The Mercantile Investment Trust plc

The home of tomorrow's UK market leaders

Annual Report & Financial Statements

for the year ended 31st January 2022

INVESTMENT COMPANY OF THE YEAR AWARDS 2021

WINNER

UK ALL COMPANIES

J.P.Morgan

ASSET MANAGEMENT

YOUR COMPANY

Objective

The Mercantile Investment Trust plc (the 'Company') aims to achieve 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).

Further details on the objective and structure of the Company, together with investment restrictions and guidelines, are given in the Strategic Report on page 22.

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 2022 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 2022, the Company had in issue a £3.85 million 4.25% perpetual debenture, a £175 million 6.125% debenture repayable on 25th February 2030 and £150 million of long-term debt through the issue of three fixed rate, senior unsecured privately placed loan notes (the 'Notes'). The Notes, which were funded on 8th September 2021, are: £55 million maturing in 2041 with a fixed coupon of 1.98%; £50 million maturing in 2051 with a fixed coupon of 2.05%; and £45 million maturing in 2061 with a fixed coupon of 1.77%. The long term fixed debt is supplemented by a £100 million floating rate revolving credit facility expiring in December 2022.

Management Company and Company Secretary

The Company employs JPMorgan Funds Limited ('JPMF' or the 'Manager') as its Alternative Investment Fund Manager ('AIFM') 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').

Environment, Social and Governance ('ESG') Considerations

ESG considerations are fully integrated into the stock selection process. JPMAM research teams compile proprietary ESG analyses on each company as well as using external vendor research, and rank them. Following in-depth strategic and financial analysis, these ESG rankings and factors are also taken into consideration as part of the investment case. In addition, the Manager, together with Stewardship specialists, conducts extensive engagement on specific ESG issues with investee companies. JPMAM is a United Nations Principles of Responsible Investment ('UN PRI') signatory and endeavours to vote at all of the meetings called by companies in which your portfolio invests. An ESG report is on pages 14 to 16.

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?

Scan this QR code on your smartphone camera to sign-up to receive regular updates on The Mercantile.

THE HOME OF TOMORROW'S UK MARKET LEADERS

Some of the UK's most attractive investment opportunities lie outside the FTSE 100, in the mid and small cap markets. It's here that investors can find the true innovators and disruptors that will drive the UK's future growth. The Mercantile Investment Trust draws on over 130 years' of experience to tap into the long-term growth potential of the most exciting medium and smaller-sized companies, focusing on identifying those with a certain spark that could ignite long-term success.

Discover the home of tomorrow's UK market leaders and share in the return potential of this vibrant area of the UK market.

- **Dynamic market access:** Medium and smaller sized companies provide strong investment opportunities for long-term investors. The Company's benchmark, the FTSE All Share excluding FTSE 100 and investment trusts, has outperformed the FTSE 100 over the last three, five, ten and 20 year periods.
- **A long history of success:** As one of the largest UK equity investment trusts, and with a history stretching back more than 130 years, The Mercantile Investment Trust has a long and successful track record of championing the growth potential of quality UK medium and smaller-sized companies.
- **Actively managed by a top-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 the insights of an experienced management team with the passion and specialist skill required to find the most attractive stocks outside the FTSE 100.
- **A track record of outperformance:** In a segment of the market that demands rigorous scrutiny, The Mercantile Investment Trust's expert team of mid and small-cap managers has delivered benchmark-beating returns over the last three, five, ten and 20 years.
- **An attractive, regular income:** Thanks to its focus on quality companies with strong cash flows, The Mercantile Investment Trust has the ability to generate an attractive, regular income for shareholders, and aims to achieve long term dividend growth at least in line with inflation.

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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NOTE: THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. It contains proposals relating to the Company on which you are being asked to vote. If you are in any doubt about the action you should take, you are recommended to seek your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser. If you have sold or otherwise transferred all your ordinary shares in The Mercantile Investment Trust plc, please forward this document, together with the accompanying documents, immediately to the purchaser or transferee, or to the stockbroker, bank or agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Strategic Report

TOTAL RETURNS (INCLUDING DIVIDENDS REINVESTED)

	2022	2021	3 Year Cumulative	5 Year Cumulative
Return on net assets[1,APM]	+15.3%	-6.3%	+38.9%	+60.6%
Return on net assets[2,APM]	+13.2%	-6.1%	+36.1%	+57.2%
Return to shareholders[3,APM]	+8.3%	-8.4%	+39.0%	+60.4%
Benchmark return[4]	+13.4%	-5.1%	+25.6%	+34.3%
Dividend	6.9p	6.7p		
Dividend increase	+3.0%	+1.5%		

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

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

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

[3] Source: Morningstar.

[4] 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 87 to 89.

SUMMARY OF RESULTS

	2022	2021	% change
Total returns for the year ended 31st January			
Return on net assets with debt at fair value[1,APM]	+15.3%	-6.3%	
Return on net assets with debt at par value[1,APM]	+13.2%	-6.1%	
Return to shareholders[2,APM]	+8.3%	-8.4%	
Benchmark[3]	+13.4%	-5.1%	
Net asset value and discount at 31st January			
Shareholders' funds (£'000)	2,198,211	1,986,999	+10.6
Net asset value per share with debt at fair value[4,APM]	270.3p	240.0p	+12.6
Net asset value per share with debt at par value[APM]	277.7p	251.0p	+10.6
Share price discount to net asset value with debt at fair value[4,APM]	9.7%	3.8%	
Share price discount to net asset value with debt at par value[APM]	12.1%	8.0%	
Market data at 31st January			
The FTSE All-Share Index excluding constituents of the FTSE 100 Index and investment trusts - capital only[5]	4,440.4	3,992.8	+11.2
Share price	244.0p	231.0p	+5.6
Ordinary shares in issue at year end (excluding shares held in Treasury)	791,522,893	791,522,893	
Revenue for the year ended 31st January			
Net revenue available for shareholders (£'000)	51,478	32,465	+58.6
Revenue return per share	6.50p	4.10p	+58.5
Dividend per share	6.9p	6.7p	+3.0
Ongoing Charges[APM]	**0.45%**	**0.48%**	
Gearing[APM]	**12.1%**	**12.2%**	

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

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

[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 and senior unsecured privately placed loan notes have been calculated using discounted cash flow techniques, using the yield from a similarly dated gilt plus a margin based on the five year average for the AA Barclays Sterling Corporate Bond spread.

[5] Source: Datastream.

A glossary of terms and APMs is provided on pages 87 to 89.

