributor – being broadly offset elsewhere. At a sector level, financial services was the greatest detractor from relative performance, driven by weakness from a number of overweight holdings with greater sensitivity to market levels and volatility.

Our relative performance is also impacted by the behaviour of stocks in the Benchmark that are not in our portfolio and not holding Ocado, on valuation grounds, was the greatest detractor as its shares experienced a meteoric rise after announcing several major contract wins.

Adjustments to the portfolio have been relatively limited. One feature of the market we invest in is the presence of takeover activity. The businesses in which we invest often prove desirable to corporate acquirers and this period was no exception, with our holdings in Fenner, Ladbrokes Coral, UBM and ZPG acquired at substantial premia to the prevailing market prices.

The portfolio continues to hold many industrial companies, such as Spirax-Sarco Engineering and Bodycote which are benefiting from a combination of internal

About the Company – continued

management actions to increase their addressable markets and profitability as well as generally improved industrial production globally. In addition the portfolio remains invested in a broad array of other businesses, such as Beazley, the non-life insurance specialist and B&M, the discount retailer, where we expect continued structural growth in their specific markets.

Outlook

Having accelerated from a low base two years ago, global economic growth has remained reasonable and provided some, but not all, companies with a decent platform from which to drive earnings growth. While it has not been as impressive, the domestic economy has also continued to grow. It has been noticeable and a clear positive that after several years of experiencing gradual declines in market estimates of future earnings growth during the year, so far this year companies are in aggregate meeting expectations. Strong growth in the US has caused the Federal Reserve to increase its fund rates from 1.5% to 2.25%, which has inevitably reduced the risk appetite of equity investors.

Furthermore, the geopolitical landscape remains fraught with uncertainty, the most pressing of which remains the risk of trade wars. The lack of clarity about how businesses may be impacted by Brexit presents a further risk, albeit with the potential for a positive surprise should a satisfactory outcome be achieved.

While continued earnings growth should deliver positive returns for markets, these geopolitical factors may weigh for some time and could present far-reaching challenges in the future. With this in mind and having started the year 3% geared, this was reduced such that the portfolio was fully invested but essentially ungeared at period end. This allows the company to benefit from increases in the stock market while providing plenty of capacity to invest further should the opportunity arise.

We maintain our view that the favourable dynamics of medium- and small-sized companies will continue to drive superior returns over the long-term and remain passionate about identifying and investing in those companies that have strong business models, are suitably financed and are well placed to become tomorrow's market leaders.

Guy Anderson
Martin Hudson
Anthony Lynch
Investment Managers

16th October 2018

Investment Review

List of Investments

at 31st July 2018

Company	Value £'000
Industrials	
Spirax-Sarco Engineering	72,575
Electrocomponents	40,616
Hays	40,155
Bodycote	39,300
Weir	34,294
BBA Aviation	33,756
DS Smith	31,248
Vesuvius	28,720
Grafton	27,959
RPC	24,902
Howden Joinery	23,840
Morgan Advanced Materials	23,103
Coats	22,589
Marshalls	21,988
Morgan Sindall	21,793
Rotork	20,830
Polypipe	19,875
Rhi Magnesita	19,456
Babcock International	19,294
Diploma	17,421
Hill & Smith	17,330
Ibstock	16,849
Vp	15,750
Ricardo	14,347
Melrose Industries	13,602
Forterra	13,102
XP Power	12,745
G4S	12,485
Avon Rubber	11,655
Renishaw	10,119
Alpha Financial Markets Consulting ¹	6,392
SThree	5,897
	733,987

List of Investments

at 31st July 2018

Company	Value £'000
Financials	
Intermediate Capital	49,390
Phoenix	44,229
Hiscox	43,864
Beazley	40,216
Man	34,994
Close Brothers	34,936
Jupiter Fund Management	28,448
3i	28,416
Jardine Lloyd Thompson	20,879
Brewin Dolphin	20,270
IG	18,985
Amigo	17,672
John Laing	15,455
Charter Court Financial Services	13,855
Sabre Insurance	9,660
IntegraFin	9,048
Mortgage Advice Bureau ¹	7,745
Arrow Global	7,344
Cenkos Securities ¹	3,824
	449,230
Consumer Services	
Auto Trader	41,679
B&M European Value Retail	40,439
Inchcape	36,086
National Express	32,205
SSP	30,316
WH Smith	27,578
JD Sports Fashion	26,062
GVC	14,040
Card Factory	13,504
Thomas Cook	13,162
Just Eat	11,337
Gocompare.Com	11,034
M&C Saatchi ¹	9,310
Hollywood Bowl	7,107
Trinity Mirror	6,319
JPJ	1,854
	322,032

