THE MERCANTILE INVESTMENT TRUST PLC

ANNUAL REPORT & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST JANUARY 2020

PUTTING THE BRIGHTEST SPARKS IN YOUR PORTFOLIO

INVESTMENT WEEK
INVESTMENT COMPANY OF THE YEAR AWARDS 2019
WINNER
UK ALL COMPANIES

J.P.Morgan
Asset Management

Your Company

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 January 2020 the Company's share capital comprised 944,492,180 ordinary shares of 2.5p each, including 152,969,287 shares held in Treasury.

At 31st January 2020, 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 (UK) Limited ('JPMAM').

Financial Conduct Authority ('FCA') regulation of 'non-mainstream pooled investments' and MiFID II 'complex instruments'

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

The shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an investment trust. The Company's shares are not classified as 'complex instruments' under the FCA's revised 'appropriateness' criteria adopted in the implementation of MiFID II.

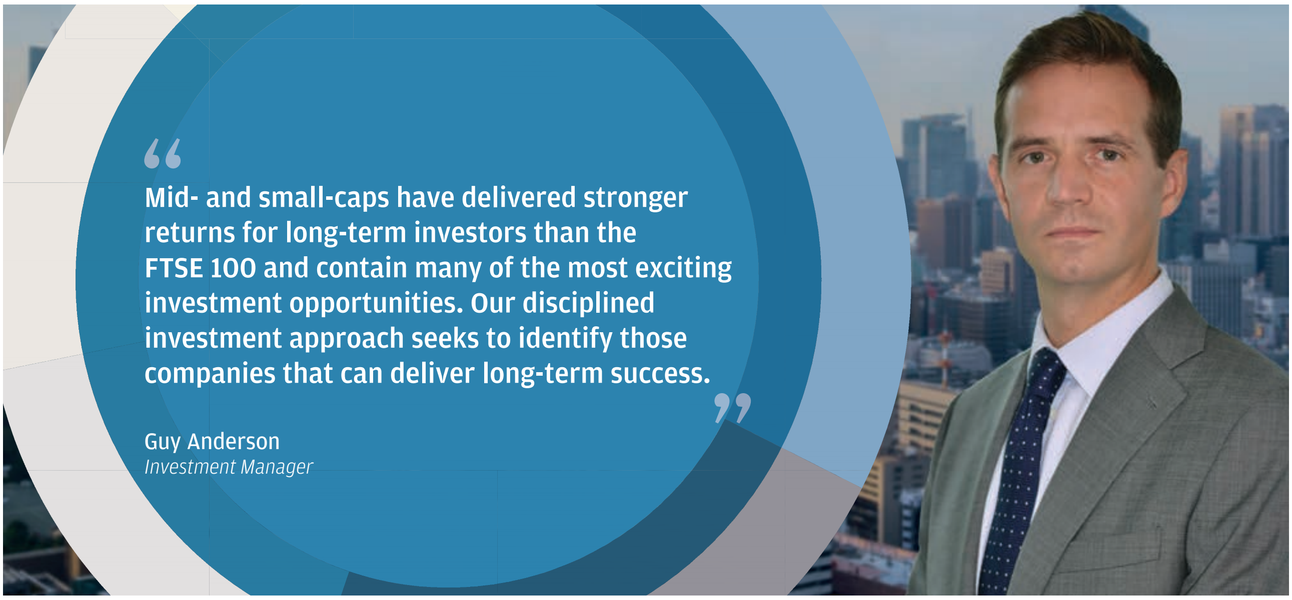
Association of Investment Companies ('AIC')

The Company is a member of the AIC.

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.

Why invest in The Mercantile Investment Trust plc?



PUTTING THE BRIGHTEST SPARKS IN YOUR PORTFOLIO

Some of the most attractive investment opportunities lie outside the FTSE 100. The Mercantile Investment Trust draws on over 130 years of experience to tap into the long-term growth potential of UK mid- and small-cap stocks—focusing on those companies with a certain spark that could ignite long-term success. Invest in tomorrow's winners and share in the return potential of this dynamic area of the market.

- **Dynamic sector access:** Mid- and small-sized companies provide exciting investment opportunities for long-term investors. The Company's benchmark, the FTSE All Share excluding FTSE 100 companies and investment trusts, has outperformed the FTSE 100 over 5, 10 and 25-year periods.
- **Long heritage of success:** With over £2 billion in assets as at the end of January 2020 and 130 years' experience, the Mercantile Investment Trust is the leading UK equity investment trust.
- **Actively managed by a first class investment team:** As the flagship investment trust of J.P.Morgan Asset Management, one of the world's leading asset managers, The Mercantile Investment Trust benefits from a stable and experienced management team with the passion and skill for investing outside of the FTSE 100.
- **Track record of outperformance:** Rigorous sector and stock selection by its experienced management team of mid- and small-cap experts has helped The Mercantile Investment Trust to outperform its benchmark over 3, 5, 10 and 25 years.

The Company's purpose, values, strategy and culture

The purpose of the Company, which was launched in 1884, is to provide an investment vehicle which meets the needs of investors, whether large institutions, professional advisers or individuals, who seek long term investment returns from medium and smaller UK companies in an accessible, cost effective way. The Company has a premium listing on the London Stock Exchange. Its policy is to emphasise capital growth and to achieve long term dividend growth at least in line with inflation. It seeks to outperform its benchmark index over the longer term and to manage risk by investing in a diversified portfolio.

To achieve this, the Board of Directors is responsible for employing and overseeing an investment management company that has the appropriate capability, resources and controls in place to actively manage the Company's assets in order to meet its investment objective. The investment management company, J.P.Morgan Asset Management, employs an investment process with a strong focus on research that integrates environmental, social and governance issues and enables it to identify what it believes to be the most attractive stocks in the market.

To ensure that the Company's purpose, values, strategy and culture are aligned, the Board comprises Directors from a diverse background who have a breadth of relevant skills and experience, act with professional integrity and who contribute in an open boardroom culture that both supports and challenges the investment management company and its other third party suppliers.

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Strategic Report

TOTAL RETURNS (INCLUDING DIVIDENDS REINVESTED)

	2020	2019	3 Year Cumulative	5 Year Cumulative
Return to shareholders[1,A]	+40.2%	-8.1%	61.7%	100.0%
Return on net assets[2,A]	+28.0%	-8.0%	48.7%	78.5%
Benchmark return[3]	+16.7%	-6.7%	24.7%	46.9%
Dividend	6.6p	6.3p		
Dividend increase	+4.8%	+18.9%		

[A] Alternative Performance Measure ('APM').

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

[2] Source: Morningstar.

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

A glossary of terms and APMs is provided on pages 78 to 80.

SUMMARY OF RESULTS

	2020	2019	% change
Total returns for the year ended 31st January			
Return on net assets[1,A]	+28.0	-8.0%	
Return to shareholders[2,A]	+40.2%	-8.1%	
Benchmark[3]	+16.7%	-6.7%	
Net asset value and discount at 31st January			
Shareholders' funds (£'000)	2,182,822	1,753,744	+24.5
Net asset value per share with debt at par value[A]	275.8p	221.3p	+24.6
Net asset value per share with debt at fair value[4, A]	264.8p	211.7p	+25.1
Share price discount to net asset value with debt at par value[A]	5.4%	13.2%	
Share price discount to net asset value with debt at fair value[4,A]	1.4%	9.3%	
Market Data at 31st January			
The FTSE All-Share Index (capital only) excluding constituents of the FTSE 100 Index and investment trusts with net dividends reinvested[5]	4,278.1	3,783.7	+13.1
Share price	261.0p	192.0p	+35.9
Ordinary shares in issue at year end (excluding shares held in Treasury)	791,522,893	792,492,181	
Revenue for the year ended 31st January			
Net revenue available for shareholders (£'000)	60,510	59,750	+1.3
Revenue return per share	7.6p	7.5p	+1.3
Dividend per share	6.6p	6.3p	+4.8
Ongoing Charges[A]	**0.44%**	**0.45%**	
Gearing[A]	**4.9%**	**0.1%**	

[A] Alternative Performance Measure ('APM').

[1] J.P.Morgan/Morningstar, using cum income net asset value per share, with debt at par value.

[2] Source: Morningstar.

[3] FTSE Russell. The Company's benchmark is the FTSE All-Share Index excluding constituents of the FTSE 100 Index and investment trusts.

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

[5] Source: Datastream.

A glossary of terms and APMs is provided on pages 78 to 80.

Angus Gordon Lennox
Chairman

As I write, in mid April, the world is in the midst of the COVID-19, Coronavirus crisis. This has reared its very ugly head after the period on which this annual report covers but such is the impact it has had on markets, and is expected to have on economies, it would be remiss of me not to cover this pandemic first. Whatever I write now will likely be out of date tomorrow, but your Company has given up the excellent hard-earned performance over the year this report relates to. As of 8th April the NAV was 183.32p and the share price was 190.4p.

The rest of this statement covers the year to the end of January, as it should, but it is written with a heavy heart knowing how the reaction to, and the effects of, this horrendous virus may impact on all of our stakeholders' lives.

Performance

Before the virus struck the year to 31st January 2020 was a positive one for investors in UK medium and smaller companies, as measured by our benchmark index, the FTSE All-Share Index (excluding constituents of the FTSE 100 Index and investment trusts), which returned +16.7%. It was an even better one for our shareholders. Your Company out performed our benchmark, producing a return on net assets of +28.0%. This performance is a great credit to our Investment Managers and once again emphasises the benefit of active investment over passive funds. The return to shareholders was an even more impressive +40.2%, as the discount at which the Company's shares trade narrowed over the year from 9.3% to 1.4% (measured using the cum-income net asset value and with the Company's debentures fair valued).

This continues the Company's outstanding long term performance with both the net asset value and share price also having significantly outperformed the benchmark over two, three, five and ten years. Not only has the Company outperformed its UK mid and small cap benchmark over those periods, but that benchmark has continued to outperform significantly the broader UK market. In fact over the past 20 years the FTSE 250 Index, excluding investment trusts, has outperformed the FTSE 100 Index by more than 2% per annum.

Returns and Dividends

The revenue per share increased to 7.64p, from 7.47p in 2019. We have paid three interim dividends of 1.35p per ordinary share in respect of the year to 31st January 2020. The Board has declared a fourth quarterly interim dividend of 2.55p, giving a total dividend of 6.6p per share for the year, an increase of 4.8% on last year's total dividend of 6.3p per share.

Many companies are cutting or postponing dividends so it is very likely our own income will fall this year. At the year end, taking account of the payment of the fourth interim dividend, the revenue reserve stood at £62.8 million, which is equivalent to 7.9p per share and the Board is very conscious of the importance of dividends to many shareholders. Our aim continues to be to increase the dividend at least in line with the rate of inflation.

Discount, Share Buybacks and Share Issuance

Over the course of the year, the discount on the Company's shares narrowed sharply from 9.3% to 1.4%. This reflects firstly your Company's excellent performance but also a more stable political situation, the 'Boris Bounce', and renewed demand for UK companies which had been shunned whilst political instability reigned. The Company bought back significantly fewer shares this year than in past years. However, if required the Board will use the share repurchase authority to enhance value and, where necessary, to manage imbalances between the supply and demand of the Company's shares and thereby reduce the volatility of the discount. We believe that, to date, this mechanism has been helpful and therefore recommend that the powers to repurchase up to 14.99% of the Company's shares, to be cancelled or held in Treasury, be renewed by shareholders at the forthcoming Annual General Meeting ('AGM').

During the year a total of 969,288 shares were repurchased into Treasury, amounting to 0.1% of the issued share capital at the beginning of the year, for a total consideration of £1.9 million.

Resolutions 11 and 12 in the Notice of the AGM seek shareholder approval once again to issue shares and to disapply pre-emption rights on any such issues. We will only reissue shares from Treasury or issue new shares if the Company's shares are trading at a premium to net asset value. Under the current authority we have not yet reissued any shares out of Treasury, but we have recently been trading at a small premium and it may therefore be possible to reissue shares if this is sustained.

Gearing

The Company ended the year with gearing of 4.9%, higher than the 0.1% position at the previous year end as the Investment Managers identified a number of attractive opportunities for investment. Gearing is regularly discussed between the Board and the Investment Managers and it remains the Board's policy to operate within the range of 10% net cash to 20% geared.

Marketing

The Board believes strongly in the advantages of active management in a closed-ended investment trust structure and believes investment trusts should form part of private investors' portfolios. While it is encouraging to see so many professional investors, including wealth managers and private client stockbrokers owning shares in the Company, your Board has tasked the Manager with increasing direct private individual ownership of the Company, reflecting the growth of this constituency of investors, as individuals increasingly adopt the use of research, trading and investment tools available online.

Alongside the Manager, your Company has invested in an extensive media and marketing campaign which we expect to generate sustained new interest and demand. Shareholders may have already noticed advertisements for the Company in a number of national papers and this has been supported by online advertising. If successful, this campaign should in time generate demand for shares in the Company and therefore benefit current shareholders through a better rating for their shares.

At the same time, the Company continues its established programme of marketing and investor relations to wealth managers, institutions and private client stockbrokers. Alongside video and podcast content and sponsored research, the Investment Managers have recently completed their annual 'roadshow' visiting investors across the UK. Over an 18 day period, they met over 300 investors presenting the case for investing in the Company and addressing questions raised by larger shareholders face to face.

Board Succession

In accordance with corporate governance best practice, Directors continuing in office seek annual reappointment and no Directors, including the Chairman, will seek reappointment after having served for nine years on the Board. Helen James will have served on the Board for nine years in September this year and therefore does not intend to stand for reappointment at the 2021 AGM. The Board will commence the process to recruit her successor later this year, with the intention of making an appointment in early 2021.

The Manager

The Board, through its Management Engagement Committee, monitors the performance of the Manager, J.P.Morgan, on an ongoing basis. It judges investment performance over the longer term and also in terms of risk management and internal control, administration, sales, marketing and compliance. We remain very satisfied with the Manager's overall performance and believe that J.P.Morgan's continuing appointment is in the best interests of all shareholders.

Auditors

Under the Audit Regulations and Guidance that came into effect in April 2017, the Company is required to appoint a new audit firm this year. Accordingly, the Audit Committee has undertaken a tender process and agreed to appoint BDO to succeed PwC immediately following the forthcoming AGM.

PwC were appointed as auditors to the Company in 1885, shortly after the Company's launch (and were reappointed following a formal tender process in 2014). That is a remarkably long partnership and the Company is quite possibly PwC's longest standing client. I would like to record our thanks to PwC for their outstanding professional service to the Company over those many years.

Annual General Meeting

Your Company's one hundred and thirty fourth AGM will be held at The Pantiles, 2A Luttrell Avenue, London SW15 6PF on Thursday, 21st May 2020 at 1.00 p.m.

As you would expect, due to the ongoing situation surrounding COVID-19 and the developing advice from the Department of Health, the Board has decided to revise the format of this year's AGM. Only the formal business of the AGM will be considered. There will be no presentation from the Investment Managers and there will be no refreshments provided. The Government has, for the time being, prohibited public gatherings of more than two people and therefore shareholders will not be allowed to attend the AGM in person. Anyone seeking to attend the meeting will be refused entry.

In light of the changed format, the Board strongly encourages all shareholders to exercise their votes in respect of the meeting in advance, by completing and returning their proxy forms. This will ensure that the votes are registered. In addition, shareholders are encouraged to raise any questions in advance of the AGM with the Company Secretary via the 'Ask the Question' link on the Company's website. Any questions received will be replied to by the Company Secretary.

In the event that the situation changes the Company will update shareholders through an announcement to the London Stock Exchange and on the Company's website.

Outlook

At some stage, and it is too early to say when, the current COVID-19 crisis will pass and although the world may have changed significantly, a degree of normality will return. So, I find significant comfort in the holdings in the portfolio where our Investment Managers have chosen companies with strong balance sheets, able to ride out the storm, with good business models and operating in exciting industries. We will survive this turmoil and in due course will prosper again.

Angus Gordon Lennox
Chairman 14th April 2020

Guy Anderson
Investment Manager

Anthony Lynch
Investment Manager

Setting the scene: markets defied multiple challenges

For the year to 31st January 2020, equity markets around the world delivered strong returns, despite ongoing geopolitical tensions and a decidedly sluggish global economy. UK medium- and smaller-sized companies participated in these gains, although their progress was dampened at times by ongoing political uncertainty. 2019 was a dramatic year in UK politics, with Brexit vacillations, the appointment of Boris Johnson as Prime Minister in late July, the prorogation of parliament in the autumn and finally, December's General Election. The UK economy demonstrated resilience towards these challenges, but domestically exposed UK shares generally remained out of favour with international investors for most of the year.

For the first quarter of the period markets recovered strongly from the sell-off experienced in the final quarter of 2018. The second and third quarters were more turbulent as the ongoing trade dispute between the United States and China affected global economic growth, with a material slowdown in both manufacturing output and corporate earnings around the world. However, a policy about-turn by the US Federal Reserve and other central banks aided investor sentiment: instead of raising interest rates to normalise monetary policy and tighten liquidity, policy makers cut rates in order to make credit more easily accessible. Markets responded favourably.

In the Company's final quarter, the UK's decisive General Election result buoyed domestic markets: UK equities rallied, with domestic-focused and smaller companies back in favour. Investors were relieved that some semblance of political stability had been restored and that the threat of a hard-left-wing government waiting in the wings had been removed.

Against this challenging backdrop, the performance of medium and smaller UK companies, excluding investment trusts, (the 'Benchmark') was robust year-on-year, with a return of +16.7%. This substantially outpaced the +9.3% return from the FTSE 100 Index.

Since the end of January, however, the escalation of the global public health crisis caused by the COVID-19 virus has engulfed economic, political and public affairs whilst weighing extremely heavily on stock markets. The spread of the disease and its effects on companies and markets is at present our primary focus.

A year of significant out-performance for Mercantile

The year to 31st January 2020 saw Mercantile outperform the Benchmark by some distance. The Company's investment strategy delivered a return on net assets of +28.0% versus a return of +16.7% for the Benchmark.

Spotlight on stocks and sectors

We focus on identifying tomorrow's market leaders, targeting UK companies outside the FTSE 100 Index that have significant opportunities for growth often overlooked by other investors. We choose stocks that we believe possess the characteristics that may facilitate this growth, be this the ability to innovate and disrupt their industries, to operate with nimble business models, or companies that occupy prime positions in rapidly growing markets.

In this section we reflect on how our stock selection and sectoral decisions impacted the Company's outperformance over the period.

Winners

One of the Company's largest holdings is our long standing investment in alternative asset manager **Intermediate Capital Group** whose shares continued their rise as it maintained its impressive asset raising performance following strong investor demand. It has broadened its range of investment strategies and as at the end of December 2019 it managed more than €42 billion of assets.