Angus Gordon Lennox
Chairman

Performance

For the year to 31st January 2022 the Company's net asset total return, based on debt being valued at fair was +15.3%. With the debt valued at par, the return was +13.2%. Over the year, the discount of the share price to net asset value (with debt being valued at fair) widened, from 3.8% to 9.7%, resulting in a total return to shareholders for the year of +8.3%. This figure includes dividends paid and whilst the last month of the year undid much progress, +8.3% for the year is still a robust performance and a respectable return when compared to other asset classes and markets. The Company's benchmark total return was 13.4%.

The Company's 12 month performance represents a very strong absolute return and a significant recovery from its performance during the previous financial year to 31st January 2021.

The Case for the UK's Mid and Small Cap Investment Universe

The UK market and The Mercantile's strategy remain attractive to long-term investors. Not only has the Company outperformed its UK mid and small cap benchmark over three, five, ten and 20 years, but that benchmark has also significantly outperformed the broader UK market, as detailed below.

The investment case for allocating a proportion of personal portfolios to medium and smaller sized UK companies, tomorrow's market leaders, therefore remains compelling: the Company's universe is home to innovative companies with nimble business models operating in new markets that offer extensive and rapid growth potential. We believe The Mercantile's highly experienced and specialist Investment Managers at JPMorgan are best placed to identify those companies which will perform in the medium to long term. This is also recognised within the industry with The Mercantile winning in the 'UK All Companies' category for the third year in a row at the Investment Week Investment Company of the Year Awards 2021. This prestigious award is highly coveted, recognises excellence and highlights the Company's long-term performance record. The Board believes that the Company's investment universe will continue to provide strong returns for investors and that the Investment Management team has the expertise, resource and processes to continue to identify tomorrow's UK market leaders.

	To 31st January 2022			
	Three Year Total Return %	Five Year Total Return %	Ten Year Total Return %	20 Year Total Return %
Mercantile NAV (cum income debt at fair value)	38.9	60.6	222.8	n/a*
Mercantile NAV (cum income debt at par value)	36.1	57.2	218.0	648.5**
Mercantile Share Price	39.0	60.4	247.0	704.3
FTSE All-Share (excluding constituents of the FTSE 100 and investment trusts)	25.6	34.3	168.1	514.4
FTSE 100	19.8	27.5	91.9	201.0

* NAV debt at fair value figures not available beyond 15 years.

** Capital NAV debt at par value; cum-income figures not available beyond 15 years.

Returns and Dividends

I am delighted to report that the revenue per share increased by 59% from 4.10p to 6.50p, in 2022.

The Company aims to provide shareholders with long term dividend growth at least in line with the rate of inflation. As detailed in the table below, the Company has consistently paid dividends over the last ten years above inflation. The Company has built up revenue reserves and the Board will for the second year in a row be utilising a small proportion of these reserves to increase the dividend this year, although to a lesser extent than last year. The Company has paid three interim dividends of 1.35p per ordinary share in respect of the year to 31st January 2022 and the Board has declared a fourth quarterly interim dividend of 2.85p per share, giving a total dividend of 6.9p per share for the year, an increase of 3.0% over last year.

	CPI (% per annum)	Mercantile Dividend Growth (% per annum)
Three Years	2.6%	3.1%
Five Years	2.5%	8.4%
Ten Years	2.0%	6.7%

Source: Office of National Statistics/J.P. Morgan

After the payment of the fourth interim dividend and the use of reserves, the Company will have revenue reserves of approximately 4.9p per share (2021: 5.3p). Our aim is to return to a position in due course where the dividend is at least covered by in year earnings, where we can once again start to build revenue reserves. As I have said previously, it is a great advantage of the investment trust structure to be able to pay out of revenue reserves and bolster the dividend during challenging times. I think we can all agree that we have been, and are going through, challenging times. Moreover, the fact that this year's dividend is over 90% covered demonstrates a rapid recovery from a year ago and shows the Company is on the right path.

Discount

Over the year ended 31st January 2022 the Company's discount widened and ended the reporting period at 9.7%. Your Directors recognise the importance to shareholders that the Company's share price should not differ excessively from the underlying NAV. The widening of discounts has been a general theme experienced by many investment trusts and indeed the Company's peers. Accordingly, the Board has not utilised the Company's authority to buy back any shares during 2021 but is closely monitoring the discount and markets and will do so when it deems it appropriate, as it has in the past.

The Board therefore recommends 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. The Board is also seeking shareholder approval to issue shares at a premium to NAV and to disapply pre-emption rights on any such issues. Issuing new shares at a premium to NAV enhances returns to existing shareholders, improves liquidity and ultimately reduces the ongoing charges borne by shareholders.

Gearing

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. At the year end it was 12.1%.

The Board had been considering, for some time, with the Investment Managers whether the Company should take advantage of low interest rates to rebalance the Company's borrowing profile. As a reminder, at the start of the year, the Company had in place a £3.85 million perpetual debenture and a £175 million debenture repayable on 25th February 2030, together with a short term £100 million revolving credit facility. Whilst the expiry of the existing long term debt is still some way off, the Directors were keen to take advantage of attractive rates to introduce long term debt with different durations. In addition, with the increase in the Company's asset base over recent years, the Board wanted to ensure that the Investment Managers have sufficient flexibility to be able to increase the gearing when they see appropriate investment opportunities.

We were therefore very pleased to secure long term debt financing at attractive rates in September 2021 through the issue of £150 million of Senior Unsecured Notes (the 'Notes').

The Notes are:

- £55 million maturing in 2041 with a fixed coupon of 1.98%;
- £50 million maturing in 2051 with a fixed coupon of 2.05%; and
- £45 million maturing in 2061 with a fixed coupon of 1.77%.

The net proceeds from the placing of the Notes were used to repay the £80 million that had been drawn down under the revolving credit facility; the balance of the proceeds are available to be invested as and when attractive opportunities arise. The revolving credit facility remains available to provide further investment flexibility if required.

This new debt provides a good spread of maturities, enables diversification on the liabilities side of the balance sheet and the blended rate of 1.94% reduces the cost of debt. With inflation ratcheting upwards and long-term interest rates significantly higher than they were last September, the Board is pleased to have refinanced its debt structure when it did. The Company's rebalanced borrowing profile should pay off to shareholders, providing ample opportunity for enhanced returns in the future.