Investment Review – continued

List of Investments – continued

Company	Value £'000
Consumer Goods	
Bellway	47,431
Fevertree Drinks ¹	32,700
Games Workshop	24,439
Countryside Properties	21,197
Cranswick	20,588
MP Evans ¹	19,195
Berkeley	18,852
AG Barr	12,382
Taylor Wimpey	9,651
	206,435
Basic Materials	
Evrax	27,293
KAZ Minerals	26,599
Synthomer	22,482
Ferrexpo	10,194
Polymetal International	9,102
Tennants Consolidated 'A' ²	2,143
Tennants Consolidated ²	1,947
Tennants Consolidated Preference 15.00% ^{2,3}	94
	99,854

List of Investments – continued

Company	Value £'000
Real Estate	
Savills	22,150
Segro	19,587
UNITE	18,364
Workspace	15,204
LondonMetric Property	14,949
Shaftesbury	4,609
	94,863
Technology	
Sophos	28,968
Softcat	27,957
Computacenter	24,086
FDM	13,851
	94,862
Oil & Gas	
Hunting	12,512
	12,512
Telecommunications	
Telecom Plus	9,082
	9,082
Total Investments⁴	2,022,857

¹AIM listed investment.

²Unquoted investment.

³Includes a fixed interest investment.

⁴The portfolio comprises investments in equity shares, and a fixed interest investment.

Investment Review – continued

Portfolio Analyses

Listed Equity Market Capitalisation

	31st July 2018 % ¹	31st January 2018 % ¹
UK FTSE Mid Sized	80.4	79.7
UK FTSE 100	8.7	9.7
UK FTSE Small & Fledgling	6.8	7.0
UK AIM	3.9	3.4
UK Unquoted	0.2	0.2
Total	100.0	100.0

¹Based on total investments of £2,023m (31st January 2018: £2,091m).

Sector Analysis

	31st July 2018		31st January 2018	
	Portfolio % ¹	Benchmark %	Portfolio % ¹	Benchmark %
Industrials	36.3	29.5	31.0	28.9
Financials	22.2	17.3	23.1	15.9
Consumer Services	15.9	16.5	22.1	21.7
Consumer Goods	10.2	7.0	9.6	7.1
Basic Materials	4.9	4.0	3.8	4.1
Real Estate	4.7	11.1	3.7	9.6
Technology	4.7	2.6	5.7	2.5
Oil & Gas	0.6	3.8	–	3.2
Telecommunications	0.5	1.2	0.2	1.0
Health Care	–	5.7	0.4	4.9
Utilities	–	1.3	0.4	1.1
Total	100.0	100.0	100.0	100.0

¹Based on total investments of £2,023m (31st January 2018: £2,091m).

Financial Statements

Statement of Comprehensive Income for the six months ended 31st July 2018

	(Unaudited) Six months ended 31st July 2018			(Unaudited) Six months ended 31st July 2017			(Audited) Year ended 31st January 2018		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments held at fair value through profit or loss	–	40,233	40,233	–	242,731	242,731	–	374,818	374,818
Net foreign currency gains	–	1	1	–	16	16	–	15	15
Income from investments	34,901	–	34,901	30,823	–	30,823	57,652	–	57,652
Interest receivable and similar income	377	–	377	411	–	411	640	–	640
Gross return	35,278	40,234	75,512	31,234	242,747	273,981	58,292	374,833	433,125
Management fee	(1,138)	(2,655)	(3,793)	(1,067)	(2,491)	(3,558)	(2,264)	(5,282)	(7,546)
Other administrative expenses	(604)	–	(604)	(575)	–	(575)	(1,151)	–	(1,151)
Net return on ordinary activities before finance costs and taxation	33,536	37,579	71,115	29,592	240,256	269,848	54,877	369,551	424,428
Finance costs	(1,647)	(3,843)	(5,490)	(1,653)	(3,857)	(5,510)	(3,293)	(7,685)	(10,978)
Net return on ordinary activities before taxation	31,889	33,736	65,625	27,939	236,399	264,338	51,584	361,866	413,450
Taxation (note 3)	(31)	–	(31)	(222)	–	(222)	(292)	–	(292)
Net return on ordinary activities after taxation	31,858	33,736	65,594	27,717	236,399	264,116	51,292	361,866	413,158
Return per share (note 4)¹	3.95p	4.18p	8.13p	3.26p	27.81p	31.07p	6.12p	43.18p	49.30p

¹Comparative figures for the period ended 31st July 2017 & year ended 31st January 2018 have been restated following the sub-division of each existing ordinary share of 25p into ten ordinary shares of 2.5p each in May 2018.