AVEVA, the global leader in engineering and industrial software, is a top ten holding whose shares continued their ascent. The company delivered both improving recurring revenue and increasing profitability with the earlier business integration of Schneider Electric's industrial software business yielding results. Also in the Technology arena, our holding in **Softcat**, one of the UK's leading IT value-added resellers, was another big success for us; this profitable, growing company has boosted its public sector business whilst delivering year-on-year growth in both revenues and profits.

Our holding in **JD Sports** was a significant contributor to performance. The business increased sales and profitability, despite the widely reported headwinds facing retail stores in JD's core UK market. Established in 1981 with a single shop in Bury, Greater Manchester, the business now has over 2,400 stores across 18 countries.

Another significant performer was Nottingham-based **Games Workshop**, a manufacturer of miniature wargame figurines and a company that dominates its niche market. Its share price soared over the period as investors acknowledged its continued sales and profits growth across trade, retail and online channels.

Losers

Pleasingly, there were very few losers over the year. The most significant detractor from returns was **Vesuvius**, the metal flow engineering company, which faced a backdrop of deteriorating end-market conditions throughout 2019. Exposure to the company – and to the steel industry more broadly – was reduced in the period, although it is still held in the portfolio owing to the cyclical, rather than structural, nature of the issues that led to poor share price performance. Loans provider **Amigo** was the only other significant detractor. It is the UK's largest guarantor loans company, but its share price plunged over the year amidst a challenging operating environment and a substantial rise in customer complaints. Given the structural nature of the company's problems, it is no longer held in the portfolio.

PERFORMANCE ATTRIBUTION

FOR THE YEAR ENDED 31ST JANUARY 2020

	%	%
Contributions to total returns		
Benchmark return		16.7
Stock/Sector – selection/allocation	11.9	
Effect of Gearing/Cash	0.3	
Effect of Management fee/Other expenses	–0.4	
Cost of debentures	–0.5	
Repurchase of shares		0.0
Return on net assets with debt at par value[A]		28.0
Par to fair value adjustment		0.6
Return on net assets with debt at fair value[A]		28.6
Effect of change in discount		11.6
Return to shareholders[A]		40.2

[A] Alternative Performance Measure ('APM').

Source: JPMAM and Morningstar.

The table provides a breakdown, relative to the benchmark, of the contributions to total return.

A glossary of terms and APMs is provided on pages 78 to 80.

Positioning the portfolio for future success

Although stock markets surpassed our expectations during the year, the prevailing geopolitical and economic climate was challenging, with the global economy seemingly in reverse gear. This was a period dominated by concerns over declining manufacturing and service sectors, a collapse in corporate earnings growth and continuing tensions in international trade relations. The UK market progressed but remained out of favour with international investors unable to see through the prolonged Brexit fog. At the time of writing, the spread of COVID-19 has forced many of the world's largest economies to grind to a halt and forced central banks and governments to respond with extreme policy measures. Stock markets globally have experienced dramatic sell-offs. The near-term outlook remains challenging with many uncertainties to navigate in the coming months.

Our bottom-up strategy of focusing on the attributes of individual stocks has enabled us to uncover companies that are fundamentally robust and have the potential to be long-term winners. Despite the fiscal stimulus that has so far underpinned the Johnson government's economic strategy and the strong labour market and improving consumer confidence that characterised the immediate post-election period, the spectre of escalating public health crisis in recent weeks has significantly damaged the prospects for near-term economic growth. However this will not last forever, so our focus through these challenging times remains identifying and investing in robust businesses that can weather this storm and be potential champions of the future.

By sector, our largest overweight position is in IT Software and Services where we have uncovered some compelling opportunities. We have overweight positions in the aforementioned **AVEVA** and **Softcat**, as well as in **Computacenter**, the independent provider of IT infrastructure services headquartered in Hertfordshire.

Within consumer goods, we have large holdings – and large overweight positions – in house builders **Bellway** and **Countryside Properties**. Bellway has evolved over 70 years from a local family business to one of the UK's largest house builders whilst Countryside is looking to expand further its Partnership division, which focuses on delivering urban regeneration by working alongside local authorities and housing associations. Both companies are examples of stocks where we continue to believe that prospects for growth remain positive in the long-term.

Early last year we began to build up a new position in **Dunelm**, the UK's leading home furnishings retailer with a design-led focus, which has achieved 40 consecutive years of growth in sales. Dunelm has more than 170 stores as well as a significant online presence. The retailer's differentiated and attractively priced offering has stimulated strong customer demand, both in-store and online. This has driven growth ahead of expectations, so that the company was one of the best-performing stocks in the index this year.

Environmental, Social and Governance

Our investment approach sees us focus on identifying companies that possess a sustainable competitive advantage, have a durable business model and are overseen by a competent management team with a track record of success. In recent years there has been an increasing focus on environmental, social and governance ('ESG') issues when it comes to investing. We have always felt that these are important components in determining the sustainability of any business. When we talk about our investment process, we do not explicitly talk about ESG considerations even though these are things we consider in terms of how they impact a company's future earnings and cash flow streams. For a number of years, we have excluded from our investment universe companies that have been identified by an independent third party provider as being involved in the manufacture, production or supply of cluster munitions, depleted uranium ammunition and armour and/or anti-personnel mines. More recently, we have started to articulate how we think about ESG in our investment approach and how we partner with our Stewardship specialists when engaging with companies on these issues. An example of our ESG engagement would be the case of the UK bookmakers, where our engagements with the UK Gambling Commission highlighted the extent of problem gambling losses in the UK. On the back of these engagements we exited holdings in some of the stocks we believed to be most at risk from potential regulatory changes.

Outlook for the coming year: a cloud hangs over the global economy

The COVID-19 virus originated in China and has, at the time of writing, spread rapidly across much of the globe including Western Europe and the United States. This presently escalating crisis has drastically impacted both the global economy and market sentiment. A number of countries have enforced public lockdowns and either closed or tightened borders. Central banks have responded by cutting interest rates and introducing significant monetary stimulus, while governments have begun outlining plans for unprecedented fiscal stimulus. Furthermore, a collapse in the oil price, driven by reduced demand and a dispute between major producers including Saudi Arabia and Russia, has introduced another dimension of volatility and uncertainty. Share prices globally have tumbled.

As economic activity is currently so limited – with vast swathes of the global economy either no longer active or operating well below capacity – our immediate focus has shifted towards identifying potential liquidity risks in portfolio companies and positioning the portfolio with an emphasis on those companies that are more likely to demonstrate operational and financial resilience in these testing times. Despite the ongoing public health crisis and geopolitical developments, including Brexit negotiations and this year's US presidential election, we maintain our view that the favourable dynamics of medium- and small-sized companies will continue to drive superior returns over the long-term.

Our rigorous research process will continue to uncover attractive investment opportunities. The Company can hold up to 10% in cash or utilise gearing of up to 20% of net assets where appropriate. We started the last financial year fully invested but ungeared, whereas the portfolio today is about 6% geared. Importantly, our present position still provides us with plenty of capacity to invest further as and when suitable opportunities arise.

Whilst we are pleased to have delivered robust returns to investors over the review period, the Company's long-term performance record is equally compelling and our careful, active selection of stocks has enabled us to outperform the Company's Benchmark over 1, 2, 3, 5 and 10 years.

We are resolute in our commitment to investing in high quality, structurally robust companies. We are confident that our search for companies that can generate earnings growth over medium- and long-term horizons and that can adapt to the environments in which they operate, will enable us to deliver outperformance in future, just as we have demonstrated in the past.

Guy Anderson
Anthony Lynch
Investment Managers

14th April 2020

TEN LARGEST INVESTMENTS AT 31ST JANUARY

	2020 Valuation		2019 Valuation	
Company	£'000	%[1]	£'000	%[1]
Intermediate Capital	106,959	4.7	50,648	2.9
Bellway	96,811	4.2	54,754	3.1
Games Workshop[2]	59,224	2.6	26,348	1.5
AVEVA[2]	56,065	2.4	32,664	1.9
Countryside Properties[2]	55,609	2.4	26,283	1.5
SSP	54,740	2.4	36,508	2.1
Derwent London[2]	49,320	2.2	12,102	0.7
Softcat[2]	48,384	2.1	28,217	1.6
National Express[2]	48,344	2.1	31,361	1.8
Computacenter[2]	47,720	2.1	16,047	0.9
Total[3]	623,176	27.2		

All of the above investments are listed in the UK.

1 Based on total portfolio of £2,290m (2019: £1,755m).

2 Not Included in the ten largest investments at 31st January 2019.

3 January 2019, the value of the ten largest investments amounted to £397m representing 22.6% of the total portfolio.

LISTED EQUITY MARKET CAPITALISATION AT 31ST JANUARY (%)[1]

	2020	2019
UK FTSE Mid sized	80.0	79.2
UK FTSE 100	13.1	11.3
UK FTSE Small & Fledgling	5.7	5.2
UK AIM	1.0	4.1
UK Unquoted	0.2	0.2
Total	**100.0**	**100.0**

[1] Based on total portfolio of £2,290m (2019: £1,755m).
Source: J.P. Morgan.

SECTOR ANALYSIS AT 31ST JANUARY (%)[1]

	Portfolio 2020	Benchmark 2020	Portfolio 2019	Benchmark 2019
Industrials	24.9	26.4	32.0	28.8
Consumer Services	19.8	17.7	14.6	18.0
Financials	19.5	16.7	21.0	15.7
Consumer Goods	14.7	9.1	12.4	8.2
Technology	8.3	4.3	6.2	2.8
Real Estate	7.8	14.3	6.2	12.6
Basic Materials	3.2	2.8	4.0	4.0
Oil & Gas	1.0	2.2	2.0	2.6
Telecommunications	0.8	0.8	0.8	1.1
Health Care	–	4.0	0.8	4.6
Utilities	–	1.7	–	1.6
Total	**100.0**	**100.0**	**100.0**	**100.0**

[1] Based on total portfolio of £2,290m (2019: £1,755m).
Source: J.P. Morgan.

LIST OF INVESTMENTS AT 31ST JANUARY 2020

Company	£'000
Industrials	
Howden Joinery	45,434
Grafton	43,722
Electrocomponents	39,437
Marshalls	37,872
Spirax-Sarco Engineering	35,680
QinetiQ	31,892
Morgan Sindall	31,567
Signature Aviation	26,257
Diploma	25,767
Vesuvius	24,989
Rotork	24,869
Morgan Advanced Materials	20,202
Avon Rubber	19,945
Babcock International	19,901
Hill & Smith	19,894
Forterra	19,641
Ibstock	18,420
Coats	17,025
Polypipe	16,556
Vp	13,916
SThree	13,268
Hays	12,408
Oxford Instruments	11,565
	570,227
Consumer Services	
SSP	54,740
National Express	48,344
WH Smith	45,888
B&M European Value Retail	39,498
Dunelm	35,666
JD Sports Fashion	30,818
Auto Trader	28,371
Inchcape	27,629
Greggs	22,540
GVC	18,860
Trainline	16,232
4imprint	14,895
Future	14,720
Reach	13,200
Rank	12,945
DFS Furniture	10,881
Dart[1]	9,406
GoCo	8,607
	453,240

Company	£'000
Financials	
Intermediate Capital	106,959
Man	45,016
Close Brothers	42,480
Beazley	38,817
John Laing	38,801
OneSavings Bank	36,713
3i	33,105
TP ICAP	24,174
Phoenix	22,740
Brewin Dolphin	20,767
Melrose Industries	14,692
Sabre Insurance	10,798
TBC Bank	8,870
Cenkos Securities[1]	1,414
	445,346
Consumer Goods	
Bellway	96,811
Games Workshop	59,224
Countryside Properties	55,609
Tate & Lyle	31,712
Greencore	30,933
Britvic	28,660
Berkeley	17,272
Watches of Switzerland	12,509
MP Evans[1]	4,820
	337,550
Technology	
AVEVA	56,065
Softcat	48,384
Computacenter	47,720
Avast	37,400
	189,569
Real Estate	
Derwent London	49,320
UNITE	45,601
Segro	26,810
LondonMetric Property	20,360
Workspace	17,024
Shaftesbury	11,687
Watkin Jones[1]	6,793
	177,595

LIST OF INVESTMENTS AT 31ST JANUARY 2020

Company	£'000
Basic Materials	
Polymetal International	34,709
Synthomer	27,868
Ferrexpo	7,335
Tennants Consolidated[2,3]	4,440
	74,352
Oil & Gas	
Premier Oil	21,575
Hunting	2,448
	24,023
Telecommunications	
Telecom Plus	17,667
	17,667
Total Investments[4]	**2,289,569**

[1] AIM listed investment.

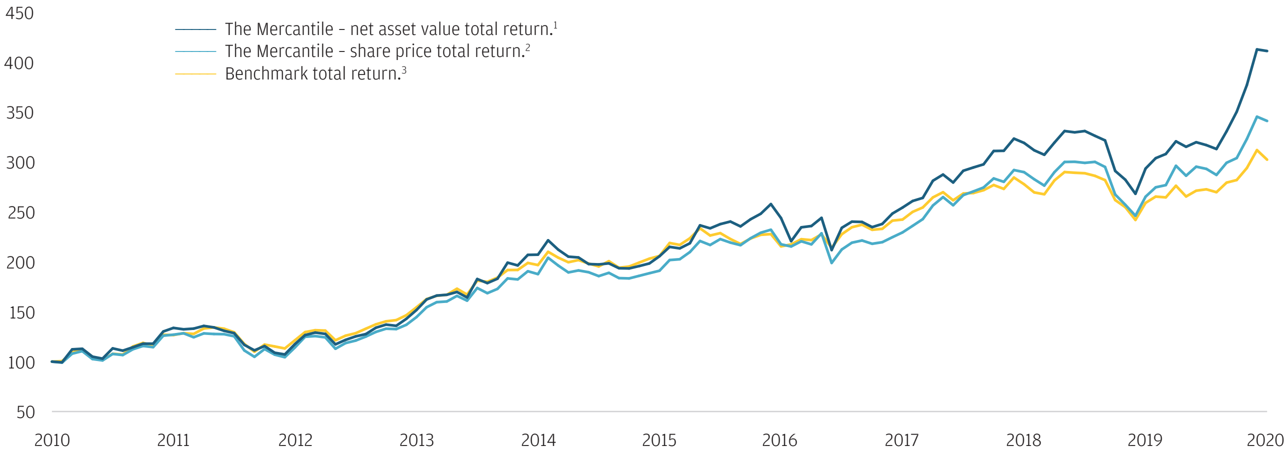
[2] Unquoted investment.

[3] Includes a fixed interest investment.

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

TEN YEAR PERFORMANCE

Figures have been rebased to 100 at 31st January 2010

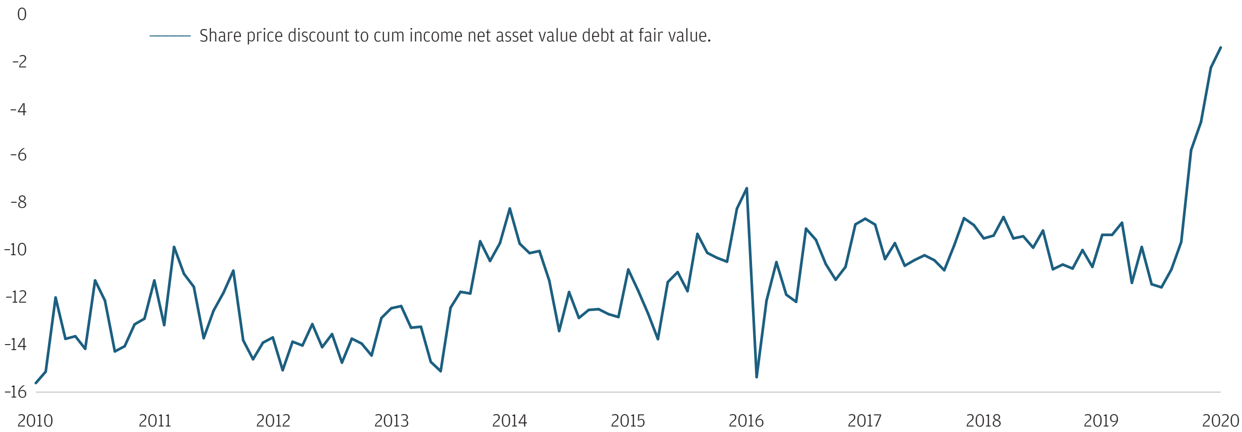


[1]Source: J.P.Morgan/Morningstar, using cum income net asset value per share, with debt at fair value.

[2]Source: Morningstar.

[3]Source: FTSE Russell.

Discount History



Source: Morningstar.

TEN YEAR FINANCIAL RECORD

At 31st January	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total assets less current liabilities (£'m)	1,212.3	1,414.3	1,287.5	1,538.6	1,865.2	1,890.5	2,031.2	1,921.7	2,197.3	1,931.5	2,360.7
Net asset value per share (p)[1,2,A]	101.6	124.9	112.5	138.3	171.8	175.3	193.2	200.5	246.6	221.3	275.8
Share price (p)[2]	86.0	110.9	94.0	117.1	155.0	149.8	172.7	175.5	215.0	192.0	261.0
Discount (%)[A]	15.3	11.2	16.4	15.3	9.8	14.6	10.6	12.5	12.8	13.2	5.4
Gearing/(net cash) (%)[A]	11.9	8.9	14.3	2.7	8.9	(0.9)	(4.2)	2.5	3.5	0.1	4.9
Year to 31st January											
Gross revenue (£'000)	32,248	32,237	37,384	37,447	53,104	48,136	56,848	56,369	58,292	66,358	67,719
Revenue available for shareholders (£'000)	23,703	26,769	31,555	31,643	46,646	41,352	49,580	49,296	51,292	59,750	60,510
Revenue return per share (p)[2,A]	2.3	2.7	3.2	3.2	4.8	4.2	5.2	5.3	6.1	7.5	7.6
Dividend per share (net) (p)[2]	3.6	3.6	3.6	3.6	4.0	4.1	4.3	4.6	5.3	6.3	6.6
Ongoing Charges (%)[3,A]	0.54	0.49	0.51	0.49	0.48	0.49	0.48	0.48	0.45	0.45	0.44
Rebased to 100 at 31st January 2010											
Net asset value per share[1,A]	100.0	122.9	110.7	136.1	169.1	172.5	190.2	197.3	242.7	217.8	271.5
Total return on net assets[4,A]	100.0	127.0	114.2	144.6	187.7	191.1	217.6	229.5	289.9	265.3	341.2
Share price	100.0	129.0	109.3	136.2	180.2	174.2	200.8	204.1	250.0	258.1	303.5
Total return to shareholders[5,A]	100.0	133.8	117.6	151.7	207.2	205.6	243.9	254.4	319.2	293.5	411.3
Benchmark total return[5]	100.0	126.6	121.4	154.4	196.8	205.9	215.5	242.4	277.8	259.1	302.4
Revenue return per share	100.0	117.4	139.1	139.1	208.7	182.6	226.1	230.4	265.2	326.1	330.4
Dividends per share[2]	100.0	100.0	100.0	100.0	111.1	113.9	119.4	127.8	147.2	175.0	183.3
Retail Price Index[6] (%)	100.0	105.1	109.2	112.8	115.9	117.2	118.8	121.8	126.7	129.9	133.4

A Alternative Performance Measure ('APM').