Marketing, Promotion and Shareholder Interaction

The Company continues to be promoted via selected media and promotional campaigns, including targeted advertising and ongoing interaction with national and investment industry journalists. We aim for the most cost effective ways of doing this. The objective is to benefit all shareholders by enhancing The Mercantile's profile and creating sustained demand for its shares, particularly from retail investors, where demand has grown steadily in recent years.

We have made considerable progress with investment platforms, where most retail investors now buy their shares. We have identified appropriate promotional opportunities for the Company (including advertising, events and research coverage) in order to maintain a strong platform presence. The Board has been pleased to note that retail ownership of The Mercantile's shares across the leading platform providers has increased over the review period.

The Board and the Investment Managers are also keen to maintain dialogue with the Company's existing shareholders. Investors holding their shares though platforms in October 2021 will have received a letter inviting them to sign-up to receive email updates from the Company. These updates deliver regular news and views, as well as the latest performance. I am delighted to report that a significant number of shareholders have signed up to keep themselves informed on The Mercantile's progress. If you have not already signed up to receive these communications and you wish to do so you can opt in via www.Mercantile-Registration.co.uk or by scanning the QR code on this page.

The Investment Managers continue their established programme of marketing and investor relations to wealth managers, institutions and private client stockbrokers through the use of video conferencing, podcasts and in person meetings.

We hope the initiatives detailed above will ensure that many more of the Company's investors will be able to interact with the Board and Investment Managers than has been the case in the past.

Environmental, Social and Governance ('ESG') Considerations

In the search for tomorrow's UK market leaders our Investment Managers look beyond the pure financial attributes of a company or its shares. In looking for sustainable business models and long lasting competitive advantages they scrutinise the environmental, social and governance ('ESG') aspects of the companies in which we invest. ESG considerations are fully integrated into the Investment Managers' investment process and the Board shares the Investment Managers' view of the importance of ESG factors when making investments for the long term and of the necessity of continued engagement with investee companies throughout the duration of the investment. We are delighted that one of our named managers, Anthony Lynch, has taken on additional ESG responsibilities within J.P. Morgan Asset Management.

Further information on the Investment Manager's ESG process and engagement is set out in the ESG Report on pages 14 to 16.

Scan this QR code on your smartphone camera to sign-up to receive regular updates on The Mercantile.

Board Succession

The Board plans for succession to ensure it retains an appropriate balance of skills and knowledge. To this end the Board announced the appointments of Rachel Beagles and Damien Maltarp to the Board with effect from 1st June 2021. Rachel and Damien are already proving to be strong additions to the Board. For full details of their experience and current roles please refer to pages 32, 33 and 37.

Having served as a Director since 2012, Jeremy Tigue will retire from the Board at the Annual General Meeting. On behalf of the Board, I would like to thank Jeremy for the very substantial contribution he has made to the Company and the wise counsel that he provided the Board during his tenure. We wish him well for the future. Graham Kitchen will succeed Jeremy in the roles of the Company's Senior Independent Director and Remuneration Committee Chairman.

Following Jeremy's retirement the Board will once again comprise six Directors and comply with the recommendations of the Hampton-Alexander Review concerning its female representation, having not been compliant for a short period from May 2021, following the retirement of a long standing female colleague. In the absence of any unforeseen circumstances it is the intention that the Company will remain compliant going forward.

Harry Morley joined the Board in 2014 and to ensure orderly succession he will be retiring from the Board at the Annual General Meeting in 2023. The Board will be appointing a further Director towards the end of 2022 in anticipation of his retirement.

The Manager

The Board, through its Management Engagement Committee, monitors the performance of the Manager, JPMorgan Funds Limited ('JPMF'), on an ongoing basis. Their long term record remains strong. Based upon this performance record and taking all factors into account, including other services provided to the Company and its shareholders, the Board is satisfied that JPMF should continue as the Company's Manager and that its ongoing appointment remains in the best interests of shareholders.

Annual General Meeting

The Company's one hundred and thirty sixth Annual General Meeting will be held at Two Temple Place London WC2R 3BD on Tuesday, 17th May 2022 at 12.00 noon. In addition to the formal part of the meeting, there will be a presentation from the Investment Managers who will answer questions on the portfolio and performance. There will also be an opportunity to meet the Board, the Investment Managers and representatives of J.P. Morgan. We are delighted that we will again be able to meet with shareholders in person.

Outlook

When writing an outlook statement amid profoundly unsettled markets, there are times when you have to put pen to paper at the latest possible time ahead of release of the results, as the text can become stale very quickly. This year is perhaps the ultimate exemplar of such a time with daily newsflow from both the UK and globally creating significant volatility in markets. Into our new financial year, the NAV and share price have not escaped the considerable market volatility, and falls, brought about by global events and the re-emergence of inflation. I am afraid I have no crystal ball as to what will happen in the immediate future but I do know that we are at an advantage over others and there are substantial benefits of investing in The Mercantile, which remain valid today and in the future.

Identifying tomorrow's UK market leaders remains at our core. The companies we invest in have consistently and significantly outperformed the wider market over the medium and longer term, and the absolute returns have been excellent. The good news now is that the breadth and number of opportunities within the Company's investment universe remains compelling, many more so as a result of share price falls this year.

The diversification of risk is a notable feature of the Company's investment universe and is particularly relevant during a period of market weakness. Our excellent Investment Manager' active fund management style, and our ability to gear, enables us to adjust positions to take advantage of opportunities as they arise.

As an investment trust we can use revenue reserves to enhance the dividend you receive during difficult times and meet our objective of long-term dividend growth.

The key is to identify companies which have sound financial credentials and good long term growth prospects, together with an attractive dividend yield. I believe that your Company holds just such investments and this will in the future result in excellent returns for shareholders.

Regular investing in The Mercantile involves buying into the market at different times and as a result this can average out the cost over the longer term. Pound-cost averaging can smooth returns in volatile investment markets. The clear lesson from history is that investors who hold equities must keep faith with them when times look bleak and I remain convinced that equities, and your Company in particular will once again be great generators of wealth for long-term investors.