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 per share represents the profit per share for the period and also the total comprehensive income per share.

Financial Statements – continued

Statement of Changes in Equity

For the six months ended 31st July 2018 (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 2018	23,612	23,459	13,158	1,897,243	62,121	2,019,593
Repurchase of shares into Treasury	–	–	–	(42,590)	–	(42,590)
Net return on ordinary activities	–	–	–	33,736	31,858	65,594
Dividends paid in the period (note 5)	–	–	–	–	(27,364)	(27,364)
At 31st July 2018	23,612	23,459	13,158	1,888,389	66,615	2,015,233

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 ¹ £'000	Total £'000
At 31st January 2017	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 (note 5)	–	–	–	–	(21,798)	(21,798)
At 31st July 2017	23,612	23,459	13,158	1,797,762	55,897	1,913,888

Year ended 31st January 2018 (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 2017	23,612	23,459	13,158	1,633,936	49,978	1,744,143
Repurchase of shares into Treasury	–	–	–	(98,559)	–	(98,559)
Net return on ordinary activities	–	–	–	361,866	51,292	413,158
Dividends paid in the year (note 5)	–	–	–	–	(39,149)	(39,149)
At 31st January 2018	23,612	23,459	13,158	1,897,243	62,121	2,019,593

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 2018

	(Unaudited) 31st July 2018 £'000	(Unaudited) 31st July 2017 £'000	(Audited) 31st January 2018 £'000
Fixed assets			
Investments held at fair value through profit or loss	2,022,857	1,970,430	2,090,612
Current assets			
Debtors	23,223	2,315	13,836
Cash and short term deposits	60,572	25,709	6,636
Cash equivalents: liquidity fund	99,974	99,895	99,895
	183,769	127,919	120,367
Current liabilities			
Creditors: amounts falling due within one year	(13,672)	(6,837)	(13,713)
Net current assets	170,097	121,082	106,654
Total assets less current liabilities	2,192,954	2,091,512	2,197,266
Creditors: amounts falling due after more than one year	(177,721)	(177,624)	(177,673)
Net assets	2,015,233	1,913,888	2,019,593
Capital and reserves			
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	1,888,389	1,797,762	1,897,243
Revenue reserve	66,615	55,897	62,121
Total shareholders' funds	2,015,233	1,913,888	2,019,593
Net asset value per share (note 6) ¹	252.2p	230.2p	246.6p

¹Comparative figures for the period ended 31st July 2017 and year ended 31st January 2018 have been restated following the sub-division of each existing ordinary share of 25p into ten ordinary shares of 2.5p each in May 2018.

Registered in England, Company registration number 20537

Financial Statements – continued

Statement of Cash Flows for the six months ended 31st July 2018

	(Unaudited) Six months ended 31st July 2018 £'000	(Unaudited) Six months ended 31st July 2017 £'000	(Audited) Year ended 31st January 2018 £'000
Net cash outflow from operations before dividends and interest (note 7)	(4,247)	(3,882)	(8,384)
Dividends received	32,980	29,802	56,647
Interest received	340	174	404
Overseas tax recovered/(paid)	39	–	(1)
Interest paid	(5,442)	(5,462)	(10,881)
Net cash inflow from operating activities	23,670	20,632	37,785
Purchases of investments	(339,185)	(372,661)	(699,483)
Sales of investments	440,089	439,596	773,842
Settlement of foreign currency contracts	–	2	(2)
Net cash inflow from investing activities	100,904	66,937	74,357
Dividends paid	(27,364)	(21,798)	(39,149)
Repurchase of shares into Treasury	(43,195)	(78,237)	(104,520)
Net cash outflow from financing activities	(70,559)	(100,035)	(143,669)
Increase/(decrease) in cash and cash equivalents	54,015	(12,466)	(31,527)
Cash and cash equivalents at start of period	106,531	138,058	138,058
Exchange movements	–	12	–
Cash and cash equivalents at end of period	160,546	125,604	106,531
Increase/(decrease) in cash and cash equivalents	54,015	(12,466)	(31,527)
Cash and cash equivalents consist of:			
Cash and short term deposits	60,572	25,709	6,636
Cash held in JPMorgan Sterling Liquidity Fund	99,974	99,895	99,895
Total	160,546	125,604	106,531

Financial Statements – continued

Notes to the Financial Statements for the six months ended 31st July 2018

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 2018 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 February 2018.