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

2 Comparative figures from 2010 to 2018 have been restated due to the sub-division of each existing Ordinary share of 25p into ten ordinary shares of 2.5p each on 25th May 2018.

3 Ongoing Charges represents the management fee and all other operating expenses excluding finance costs, expressed as a percentage of the average of the daily net assets during the year (2009 to 2011: Total Expense Ratio, calculated on the average of the month end net assets). The ongoing charges are calculated in accordance with guidance issued by the Association of Investment Companies in May 2012.

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

5 Source: Morningstar, FTSE Russell.

6 Source: Office of National Statistics. Calculated on a cumulative basis, rebased to 100 as at 31st January 2010.

A glossary of terms and APMs is provided on pages 78 to 80.

Business Review

The aim of the Strategic Report is to provide shareholders with the ability to assess how the Directors have performed their duty to promote the success of the Company during the year under review. To assist shareholders with this assessment, the Strategic Report sets out the Company's purpose, values, strategy and culture, its investment objective, structure, investment policies and risk management, investment restrictions and guidelines, performance, total return, revenue and dividends, key performance indicators, share capital, Board diversity, discount, employees, social, community and human rights issues, principal risks and how the Company seeks to manage those risks and finally it's long term viability.

Investment Objective

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

Structure of the Company

The Company is subject to UK and European legislation and regulations including UK company law, UK Financial Reporting Standards, the FCA Listing, Prospectus, Disclosure Guidance and Transparency Rules, taxation law and the Company's own Articles of Association. The Company is an investment company within the meaning of Section 833 of the Companies Act 2006 and has been approved by HM Revenue & Customs as an investment trust (for the purposes of Sections 1158 and 1159 of the Corporation Tax Act 2010). As a result the Company is not liable for taxation on capital gains. The Directors have no reason to believe that approval will not continue to be retained. The Company is not a close company for taxation purposes.

A review of the Company's activities and prospects is given in the Chairman's Statement on pages 6 to 8, and in the Investment Managers' Report on pages 9 to 12.

Investment Policies and Risk Management

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

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

Investment Restrictions and Guidelines

- The Company invests in medium and smaller companies which are listed mainly on the London Stock Exchange.
- At time of purchase the maximum exposure to any individual stock is 8% of total assets. The Company may hold five positions of up to 8%, totalling no more than 40% of the Company's gross assets. Thereafter a maximum of 3% of gross assets may be held in any one investment.
- Capital growth is emphasised, with long-term dividend growth at least in line with inflation.
- Gearing may be used when appropriate in order to increase potential returns to shareholders. Such gearing will be long-term in nature and will operate within a range of 10% net cash to 20% geared.
- The Company does not invest more than 15% of its gross assets in other listed closed-ended investment funds (including investment trusts).
- The Company will not invest more than 10% of assets in companies that themselves may invest more than 15% of gross assets in UK listed investment companies.

Performance

In the year to 31st January 2020, the Company produced a total return to shareholders of +40.2% and a total return on net assets of +28.0%. This compares with the total return on the Company's benchmark of +16.7%. At 31st January 2020, the value of the Company's investment portfolio was £2,289.6 million.
The Investment Managers' Report on pages 9 to 12 includes a review of developments during the year as well as information on investment activity within the Company's portfolio.

Total Return, Revenue and Dividends

Gross total return for the year amounted to £503.3 million (2019: £142.5 million loss) and net total return after deducting interest, management expenses and taxation amounted to £483.2 million (2019: £161.9 million loss). Distributable income for the year amounted to £60.5 million (2019: £59.8 million). The Directors have declared quarterly interim dividends totalling 6.6p (2019: 6.3p) per ordinary share for the year which totalled £52.3 million (2019: £50.1 million). The year end revenue reserve after allowing for these dividends will amount to £62.8 million (2019: £54.5 million).

Key Performance Indicators ('KPIs')

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

- **Performance against the benchmark index**

  This is the most important KPI by which performance is judged. Please refer to the graph headed 'Ten Year Performance' on page 17.

- **Performance against the Company's peers**

  The principal objective is to achieve capital growth relative to the benchmark. The Board also monitors the performance relative to a broad range of competitor funds.

- **Dividends**

  The Company pays four quarterly dividends each year and the Board's aim is to achieve long term dividend growth at least in line with inflation.

- **Performance attribution**

  The purpose of performance attribution analysis is to assess how the Company achieved its performance relative to its benchmark index, i.e. to understand the impact on the Company's relative performance of the various components such as stock selection and sector allocation . Details of the attribution analysis for the year ended 31st January 2020 are given in the Investment Managers' Report on page 10.

- **Share price discount to net asset value ('NAV') per share**

  The Board operates a share repurchase programme that seeks to enhance value and address imbalances in supply and demand of the Company's shares within the market and thereby reduce the volatility and absolute level of the discount to NAV, with debt at fair value, at which the Company's shares trade. Please refer to the graph headed 'Discount History' on page 17.

- **Ongoing Charges**

  The ongoing charges ratio represents the Company's management fee and all other operating expenses, excluding finance costs, expressed as a percentage of the average of the daily net assets during the year. The ongoing charges ratio for the year ended 31st January 2020 was 0.44% (2019: 0.45%). The Board reviews each year an analysis which shows a comparison of the Company's ongoing charges ratio and its main expenses with those of its peers.

Share Capital

During the year, the Company repurchased a total of 969,288 shares into Treasury, amounting to 0.12% of the issued share capital at the beginning of the year, for a total consideration of £1.9 million (2019: £56.8 million). As the shares were repurchased at a discount to the underlying net asset value ('NAV') they enhanced the NAV of the remaining shares. The Company has not repurchased any shares since the year end.

A resolution to renew the authority to repurchase shares will be put to shareholders at the forthcoming Annual General Meeting.

The Company did not issue any shares during the year and has not issued any shares since the year end.

Board Diversity

At 31st January 2020, there were four male Directors and two female Directors on the Board. The Company has no employees. The Board's policy on diversity is set out on page 30.

Discount

The Board monitors closely the level of the Company's share price discount to net asset value. Over the course of the year the discount decreased from 9.3% to 1.4%, calculated on the cum income NAV with debt at fair value.

The Company reports its performance (Financial Highlights, Chairman's Statement, Investment Managers' report etc.) to shareholders on a cum income NAV with debt at fair value basis. This is consistent with the NAV stated in the Company's monthly factsheets and on its website.

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 five year average for the AA Barclays Sterling Corporate Bond spread.

Employees, Social, Community and Human Rights Issues

The Company has a management contract with JPMF. It has no employees and all of its Directors are non-executive, the day to day activities being carried out by third parties. There are therefore no disclosures to be made in respect of employees. The Board supports JPMorgan Asset Management's ('JPMAM') global policy statements in respect of Social, Community and Environmental and Human Rights issues, as highlighted in italics:

JPMAM believes that companies should act in a socially responsible manner. We believe environmental, social and governance ('ESG') considerations, particularly those related to governance, can play a critical role in long-term investment strategy. As an active investment manager, engagement is an important and ongoing component of our investment process, and we view frequent and direct contact with company management as critically important. When considering investment options, we supplement our proprietary thinking with research from a variety of third-party specialist providers and engage directly with companies on a wide array of ESG issues. Our governance specialists regularly attend scheduled one-on-one company meetings alongside investment analysts to help identify and discuss relevant issues. Although our priority at all times is the best economic interests of our clients, we recognise that ESG issues have the potential to impact the share price, as well as the reputation of companies.

JPMAM is also a signatory to the United Nations Principles of Responsible Investment, which commits participants to six principles, with the aim of incorporating ESG criteria into their processes when making stock selection decisions and promoting ESG disclosure.

The Manager has implemented a policy which seeks to restrict investments in securities issued by companies that have been identified by an independent third party provider as being involved in the manufacture, production or supply of cluster munitions, depleted uranium ammunition and armour and/or anti-personnel mines. Shareholders can obtain further details on the policy by contacting the Manager.

Greenhouse Gas Emissions

The Company has no premises, consumes no electricity, gas or diesel fuel and consequently does not have a measurable carbon footprint. *JPMAM is a signatory to Carbon Disclosure Project. JPMorgan Chase is a signatory to the Equator Principles on managing social and environmental risk in project finance.*

The Modern Slavery Act 2015 (the 'MSA')

The MSA requires companies to prepare a slavery and human trafficking statement for each financial year of the organisation. As the Company has no employees and does not supply goods and services, the MSA does not apply directly to it. The MSA requirements more appropriately relate to JPMF and JPMAM. JPMorgan's statement on the MSA can be found on the following website: https://www.jpmorganchase.com/corporate/Corporate-Responsibility/document/modern-slavery-act.pdf

Criminal Corporate Offence

The Company maintains zero tolerance towards tax evasion. Shares in the Company are purchased through intermediaries or brokers, therefore no funds flow directly into the Company.

Principal Risks

The Directors confirm that they have carried out a robust assessment of the emerging and principal risks facing the Company, including those that would threaten its business model, future performance, viability, solvency or liquidity.

With the assistance of the Manager, the Board has drawn up a risk matrix, which identifies the emerging and principal risks to the Company. These risks are reviewed and discussed on a regular basis and fall broadly under the following categories:

- **Investment and Strategy:** An inappropriate investment strategy, for example sector allocation or the level of gearing, may lead to underperformance against the Company's benchmark index and peer companies, resulting in the Company's shares trading on a wider discount. The Board manages these risks by diversification of investments through its investment restrictions and guidelines which are monitored and reported on by the Manager. JPMF provides the Directors with timely and accurate management information, including performance data and attribution analyses, revenue estimates, liquidity reports and shareholder analyses. The Board monitors the implementation and results of the investment process with the Investment Managers, who attend all Board meetings, and reviews data which show statistical measures of the Company's risk profile. The Investment Managers employ the Company's gearing tactically, within a strategic range set by the Board.
- **Accounting, Legal and Regulatory:** In order to qualify as an investment trust, the Company must comply with Section 1158 of the Corporation Tax Act 2010 ('Section 1158'). Details of the Company's approval are given under 'Structure of the Company' on page 19. Were the Company to breach Section 1158, it might lose investment trust status and, as a consequence, gains within the Company's portfolio could be subject to Capital Gains Tax. The Section 1158 qualification criteria are monitored continually by JPMF and the results reported to the Board each month. The Company must also comply with the provisions of the Companies Act and, since its shares are listed on the London Stock Exchange, the FCA Listing Rules and Disclosure Guidance and Transparency Rules ('DTRs'). A breach of the Companies Act could result in the Company and/or the Directors being fined or the subject of criminal proceedings. Breach of the FCA Listing Rules or DTRs could result in the Company's shares being suspended from listing which in turn would breach Section 1158. The Board relies on the services of its Company Secretary, JPMF, to ensure compliance with The Companies Act and the FCA Listing Rules and DTRs.
- **Corporate Governance and Shareholder Relations:** Details of the Company's compliance with Corporate Governance best practice, including information on relations with shareholders, are set out in the Corporate Governance Statement on pages 28 to 32.
- **Operational and Cyber Crime:** Disruption to, or failure of, JPMF's accounting, dealing or payments systems or the custodian's records could prevent accurate reporting and monitoring of the Company's financial position. This includes the failure of the Manager's continuity plans in the face of systems outage, office disruption or a pandemic and the risk of cyber crime and the consequent potential threat to security and business continuity. Details of how the Board monitors the services provided by JPMF and its associates and the key elements designed to provide effective risk management and internal control are included within the Risk Management and Internal Control section of the Corporate Governance statement on pages 31 and 32.

  The threat of cyber attack, in all its guises, is regarded as at least as important as more traditional physical threats to business continuity and security. The Company benefits directly or indirectly from all elements of JPMorgan's Cyber Security programme. The information technology controls around the physical security of JPMorgan's data centres, security of its networks and security of its trading applications are tested by independent reporting accountants and reported on every six months against the Audit and Assurance Faculty ('AAF') standard.

- **Financial:** The financial risks faced by the Company include market price risk, interest rate risk, liquidity risk and credit risk. Bank counterparties are subject to regular credit analysis by the Manager and regular consideration at meetings of the Board. In addition the Board receives regular reports on the Manager's monitoring and mitigation of credit risks on share transactions carried out by the Company. Further details are disclosed in note 24 on pages 65 to 69.

Long Term Viability

The Company was established in 1884 and has been in existence for more than 135 years. It is an investment trust that has the objective of long term capital growth from a portfolio of UK medium and smaller companies. The Company has invested through many difficult economic and market cycles in the past. The current COVID-19 crisis is one of the most challenging that has been faced and since the Company's financial year end, equity markets have fallen significantly due primarily to concerns around the scale of its impact on the global economy. Nonetheless we do not believe that it calls into question the long term viability of the Company.

Taking account of the Company's current position, the principal risks that it faces and their potential impact on its future development and prospects, the Directors have assessed the prospects of the Company, to the extent that they are able to do so, over the next five years. They have made that assessment by considering those principal risks, the risk of breaching the Company's debenture covenants as a result of a material reduction in its asset base, the Company's investment objective and strategy, the investment capabilities of the Manager and the current outlook for the UK economy and equity market.

In determining the appropriate period of assessment the Directors had regard to their view that, given the Company's objective of achieving long term capital growth, shareholders should consider the Company as a long term investment proposition. This is consistent with advice provided by investment advisers, that investors should consider investing in equities for a minimum of five years. Thus the Directors consider five years to be an appropriate time horizon to assess the Company's viability.

The Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period of assessment.

By order of the Board
Jonathan Latter, for and on behalf of
JPMorgan Funds Limited,
Company Secretary

14th April 2020

Directors’ Report

Angus Gordon Lennox*#†+•

A Director since September 2015.

Last reappointed to the Board: 2019.

Remuneration: £69,000.

Angus is a non-executive Director of Securities Trust of Scotland plc and Aberforth Split Level Income Trust plc. He is also Executive Chairman of two private family businesses. Previously he had a 24 year career as a corporate broker, first as a partner of Cazenove & Co, and later as a Managing Director of JPMorgan Cazenove, from which he left in August 2010.

Connections with Manager: none.

Shared directorships with other Directors: none.

Shareholding in the Company: 110,000 ordinary shares.

Helen James*#†+•

A Director since September 2011.

Last reappointed to the Board: 2019.

Remuneration: £37,000.

Helen is Group Chief Operating Officer of Brunswick Group. She was previously CEO of Investis, a leading digital corporate communications company, having been Managing Director and a co-founder of the company in 2000. Prior to that Helen was head of Pan-European Equity Sales at Paribas. She is also a non-executive director of Edinburgh Worldwide Investment Trust plc.

Connections with Manager: none.

Shared directorships with other Directors: none.

Shareholding in the Company: 6,500 ordinary shares (non-beneficial).

Jeremy Tigue*#†+•

A Director since March 2012.

Last reappointed to the Board: 2019.

Remuneration: £41,000.

Jeremy joined F&C Management in 1981 and was the fund manager of Foreign and Colonial Investment Trust plc from 1997 to July 2014. He was, until January 2013, a Director of the Association of Investment Companies. He is Chairman of ICG Enterprise Trust plc and a non-executive Director of The Monks Investment Trust plc and Aberdeen Standard Equity Income Trust plc.

Connections with Manager: none.

Shared directorships with other Directors: none.

Shareholding in the Company: 168,534 ordinary shares.

Harry Morley*#†+•

A Director since May 2014 and Chairman of the Audit Committee since March 2015.

Last reappointed to the Board: 2019.

Remuneration: £50,000.

Harry was CEO of Armajaro Asset Management LLP from 2010 until 2016, and a non-executive Director of Bibendum Wine Holdings Ltd until May 2016. He was Co-founder and CFO of Tragus Holdings Ltd, owner of Café Rouge and Bella Italia restaurant chains, and also worked in the shipping industry for P&O. He is currently a non-executive Director of JD Wetherspoon plc, TheWorks.co.uk plc, Cadogan Group Limited and a Trustee of The Ascot Authority. He qualified as a chartered accountant with Price Waterhouse.

Connections with Manager: none.

Shared directorships with other Directors: none.

Shareholding in the Company: 30,000 ordinary shares.

Heather Hopkins*#†+•

A Director since July 2018.

Last reappointed to the Board: 2019.

Remuneration: £37,000.

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 is also a Director of Clive Waller Consulting Limited, which manages The UK Platform Awards and The Investment Network, a Director of The Open Strings Foundation, a US charity and a columnist for New Model Adviser. She was formerly Head of Platforum, a research and events business.

Connections with Manager: none.

Shared directorships with other Directors: none.

Shareholding in the Company: 5,121 ordinary shares.

Graham Kitchen*#†+•

A Director since July 2018.

Last reappointed to the Board: 2019.

Remuneration: £37,000.

Graham has over twenty years experience managing UK equity funds, including OEICs, investment trusts and pension funds. He was Global Head of Equities at Janus Henderson Investors from 2011 to 2018. Formerly Head of UK Equities at Threadneedle Investments and held various positions at Invesco Asset Management. He is a CFA Charterholder and a non-executive Director of Invesco Perpetual Select Trust plc, British Empire Trust plc and of Places for People, a provider of affordable housing, Chair of the independent investment committee of the Cancer Research UK Pension Scheme and a member of the investment committee of Independent Age, a charity that provides advice to older people. He also acts as mentor for The Prince's Trust and The Social Mobility Foundation

Connections with Manager: none.

Shared directorships with other Directors: none.

Shareholding in the Company: 63,180 ordinary shares.

*** A member of the Audit Committee.**

 # A member of the Nomination Committee.

† A member of the Management Engagement Committee.

+ A member of the Remuneration Committee.

• A member of the Marketing & Communications Committee.

All Directors are considered independent of the Manager.

The Directors present their report and the audited financial statements for the year ended 31st January 2020.

Management of the Company

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

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

Through its Management Engagement Committee, established in 2018, the Board has thoroughly reviewed the performance of JPMF in the course of the year. The review covered the performance of the Manager, its management processes, investment style, resources and risk controls and the quality of support that the Company receives from JPMF including the marketing support provided. The Board is of the opinion that the continuing appointment of the Manager is in the best interests of shareholders as a whole. Such a review is carried out on an annual basis.

The Alternative Investment Fund Managers Directive ('AIFMD')

JPMF is the Company's alternative investment fund manager ('AIFM'). It is approved as an AIFM by the FCA. For the purposes of the AIFMD the Company is an alternative investment fund ('AIF'). JPMF has delegated responsibility for the day to day management of the Company's portfolio to JPMorgan Asset Management (UK) Limited ('JPMAM'). The Company has appointed BNY Mellon (International) Limited ('BNY') as its depositary. BNY has appointed JPMorgan Chase Bank, N.A. as the Company's custodian. BNY is responsible for the oversight of the custody of the Company's assets and for monitoring its cash flows.