Angus Gordon Lennox
Chairman

5th April 2022

Guy Anderson
Investment Manager

Guy Anderson, *Managing Director, is a portfolio manager within the J.P. Morgan Asset Management International Equity Group, specialising in UK equities and is Head of UK Mid and Small Caps. Prior to joining the firm in 2012, Guy was an investment analyst at Breeden European Capital and at Pendragon Capital, having started his career at Oliver Wyman. He obtained an M.Eng (Hons) in Engineering from Oxford University. Guy is a CFA charterholder.*

Anthony Lynch
Investment Manager

Anthony Lynch, *Executive Director, is a portfolio manager within the J.P. Morgan Asset Management International Equity Group, specialising in UK equities, with a particular focus on mid and small caps. Anthony joined in 2009 as an analyst having obtained a B.A. (Hons) in Economics from Durham University. Anthony is a CFA charterholder.*

Setting the scene: another volatile year for financial markets

The year to 31st January 2022 began with financial markets continuing their recovery and mostly reaching and then surpassing previous all-time highs. The rapid economic recovery that drove this was however curtailed by constraints on the supply-side, which combined with increasing commodity prices, led to a surge in inflation. While the debate initially focused on the duration of this 'inflation squeeze', it has ultimately led central banks to begin the process of monetary tightening faster than many were expecting. Reflecting these and other geopolitical concerns, most markets had a more challenging end to the year, although have remained in positive territory. This included our target market of UK medium and smaller companies (the 'benchmark'), which generated a total return of 13.4%.

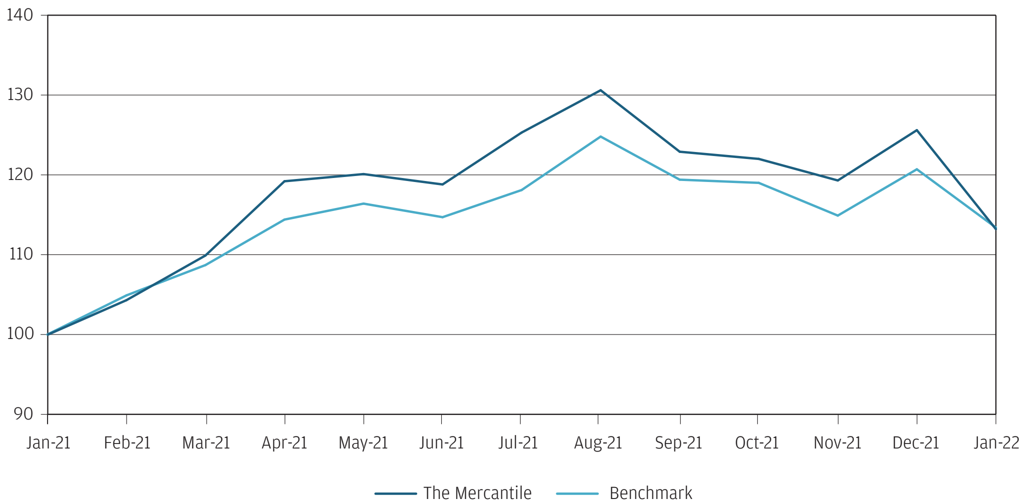
The year was characterised by elevated levels of corporate activity in our market. Initial public offerings ('IPOs') have expanded the opportunity set and over the year the Company engaged with over 30 new listings and made investments in nine. In addition, high levels of dry powder at private equity companies and corporates contributed to a significant pick-up in merger & acquisition ('M&A') activity, perhaps also reflective of the perceived attractiveness of valuations in the market.

Mercantile performance

For the year to 31st January 2022, the Company delivered a total return on net assets, with debt valued at par, of +13.2% compared to +13.4% for the benchmark. This was frustrating: while our continued focus on investing in high quality, structurally robust and appropriately valued businesses led to fairly steady outperformance of the benchmark through the first 11 months of the financial year, the portfolio suffered through January as the market began to digest the prospect of a switch from an accommodative monetary policy environment to tightening. This has come with the realisation that inflationary pressures are proving more persistent than initially anticipated, which in combination with a relatively strong economic recovery and a tight labour market, has rendered the existing policy stance inappropriate.

Furthermore, supply chain bottlenecks and input cost inflation remain an ongoing headwind and the prolonged nature of these have constrained the recovery in corporate earnings. There were also increasing concerns that high inflation, particularly in non-discretionary categories such as energy, would place pressure on disposable income and thus consumer confidence and spending.

Mercantile performance vs. benchmark, year-end January 2022



Spotlight on stocks

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

Through the course of any individual year there are adjustments to the portfolio to reflect the changing environment, as investment hypotheses run their course or are proved invalid, or as share price moves open up better opportunities elsewhere. Over the past two pandemic-affected years of 2020 and 2021, there have been several key turning points for markets as well as numerous changes to the operating environments of our portfolio companies. Despite this, turnover has remained somewhat lower than long-term averages, reflecting what we believe to be a resiliently positioned portfolio and a clear focus on the long-term prospects of our holdings.

PERFORMANCE ATTRIBUTION

FOR THE YEAR ENDED 31ST JANUARY 2022

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

	%	%
Contributions to total returns		
Benchmark return		13.4
Stock/Sector - selection/allocation	-0.9	
Effect of Gearing/Cash	1.8	
Effect of Management fee/Other expenses	-0.5	
Cost of debentures	-0.6	
Return on net assets with debt at par value[APM]		13.2
Par to fair value adjustment		2.1
Return on net assets with debt at fair value[APM]		15.3
Effect of change in discount		-7.0
Return to shareholders[APM]		8.3

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

Source: JPMAM and Morningstar.

A glossary of terms and APMs is provided on pages 87 to 89.

Winners

Portfolio highlights in the year include our investment in **Watches of Switzerland**, the luxury watch retailer. The company demonstrated impressive growth throughout the pandemic despite the collapse in tourism and laid out ambitious plans for future expansion, including substantial growth in its core markets of the UK and the US as well as entry into the Continental European market. Our investment in **Future**, the specialist content publisher, continued to deliver strong returns as growth accelerated further through the year, in large part driven by the robust demand for digital advertising. **Morgan Sindall**, the specialist construction group and another longstanding holding, delivered strong returns as demand for its services increased in each of its end markets, leading to profit growth significantly ahead of market expectations, which has given the management team the confidence to increase long-term profit targets in each of its major divisions.

Losers

On the negative side, our investment in **Boohoo**, the fast-fashion retailer, was very disappointing. The shares came under significant pressure as international sales declined at the same time as costs increased due to heightened freight rates. In contrast to Boohoo, which we sold, we have maintained our investment in **Games Workshop**. This company designs, manufactures and sells war-gaming figurines and also suffered from supply chain challenges including shipping delays that reduced sales and an increase in freight rates that pressured operating margins. However in this instance, while sales this year did not benefit from a major product launch, such as the latest Warhammer 40k release in 2020, demand has remained high and with a much higher starting operating margin we are more confident that the current challenges will prove transitory.