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 2018.

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 2018.

3. Taxation

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

4. Return per share

	(Unaudited) Six months ended 31st July 2018 £'000	(Unaudited) Six months ended 31st July 2017 £'000	(Audited) Year ended 31st January 2018 £'000
Return per share is based on the following:			
Revenue return	31,858	27,717	51,292
Capital return	33,736	236,399	361,866
Total return	65,594	264,116	413,158
Weighted average number of shares in issue ¹	807,080,131	850,066,810	838,079,040
Revenue return per share	3.95p	3.26p	6.12p
Capital return per share	4.18p	27.81p	43.18p
Total return per share	8.13p	31.07p	49.30p

¹Comparative figures for the period ended 31st July 2017 and year ended 31st January 2018 have been restated following the sub-division of each existing ordinary share of 25p into ten ordinary shares of 2.5p each in May 2018.

Financial Statements – continued

5. Dividends paid

	(Unaudited) Six months ended 31st July 2018 £'000	(Unaudited) Six months ended 31st July 2017 £'000	(Audited) Year ended 31st January 2018 £'000
Unclaimed dividends refunded to the Company ¹	(11)	(19)	(19)
2018 fourth quarterly dividend of 2.15p ² (2017: 1.525p ²) paid to shareholders in May	17,334	12,987	12,987
2019 first quarterly dividend of 1.25p ² (2018: 1.05p ²) paid to shareholders in August	10,041	8,830	8,830
2018 second quarterly dividend of 1.05p ² paid to shareholders in November	n/a	n/a	8,719
2018 third quarterly dividend of 1.05p ² paid to shareholders in February	n/a	n/a	8,632
Total dividends paid in the period	27,364	21,798	39,149

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

²The dividend rate has been restated following the sub-division of each existing ordinary share of 25p into ten ordinary shares of 2.5p each in May 2018.

All dividends paid in the period/year have been funded from the income for the period.

A second quarterly dividend of 1.25p (2018: 1.05p²) per share, amounting to £9,989,000 (2018: £8,719,000), has been declared payable in respect of the six months ended 31st July 2018.

6. Net asset value per share

	(Unaudited) Six months ended 31st July 2018	(Unaudited) Six months ended 31st July 2017	(Audited) Year ended 31st January 2018
Net assets (£'000)	2,015,233	1,913,888	2,019,593
Number of shares in issue ¹	799,111,099	831,270,740	819,000,390
Net asset value per share	252.2p	230.2p	246.6p

¹Comparative figures for the period ended 31st July 2017 and year ended 31st January 2018 have been restated following the sub-division of each existing ordinary share of 25p into ten ordinary shares of 2.5p each in May 2018.

Financial Statements – continued

7. Reconciliation of net 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 2018 £'000	(Unaudited) Six months ended 31st July 2017 £'000	(Audited) Year ended 31st January 2018 £'000
Net return on ordinary activities before finance costs and taxation	71,115	269,848	424,428
Less: capital return on ordinary activities before finance costs and taxation	(37,579)	(240,256)	(369,551)
Scrip dividends received as income	(328)	(389)	(646)
Increase in accrued income and other debtors	(1,402)	(627)	(273)
Increase/(decrease) in accrued expenses	94	(1)	35
Management fee charged to capital	(2,655)	(2,491)	(5,282)
Overseas withholding tax	(173)	8	(61)
Dividends received	(32,980)	(29,802)	(56,647)
Interest received	(340)	(174)	(404)
Realised gains on foreign currency transactions	1	2	17
Net cash outflow from operations before dividends and interest	(4,247)	(3,882)	(8,384)

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 2018		(Unaudited) Six months ended 31st July 2017		(Audited) Year ended 31st January 2018	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Level 1	2,018,673	—	1,966,246	—	2,086,428	—
Level 3 ¹	4,184	—	4,184	—	4,184	—
Total	2,022,857	—	1,970,430	—	2,090,612	—

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

9. Net debt

	(Unaudited) Six months ended 31st July 2018 £'000	(Unaudited) Six months ended 31st July 2017 £'000	(Audited) Year ended 31st January 2018 £'000
Cash and cash equivalents	160,546	125,604	106,531
Debentures falling due after more than five years	(177,721)	(177,624)	(177,673)
Net debt	(17,175)	(52,020)	(71,142)

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 2018.