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

The Company's leverage and JPMF's remuneration disclosures are set out on pages 72 and 73.

Management Fee

The management fee is charged at the rate of 0.45% of the value of the Company's market capitalisation and is calculated and paid monthly in arrears. If the Company invests in funds managed or advised by JPMF, or any of its associated companies that charge an underlying fee, they are excluded from the calculation and therefore attract no fee.

Directors

The Directors of the Company who held office at the year end, are detailed on pages 24 and 25.

Details of Directors' beneficial shareholdings may be found in the Directors' Remuneration Report on page 37.

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

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

Director Indemnification and Insurance

As permitted by the Company's Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity, as defined by Section 234 of the Companies Act 2006. This was in place throughout the financial year and also as at the date of approval of these financial statements.

An insurance policy is maintained by the Company which indemnifies the Directors of the Company against certain liabilities arising in the conduct of their duties. There is no cover against fraudulent or dishonest actions.

Disclosure of Information to Auditors

In the case of each of the persons who are Directors of the Company at the time when this report was approved:

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

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

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

Independent Auditors

PricewaterhouseCoopers ('PwC') have been auditors to the Company since 1885, shortly after its launch, and were reappointed in 2014 following a formal tender process. In accordance with the Audit Regulations and Guidance effective from April 2017, the Company is required to change its auditors this year. Therefore the Audit Committee has undertaken an auditor review and it has been agreed by the Board to appoint BDO to succeed PwC. Accordingly, a resolution to appoint BDO as auditors to the Company will be proposed at the forthcoming AGM. PwC have confirmed that there are no circumstances in connection with their resignation which need to be brought to the attention of the Company's shareholders.

Section 992 Companies Act 2006

Capital Structure
The Company's capital structure is summarised on page 1 of this report.

Voting Rights in the Company's shares
Details of the voting rights in the Company's shares as at the date of this report are given in note 16 to the Notice of Annual General Meeting on page 77.

Notifiable Interests in the Company's Voting Rights
At the year end, the following had declared a notifiable interest in the Company's voting rights:

Shareholders	Number of voting rights	%
Brewin Dolphin Limited	95,855,164	12.0
Rathbone Investment Management Ltd	95,433,317	12.0
Quilter plc	87,012,030	11.0
Old Mutual Plc	6,765,884	7.1
Investec Wealth & Investment Ltd	4,141,454	4.3

[1]The percentage stated reflects the percentage of the Company's total voting rights held by the shareholder at the time of the notification to the Company.

Miscellaneous Information

The rules concerning the appointment and replacement of Directors, amendment of the Articles of Association and powers to issue or buy back the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006.

There are no restrictions concerning the transfer of securities in the Company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; no agreements which the Company is party to that affect its control following a takeover bid; and no agreements between the Company and its directors concerning compensation for loss of office.

Listing Rule 9.8.4R

Listing Rule 9.8.4R requires the Company to include certain information in an identified section of the Annual Report or a cross reference table indicating where the information is set out. The Directors confirm that there are no disclosures to be made in this report.

Annual General Meeting

Note: This section is important and requires your immediate attention.

If you are in any doubt as to the action you should take you should seek your own personal financial advice from your stock broker, bank manager, solicitor, or other financial advisor authorised under the Financial Services and Markets Act 2000.

Resolutions relating to the following items of special business will be proposed at the forthcoming Annual General Meeting ('AGM'):

Authority to allot new shares and to disapply statutory pre-emption rights (resolutions 11 and 12)
The Directors will seek renewal of the authority at the AGM to issue up to 39,576,145 ordinary shares for cash up to an aggregate nominal amount of £989,403,616, such amount being equivalent to 5% of the issued ordinary share capital as at the last practicable date before the publication of this report. The full text of the resolutions is set out in the Notice of Meeting on page 75. This authority will expire at the conclusion of the AGM of the Company in 2021 unless renewed at a prior general meeting.

It is advantageous for the Company to be able to issue new shares (or to sell Treasury shares) to investors when the Directors consider that it is in the best interests of shareholders to do so. As such issues are only made at prices greater than the net asset value, with debt at fair value, (the 'NAV'), they increase the NAV per share and spread the Company's administrative expenses, other than the management fee which is charged on the value of the Company's market capitalisation, over a greater number of shares. The issue proceeds are available for investment in line with the Company's investment policies.

Authority to repurchase the Company's shares for cancellation (resolution 13)
At the AGM held on 23rd May 2019, shareholders gave authority to the Company to purchase up to 14.99% of its then issued share capital. This authority will expire on 22nd November 2020 unless renewed by shareholders. The Directors consider that the renewing of the authority is in the interests of shareholders as a whole, as the repurchase of shares at a discount to the underlying NAV enhances the NAV of the remaining shares. Repurchased shares may be cancelled or held in Treasury. Any shares held in Treasury will only be reissued at a premium to NAV.

Approval of dividend policy (resolution 14)
The Directors seek approval of the Company's dividend policy to continue to pay four quarterly interim dividends, which for the year ended 31st January 2020 have totalled 6.6 pence per share.

Recommendation
The Board considers resolutions 11-14 are likely to promote the success of the Company and are in the best interests of the Company and its shareholders as a whole. The Directors unanimously recommend that you vote in favour of the resolutions as they intend to do in respect of their own beneficial holdings which amount in aggregate to 383,335 shares representing approximately 0.05% of the existing issued ordinary share capital of the Company. The full text of the resolutions are set out in the Notice of Meeting on pages 75 and 76.

Corporate Governance Statement

Compliance
The Board is committed to high standards of corporate governance. It has considered the principles and provisions of the AIC Code of Corporate Governance published in 2019 (the 'AIC Code'), which addresses the principles and provisions set out in the UK Corporate Governance Code (the 'UK Code') published in 2018, as they apply to investment trust companies. It considers that reporting against the AIC Code, therefore, provides more appropriate information to the Company's shareholders. The Board confirms that the Company has complied with the principles and provisions of the AIC Code, in so far as they apply to the Company's business, throughout the year under review. As all of the Company's day-to-day management and administrative functions are outsourced to third parties, it has no executive directors, employees or internal operations and therefore has not reported in respect of the following:

- the role of the executive directors and senior management;
- executive directors' and senior management remuneration; and
- the workforce.

Directors' Duty to promote the success of the Company

Section 172 of the Companies Act 2006 requires that a Director must act in the way he/she considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members (i.e. shareholders) as a whole and in doing so, have regard (amongst other matters) to the likely consequences of any decision in the long term; the need to foster the Company's business relationships with suppliers, customers and others; the impact of the Company's operations on the community and the environment; the desirability of the Company maintaining a reputation for high standards of business conduct; and the need to act fairly as between members of the Company.

The Board ensures that it promotes the success of the Company by engaging an investment manager, and other specialist third party suppliers, with appropriate capability, performance records, resources and controls in place to deliver the services that the Company requires, with particular focus on investment performance. Their performance is monitored by the Board and its committees, who have oversight of the Company's operations. The principal supplier is the investment manager, which is responsible for managing the Company's assets in order to achieve its stated investment objective. The Board maintains a good working relationship with the Manager, who also provides administrative support and promotes the Company through its investment trust sales and marketing teams. Whilst strong long term investment performance is essential, the Board recognises that to provide an investment vehicle that is sustainable over the long term, both it and the Manager must have regard to ethical and environmental issues that impact society. Hence environmental, social and governance considerations are integrated into the Manager's investment process and will continue to evolve.

The Board has sought to engage with and understand the views of the Company's shareholders and other key stakeholders as it regards an understanding of their views as essential in being able to fulfil its duty.

The Directors confirm that they have considered their duty under Section 172 when making decisions during the financial year under review. In particular they have kept under review the competitiveness of the management fee and the Company's other operating costs; continued to hold the Manager to account on investment performance; undertaken a robust review of the principal and emerging risks faced by the Company; initiated, with the Manager, an extensive marketing campaign; and carried out a formal tender process for audit services.

Role of the Board

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

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

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

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

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

Board Composition

The Board, chaired by Angus Gordon Lennox, consists of six non-executive Directors, all of whom are regarded by the Board as independent, including the Chairman. The Directors have a breadth of investment, business and financial skills and experience relevant to the Company's business and brief biographical details of each Director are set out on pages 24 and 25.

A review of Board composition and balance is included as part of the annual performance evaluation of the Board. Jeremy Tigue is the Board's Senior Independent Director and leads the evaluation of the performance of the Chairman. He may be contacted by shareholders if they have concerns that cannot be resolved through discussion with the Chairman.

Reappointment of Directors

The Directors of the Company and their brief biographical details are set out on pages 24 and 25. The skills and experience that each Director brings to the Board, and hence why their contributions are important to the long term success of the Company, are summarised below. All of the Directors held office throughout the year under review and will stand for reappointment at the forthcoming AGM.

Resolution 4 is for the reappointment of Heather Hopkins, who joined the Board in July 2018. Heather has over two decades of experience in data analytics, research, financial services and international business, with expertise in retail distribution. She chairs the Board's Marketing & Communications Committee.

Resolution 5 is for the reappointment of Helen James, who joined the Board in September 2011. Helen has commercial business management experience, having jointly founded and been CEO of a leading digital corporate communications company and is now chief operating office of a strategic advisory firm. She has also worked in equity sales and is a director of another investment trust company. Helen will have served as a Director of the Company for nine years in September 2020 and therefore does not intend to stand for reappointment at the 2021 AGM.

Resolution 6 is for the reappointment of Graham Kitchen, who joined the Board in July 2018. Graham has over 20 years experience managing UK equity funds, including OEICs, investment trusts and pension funds and was head of global equities. He is a director of two other investment trust companies and has a number of charitable roles.

Resolution 7 is for the reappointment of Angus Gordon Lennox, who joined the Board in September 2015. Angus had a 24 year career as a corporate broker, working in the investment company sector, and is a director of two other investment trust companies.

Resolution 8 is for the reappointment of Harry Morley, who joined the Board in May 2014. Harry was previously the chief executive of an asset management company. He is a qualified chartered accountant and has experience of commercial trading companies in a variety of industries.

Resolution 9 is for the reappointment of Jeremy Tigue, who joined the Board in March 2012. Jeremy spent his executive career in asset management, where he was an investment manager, for more than 30 years. He is a director of a number of investment companies and was formerly a director of the Association of Investment Companies.

The Board, having considered their qualifications, performance and contribution to the Board and its committees, confirms that each Director proposed for reappointment continues to be effective and demonstrates commitment to the role and the Board recommends to shareholders that they be reappointed.

Tenure

Directors are initially appointed until the following Annual General Meeting when, under the Company's Articles of Association, it is required that they be reappointed by shareholders. Thereafter, subject to the performance evaluation carried out each year, the Board will agree whether it is appropriate for each Director to seek reappointment. In accordance with corporate governance best practice, Directors continuing in office seek annual reappointment and no Directors, including the Chairman, will seek reappointment after having served for nine years on the Board.

The terms and conditions of Directors' appointments are set out in formal letters of appointment, copies of which are available for inspection on request at the Company's registered office and at the AGM.

Induction and Training

On appointment, the Manager and Company Secretary provide all Directors with induction training. Thereafter, regular briefings are provided on changes in law and regulatory requirements that affect the Company and the Directors. Directors are encouraged to attend industry and other seminars covering issues relevant to investment trust companies. Regular reviews of the Directors' training needs are carried out by the Nomination Committee by means of the evaluation process described below.

Meetings and Committees

The Board delegates certain responsibilities and functions to committees. Details of membership of committees are shown with the Directors' profiles on pages 24 and 25. Directors who are not members of Committees may attend at the invitation of the Chairman.

The table below details the number of Board and Committee meetings attended by each Director. During the year there were six Board meetings, including a separate meeting devoted to strategy, three Audit Committee meetings, two meetings of each of the Marketing & Communications Committee and the Nomination Committee and one meeting of each of the Remuneration and Management Engagement Committees.

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

Director	Board Meetings Attended	Audit Committee Meetings Attended	Management Engagement Committee Meetings Attended	Marketing & Communications Committee Meetings Attended	Nomination Committee Meetings Attended	Remuneration Committee Meetings Attended
Angus Gordon Lennox	6	3[1]	1	2	2	1
Heather Hopkins	6	3	1	2	2	1
Helen James	6	3	1	2	2	1
Graham Kitchen	6	3	1	2	2	1
Harry Morley	6	3	1	2	2	1
Jeremy Tigue	6	3	1	2	2	1

[1] Following the publication of the revised AIC Code of Corporate Governance in February 2019, the Chairman was appointed a member of the Audit Committee on 27th March 2019.

Board Committees

Nomination Committee

The Nomination Committee, chaired by Angus Gordon Lennox, comprises all the Directors and meets at least annually to ensure that the Board has an appropriate balance of skills and experience to carry out its fiduciary duties and to select and propose suitable candidates for appointment when necessary. The appointment process takes account of the benefits of diversity, including gender.

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

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

An externally facilitated Board evaluation is carried out every three years. Such an evaluation was carried out in 2017 by Lintstock, a third party which has no other connection to the Company.

Remuneration Committee

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

Management Engagement Committee

The Management Engagement Committee, chaired by Graham Kitchen, comprises all of the Directors and meets annually to review the performance of the Manager. It conducts a formal evaluation of the Manager on an annual basis. The evaluation includes consideration of the investment strategy and process of the Investment Manager, noting consistent outperformance of the benchmark over the long term, and the quality of support that the Company receives from JPMF. As a result of the evaluation process, the Board confirms that it is satisfied that the continuing appointment of the Manager is in the interests of shareholders as a whole. The Committee also reviews the contractual terms and performance of its other key suppliers.

Marketing and Communications Committee

The Marketing and Communications Committee, chaired by Heather Hopkins, comprises all of the Directors and meets twice each year. The Committee reviews the effectiveness and results of JPMAM's Sales and Marketing strategy.

Audit Committee

The report of the Audit Committee is set out on pages 33 to 34.

Terms of Reference

All of the various Board committees have written terms of reference which define clearly their respective responsibilities, copies of which are available for inspection on the Company's website, on request at the Company's registered office and at the Company's AGM.

Relations with Shareholders

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

All shareholders have the opportunity, and are encouraged, to attend the Company's Annual General Meeting at which the Directors and representatives of the Manager are available in person to meet with shareholders and answer questions. In addition, under normal circumstances, a presentation is given by the Investment Managers who review the Company's performance. During the year the Company's brokers and the Investment Managers hold regular discussions with larger shareholders. The Directors are made fully aware of their views. The Chairman and Directors conduct visits to larger shareholders when requested and make themselves available as and when required to address shareholder queries. The Directors may be contacted through the Company Secretary whose details are shown on page 83. The Chairman can also be contacted via the Company's website at www.mercantileit.co.uk.

The Company's Annual Report and Financial Statements are published in time to give shareholders at least 20 working days' notice of the Annual General Meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to submit questions via the Company's website or write to the Company Secretary at the address shown on page 83.

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

Risk Management and Internal Control

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

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

Since investment management, custody of assets and all administrative services are provided to the Company by JPMF and its associates, the Company's system of risk management and internal control mainly consists of monitoring the services provided by JPMF and its associates, including the operating controls established by them, to ensure they meet the Company's business objectives. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company (see Principal Risks on pages 21 and 22). This process, which was in place during the year under review and up to the date of approval of the Annual Report and Accounts, accords with the guidance of the Financial Reporting Council.

Given the foregoing, and in common with most investment trust companies, the Company does not have an internal audit function of its own. The Manager s internal audit department conducts regular and rigorous reviews of the various functions within its asset management business. Any significant findings that are relevant to the Company and/or the Manager s investment trust business are reported to the Board.

The key elements designed to provide effective risk management and internal control are as follows:

Financial Reporting – Regular and comprehensive review by the Board of key investment and financial data, including management accounts, revenue projections, analysis of transactions and performance comparisons.

Management Agreement – Appointment of a manager, depositary and custodian regulated by the Financial Conduct Authority (FCA), whose responsibilities are clearly defined in a written agreement.

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

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

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

- reviews the terms of the management agreement and receives regular reports from the Manager's Compliance department;

- reviews reports on the risk management and internal controls and the operations of its Custodian, JPMorgan Chase Bank, which is itself independently reviewed;
- reviews every six months an independent report on the risk management and internal controls and the operations of the Manager; and
- reviews quarterly reports from the Company's depositary.

By the means of the procedures set out above, the Board confirms that it has carried out a robust assessment of the effectiveness of the Company's system of risk management and internal control for the year ended 31st January 2020 and to the date of approval of this Annual Report and Financial Statements.

During the course of its review of the system of risk management and internal control, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant.

Corporate Governance and Voting Policy

The Company delegates responsibility for voting to the Manager.

The following is a summary of the Manager's policy statements on corporate governance, voting policy and stewardship/engagement issues, which has been reviewed and noted by the Board. Details of social and environmental issues are included in the Strategic Report on pages 20 and 21.

Corporate Governance

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

Proxy Voting

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

Stewardship/Engagement

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

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

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

JPMAM's Voting Policy and Corporate Governance Guidelines are available on request from the Company Secretary or can be downloaded from JPMAM's website: https://am.jpmorgan.com/uk/institutional/corporate-governance. This also sets out its approach to the seven principles of the FRC Stewardship Code, its policy relating to conflicts of interest and its detailed voting record.

Audit Committee Report

Role and Composition

The Audit Committee, chaired by Harry Morley, comprises of all the Directors and meets on at least three occasions each year. The members of the Committee consider that at least one member has recent and relevant financial experience and that the committee as a whole has competency relevant to the sector in which the Company operates. For details of their qualifications see pages 24 and 25.

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

Financial Statements and Significant Accounting Matters

During its review of the Company's financial statements for the year ended 31st January 2020, the Audit Committee considered the following significant issues, including those communicated by the Auditors during their reporting:

Significant issue	How the issue was addressed
Valuation and existence of investments	The valuation of investments is undertaken in accordance with the accounting policies, disclosed in note 1(b) to the financial statements on page 53 Controls are in place to ensure that valuations are appropriate and existence is verified through custodian reconciliations.
Recognition of investment income	The recognition of investment income is undertaken in accordance with accounting policy note 1(d) to the financial statements on page 53. The Board regularly reviews subjective elements of income such as special dividends and agrees their accounting treatment.
Going concern	The Directors have considered the Company's investment objective, risk management policies, capital management policies and procedures, the nature of the portfolio and expenditure and cash flow projections. As a result, they have determined that the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for at least twelve months from the date of approval of these financial statements. Please refer to the section headed 'Going Concern' on page 34 for further details.
Compliance with Sections 1158 and 1159	Approval for the Company as an investment trust under Sections 1158 and 1159 has been obtained and ongoing compliance with the eligibility criteria is monitored on a regular basis.