Positioning the portfolio for future success

The management teams of portfolio companies have continued to navigate a volatile operating environment: the pandemic-related restrictions have oscillated rapidly through the year, creating a multitude of challenges as this has often led to demand for goods and services falling and then surging. Global supply chains have unsurprisingly failed to keep pace with these gyrations, leading to various constraints and ultimately to the aforementioned inflation surge. In such an environment, we believe it is even more important to focus on well-positioned and well-managed businesses that have the resilience to cope and even thrive in such a situation, and which may ultimately benefit over the long-term.

At a sector level, Software & Computer Services remains our largest overweight position, with example holdings still including **Softcat**, one of the UK's leading value-added technology resellers, and **Computacenter**, a leading technology services provider to large corporate and public sector organisations. Both have delivered record profits through the last year. A new addition to the portfolio in this sector was **Big Technologies**, a founder-led business that listed on the AIM this year. Big Technologies provides electronic monitoring systems to a range of mostly criminal justice systems around the world and is delivering extremely high growth as a result of their compelling proposition, which includes not just material financial savings for customers but also substantial social benefits, including lower recidivism.

Given the inflationary environment it is perhaps less intuitive, but our second largest overweight sector remains the Retailers. As with last year, example holdings include **Dunelm**, the UK's leading homewares retailer and **B&M European Value Retail**, the limited-assortment discount retailer. In both of these cases it is worthy of note that growth continues to be driven by an improving customer proposition that is driving ongoing market share gains, rather than being solely dependent upon the strength of the British consumer.

The portfolio also remains exposed to a number of industrial end-markets. A major new investment in this sector last year was in **IMI**, the engineering company that designs, manufactures and services a range of complex and often customised products that control the movement of fluids and gases in a host of different industries. The business leadership has re-emphasised its commercial focus, aligning new product development more closely with customer needs and thus driving both higher growth but also a shift to more value – rather than cost-driven sales.

Our largest underweight is in the Real Estate sector, where there are currently fewer attractive investment opportunities and a number of developing risks that could result in valuation declines.

Outlook for the coming year: geopolitical challenges

The first half of the year was in all likelihood the period of most rapid and substantial economic growth that will be experienced in this cycle. This led to a number of challenges on the supply-side as well as the aforementioned surge in inflation. This was initially determined by the world's central bankers to be transitory, but following multiple surprises to the upside the narrative rapidly changed at the end of 2021 and central banks, including the Bank of England, commenced the process of monetary tightening in order to attempt to dampen this phenomenon. Given continued vicious input cost inflation – in particular from commodity materials following Russia's invasion of Ukraine – it seems likely that earlier estimates of when this inflation would dissipate will prove to have been optimistic with central banks behind the curve.

While the Russian invasion of Ukraine is deeply troubling and immensely distressing at a human level, the situation is only just developing and it would be foolhardy to predict how this will play out. It would be reasonable to assume that at a minimum it will drive further inflation and have at the very least a dampening effect on global economic growth.

On the domestic front, which represents over half of the portfolio's end markets, we are still more balanced than perhaps the headlines would suggest. Inflation is running high, leading to falling real wages and likely placing downward pressure on discretionary consumption. However the consumer is at least in a strong starting position – with up to £250 billion in 'excess savings' accumulated through the pandemic and both the labour and housing markets are strong, while businesses remain reasonably optimistic. These positive factors could at least dampen some of the inflationary challenges, so we would not wish to write off the consumer prematurely and will remain focused on the data.

For more international exposure, an area of great importance to the portfolio is industrial activity and again demand remains healthy, with growth being curtailed by supply chain challenges that may dissipate in time. An increase in raw material and energy prices will pose many challenges, but focusing on resilient and profitable businesses should put the portfolio in a position of relative strength.

Despite a number of uncertainties that will forever linger and which could always impact the short-term performance of the portfolio, we maintain a positive outlook as expressed by the portfolio's current 10.6% gearing level. Portfolio companies are for the most part either continuing to perform strongly or still recovering from the pandemic, and following the recent sharp sell-off valuations are increasingly compelling. Furthermore, we continue to find a healthy number of attractive investment opportunities to consider for inclusion in the portfolio.

We focus on investing in high quality, structurally robust businesses that operate in growing end markets with the ability to invest capital at high returns and which can also adapt to the changing environments in which they operate. While the pandemic, the subsequent economic rebound and now the war in Ukraine may result in changes across multiple areas of society, we believe that many of our holdings will still thrive and have the potential to become tomorrow's market leaders.

Guy Anderson
Anthony Lynch
Investment Managers 5th April 2022

Manager's Approach to ESG and The Mercantile Investment Trust plc

Introduction

ESG is an acronym which stands for Environmental, Social and Governance. It describes the broad field of sustainability in the corporate sector and is widely used when assessing the environmental impact of businesses, when considering how companies acquit themselves in respect of their broad social responsibilities and when reviewing the practices and standards used in governing corporate organisations.

Awareness of these issues has increased significantly in recent years among investment practitioners and their clients, and indeed in society at large, and our practices at J.P.Morgan Asset Management have been at the forefront of these developments. In these pages we explain how this approach has developed and how it is applied for the benefit of shareholders of The Mercantile Investment Trust plc.

The basics: what is ESG?

E is for Environmental. This component considers a company's impact on the world we live in, relating to the quality and functioning of the natural environment and natural systems.

S is for Social. Social factors address the way that companies act within society; this includes the way that employee interests are managed, and the broader impact a company has on society.

G is for Governance. This component relates to how companies are managed. It considers the measures that protect shareholder interests as well as the way any company meets regulatory and other external obligations.

The table below provides illustrative examples of ESG issues in each of the E, S and G categories:

Environmental	Social	Governance
Carbon pollution and emissions	Human rights	Board structure: effectiveness, diversity, independence
Environmental regulations (and adherence)	Diversity	Executive pay and criteria
Climate change policies	Health and safety	Shareholder rights
Sustainable sourcing of materials	Product safety	Financial reporting and accounting standards
Recycling	Employee management	How a business is run
Renewable energy use	Employee well-being	
Water and waste management	Commitment to communities	

Why do we integrate ESG into our investment processes?

First, consideration of sustainability is intrinsic to a long term approach to investment. When we invest our clients' assets for them, we have to make judgements about future risks and rewards of any investment. A business that produces huge amounts of carbon emissions or plastic waste, for example, could well find itself the subject of scrutiny from regulators and consumers and failure to anticipate this and to change will likely bring a loss of value for shareholders in the long run. The same is true of businesses that neglect their social responsibilities, or fail in matters of governance. By incorporating ESG into our investment process we explicitly consider these issues, resulting in a more holistic assessment of risk, as well as highlighting potential opportunities.