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 2018 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

16th October 2018

Shareholder Information – continued

Glossary of Terms and Alternative Performance Measures ('APMs')

Return to shareholders (APM)

Total return to the shareholder, on a last traded price to last traded 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.

Total return calculation	Page	Six months ended 31st July 2018	
Opening share price as at 31st January 2018 (p)	2	215.0	
Closing share price as at 31st July 2018 (p)	2	219.5	(a)
Total dividend adjustment factor ¹		1.016164	(b)
Adjusted closing share price (c = a x b)		223.1p	(c)
Total return to shareholder		3.7%	

¹The dividend adjustment factor is calculated on the assumption that the dividends paid out by the Company are reinvested into the shares of the Company at the last traded price quoted at the ex-dividend date.

Return on Net Assets with Debt at Par Value (APM)

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.

Total return calculation	Page	Six months ended 31st July 2018	
Opening cum-income NAV per share with debt at par value as at 31st January 2018 (p)		246.6	
Closing cum-income NAV per share with debt at par value as at 31st July 2018 (p)	2	252.2	(a)
Total dividend adjustment factor ²		1.014043	(b)
Adjusted closing share price (c = a x b)		255.7	(c)
Total return on net assets with debt at par value		3.7%	

²The dividend adjustment factor is calculated on the assumption that the dividends paid out by the Company are reinvested into the shares of the Company at the cum-income NAV at the ex-dividend date.

Return on Net Assets with Debt at Fair Value (APM)

The Company's debt (debentures) is valued in the Statement of Financial Position (within Creditors: amounts falling due after more than one year) at amortised cost, £177,650,000, which is materially equivalent to the repayment value of the debt on the assumption that it is held to maturity. This is often referred to as 'Debt at Par Value'. The current replacement or market value of the debt, which assumes it is repaid and renegotiated under current market conditions, is often referred to as the 'Debt at Fair Value'. The difference between fair and par values of the debt is subtracted from the NAV to derive the NAV with debt at fair value. The fair value of the £3.85 million perpetual debenture and the £175 million debenture issued by the Company have been calculated using discounted cash flow techniques, using the yield from a similar dated gilt plus a margin based on the five year average for the AA Barclays Sterling Corporate Bond spread.

As at 31st July 2018, the cum-income NAV with debt at fair value was £1,940,427,000 or 242.8p per share.

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.

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.

Shareholder Information – continued

Gearing/(Net Cash) (APM)

Gearing represents the excess amount above shareholder's 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.

Gearing calculation	Page	Six months ended 31st July 2018 £'000	Year ended 31st January 2018 £'000	
Investments held at fair value through profit or loss	12	2,022,857	2,090,612	(a)
Net assets	12	2,015,233	2,019,593	(b)
Gearing (c = a / b + 1)		0.4%	3.5%	(c)

Ongoing Charges (APM)

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

The figure as at 31st July 2018 is an estimated annualised figure based on the numbers for the six months ended 31st July 2018.

Ongoing charges calculation	Page	Six months ended 31st July 2018 £'000	Year ended 31st January 2018 £'000	
Management Fee	10	7,586	7,546	
Other administrative expenses	10	1,208	1,151	
Total management fee and other administrative expenses		8,794	8,697	(a)
Average daily cum-income net assets		1,987,470	1,919,395	(b)
Ongoing charges (c = a / b)		0.44%	0.45%	(c)

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

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, meaning there are more sellers than buyers.

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 company'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 2018 was 0.83%.

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 2018/19 tax year, from 6th April 2018 and ending 5th April 2019, 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

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

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

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. 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

Find out more at
www.fca.org.uk/scamsmart



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/October
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.

Directors

Angus Gordon Lennox (Chairman)
Heather Hopkins
Helen James
Graham Kitchen
Harry Morley
Ian Russell
Jeremy Tighe

Company Numbers

Company Registration number: 20537
London Stock Exchange number: 0579403
ISIN: GB00BF4JDH58
Bloomberg ticker: MRC LN
LEI:549300BGX3CJIHLP2H42

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 15 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 Junior ISA. These products are all available on the online service at 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.

Depositary

The Bank of New York Mellon (International) Limited
1 Canada Square
London E14 5AL

The Depositary 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

Centos 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.

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