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

The Audit Committee examines the effectiveness of the Company's risk management and internal control systems, receives information from the Manager's Compliance department and reviews the scope and results of the external audit, its effectiveness and cost effectiveness, the balance of audit and non-audit services and the independence and objectivity of the external auditors. The Audit Committee also receives confirmations from the Auditors, as part of their reporting, in regard to their objectivity and independence. In the Directors' opinion, the Auditors are considered independent.

Auditor Appointment and Tenure

The Audit Committee also has primary responsibility for making recommendations to the Board on the reappointment and removal of external auditors. A predecessor firm of PricewaterhouseCoopers LLP ('PwC') was appointed on 8th January 1885, shortly after the Company's launch and were reappointed following a formal tender process in 2014. The audit engagement partner rotates every five years in accordance with ethical guidelines and 2020 is the fifth year for the current partner.

Under the Audit Regulations and Guidance effective from April 2017, the Company is required to appoint a new audit firm this year. Accordingly, the Committee undertook a tender process and the Board has agreed to appoint BDO to succeed PwC at the forthcoming AGM.

The Audit Committee reviews and approves any non-audit services provided by the independent Auditors and assesses the impact of any non-audit work on the ability of the Auditors to remain independent. PwC reviews the debenture loan covenants on an annual basis. Otherwise, no such work was undertaken during the year. Details of the fees paid for audit services are included in note 6 on page 56.

Representatives of the Company's Auditors attend the Audit Committee meeting at which the draft Annual Report & Financial Statements are considered.

In order to safeguard the Auditors' objectivity and independence, any significant non-audit services are carried out through a partner other than the audit engagement partner where appropriate. Fees paid for audit services, audit-related services and other non-audit services are set out, where relevant, in note 6 on page 56. There were no significant non-audit engagements during the year under review. The Audit Committee has assessed the impact of any non-audit work carried out and is content with the Auditors' ability to remain independent and objective. The Directors' statement on the Company's system of risk management and internal control is set out below.

Going Concern

The Directors believe that, having considered the Company's investment objective (see page 19), risk management policies (see pages 65 to 69), capital management policies and procedures (see page 70), the nature of the portfolio and expenditure and cash flow projections, the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence and they have not identified any material uncertainties to the Company's ability to continue to do so over a period of at least 12 months from the date of approval of these financial statements.

For these reasons, the Directors consider that there is reasonable evidence to continue to adopt the going concern basis in preparing the Company's financial statements.

Fair, Balanced and Understandable

Having taken all available information into consideration and having discussed the content of the annual report and accounts with the Alternative Investment Fund Manager, Investment Managers, Company Secretary and other third party service providers, the Audit Committee has concluded that the Annual Report and Accounts for the year ended 31st January 2020, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy and has reported these findings to the Board. The Board's conclusions in this respect are set out in the Statement of Directors' Responsibilities on page 40.

By order of the Board
Jonathan Latter, for and on behalf of
JPMorgan Funds Limited,
Company Secretary

14th April 2020

Copies of the UK Corporate Governance Code and the AIC Code may be found on the respective organisations' websites: www.frc.org.uk and www.theaic.co.uk

Directors' Remuneration Report

The Board presents the Directors' Remuneration Report for the year ended 31st January 2020, which has been prepared this Report in accordance with the requirements of Section 421 of the Companies Act 2006 as amended.

The law requires the Company's Auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included in the Independent Auditors' Report on pages 42 to 47.

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

Directors' Remuneration Policy

The law requires that the Directors' Remuneration Policy is subject to a triennial binding vote. However, the Board has decided to seek annual approval and therefore an ordinary resolution to approve this policy will be put to shareholders at the forthcoming Annual General Meeting. The policy subject to the vote, is set out in full below and is currently in force.

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

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

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

The Company's Articles of Association currently stipulate that aggregate fees must not exceed £400,000 per annum and provide that any increase in this limit requires both Board and shareholder approval.

In the year under review, Directors' fees were paid at the following annual rates: Chairman £69,000; Chairman of the Audit Committee £50,000; Senior Independent Director £41,000; and other Directors £37,000. With effect from 1st February 2020 fees have been increased to £70,000, £50,500, £41,500 and £37,500 for the Chairman, Audit Committee Chairman, Senior Independent Director and other Directors respectively.

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

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

The terms and conditions of Directors' appointments are set out in formal letters of appointment which are available for review at the Company's Annual General Meeting and the Company's registered office. Details of the Board's policy on tenure are set out on page 29.

Directors Remuneration Policy Implementation

The Directors' Remuneration Policy Implementation Report is subject to an annual advisory vote and therefore an ordinary resolution to approve this report will be put to shareholders at the forthcoming Annual General Meeting. There have been no changes to the policy compared with the year ended 31st January 2019 and no changes are proposed for the year ending 31st January 2021.

At the Annual General Meeting held on 23rd May 2019, of votes cast, 99.7% of votes cast were in favour of (or granted discretion to the Chairman who voted in favour of) both the remuneration policy and the remuneration report and 0.3% voted against. Votes withheld were the equivalent of less than 0.01% of the votes cast. Similar details for the 2020 AGM will be given in next year's Annual Report.

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

Single total figure of remuneration

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

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

Single total figure table[1]

Directors' Name	2020 Fees £	2020 Taxable benefits[2] £	2020 Total £	2019 Fees £	2019 Taxable benefits[2] £	2019 Total £
Angus Gordon Lennox	69,000	1,992	70,992	67,000	3,070	70,070
Harry Morley	50,000	344	50,344	49,000	470	49,470
Heather Hopkins[3]	37,000	–	37,000	21,292	–	21,292
Helen James	37,000	–	37,000	36,500	–	36,500
Graham Kitchen[3]	37,000	366	37,366	21,292	183	21,475
Sandy Nairn[4]	–	–	–	12,803	3,742	16,545
Ian Russell[5]	–	–	–	33,458	8,154	41,612
Jeremy Tigue	41,000	–	41,000	39,595	–	39,595
Total	271,000	2,702	273,702	280,940	15,619	296,559

1 Audited information.
2 Taxable travel and subsistence expenses incurred in attending Board and Committee meetings.
3 Appointed on 1st July 2018.
4 Retired from the Board on 23rd May 2018.
5 Retired from the Board on 31st December 2018.

No amounts (2019: nil) were paid to third parties for making available the services of Directors.

Directors' Shareholdings[1]

The Directors' beneficial shareholdings are detailed below. The Directors have no other share interests or share options in the Company and no share schemes are available.

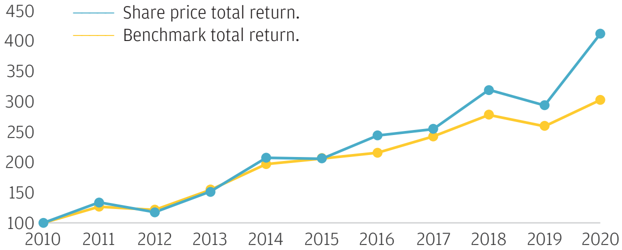
Directors' Name	31st January 2020	1st February 2019
Angus Gordon Lennox[3]	110,000	110,000
Harry Morley	30,000	30,000
Heather Hopkins	5,121	5,000
Helen James[2]	6,500	6,500
Graham Kitchen	63,180	48,180
Jeremy Tigue[4]	167,678	152,885
Total	382,479	352,565

1 Audited information.
2 Non-beneficial holding.
3 Includes SIPP of 60,000 shares.
4 On 3rd February 2020 Jeremy Tigue acquired 856 shares through the Company's dividend reinvestment plan, taking his shareholding in the Company at the date of this report to 168,534.

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

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

Ten year share price and benchmark total return to 31st January 2020



Source: Morningstar, FTSE Russell.

A table showing the total remuneration for the Chairman over the five years ended 31st January 2020 is below:

Remuneration for the Chairman over the five years ended 31st January 2020

Year ended 31st January	Fees	Performance related benefits received as a percentage of maximum payable
2020	£69,000	n/a
2019	£67,000	n/a
2018	£66,000	n/a
2017	£66,000	n/a
2016	£66,000	n/a

The table below is provided to enable shareholders to assess the relative importance of expenditure on Directors' remuneration. It compares the remuneration with distributions to shareholders by way of dividends and share repurchases.

Expenditure by the Company on remuneration and distributions to shareholders

	Year ended 31st January 2020 £	2019 £
Remuneration paid to all Directors	274,000	297,000
Distribution to shareholders		
– by way of dividend	52,254,000	47,193,000
– by way of share repurchases	1,886,000	56,804,000
Total distribution to shareholders	54,140,000	103,997,000

For and on behalf of the Board
Angus Gordon Lennox
Chairman

14th April 2020

Statement of Directors’ Responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland ('FRS 102') and applicable law). Under Company law the Directors must not approve the financial statements unless they are satisfied that taken as a whole, the Annual Report and Financial Statements are fair, balanced and understandable, provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy and that they give a true and fair view of the state of affairs of the Company and of the total return or loss of the Company for that period. In order to provide these confirmations, and in preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on a 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 FRS 102 in the preparation of the financial statements

and the Directors confirm that they have done so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations the Directors are also responsible for preparing a Directors' Report and Directors' Remuneration Report that comply with that law and those regulations.

Each of the Directors, whose names and functions are listed on pages 24 and 25 confirms that, to the best of his/her knowledge, the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities, financial position and net return or loss of the Company.

The Board confirms that it is satisfied that the Annual Report and Financial Statements taken as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

The Board also confirms that it is satisfied that the Strategic Report and Directors' Report include a fair review of the development and performance of the business, and the Company, together with a description of the principal risks and uncertainties that it faces.

The Financial Statements are published on the www.mercantileit.co.uk website, which is maintained by the Manager. The maintenance and integrity of the website maintained by the Manager is, so far as it relates to the Company, the responsibility of the Manager. The work carried out by the Auditors does not involve consideration of the maintenance and integrity of this website and, accordingly, the Auditors accept no responsibility for any changes that have occurred to the accounts since they were initially presented to the website. The accounts are prepared in accordance with UK legislation, which may differ from legislation in other jurisdictions.

For and on behalf of the Board
Angus Gordon Lennox
Chairman

14th April 2020

Independent Auditors' Report

to the members of The Mercantile Investment Trust plc

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Company's affairs as at 31st January 2020 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report & Financial Statements (the 'Annual Report'), which comprise: the Statement of Financial Position as at 31st January 2020; the Statement of Comprehensive Income; the Statement of Cash Flows and the Statement of Changes in Equity for the year then ended; and the Notes to the Financial Statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

Other than those disclosed in note 6 to the Financial Statements, we have provided no non-audit services to the Company in the year from 1st February 2019 to 31st January 2020.

Our audit approach

Overview

- Overall materiality: £21.8 million (2019: £ 17.5 million), based on 1% of net assets.

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

- Valuation and existence of investments
- Accuracy, occurrence and completeness of dividend income
- Consideration of the impact of COVID-19

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of section 1158 of the Corporation Tax Act 2010 (see page 21 of the annual report), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006 and Chapter 15 of the UK Listing Rules applicable to Closed-Ended Investment Funds. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue (investment income and capital gains) or to increase the net asset value. Audit procedures performed included:

- Discussions with the Manager and the Administrator, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of the controls implemented by the Company and the Administrator designed to prevent and detect irregularities;
- Assessment of the Company's compliance with the requirements of s1158 of the Corporation Tax Act 2010, including recalculation of numerical aspects of the eligibility conditions;
- Review of financial statement disclosures to underlying supporting documentation; and
- Identifying and testing manual journal entries posted by the Administrator during the preparation of the financial statements.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Valuation and existence of investments *Refer to page 33 (Audit Committee Report), page 53 (Accounting Policies) and page 59 (Notes to the Financial Statements).* The investment portfolio at the year-end comprised principally of quoted securities valued at £2,285 million. We focused on the valuation and existence of investments because investments represent the principal element of the net asset value as disclosed on the Statement of Financial Position in the financial statements.	We tested the valuation of the listed equity investments by agreeing the prices used in the valuation to independent third-party sources. No misstatements were identified. We tested the existence of the investment portfolio by agreeing investment holdings to an independent custodian confirmation. No differences were identified.

Key audit matter	How our audit addressed the key audit matter
Accuracy, occurrence and completeness of dividend income *Refer to page 33 (Audit Committee Report), page 53 (Accounting Policies) and page 56 (Notes to the Financial Statements).* We focussed on the accuracy, occurrence and completeness of dividend income recognition as incomplete or inaccurate income could have a material impact on the Company's net asset value and dividend cover. We also focused on the accounting policy for income recognition and its presentation in the Statement of Comprehensive Income as set out in the requirements of The Association of Investment Companies Statement of Recommended Practice (the 'AIC SORP') as incorrect application could indicate a misstatement in income recognition.	We assessed the accounting policy for dividend income recognition for compliance with accounting standards and the AIC SORP and performed testing to check that income had been accounted for in accordance with this stated accounting policy. We found that the accounting policies implemented were in accordance with accounting standards and the AIC SORP, and that income has been accounted for in accordance with the stated accounting policy. We tested the accuracy of dividend receipts by agreeing the dividend rates from investments to independent market data. No misstatements were identified. To test for completeness, we tested, for all investment holdings in the portfolio, that all dividends declared in the market by investment holdings had been recorded. We tested occurrence by testing that all dividends recorded in the year had been declared in the market by investment holdings, and we traced a sample of dividends received to bank statements. Our testing did not identify any misstatements. We also tested the allocation and presentation of dividend income between the revenue and capital return columns of the Income Statement in line with the requirements set out in the AIC SORP by determining reasons behind dividend distributions. Our procedures did not identify any misstatements.
Consideration of the impact of COVID-19 *Refer to the Chairman's Statement (page 6), Principal Risks (page 21), Viability Statement (page 22) and Subsequent Events note (page 70), which disclose the impact of the COVID-19 coronavirus pandemic.* From a small number of cases of an unknown virus in 2019, the COVID-19 viral infection has become a global pandemic. It has caused disruption to supply chains and travel, slowed global growth and caused volatility in global markets and in exchange rates during the first quarter of 2020. The impact of COVID-19 has been treated as a non-adjusting event after the end of the reporting period reflecting the timing of the spread of the pandemic. Subsequent to the year end, the net asset value per share of the Company has decreased by 30.8% from 264.8 pence per share to 183.32 pence per share and the Company's share price has decreased by 27.0% from 261.0 pence per share to 190.4 pence per share as at 8th April 2020.	We evaluated the Directors' assessment of the impact of the COVID-19 pandemic on the Company by: • Evaluating the Company's updated risk assessment and considering whether it addresses the relevant threats presented by COVID-19. • Evaluating management's assessment of operational impacts, considering their consistency with other available information and our understanding of the business and assessing the potential impact on the financial statements. We obtained and evaluated the Directors' going concern assessment which reflects conditions up to the point of approval of the Annual Report by: • Obtaining evidence to support the key assumptions and forecasts driving the Directors' assessment. This included reviewing the Directors assessment of the Company's financial position and forecasts as well as their review of the operational resilience of the Company and oversight of key third party service providers. We assessed the disclosures presented in the Annual Report in relation to COVID-19 by: • Testing note 26 'Subsequent events' in the financial statements by agreeing the post-year end Net Asset Value and Company share price to supporting evidence.

Key audit matter	How our audit addressed the key audit matter
The Directors have prepared the financial statements of the Company on a going concern basis and believe this assumption remains appropriate. This conclusion is based on the assessment that notwithstanding the significant market fall and the related uncertainties, they are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future and is financially sound and that the Company and its key third party service providers have in place appropriate business continuity plans and will be able to maintain service levels through the coronavirus pandemic.	• Reading the other information, including the Principal Risks and Viability Statement set out in the Strategic Report and assessing its consistency with the financial statements and the evidence we obtained in our audit. Our conclusions relating to other information are set out in the 'Reporting on other information' section of our report. We are satisfied that the Directors' conclusion that the impact of COVID-19 should be treated as a non-adjusting event after the end of the reporting period is appropriate and have been appropriately disclosed as such in the financial statements.

How we tailored the audit scope

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

Materiality

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

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

Overall materiality	£21.8 million (2019: £17.5 million).
How we determined it	1% of Net Assets.
Rationale for benchmark applied	We have applied this benchmark, which is a generally accepted auditing practice for investment trust audits.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1.1 million (2019: £0.9 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.
We are required to report if the Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 ('CA06'), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31st January 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. *(CA06)*

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. *(CA06)*

The Directors' assessment of the prospects of the Company and of the principal risks that would threaten the solvency or liquidity of the Company
We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 21 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 22 of the Annual Report as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Company and statement in relation to the longer-term viability of the company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the 'Code'); and considering whether the statements are consistent with the knowledge and understanding of the Company and its environment obtained in the course of the audit. ***(Listing Rules)***

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 34, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Company obtained in the course of performing our audit.
- The section of the Annual Report on page 33 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with CA06.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 40, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

Other required reporting

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment
Following the recommendation of the audit committee, we were appointed by the members in 1884 to audit the financial statements for the year ended 31st January 1885 and subsequent financial periods. The period of total uninterrupted engagement is 136 years, covering the years ended 31st January 1885 to 31st January 2020.

Alex Bertolotti (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors,
15th April 2020

Financial Statements

FOR THE YEAR ENDED 31ST JANUARY 2020

		2020			2019		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on investments held at fair value through profit or loss	3	–	435,491	435,491	–	(208,880)	(208,880)
Net foreign currency gains		–	53	53	–	42	42
Income from investments	4	66,450	–	66,450	65,363	–	65,363
Interest receivable and similar income	4	1,269	–	1,269	995	–	995
Gross return/(loss)		**67,719**	**435,544**	**503,263**	**66,358**	**(208,838)**	**(142,480)**
Management fee	5	(2,206)	(5,149)	(7,355)	(2,177)	(5,079)	(7,256)
Other administrative expenses	6	(1,106)	–	(1,106)	(1,212)	–	(1,212)
Net return/(loss) before finance costs and taxation		**64,407**	**430,395**	**494,802**	**62,969**	**(213,917)**	**(150,948)**
Finance costs	7	(3,295)	(7,687)	(10,982)	(3,294)	(7,685)	(10,979)
Net return/(loss) before taxation		**61,112**	**422,708**	**483,820**	**59,675**	**(221,602)**	**(161,927)**
Taxation (charge)/refund	8	(602)	–	(602)	75	–	75
Net return/(loss) after taxation		**60,510**	**422,708**	**483,218**	**59,750**	**(221,602)**	**(161,852)**
Return/(loss) per share	9	**7.64p**	**53.37p**	**61.01p**	**7.47p**	**(27.69)p**	**(20.22)p**

Dividends declared in respect of the financial year ended 31st January 2020 total 6.6p (2019: 6.3p) per share amounting to £52,241,000 (2019: £50,079,000). Further information on dividends is given in note 10 on page 58.