Second, our clients require that we consider sustainability factors. Both clients and regulators are paying far more attention to this field, and we as investors must meet their requirement for incorporating ESG in our investment processes, and be able to show how we do this.

Finally, the asset management industry itself has responsibilities and obligations, not only to our clients, but as a social actor in a broader sense. We have a duty not just to produce good investment outcomes for our clients, but to be a responsible corporate citizen. This cannot be done credibly if the core practice of our industry, investment management, is not included in the effort. We must consider the broader consequences of the investment choices that we make for our clients. Given the evolution of public policy, client scrutiny, public attitudes, and trends in the corporate world, it is clear that consideration of ESG has become a key component of the way the industry approaches its fiduciary responsibilities.

What is The Mercantile Investment Trust plc's approach?

We think of ESG factors as additional inputs that help us make better investment decisions and believe that ESG integration can help deliver enhanced risk-adjusted returns over the long run.

As the Investment Managers of your Company we and our analysts come to informed decisions on ESG through regular engagement with portfolio company management teams, attending around 400 meetings with management per year. These meetings are an important component of understanding the materiality of potential ESG issues and the mitigations that the company are putting in place.

We also work with a central Stewardship team which sets priorities for corporate engagement both in terms of issues and in terms of significant individual investments held in portfolios.

Engagement and Voting

Active engagement with companies has long been an integral part of our approach to our investment and ESG. We use it not only to understand how companies consider issues related to ESG, but also to try to influence their behaviour and encourage best practices, for the purpose of enhancing returns for our clients. We engage with the companies owned in your Company's portfolio on a regular basis, often several times in the course of a year. Our long history of active management and our teams of experienced investors enable us to have ongoing dialogues directly with companies' top management, maximising our ability to encourage companies to implement best practices on ESG matters. Alongside this direct engagement, we endeavour to vote at all of the meetings called by companies in which your Company invests.

Some examples of our recent activity with regard to stewardship and engagement with stocks held by your Company at the end of the year is provided below:

We met with the Vice President of Social Responsibility and Sustainability at **Electrocomponents**, the distributor of industrial & electronic products. We discussed the company's progress on decarbonisation to date, its target of achieving net zero in operational emissions by 2030 and longer term ambitions around the decarbonisation of the company's supply chain by 2050, as well as its commitment to science based target verification by the end of the year. We also discussed the company's supply chain risks and approach to auditing, with a particular focus on its own manufacturing supply chain. We believe that the company is making good progress.

We also engaged with **SThree**, the recruitment firm, following the departure of its CEO. We initially met with the Chairman, discussing the reasons for his departure, succession planning and the company's commitment to medium term financial targets. Following this meeting we also took the opportunity to engage with the Interim CEO to better understand the culture of the business, given elevated staff turnover versus industry peers. We discussed employee satisfaction and potential enhancements to the overall employee value proposition. We will continue to monitor staff turnover as a proxy for staff satisfaction.

Proxy Voting

J.P. Morgan Asset Management exercises the voting rights of shares held in client portfolios, where entrusted with this responsibility. We seek to vote in a prudent and diligent manner, based on our reasonable judgement of what will best serve the financial interests of our clients. We aim to vote at all meetings called by the companies in which we are invested, unless there are any market restrictions or conflicts of interests.

We believe that corporate governance is integral to our investment process. 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. For full details, please see the J.P. Morgan Asset Management Corporate Governance Policy & Voting Guidelines, copies of which are available on request, or to download from our website.

A summary of key voting statistics and activity undertaken in respect of stocks in the Company's portfolio for the 12 months to 31st January 2022 is detailed below. On behalf of the Company, J.P.Morgan voted at 98.8%* of the annual general meetings and extraordinary meetings held during the year by its portfolio companies.

The Mercantile Investment Trust plc: Voting at shareholder meetings over the year to 31st January 2022

	For	Against	Abstain	Against/Abstain Total	Total Items	% Against/ Abstain
Routine/Business	345	0	5	5	350	1.4
Director Related	568	7	7	14	582	2.4
Capitalisation	279	1	4	5	284	1.8
Reorganisation and Mergers	7	0	0	0	7	0.0
Non-salary Compensation	122	6	3	9	131	6.9
Anti-takeover Related	61	0	1	1	62	1.6
Total	**1382**	**14**	**20**	**34**	**1416**	**2.4**

* J.P. Morgan was unable to vote at one meeting due to share blocking restrictions.

Net Zero Asset Managers Initiative

JPMAM has recently become a signatory to the Net Zero Asset Managers Initiative. This is an international group of asset managers committed to supporting investing aligned with the goal of net zero greenhouse gas emissions by 2050 or sooner. In addition to the transition to net zero, they will continue to accelerate corporate engagement and stewardship, consistent with net zero ambitions. The initiative includes 220 members with $57.4 trillion in assets under management (as at 17th November 2021). In addition, JPMorgan Chase is a member of the Net Zero Banking Alliance – a group of financial institutions representing over a third of global banking assets committed to aligning their lending and investment portfolios with the goal of net-zero emissions by 2050.

The Future

In investing your Company's assets for many years, we have always looked for companies with the ability to create value in a sustainable way. That scrutiny remains firmly embedded in our process and we know that our clients, including the Directors of your Company, view attention to ESG factors as critical in their assessment of us as Investment Managers. We expect ESG to remain a dominant theme within the financial services industry and the course being taken by regulators suggests that its importance will only increase in years to come. Our research process and the investment judgements we make will continue to reflect that and to evolve as necessary.