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

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

Net return/(loss) after taxation represents the profit/(loss) for the year and also Total Comprehensive Income.

The notes on pages 53 to 70 form an integral part of these financial statements.

FOR THE YEAR ENDED 31ST JANUARY 2020

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve[1] £'000	Total shareholders funds £'000
At 31st January 2018	**23,612**	**23,459**	**13,158**	**1,897,243**	**62,121**	**2,019,593**
Repurchase of shares into Treasury	–	–	–	(56,804)	–	(56,804)
Net (loss)/return	–	–	–	(221,602)	59,750	(161,852)
Dividends paid in the year (note 10)	–	–	–	–	(47,193)	(47,193)
At 31st January 2019	**23,612**	**23,459**	**13,158**	**1,618,837**	**74,678**	**1,753,744**
Repurchase of shares into Treasury	–	–	–	(1,886)	–	(1,886)
Net return	–	–	–	422,708	60,510	483,218
Dividends paid in the year (note 10)	–	–	–	–	(52,254)	(52,254)
At 31st January 2020	**23,612**	**23,459**	**13,158**	**2,039,659**	**82,934**	**2,182,822**

[1] This reserve forms the distributable reserve of the Company and may be used to fund distributions to investors.

The notes on pages 53 to 70 form an integral part of these financial statements.

AT 31ST JANUARY 2020

	Notes	2020 £'000	2019 £'000
Fixed assets			
Investments held at fair value through profit or loss	11	**2,289,569**	**1,754,994**
Current assets	13		
Debtors		4,632	7,783
Cash and short term deposits	20	299	83,047
Cash equivalents: liquidity fund	20	72,042	99,974
		76,973	190,804
Creditors: amounts falling due within one year	14	(5,854)	(14,285)
Net current assets		**71,119**	**176,519**
Total assets less current liabilities		**2,360,688**	**1,931,513**
Creditors: amounts falling due after more than one year	15	(177,866)	(177,769)
Net assets		**2,182,822**	**1,753,744**
Capital and reserves			
Called up share capital	16	23,612	23,612
Share premium	17	23,459	23,459
Capital redemption reserve	17	13,158	13,158
Capital reserves	17	2,039,659	1,618,837
Revenue reserve	17	82,934	74,678
Total shareholders' funds		**2,182,822**	**1,753,744**
Net asset value per share	18	**275.8p**	**221.3p**

The financial statements on pages 50 to 70 were approved and authorised for issue by the Directors on 14th April 2020 and are signed on their behalf by:

Angus Gordon Lennox
Director

The notes on pages 53 to 70 form an integral part of these financial statements.

The Mercantile Investment Trust plc

Registered in England, company registration number 20537

FOR THE YEAR ENDED 31ST JANUARY 2020

	Notes	2020 £'000	2019 £'000
Net cash outflow from operations before dividends and interest	19	(8,470)	(8,370)
Dividends received		63,981	63,984
Interest received		1,269	958
Overseas tax recovered		43	315
Interest paid		(10,885)	(10,883)
Net cash inflow from operating activities		**45,938**	**46,004**
Purchases of investments		(751,163)	(592,224)
Sales of investments		648,682	728,000
Settlement of foreign currency contracts		(4)	–
Net cash (outflow)/inflow from investing activities		**(102,485)**	**135,776**
Dividends paid		(52,254)	(47,193)
Repurchase of shares into Treasury		(1,886)	(58,097)
Net cash outflow from financing activities		**(54,140)**	**(105,290)**
(Decrease)/increase in cash and cash equivalents		**(110,687)**	**76,490**
Cash and cash equivalents at start of year		183,021	106,531
Exchange movements		7	–
Cash and cash equivalents at end of year		72,341	183,021
(Decrease)/increase in cash and cash equivalents		**(110,687)**	**76,490**
Cash and cash equivalents consist of:	20		
Cash and short term deposits		299	83,047
Cash held in JPMorgan Sterling Liquidity Fund		72,042	99,974
Total		**72,341**	**183,021**

The notes on pages 53 to 70 form an integral part of these financial statements.

FOR THE YEAR ENDED 31ST JANUARY 2020

1. Accounting policies

(a) Basis of accounting

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 'SORP') issued by the Association of Investment Companies in October 2019.

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

The financial statements have been prepared on a going concern basis. The disclosures on going concern on page 34 of the Directors' Report form part of these financial statements.

The policies applied in these accounts are consistent with those applied in the preceding year.

(b) Valuation of investments

The Company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. The portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy and information is provided internally on that basis to the Company's Board of Directors.

Accordingly, upon initial recognition the investments are designated by the Company as 'held at fair value through profit or loss'. They are included initially at fair value which is taken to be their cost, excluding expenses incidental to purchase which are written off to capital at the time of acquisition. Subsequently the investments are valued at fair value, which are quoted bid prices for investments traded in active markets. For investments which are not traded in active markets, unlisted and restricted investments, the Board takes into account the latest traded prices, other observable market data and asset values based on the latest management accounts.

All purchases and sales are accounted for on a trade date basis.

(c) Accounting for reserves

Gains and losses on sales of investments including the related foreign exchange gains and losses, realised gains and losses on cash and cash equivalents, realised gains and losses on foreign currency contracts, management fee and finance costs allocated to capital and any other capital charges, are included in the Statement of Comprehensive Income and dealt with in capital reserves within 'Gains/(losses) on sales of investments.

Increases and decreases in the valuation of investments held at the year end including the related foreign exchange gains and losses, are included in the Statement of Comprehensive Income and dealt with in capital reserves within 'Net movement in investment holding gains and losses'.

(d) Income

Dividends receivable from equity shares are included in revenue on an ex-dividend basis except where, in the opinion of the Board, the dividend is capital in nature, in which case it is included in capital.

UK dividends are included net of tax credits. Overseas dividends are included gross of any withholding tax.

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

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

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

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

1. Accounting policies *continued*

(d) Income *continued*

Underwriting commission is recognised in revenue where it relates to shares that the Company is not required to take up.

Where the Company is required to take up a proportion of the shares underwritten, the same proportion of commission received is deducted from the cost of the shares taken up, with the balance taken to revenue.

(e) Expenses

All expenses are accounted for on an accruals basis. Expenses are allocated wholly to the revenue with the following exceptions:

- The management fee is allocated 30% to revenue and 70% to capital, in line with the Board's expected long term split of revenue and capital return from the Company's investment portfolio.
- Expenses incidental to the purchase of an investment are included within the cost of the investment and those incidental to the sale are deducted from the sale proceeds. These expenses are commonly referred to as transaction costs and comprise brokerage commission and stamp duty. Details of transaction costs are given in note 11 on page 59.

(f) Finance costs

Finance costs are accounted for on an accruals basis using the effective interest method.

Finance costs are allocated 30% to revenue and 70% to capital, in line with the Board's expected long term split of revenue and capital return from the Company's investment portfolio.

(g) Financial instruments

Cash and cash equivalents may comprise cash (including demand deposits which are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value) as well as cash equivalents. Liquidity funds are considered cash equivalents as they are held for cash management purposes as an alternative to cash.

Other debtors and creditors do not carry any interest, are short term in nature and are accordingly stated at nominal value, with debtors reduced by appropriate allowances for estimated irrecoverable amounts.

The debenture in issue is classified as financial liability at amortised cost. It was initially measured at the proceeds net of direct issue costs and subsequently measured at amortised cost. The amortisation of direct issue costs are accounted for on an accruals basis in the Statement of Comprehensive Income using the effective interest rate method.

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

The Company does not apply hedge accounting.

(h) Taxation

Current tax is provided at the amounts expected to be paid or recovered.

Deferred tax is provided on all timing differences that have originated but not reversed by the balance sheet date. Deferred tax liabilities are recognised for all taxable timing differences, but deferred tax assets are only recognised to the extent that it is more likely than not that taxable profits will be available against which those timing differences can be utilised.

Tax relief is allocated to expenses charged to capital on the 'marginal basis'. On this basis, if taxable income is capable of being entirely offset by revenue expenses, then no tax relief is transferred to the capital column.

Deferred tax is measured at the tax rate which is expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates that have been enacted or substantively enacted at the balance sheet date and is measured on an undiscounted basis.

(i) Value Added Tax ('VAT')

Expenses are disclosed inclusive of the related irrecoverable VAT. Recoverable VAT is calculated using the partial exemption method, based on the proportion of zero rated supplies to total supplies.

(j) Foreign currency

The Company is required to identify a functional currency, being the currency of the primary economic environment in which the Company operates. The Board, having regard to the currency of the Company's share capital and the predominant currency in which its shareholders operate, has determined that sterling is the functional currency. Sterling is also the currency in which the financial statements are presented.

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

Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in revenue or capital, depending on whether the gain or loss is of a revenue or capital nature. Gains and losses on investments arising from a change in exchange rates are included in 'Investment holding gains and losses' for investments still held at year end, and in 'Gains and losses on sales of investments' for investments sold during the year.

(k) Dividends payable

Dividends are included in the financial statements in the year in which they are approved by shareholders.

(l) Repurchase of ordinary shares for cancellation

The cost of repurchasing ordinary shares including the related stamp duty and transactions costs is charged to 'Capital reserves' and dealt with in the Statement of Changes in Equity. Share repurchase transactions are accounted for on a trade date basis.

The nominal value of ordinary share capital repurchased and cancelled is transferred out of 'Called up share capital' and into 'Capital redemption reserve'.

(m) Repurchase of shares into Treasury

The cost of repurchasing shares into Treasury, including the related stamp duty and transaction costs is charged to 'Capital reserves' and dealt with in the Statement of Changes in Equity. Share repurchase transactions are accounted for on a trade date basis. Where shares held in Treasury are subsequently cancelled, the nominal value of those shares is transferred out of 'Called up share capital' and into 'Capital redemption reserve'.

Should shares held in Treasury be reissued, the sales proceeds will be treated as a realised profit up to the amount of the purchase price of those shares and will be transferred to capital reserves. The excess of the sales proceeds over the purchase price will be transferred to share premium.

2. Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements on occasion requires the Directors to make judgements, estimates and assumptions that affect the reported amounts in the primary financial statements and the accompanying disclosures. These assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in the current and future periods, depending on circumstance.

The Directors do not believe that any significant accounting judgements or estimates have been applied to this set of financial statements, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

3. Gains/(losses) on investments held at fair value through profit or loss

	2020 £'000	2019 £'000
Realised gains on sales of investments	100,345	126,322
Net change in unrealised gains and losses on investments	335,161	(335,187)
Other capital charges	(15)	(15)
Total capital gains/(losses) on investments held at fair value through profit or loss	**435,491**	**(208,880)**

4. Income

	2020 £'000	2019 £'000
Income from investments:		
UK dividends	49,503	49,279
Special dividends	6,991	7,543
Property income distribution from UK REITs	3,215	1,820
Overseas dividends	6,741	6,393
Scrip dividends	–	328
	66,450	65,363
Interest receivable and similar income:		
Interest from liquidity fund	1,181	664
Deposit interest	88	294
Underwriting commission	–	37
	1,269	995
Total income	**67,719**	**66,358**

5. Management fee

	2020			2019		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Management fee	2,206	5,149	7,355	2,177	5,079	7,256

Details of the management fee are given in the Directors' Report on page 26.

6. Other administrative expenses

	2020 £'000	2019 £'000
Administration expenses	735	758
Directors' fees[1]	271	297
Savings scheme costs[2]	59	118
Auditors' remuneration for audit services[3]	38	37
Auditors' remuneration for all other services	3	2
	1,106	**1,212**

[1] Full disclosure is given in the Directors' Remuneration Report on page 37.

[2] These amounts were paid to the Manager for the administration of saving scheme products. Includes £10,000 (2019: £20,000) irrecoverable VAT.

[3] Includes £7,000 (2019: £7,000) irrecoverable VAT.

7. Finance costs

	2020 Revenue £'000	2020 Capital £'000	2020 Total £'000	2019 Revenue £'000	2019 Capital £'000	2019 Total £'000
Interest on bank loans and overdrafts	1	2	3	–	–	–
Debenture interest	3,265	7,617	10,882	3,264	7,618	10,882
Amortisation of debenture issue costs	29	68	97	29	68	97
	3,295	**7,687**	**10,982**	**3,293**	**7,686**	**10,979**

8. Taxation

(a) Analysis of tax charge for the year

	2020 £'000	2019 £'000
Overseas withholding tax charge/(refund)	602	(75)
Total tax charge/(refund) for the year	**602**	**(75)**

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

The total tax charge for the year is lower (2019: higher) than the Company's applicable rate of corporation tax for the year of 19% (2019: 19%). The factors affecting the total tax charge for the year are as follows:

	2020 Revenue £'000	2020 Capital £'000	2020 Total £'000	2019 Revenue £'000	2019 Capital £'000	2019 Total £'000
Net return/(loss) before taxation	61,112	422,708	483,820	59,675	(221,602)	(161,927)
Net return/(loss) before taxation multiplied by the Company's applicable rate of corporation tax of 19% (2019: 19%)	11,611	80,315	91,926	11,338	(42,104)	(30,766)
Effects of:						
Non taxable scrip dividends	–	–	–	(62)	–	(62)
Non taxable UK dividends	(9,406)	–	(9,406)	(9,363)	–	(9,363)
Non taxable overseas dividends	(2,609)	–	(2,609)	(2,648)	–	(2,648)
Non taxable capital (gains)/losses	–	(82,753)	(82,753)	–	39,679	39,679
Unrelieved expenses	399	978	1,377	671	965	1,636
Disallowed interest	5	1,460	1,465	64	1,460	1,524
Overseas withholding tax charge/(refund)	602	–	602	(75)	–	(75)
Total tax charge/(refund) for the year	**602**	**–**	**602**	**(75)**	**–**	**(75)**

(c) Deferred taxation

The Company has an unrecognised deferred tax asset of £53,868,000 (2019: £48,188,000) based on a prospective corporation tax rate of 19% (2019: 17%). The deferred tax asset has arisen due to the cumulative excess of deductible expenses over taxable income of the Company's portfolio, it is not likely that this asset will be utilised in the foreseeable future and therefore no asset has been recognised in the financial statements.

Given the Company's status as an Investment Trust Company and the intention to continue meeting the conditions required to obtain approval, the Company has not provided for deferred tax on any capital gains or losses arising on the revaluation or disposal of investments.

9. Return/(loss) per share

	2020 £'000	2019 £'000
Revenue return	60,510	59,750
Capital return/(loss)	422,708	(221,602)
Total return/(loss)	**483,218**	**(161,852)**
Weighted average number of shares in issue during the year	792,023,084	800,340,427
Revenue return per share	7.64p	7.47p
Capital return/(loss) per share	53.37p	(27.69)p
Total return/(loss) per share	**61.01p**	**(20.22)p**

10. Dividends

(a) Dividends paid and declared

	2020 £'000	2019 £'000
Dividends paid		
Unclaimed dividends refunded to the Company[1]	(26)	(11)
2019 fourth quarterly dividend of 2.55p (2018: 2.15p[2]) paid to shareholders in May	20,209	17,334
First quarterly dividend of 1.35p (2019: 1.25p) paid to shareholders in August	10,699	10,041
Second quarterly dividend of 1.35p (2019: 1.25p) paid to shareholders in November	10,686	9,923
Third quarterly dividend of 1.35p (2019: 1.25p) paid to shareholders in February	10,686	9,906
Total dividends paid in the year	**52,254**	**47,193**

	2020 £'000	2019 £'000
Dividend declared		
Fourth quarterly dividend declared of 2.55p (2019: 2.55p) payable to shareholders in May	20,184	20,209

[1] Represents dividends which remain unclaimed after a period of 12 years and thereby become the property of the Company.

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

All dividends paid and proposed in the year have been funded from the revenue reserve.

The fourth quarterly dividend has been declared in respect of the year ended 31st January 2020. In accordance with the accounting policy of the Company, this dividend will be reflected in the financial statements for the year ending 31st January 2021.

(b) Dividends for the purposes of Section 1158 of the Corporation Tax Act 2010 ('Section 1158')

The requirements of Section 1158 are considered on the basis of dividends declared in respect of the financial year as shown below. The revenue available for distribution by way of dividend for the year is £60,510,000 (2019: £59,750,000).

The maximum amount of income that the Company is permitted to retain under Section 1158 is £10,158,000 (2019: £9,953,000), calculated as 15% of total income. Therefore the minimum distribution required by way of dividend is £50,352,000 (2019: £49,797,000).

	2020 £'000	2019 £'000
First quarterly dividend of 1.35p (2019: 1.25p) paid to shareholders in August	10,699	10,041
Second quarterly dividend of 1.35p (2019: 1.25p) paid to shareholders in November	10,686	9,923
Third quarterly dividend of 1.35p (2019: 1.25p) paid to shareholders in February	10,686	9,906
Fourth quarterly dividend payable of 2.55p (2019: 2.55p) payable in May	20,184	20,209
	52,255	50,079

11. Investments

	2020 £'000	2019 £'000
Investments listed on a recognised stock exchange	2,262,697	1,678,249
Investments listed on AIM and unlisted investments	26,872	76,745
	2,289,569	1,754,994

	Listed UK £'000	AIM and Unlisted £'000	Total £'000
Opening book cost	1,444,130	38,588	1,482,718
Opening investment holding gains	234,119	38,157	272,276
Opening valuation	1,678,249	76,745	1,754,994
Movements in the year:			
Purchases at cost	726,931	15,846	742,777
Sales proceeds	(579,498)	(64,210)	(643,708)
Gains/(losses) on investments	437,015	(1,509)	435,506
	2,262,697	26,872	2,289,569
Closing book cost	1,661,349	20,783	1,682,132
Closing investment holding gains	601,348	6,089	607,437
Total investments held at fair value through profit or loss	2,262,697	26,872	2,289,569

Stamp duty and brokerage commission on purchases during the year amounted to £3,476,000 (2019: £2,570,000) and £470,000 (2019: £416,000) respectively. Brokerage commission on sales during the year amounted to £420,000 (2019: 401,000).

Investments include Alternative Investment Market stocks which are valued at £22,432,000 (2019: £72,571,000).

12. Significant interests

Details of investments in which the Company has an interest of 3% or more of the nominal value of the allotted shares of any class and which are valued in the portfolio in excess of £10 million, are as follows:

Name of company	Country of registration	Class of share	% of class held
Morgan Sindall	UK	Ordinary	3.8
VP	UK	Ordinary	3.5
Reach	UK	Ordinary	3.3

In addition to the above, the Company has interests of 3% or more in the share capital of another 1 (2019: 3) investee companies.

The Company does not exercise significant influence over the operating and financial policies of the above mentioned companies which are therefore not considered to be associated companies. The total value of investments in which the Company had an interest of 3% or more at 31st January 2020 was £60,097,000 (2019: £79,692,000).

13. Current assets

	2020 £'000	2019 £'000
Debtors		
Securities sold awaiting settlement	27	5,016
Dividends and interest receivable	4,407	2,554
Overseas tax recoverable	156	185
Other debtors	42	28
	4,632	**7,783**

The Directors consider that the carrying amount of debtors approximates to their fair value.

Cash and cash equivalents

Cash and cash equivalents comprise bank balances, short term deposits and liquidity funds. The carrying amount of these represents their fair value.

14. Creditors: amounts falling due within one year

	2020 £'000	2019 £'000
Securities purchased awaiting settlement	952	9,338
Other creditors and accruals	4,902	4,947
	5,854	**14,285**

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

15. Creditors: amounts falling due after more than one year

	2020 £'000	2019 £'000
£175 million 6.125% debenture stock[1]	174,016	173,919
£3.85 million 4.25% perpetual debenture stock[2]	3,850	3,850
	177,866	**177,769**

[1] The £175 million 6.125% debenture stock is repayable at par on 25th February 2030 and is secured by a floating charge over the assets of the Company.
[2] The £3.85 million 4.25% debenture stock is irredeemable and secured by a floating charge over the assets of the Company. The debenture is repayable at 105% if the Company goes into default and the security is enforced.

16. Called up share capital

	2020 £'000	2019 £'000
Ordinary shares allotted and fully paid:		
Opening Balance of 792,492,181 shares of 2.5p (2019: 81,900,039 shares of 25p) each excluding shares held in Treasury	19,812	20,475
Repurchase of nil shares into Treasury (2019: 1,490,680)	–	(373)
Subtotal of 791,522,893 shares of 2.5p (2019: 80,409,359 shares of 25p) each excluding shares held in Treasury	19,812	20,102
Sub-division of nil shares (2019: 80,409,359) of 25p each into nil shares (2019: 804,093,590) of 2.5p each	–	–
Repurchase of 969,288 shares of 2.5p each into Treasury (2019: 11,601,409)	(24)	(290)
Subtotal of 791,522,893 (2019: 792,492,181) shares of 2.5p each excluding shares held in Treasury	19,788	19,812
152,969,287 (2019: 151,999,999) shares held in Treasury	3,824	3,800
Closing Balance of 944,492,180 (2019: 944,492,180) shares of 2.5p each including shares held in Treasury	**23,612**	**23,612**

During the year, the Company repurchased 969,288 shares (2019: prior to the sub-division, 1,490,680 shares, after the sub-division of shares, a further 11,601,409 shares were repurchased into Treasury) for a total consideration of £1,885,730 (2019: prior to the sub-division, for a total consideration of £31,592,119 and after the sub-division of shares, for a total consideration of £25,212,318) amounting to £0.1% (2019: 3.2%) of issued share capital at the beginning of the year.

17. Capital and reserves

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves: Gains/ (losses) on sales of investments £'000	Capital reserves: Investment holding gains/ (losses) £'000	Revenue reserve[1] £'000	Total shareholders' funds £'000
Opening balance	23,612	23,459	13,158	1,346,561	272,276	74,678	1,753,744
Net foreign currency gains on cash and cash equivalents	–	–	–	53	–	–	53
Realised gains on sale of investments	–	–	–	100,345	–	–	100,345
Net change in unrealised gains and losses on investments	–	–	–	–	335,161	–	335,161
Repurchase of shares into Treasury	–	–	–	(1,886)	–	–	(1,886)
Management fee and finance costs charged to capital	–	–	–	(12,836)	–	–	(12,836)
Other capital charges	–	–	–	(15)	–	–	(15)
Dividends paid in the year	–	–	–	–	–	(52,254)	(52,254)
Retained revenue for the year	–	–	–	–	–	60,510	60,510
Closing balance	23,612	23,459	13,158	1,432,222	607,437	82,934	2,182,822

[1] This reserve forms the distributable reserve of the Company and may be used to fund distributions to investors.

18. Net asset value per share

	2020	2019
Net assets (£'000)	2,182,822	1,753,744
Number of shares in issue	791,522,893	792,492,181
Net asset value per share	**275.8p**	**221.3p**

19. Reconciliation of net return/(loss) before finance costs and taxation to net cash outflow from operations before dividends and interest

	2020 £'000	2019 £'000
Net return/(loss) before finance costs and taxation	494,802	(150,948)
(Less capital return)/add capital losses before finance costs and taxation	(430,395)	213,917
Scrip dividends received as income	–	(328)
Increase in accrued income and other debtors	(1,867)	(621)
(Decrease)/increase in accrued expenses	(45)	14
Management fee charged to capital	(5,149)	(5,079)
Overseas withholding tax	(616)	(425)
Dividends received	(63,981)	(63,984)
Interest received	(1,269)	(958)
Realised gains on foreign currency transactions	50	42
Net cash outflow from operations before dividends and interest	**(8,470)**	**(8,370)**

20. Analysis of changes in net (debt)/cash

	At 31st January 2019 £'000	Cash flow £'000	Other exchange movements £'000	Non cash movements £'000	At 31st January 2020 £'000
Cash at bank and in hand	347	(101)	53	–	299
Short term deposits	82,700	(82,700)	–	–	–
Cash equivalents: liquidity fund	99,974	(27,932)	–	–	72,042
Total cash and cash equivalents	183,021	(110,733)	53	–	72,341
Debentures falling due after more than five years	(177,769)	–	–	(97)	(177,866)
Closing net cash/(debt)	**5,252**	**(110,733)**	**53**	**(97)**	**(105,525)**

21. Contingent liabilities and capital commitments

At the balance sheet date there were no contingent liabilities or capital commitments (2019: same).

22. Transactions with the Manager and related parties

Details of the management contract are set out in the Directors' Report on page 26. The management fee payable to the Manager for the year was £7,355,000 (2019: £7,256,000) of which £nil (2019: £nil) was outstanding at the year end.

During the year £59,000 (2019: £118,000) was payable to the Manager for the marketing and administration of savings scheme products, of which £nil (2019: £8,000) was outstanding at the year end.

Included in administration expenses in note 6 on page 56 are safe custody fees amounting to £31,000 (2019: £31,000) payable to JPMorgan Chase of which £8,000 (2019: £4,000) was outstanding at the year end.

During the year, brokerage commission on dealing transactions amounted to £7,000 (2019: £4,000) was payable to JPMorgan subsidiaries of which £nil (2019: £nil) was outstanding at the year end.

The Company also holds cash in JPMorgan Sterling Liquidity Fund, managed by JPMorgan. At the year end this was valued at £72.0 million (2019: £100.0 million). Income amounting to £1,181,000 (2019: 664,000) was receivable during the year of which £nil (2019: £nil) was outstanding at the year end.

Handling charges on dealing transactions amounting to £15,000 (2019: £15,000) were payable to JPMorgan Chase during the year of which £2,000 (2019: £2,000) was outstanding at the year end.

At the year end, total cash of £299,000 (2019: £347,000) was held with JPMorgan Chase. A net amount of interest of £88,000 (2019: £nil) was receivable by the Company during the year from JPMorgan Chase of which £nil (2019: £nil) was outstanding at the year end.

Full details of Directors' remuneration and shareholdings can be found on page 37 and in note 6 on page 56.

23. Disclosures regarding financial instruments measured at fair value

The Company's financial instruments within the scope of FRS 102 that are held at fair value comprise its investment portfolio and derivative financial instruments.

The investments are categorised into a hierarchy consisting of the following three levels:

(1) The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date

(2) Inputs other than quoted prices included within Level 1 that are observable (i.e.: developed using market data) for the asset or liability, either directly or indirectly

(3) Inputs are unobservable (i.e.: for which market data is unavailable) for the asset or liability

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset.

Details of the valuation techniques used by the Company are given in note 1(b) on page 53.

The following table sets out the fair value measurements using the FRS 102 hierarchy at 31st January.

	2020		2019	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Level 1	2,285,129	–	1,750,820	–
Level 3[1]	4,440	–	4,174	–
Total	**2,289,569**	**–**	**1,754,994**	**–**

[1] Consists only of the holding of unquoted stock of Tennants Consolidated which is still held at 31st January 2020.

There was no transfers between Level 1, 2 and 3 during the year (2019: same). A reconciliation of the fair value measurements using valuation techniques using non-observable data is set out below.

	2020		
	Equity Investments £'000	Fixed Interest Investment £'000	Total £'000
Level 3			
Opening balance	4,080	94	4,174
Change in fair value of unquoted investment during the year	266	–	266
Closing balance	**4,346**	**94**	**4,440**

	2019		
	Equity Investments £'000	Fixed Interest Investment £'000	Total £'000
Level 3			
Opening balance	4,090	94	4,184
Change in fair value of unquoted investment during the year	(10)	–	(10)
Closing balance	**4,080**	**94**	**4,174**

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

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

These financial risks include market risk (comprising interest rate risk and market price risk), liquidity risk and credit risk. The Directors' policy for managing these risks is set out below. The Company has no significant direct exposure to foreign exchange risk. A proportion of the dividends received by the Company are paid in currencies other than sterling. Therefore a significant movement in exchange rates could impact the portfolio yield, however the Board considers this to be a relatively low risk. The Company Secretary, in close co-operation with the Board and the Manager, co-ordinates the Company's risk management strategy.

The objectives, policies and processes for managing the risks and the methods used to measure the risks that are set out below, have not changed from those applying in the comparative year.

The Company's classes of financial instruments are as follows:

- investments in UK equity shares and other securities, which are held in accordance with the Company's investment objective;
- cash held within a liquidity fund;
- short term debtors, creditors and cash arising directly from its operations;
- a debenture issued by the Company, the purpose of which is to finance the Company's operations; and
- derivatives, the purpose of which is to effect changes in the level of the Company's gearing.

(a) Market risk

The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. This market risk comprises two elements – interest rate risk and market price risk. Information to enable an evaluation of the nature and extent of these two elements of market risk is given in parts (i) and (ii) of this note, together with sensitivity analyses where appropriate. The Board reviews and agrees policies for managing these risks and these policies have remained unchanged from those applying in the comparative year. The Manager assesses the exposure to market risk when making each investment decision and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

(i) Interest rate risk

Interest rate movements may affect the level of income receivable on cash deposits, the liquidity fund and the interest payable on variable rate borrowings when interest rates are reset. There is no 'fair value' interest rate risk attached to the Company's fixed rate debenture in issue, as it is carried in the accounts at amortised cost.

Liquidity and gearing

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

Interest rate exposure

The two series of debentures issued by the Company both carry fixed rates of interest and were issued as a planned level of gearing. This debenture stock is carried in the Company's Statement of Financial Position at amortised cost rather than fair value. Hence movement in interest rates will not affect equity but may have an impact on the share price and discount (at fair value) which is not likely to be material.

The Company has no significant holdings of fixed interest rate securities whose fair value would be affected by interest rate movements.

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

(a) Market risk *continued*

(ii) Other price risk *continued*

Interest rate exposure *continued*

The exposure of financial assets and financial liabilities to floating interest rates, giving cash flow interest rate risk when rates are reset, is shown below:

	2020 £'000	2019 £'000
Exposure to floating interest rates:		
Cash at bank and short term deposits	299	83,047
JPMorgan Sterling Liquidity Fund	72,042	99,974
Total exposure	**72,341**	**183,021**

Interest receivable on cash balances, or paid on overdrafts, is at a margin below or above LIBOR respectively (2019: same).

Interest rate sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to a 1% (2019: 1%) increase or decrease in interest rates in regards to the Company's monetary financial assets and financial liabilities. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's monetary financial instruments held at the balance sheet date with all other variables held constant.

	2020		2019	
	1% increase in rate £'000	1% decrease in rate £'000	1% increase in rate £'000	1% decrease in rate £'000
Statement of Comprehensive Income – return after taxation				
Revenue return	723	(723)	1,830	(1,830)
Net assets	**723**	**(723)**	**1,830**	**(1,830)**

In the opinion of the Directors, this sensitivity analysis may not be representative of the Company's future exposure to interest rate changes due to fluctuations in the level of cash balances.

(ii) Other price risk

Other price risk includes changes in market prices, other than those arising from interest rate risk, which may affect the value of equity investments.

Management of other price risk

The Board meets on at least four occasions each year to consider the asset allocation of the portfolio and the risk associated with particular industry sectors. The investment management team has responsibility for monitoring the portfolio, which is selected in accordance with the Company's investment objective and seeks to ensure that individual stocks meet an acceptable risk/reward profile.

Other price risk exposure

The Company's total exposure to changes in market prices at 31st January comprises its holdings in total investments as follows:

	2020 £'000	2019 £'000
Investments held at fair value through profit or loss	2,289,569	1,754,994

The above data is broadly representative of the exposure to other price risk during the year.

Concentration of exposure to other price risk

An analysis of the Company's investments is given on pages 13 to 16. This shows that the majority of the investments' value is in the UK. Accordingly there is a concentration of exposure to that country. However it should be noted that an investment may not be entirely exposed to the economic conditions in its country of domicile or of listing.

Other price risk sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to an increase or decrease of 10% (2019: 10%) in the fair values of the Company's equities. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's equities, adjusting for changes in the management fee but with all other variables held constant.

	2020		2019	
	10% increase in fair value £'000	10% decrease in fair value £'000	10% increase in fair value £'000	10% decrease in fair value £'000
Statement of Comprehensive Income – return after taxation				
Revenue return	(309)	309	(237)	237
Capital return	228,236	(228,236)	174,947	(174,947)
Total return after taxation	227,927	(227,927)	174,710	(174,710)
Net assets	**227,927**	**(227,927)**	**174,710**	**(174,710)**

(b) Liquidity risk

This is the risk that the Company will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Management of the risk

Liquidity risk is not significant as the Company's assets comprise mainly readily realisable securities, which can be sold to meet funding requirements if necessary. Short term flexibility is achieved through the use of overdraft facilities.

The Board's policy is for the Company to remain fully invested in normal market conditions and that short term borrowings be used to manage short term liabilities and working capital requirements and to gear the Company as appropriate.

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

(b) Liquidity risk *continued*

Liquidity risk exposure

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

	2020			
	Three months or less £'000	More than three months but not more than one year £'000	More than one year £'000	Total £'000
Creditors: amounts falling due within one year				
Securities purchased awaiting settlement	952	–	–	952
Other creditors and accruals	188	–	–	188
Debenture stock - interest[1]	5,441	5,441	–	10,882
Creditors: amounts falling due after more than one year				
Debenture stock - principal[2]	–	–	178,850	178,850
Debenture stock - interest[1]	–	–	103,660	103,660
	6,581	**5,441**	**282,510**	**294,532**

	2019			
	Three months or less £'000	More than three months but not more than one year £'000	More than one year £'000	Total £'000
Creditors: amounts falling due within one year				
Securities purchased awaiting settlement	9,338	–	–	9,338
Other creditors and accruals	233	–	–	233
Debenture stock - interest[1]	5,441	5,441	–	10,882
Creditors: amounts falling due after more than one year				
Debenture stock - principal[2]	–	–	178,850	178,850
Debenture stock - interest[1]	–	–	114,542	114,542
	15,012	**5,441**	**293,392**	**313,845**

[1] The liabilities shown above represent future contractual payments and therefore differ from the amounts shown in the statement of Financial Position.

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

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

(c) Credit risk

Credit risk is the risk that the failure of the counterparty to a transaction to discharge its obligations under that transaction could result in loss to the Company.

Management of credit risk

Portfolio dealing

The Company invests in markets that operate Delivery Versus Payment ('DVP') settlement. The process of DVP mitigates the risk of losing the principal of a trade during the settlement process. The Manager continuously monitors dealing activity to ensure best execution, a process that involves measuring various indicators including the quality of trade settlement and incidence of failed trades. Counterparty lists are maintained and adjusted accordingly.

Cash and cash equivalents

Counterparties are subject to regular credit analysis by the Manager and deposits can only be placed with counterparties that have been approved by JPMAM's Counterparty Risk Group. The Board regularly reviews the counterparties used by the Manager. At the year end the cash balance of £6 million was placed with BRED Banque Populaire, in line with the Board's concentration guidelines. The JPMorgan Sterling Liquidity Fund has a AAA rating.

Exposure to JPMorgan Chase

JPMorgan Chase Bank is the custodian of the Company's assets. The custody agreement grants a general lien over the securities credited to the securities account. The Company's assets are segregated from JPMorgan Chase Bank's own trading assets and are therefore protected from creditors in the event that JPMorgan Chase Bank were to cease trading. However, no absolute guarantee can be given to investors on the protection of all of the assets of the Company.

Credit risk exposure

The amounts shown in the Statements of Financial Position under debtors and cash and cash equivalents represent the maximum exposure to credit risk at the current and comparative year ends.

(d) Fair values of financial assets and financial liabilities

All financial assets and liabilities are either carried in the Statement of Financial Position at fair value or the Statement of Financial Position amount is a reasonable approximation of fair value except for the debenture stock which the Company has in issue. The fair value of this debenture stock has been calculated using discounted cash flow techniques, using the yield on a similarly dated gilt plus a margin based on the five year average for the AA Barclays Sterling Corporate Bond spread.

	Carrying value		Fair value	
	2020 £'m	2019 £'m	2020 £'m	2019 £'m
£175 million 6.125% debenture stock 25th February 2030	174.0	173.9	255.8	247.0
£3.85 million 4.25% perpetual debenture stock	3.9	3.9	9.2	6.7
	177.9	177.8	265.0	253.7

25. Capital management policies and procedures

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

	2020 £'000	2019 £'000
Debt		
£175 million 6.125% debenture stock 25th February 2030	174,016	173,919
£3.85 million 4.25% perpetual debenture stock	3,850	3,850
	177,866	177,769
Equity		
Called up share capital	23,612	23,612
Reserves	2,159,210	1,730,132
	2,182,822	1,753,744
Total debt and equity	**2,360,688**	**1,931,513**

The Company's capital management objectives are to ensure that it will continue as a going concern and to maximise the income and capital return to its equity shareholders through an appropriate level of gearing.

The Board's gearing policy is to operate within a range of 10% net cash to 20% geared in normal market conditions.

	2020 £'000	2019 £'000
Investments held at fair value through profit or loss	2,289,569	1,754,994
Net assets	2,182,822	1,753,744
Gearing	**4.9 %**	**0.1%**

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

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

26. Subsequent events

As noted in the Chairman's Statement and Investment Manager's Report, since 31st January 2020, equity markets have fallen significantly due primarily to concerns around the scale of the impact of COVID-19 on the global economy.

Subsequent to the year end, the net asset value per share of the Company has decreased by 30.8% from 264.8p to 183.32p and Company's share price has decreased by 27% from 261.0p to 190.4p as at 8th April 2020.

This movement takes into account routine transactions but also reflects market movements including the impact on the financial markets of the increasing fears over the spread of COVID-19. The Board and the Manager continue to monitor investment performance in line with investment objectives.