Guy Anderson
Anthony Lynch
Investment Managers

5th April 2022

TEN LARGEST INVESTMENTS AT 31ST JANUARY

Company Name	Company Description	Holding £'000s in 2022	% of portfolio in 2022[1]	% of portfolio in 2021[1]
Watches of Switzerland Group	Watches of Switzerland is a British retailer of luxury watches with 16 stores in the UK. It floated on the stock market in May 2019.	107,780	4.4	2.1
Future[2]	Future is a special interest media company with locations in the United Kingdom, the United States and Australia. It produces magazines, websites and events that cover the computing, games, music, automotive, sports, crafts and leisure sectors.	86,091	3.5	1.4
Intermediate Capital Group	Intermediate Capital is a private equity asset management firm operating globally in the debt, credit, bridge financing and equity markets.	78,494	3.2	3.2
IMI[3]	IMI is a specialist engineering company that designs, manufactures and services highly engineered products that control the precise movement of fluids.	75,762	3.1	–
Softcat	Softcat is a British technology company providing communications, software licencing, procurement and management services.	75,532	3.1	3.1
Bellway	Bellway is a UK based property developer focusing on smaller and first-time buyer homes, including two and three bedroom flats, semi-detached and terraced houses.	70,616	2.9	3.1
Dunelm Group[2]	Dunelm sells a broad selection of household goods and furnishing from its retail stores across the United Kingdom. It also markets its items through its online store.	65,835	2.7	2.0
Computacenter	Computacenter provides distributed IT services to corporate and public sector organisations. It operates in the UK and across Europe.	62,729	2.5	2.8
Electrocomponents[2]	Electrocomponents distributes electronics, mechanical, automation and maintenance products through catalogues, the internet and at trade counters.	61,105	2.5	2.5
Inchcape[2]	Inchcape is a global automotive distributor and retailer. It operates in the UK and in markets across Europe, Asia and Australasia where it acts as a vehicle and parts distributor for a focused portfolio of premium and luxury brand partners.	58,580	2.4	1.7
		742,524	**30.1**[4]	

All of the above investments are listed in the UK.

1 Based on total portfolio of £2,465m (2021: £2,229m).

2 Not included in the ten largest investments at 31st January 2021.

3 Not held in the portfolio at 31st January 2021.

4 The total of the top ten holdings as a percentage of the portfolio is 30.1%, whereas the sum of the individual percentages shown in the above table is 30.3% due to rounding.

As at 31st January 2021, the value of the ten largest investments amounted to £594.6m representing 26.7% of the total portfolio.

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

	2022	2021
UK FTSE 250	76.7	78.0
UK FTSE 100	14.5	15.0
UK AIM	5.4	4.3
UK FTSE Small & Fledgling	3.2	2.5
UK Unquoted	0.2	0.2
Total	**100.0**	**100.0**

[1] Based on total portfolio of £2,465m (2021: £2,229m).

Source: J.P. Morgan.

SECTOR ANALYSIS AT 31ST JANUARY (%)*

	Portfolio 2022[1]	Benchmark 2022	Portfolio 2021[1]	Benchmark 2021
Consumer Discretionary	33.3	22.8	33.5	24.2
Industrials	27.5	21.8	23.7	26.0
Financials	16.7	16.5	14.3	14.8
Technology	11.2	4.6	10.9	3.5
Consumer Staples	6.1	4.5	6.6	4.3
Basic Materials	3.5	5.4	6.8	4.3
Telecommunications	1.0	1.2	0.8	1.6
Health Care	0.5	2.9	0.6	5.3
Energy	0.2	2.4	–	1.8
Real Estate	–	14.5	2.8	12.4
Utilities	–	3.4	–	1.8
Total	**100.0**	**100.0**	**100.0**	**100.0**

* Effective 19th March 2021, all FTSE Russell indexes have adopted the newly-enhanced ICB structure. 31st January 2021 figures have been restated using the newly-enhanced ICB structure.

[1] Based on total portfolio of £2,465m (2021: £2,229m).

Source: J.P. Morgan.

LIST OF INVESTMENTS AT 31ST JANUARY 2022

Company	£'000
Consumer Discretionary	
Watches of Switzerland	107,780
Future	86,091
Bellway	70,616
Dunelm	65,835
Pets at Home	52,923
Games Workshop	48,800
National Express	48,250
Howden Joinery	47,908
WH Smith	46,130
Redrow	35,329
JET2[1]	33,992
B&M European Value Retail	31,141
Reach	20,840
Hollywood Bowl	18,278
Team17[1]	17,743
DFS Furniture	16,520
4imprint	15,493
Next Fifteen Communications[1]	14,640
Berkeley	12,784
888	11,691
Moonpig	10,906
Watkin Jones[1]	7,301
Wickes	727
	821,718
Industrials	
IMI	75,762
Electrocomponents	61,105
Inchcape	58,580
Weir	55,312
Hays	46,048
Marshalls	45,500
Grafton	41,400
Diploma	40,592
Spirax-Sarco Engineering	34,463
Morgan Sindall	32,360
Vesuvius	28,353
Rotork	27,125
Morgan Advanced Materials	25,600
QinetiQ	24,236
SThree	18,095
Oxford Instruments	16,238
Royal Mail	14,313
Vp	12,908
Wincanton	11,490
XP Power	4,860
Mitie	2,961
	677,301
Financials	
Intermediate Capital	78,494
OSB	55,947
Man	48,100

Company	£'000
Financials continued	
Beazley	47,771
3i	41,100
Close Brothers	38,430
Liontrust Asset Management	22,708
Petershill Partners	22,622
Brewin Dolphin	21,255
Impax Asset Management[1]	13,056
Bridgepoint	12,053
TBC Bank	10,138
	411,674
Technology	
Softcat	75,532
Computacenter	62,729
Avast	36,167
Auto Trader	25,695
AVEVA	23,498
Bytes Technology	23,040
Big Technologies[1]	17,074
Alphawave IP	6,060
Tinybuild[1]	5,550
	275,345
Consumer Staples	
Cranswick	49,464
Greggs	43,989
Tate & Lyle	31,435
Premier Foods	26,505
	151,393
Basic Materials	
Synthomer	33,976
Hill & Smith	23,157
Ferrexpo	16,563
Central Asia Metals[1]	6,645
Tennants Consolidated[2,3]	5,140
	85,481
Telecommunications	
Telecom Plus	24,385
	24,385
Health Care	
Ergomed[1]	12,960
	12,960
Energy	
Serica Energy[1]	4,865
	4,865
Total Investments[4]	**2,465,122**