Regulatory Disclosures

Leverage

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

The Company’s maximum and actual leverage levels at 31st January 2020 are shown below:

	Gross Method	Commitment Method
Leverage Exposure		
Maximum limit	200%	200%
Actual	108%	108%

JPMorgan Funds Limited (the **‘Management Company**’) is the authorised manager of The Mercantile Investment Trust plc (the ‘**Company**’) and is part of the J.P. Morgan Chase & Co. group of companies. In this section, the terms ‘J.P. Morgan’ or ‘Firm’ refer to that group, and each of the entities in that group globally, unless otherwise specified.

This section of the annual report has been prepared in accordance with the Alternative Investment Fund Managers Directive (the ‘AIFMD’), the European Commission Delegated Regulation supplementing the AIFMD, and the ‘Guidelines on sound remuneration policies’ issued by the European Securities and Markets Authority under the AIFMD. The information in this section is in respect of the most recent complete remuneration period (‘**Performance Year**’) as at the reporting date.

This section has also been prepared in accordance with the relevant provisions of the Financial Conduct Authority Handbook (FUND 3.3.5).

JPMF Remuneration Policy

A summary of the Remuneration Policy currently applying to the Management Company (the ‘**Remuneration Policy Statement**’) can be found at https://am.jpmorgan.com/gb/en/asset-management/gim/per/legal/emea-remuneration-policy. This Remuneration Policy Statement includes details of how remuneration and benefits are calculated, including the financial and non-financial criteria used to evaluate performance, the responsibilities and composition of the Firm’s Compensation and Management Development Committee, and the measures adopted to avoid or manage conflicts of interest. A copy of this policy can be requested free of charge from the Management Company.

The Remuneration Policy applies to all employees of the Management Company, including individuals whose professional activities may have a material impact on the risk profile of the Management Company or the Alternative Investment Funds it manages (‘**AIFMD Identified Staff**’). The AIFMD Identified Staff include members of the Board of the Management Company (the ‘**Board**’), senior management, the heads of relevant Control Functions, and holders of other key functions. Individuals are notified of their identification and the implications of this status on at least an annual basis.

The Board reviews and adopts the Remuneration Policy on an annual basis, and oversees its implementation, including the classification of AIFMD Identified Staff. The Board last reviewed and adopted the Remuneration Policy that applied for the 2019 Performance Year in June 2019 with no material changes and was satisfied with its implementation.

Quantitative Disclosures

The table below provides an overview of the aggregate total remuneration paid to staff of the Management Company in respect of the 2019 Performance Year and the number of beneficiaries. These figures include the remuneration of all staff of JP Morgan Asset Management (UK) Ltd (the relevant employing entity) and the number of beneficiaries, both apportioned to the Management Company on an Assets Under Management (‘AUM’) weighted basis.

Due to the Firm’s operational structure, the information needed to provide a further breakdown of remuneration attributable to the Company is not readily available and would not be relevant or reliable. However, for context, the Management Company manages 30 Alternative Investment Funds (with 4 sub-funds) and 2 UCITS (with 38 sub-funds) as at 31st December 2019, with a combined AUM as at that date of £13.8 billion and £17.1 billion respectively.

	Fixed remuneration	Variable remuneration	Total remuneration	Number of beneficiaries
All staff of the Management Company (US$’000s)	15,972	9,139	25,111	119

The aggregate 2019 total remuneration paid to AIFMD Identified Staff was USD $57,448,000, of which USD $4,425,000 relates to Senior Management and USD $53,024,000 relates to other Identified Staff.[1]

[1] Since 2017, the AIFMD identified staff disclosures includes employees of the companies to which portfolio management has been formally delegated in line with the latest ESMA guidance.

SECURITIES FINANCING TRANSACTIONS REGULATION (‘SFTR’) DISCLOSURES (UNAUDITED)

The Company does not engage in Securities Financing Transactions (as defined in Article 3 of Regulation (EU) 2015/2365, securities financing transactions include repurchase transactions, securities or commodities lending and securities or commodities borrowing, buy-selling back transactions or sell-buy back transactions and margin lending transactions) or Total Return Swaps. Accordingly, disclosures required by Article 13 of the Regulation are not applicable for the year ended 31st January 2020.

Shareholder Information

Notice is hereby given that the one hundred and thirty fourth Annual General Meeting of The Mercantile Investment Trust plc will be held a The Pantiles, 2A Luttrell Avenue, London SW15 6PF on Thursday, 21st May 2020 at 1.00 p.m. for the following purposes:

1. To receive the Directors' Report, the Annual Accounts and the Auditors' Report for the year ended 31st January 2020.
2. To approve the Company's Remuneration Policy.
3. To approve the Directors' Remuneration Report for the year ended 31st January 2020.
4. To reappoint Heather Hopkins as a Director of the Company.
5. To reappoint Helen James as a Director of the Company.
6. To reappoint Graham Kitchen as a Director of the Company.
7. To reappoint Angus Gordon Lennox as a Director of the Company.
8. To reappoint Harry Morley as a Director of the Company.
9. To reappoint Jeremy Tigue as a Director of the Company.

To consider the following resolution, special notice having been received of the intention to propose the resolution as an ordinary resolution:

10. THAT BDO LLP be appointed as Auditors of the Company in place of the retiring Auditors to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that their remuneration be fixed by the Directors

Special Business

To consider the following resolutions:

Authority to allot new shares – Ordinary Resolution

11. THAT the Directors of the Company be and they are hereby generally and unconditionally authorised (in substitution of any authorities previously granted to the Directors) pursuant to and in accordance with Section 551 of the Companies Act 2006 (the 'Act') to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company ('rights') up to an aggregate nominal amount of £989,404, representing approximately 5% of the Company's issued share capital as at 8th April 2020, provided that this authority shall expire at the conclusion of the Annual General Meeting of the Company held in 2021 unless renewed at a general meeting prior to such time, save that the Company may before such expiry make offers or agreements which would or might require shares to be allotted or rights to be granted after such expiry and so that the Directors of the Company may allot shares and grant rights in pursuance of such offers or agreements as if the authority conferred hereby had not expired.

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

12. THAT subject to the passing of Resolution 11 set out above, the Directors of the Company be and they are hereby empowered pursuant to Sections 570 and 573 of the Act to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authority conferred by Resolution 11 or by way of the sale of treasury shares as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of £989,404, representing approximately 5% of the issued share capital as at 8th April 2020 at a price of not less than the net asset value per share and shall expire upon the expiry of the general authority conferred by Resolution 11 above, save that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and so that the Directors of the Company may allot equity securities in pursuant of such offers or agreements as if the power conferred hereby had not expired.

Authority to repurchase the Company's shares – Special Resolution

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

    PROVIDED ALWAYS THAT

    (i) the maximum number of ordinary shares hereby authorised to be purchased shall be that number of ordinary shares which is equal to 14.99% of the Company's issued share capital as at the date of the passing of this resolution;

    (ii) the minimum price which may be paid for an ordinary share shall be the nominal value;

    (iii) the maximum price which may be paid for an ordinary share shall be an amount equal to the highest of: (a) 105% of the average of the middle market quotations for an ordinary share taken from and calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is contracted to be purchased; or (b) the price of the last independent trade; or (c) the highest current independent bid;

(iv) any purchase of ordinary shares will be made in the market for cash at prices below the prevailing net asset value per ordinary share (as determined by the Directors);

(v) the authority hereby conferred shall expire on 20th November 2021 unless the authority is renewed at the Company's Annual General Meeting in 2020 or at any other general meeting prior to such time; and

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

Approval of dividend policy – Ordinary Resolution

14. THAT the shareholders approve the Company's dividend policy to continue to pay four quarterly interim dividends.

By order of the Board
Jonathan Latter, for and on behalf of
JPMorgan Funds Limited,
Company Secretary

20th April 2020

Notes

These notes should be read in conjunction with the notes on the reverse of the proxy form.

1. A member entitled to attend and vote at the Meeting may appoint another person(s) (who need not be a member of the Company) to exercise all or any of his rights to attend, speak and vote at the Meeting. A member can appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attaching to different shares held by him.
2. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Your proxy could be the Chairman, another director of the Company or another person who has agreed to attend to represent you. Details of how to appoint the Chairman or another person(s) as your proxy or proxies using the proxy form are set out in the notes to the proxy form. If a voting box on the proxy form is left blank, the proxy or proxies will exercise his/their discretion both as to how to vote and whether he/they abstain(s) from voting. Your proxy must attend the Meeting for your vote to count. Appointing a proxy or proxies does not preclude you from attending the Meeting and voting in person.
3. Any instrument appointing a proxy, to be valid, must be lodged in accordance with the instructions given on the proxy form, no later than 12.00 noon two business days prior to the Meeting (i.e. excluding weekends and bank holidays).
4. You may change your proxy instructions by returning a new proxy appointment. The deadline for receipt of proxy appointments also applies in relation to amended instructions. Any attempt to terminate or amend a proxy appointment received after the relevant deadline will be disregarded. Where two or more valid separate appointments of proxy are received in respect of the same share in respect of the same Meeting, the one which is last received (regardless of its date or the date of its signature) shall be treated as replacing and revoking the other or others as regards that share; if the Company is unable to determine which was last received, none of them shall be treated as valid in respect of that share.
5. To be entitled to attend and vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members as at 6.30 p.m. two business days prior to the Meeting (the 'specified time'). If the Meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original Meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned Meeting. If however the Meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members as at 6.30 p.m. two business days prior to the adjourned Meeting or, if the Company gives notice of the adjourned Meeting, at the time specified in that notice. Changes to entries on the register after this time shall be disregarded in determining the rights of persons to attend or vote at the meeting or adjourned meeting.

6. Entry to the Meeting will be restricted to shareholders and their proxy or proxies, with guests admitted only by prior arrangement.
7. A corporation, which is a shareholder, may appoint an individual(s) to act as its representative(s) and to vote in person at the Meeting (see instructions given on the proxy form). In accordance with the provisions of the Companies Act 2006, each such representative(s) may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company, provided that they do not do so in relation to the same shares. It is therefore no longer necessary to nominate a designated corporate representative. Representatives should bring to the meeting evidence of their appointment, including any authority under which it is signed.
8. Members that satisfy the thresholds in Section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter relating to: (a) the audit of the Company's accounts (including the Auditors' report and the conduct of the audit) that are to be laid before the AGM; or (b) any circumstances connected with an Auditor of the Company ceasing to hold office since the previous AGM; which the members propose to raise at the meeting. The Company cannot require the members requesting the publication to pay its expenses. Any statement placed on the website must also be sent to the Company's Auditors no later than the time it makes its statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required to publish on its website pursuant to this right.
9. Pursuant to Section 319A of the Companies Act 2006, the Company must cause to be answered at the AGM any question relating to the business being dealt with at the AGM which is put by a member attending the meeting except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the meeting or if it would involve the disclosure of confidential information.
10. Under sections 338 and 338A of the 2006 Act, members meeting the threshold requirements in those sections have the right to require the Company: (i) to give, to members of the Company entitled to receive notice of the Meeting, notice of a resolution which those members intend to move (and which may properly be moved) at the Meeting; and/or (ii) to include in the business to be dealt with at the Meeting any matter (other than a proposed resolution) which may properly be included in the business at the Meeting. A resolution may properly be moved, or a matter properly included in the business unless: (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of any inconsistency with any enactment or the Company's constitution or otherwise); (b) it is defamatory of any person; or (c) it is frivolous or vexatious. A request made pursuant to this right may be in hard copy or electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be accompanied by a statement setting out the grounds for the request, must be authenticated by the person(s) making it and must be received by the Company not later than the date that is six clear weeks before the Meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.
11. A copy of this notice has been sent for information only to persons who have been nominated by a member to enjoy information rights under Section 146 of the Companies Act 2006 (a 'Nominated Person'). The rights to appoint a proxy can not be exercised by a Nominated Person: they can only be exercised by the member. However, a Nominated Person may have a right under an agreement between him and the member by whom he was nominated to be appointed as a proxy for the Meeting or to have someone else so appointed. If a Nominated Person does not have such a right or does not wish to exercise it, he may have a right under such an agreement to give instructions to the member as to the exercise of voting rights.
12. In accordance with Section 311A of the Companies Act 2006, the contents of this notice of meeting, details of the total number of shares in respect of which members are entitled to exercise voting rights at the AGM, the total voting rights members are entitled to exercise at the AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Company's website www.mercantileit.co.uk.
13. The register of interests of the Directors and connected persons in the share capital of the Company and the Directors' letters of appointment are available for inspection at the Company's registered office during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted). It will also be available for inspection at the Annual General Meeting. No Director has any contract of service with the Company.
14. You may not use any electronic address provided in this Notice of meeting to communicate with the Company for any purposes other than those expressly stated.
15. As an alternative to completing a hard copy Form of Proxy/Voting Instruction Form, you can appoint a proxy or proxies electronically by visiting www.sharevote.co.uk. You will need your Voting ID, Task ID and Shareholder Reference Number (this is the series of numbers printed under your name on the Form of Proxy/Voting Instruction Form). Alternatively, if you have already registered with Equiniti Limited's online portfolio service, Shareview, you can submit your Form of Proxy at www.shareview.co.uk. Full instructions are given on both websites.
16. As at 8th April 2020 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consisted of 944,492,180 Ordinary shares (of which 152,969,287 are held in Treasury, representing 16.2% of the shares in issue), carrying one vote each. Therefore the total voting rights in the Company are 791,522,893.

Electronic appointment – CREST members

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

Return to Shareholders (APM)

Total return to shareholders, 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	Year ended 31st January 2020	Year ended 31st January 2019	
Opening share price (p)	5	192.0	215.0	(a)
Closing share price (p)	5	261.0	192.0	(b)
Total dividend adjustment factor[1]		1.031109	1.029512	(c)
Adjusted closing share price (p) (d = b x c)		269.1	197.7	(d)
Total return to shareholders (e = d / a – 1)		**40.2%**	**–8.1%**	(e)

[1] The 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 fair value (APM)

The Company's debt (debenture) is valued in the Statement of Financial Position (on page 50) at amortised cost, 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'. This fair value is explained in note 24(d) (on page 68) of the financial statements. 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 similar dated gilt plus a margin based on the five year average for the AA Barclays Sterling Corporate Bond spread.

Total return calculation	Page	Year ended 31st January 2020	Year ended 31st January 2019	
Opening cum-income NAV per share with debt at fair value (p)	5	211.7	237.5	(a)
Closing cum-income NAV per share debt at fair value (p)	5	264.8	211.7	(b)
Total dividend adjustment factor[2]		1.028427	1.026484	(c)
Adjusted closing cum-income NAV per share (d = b x c)		272.3	217.3	(d)
Total return on net assets with debt at fair value (e = d / a – 1)		**28.6%**	**–8.5%**	(e)

[2] The 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 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, without transaction costs, into the shares of the Company at the NAV per share at the time the shares were quoted ex-dividend.

Total return calculation	Page	Year ended 31st January 2020	Year ended 31st January 2019	
Opening cum-income NAV per share with debt at par value (p)	5	221.3	246.6	(a)
Closing cum-income NAV per share with debt at par value (p)	5	275.8	221.3	(b)
Total dividend adjustment factor[2]		1.027213	1.025444	(c)
Adjusted closing cum-income NAV per share (p) (d = b x c)		283.3	226.9	(d)
Total return on net assets (e = d / a – 1)		**28.0%**	**–8.0%**	(e)

[2] The 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.

Net asset value per share (APM)
The value of the Company's net assets (total assets less total liabilities) divided by the number of ordinary shares in issue. Please see note 18 on page 61 for detailed calculations.

Revenue return per share (APM)
Net revenue return after taxation divided by the weighted average number of ordinary shares in issue during the year. Please see note 9 on page 57 for detailed calculations.

Benchmark total 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 follow or 'track' this index and consequently, there may be some divergence between the Company's performance and that of the benchmark.

Gearing/(Net Cash) (APM)
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.

Gearing calculation	Page	31st January 2020 £'000	31st January 2019 £'000	
Investments held at fair value through profit or loss	51	2,289,569	1,754,994	(a)
Net assets	51	2,182,822	1,753,744	(b)
Gearing/(net cash) (c = a / b – 1)		**4.9%**	**0.1%**	(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.

Ongoing charges ratio calculation	Page	Year ended 31st January 2020 £'000	Year ended 31st January 2019 £'000	
Management Fee	56	7,355	7,256	
Other administrative expenses	56	1,106	1,212	
Total management fee and other administrative expenses		8,461	8,468	(a)
Average daily cum-income net assets		1,941,236	1,901,714	(b)
Ongoing charges ratio (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. 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 (page 5).

Performance attribution
Analysis of how the Company achieved its recorded performance relative to its benchmark.

Performance Attribution Definitions:

Sector Allocation
Measures the impact of allocating assets differently from those in the benchmark, via the portfolio's weighting in different sectors or asset types.

Stock Selection
Measures the effect of investing in securities to a greater or lesser extent than their weighting in the benchmark, or of investing in securities which are not included in the benchmark.

Gearing/(net cash)
Measures the impact on returns of borrowings or cash balances on the Company's relative performance.

Management fee/Other expenses
The payment of fees and expenses reduces the level of total assets, and therefore has a negative effect on relative performance.

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

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

1. Via a third party provider

Third party providers include:

AJ Bell
Barclays Smart Investor
Charles Stanley Direct
Fidelity FundsNetwork
Halifax
Hargreaves Lansdown
Interactive Investor
Selftrade
The Share Centre

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

The Board encourages all of its shareholders to exercise their rights and notes that many specialist platforms provide shareholders with the ability to receive company documentation, to vote their shares and to attend general meetings, at no cost. Please refer to your investment platform for more details, or visit the Association of Investment Companies' ('AIC') website at www.theaic.co.uk/aic/shareholder-voting-consumer-platforms for information on which platforms support these services and how to utilise them.

2. 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

FINANCIAL CALENDAR

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

*or nearest following business day. In 2020, the fourth quarterly dividend will be paid on 15th May.

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. In April 2008, the Company adopted its present name, The Mercantile Investment Trust plc.

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

Company Numbers

Company Registration number: 20537
London Stock Exchange number: 0579403
ISIN: GB0005794036
Bloomberg ticker: MRC LN
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.

Dividend Reinvestment Plan

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

Manager and Company Secretary

JPMorgan Funds Limited

aic
The Association of Investment Companies
A member of the AIC

Company's Registered Office

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

Please contact 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, N.A. as the Company's custodian.

Registrars

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

Lines open 8.30 a.m. to 5.30 p.m. Monday to Friday. Calls to the helpline will cost no more than a national rate call to a 01 or 02 number. Callers from overseas should dial +44 121 415 0225.

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

Independent Auditors

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

Brokers

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

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

www.mercantileit.co.uk

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Telephone lines are open Monday to Friday,
9am to 5.30pm.

100%

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J.P.Morgan
Asset Management