1 AIM listed investment.

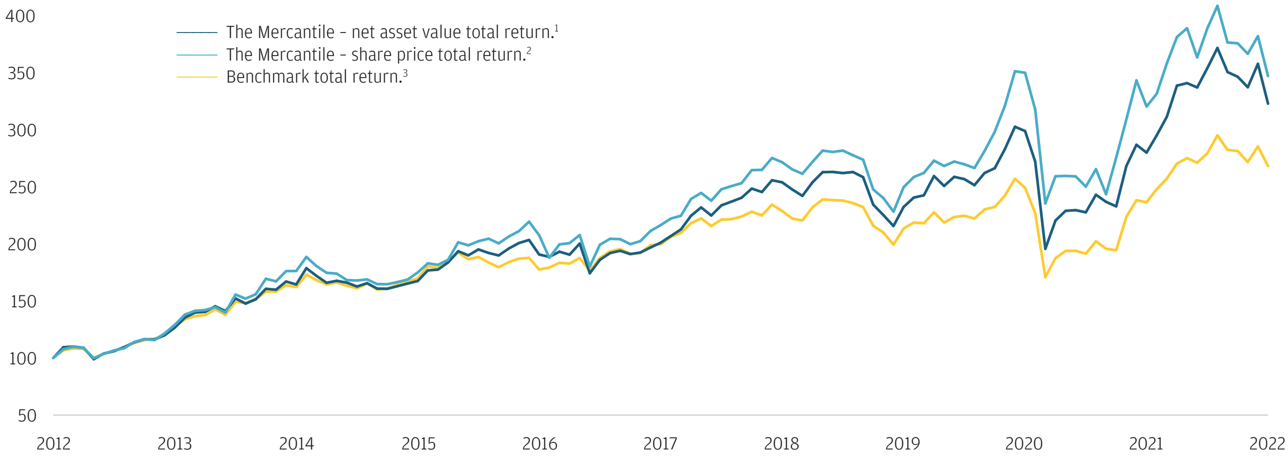
2 Unquoted investment.

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 2012



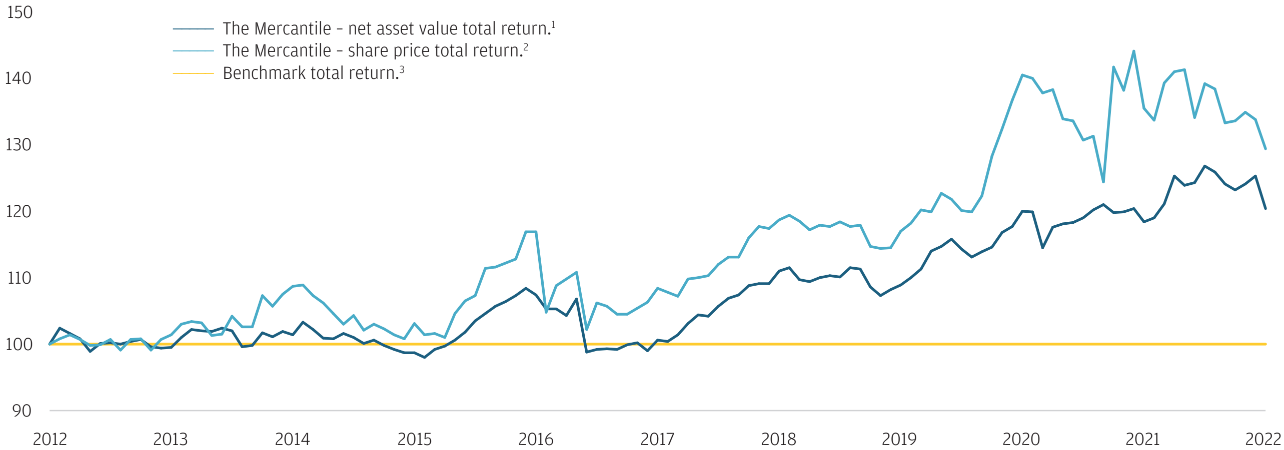
[1]Source: J.P .Morgan/Morningstar, using cum income net asset value per share, with debt at fair value.

[2]Source: Morningstar.

[3]Source: FTSE Russell.

PERFORMANCE RELATIVE TO BENCHMARK

Figures have been rebased to 100 at 31st January 2012



[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.

TEN YEAR FINANCIAL RECORD

At 31st January	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total assets less current liabilities (£'m)	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	2,245.0	2,198.2
Net asset value per share (p)[1,2,APM]	112.5	138.3	171.8	175.3	193.2	200.5	246.6	221.3	275.8	251.0	277.7
Share price (p)[2]	94.0	117.1	155.0	149.8	172.7	175.5	215.0	192.0	261.0	231.0	244.0
Discount (%)[APM]	16.4	15.3	9.8	14.6	10.6	12.5	12.8	13.2	5.4	8.0	12.1
Gearing/(net cash) (%)[APM]	14.3	2.7	8.9	(0.9)	(4.2)	2.5	3.5	0.1	4.9	12.2	12.1
Year to 31st January											
Gross revenue (£'000)	37,384	37,447	53,104	48,136	56,848	56,369	58,292	66,358	67,719	40,056	61,019
Revenue available for shareholders (£'000)	31,555	31,643	46,646	41,352	49,580	49,296	51,292	59,750	60,510	32,465	51,478
Revenue return per share (p)[2,APM]	3.2	3.2	4.8	4.2	5.2	5.3	6.1	7.5	7.6	4.1	6.5
Dividend per share (net) (p)[2]	3.6	3.6	4.0	4.1	4.3	4.6	5.3	6.3	6.6	6.7	6.9
Ongoing Charges (%)[3,APM]	0.51	0.49	0.48	0.49	0.48	0.48	0.45	0.45	0.44	0.48	0.45
Rebased to 100 at 31st January 2012											
Net asset value per share[1,APM]	100.0	122.9	152.7	155.8	171.7	178.2	219.2	196.7	245.2	223.2	246.8
Total return on net assets[4,APM]	100.0	126.6	164.4	167.4	190.6	201.0	253.9	232.3	298.8	279.9	322.8
Share price[2]	100.0	124.6	164.9	159.4	183.7	186.7	228.7	236.2	277.7	245.7	259.6
Total return to shareholders[5,APM]	100.0	129.0	176.2	174.9	207.5	216.4	271.5	249.6	349.9	320.3	347.0
Benchmark total return[5]	100.0	127.2	162.1	169.6	177.5	199.7	228.8	213.4	249.1	236.4	268.1
Revenue return per share[2]	100.0	100.0	150.0	131.3	162.5	165.6	190.6	234.4	237.5	128.1	203.1
Dividends per share[2]	100.0	100.0	111.1	113.9	119.4	127.8	147.2	175.0	183.3	186.1	191.7
Consumer Price Index[6] (%)	100.0	102.4	104.2	104.8	105.5	107.5	110.3	112.4	114.4	115.4	121.0

[APM] 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 2012 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. 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 2012.

A glossary of terms and APMs is provided on pages 87 to 89.

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. 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.

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 (where EU regulation has been 'onshored' into UK law) 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 9, and in the Investment Managers' Report on pages 10 to 13.

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. Material changes to the Company's investment policies, as defined under Chapter 15 of the Listing Rules, are subject to FCA and shareholder approval.

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 an aim to achieve 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 2022, the Company produced a total return to shareholders of +8.3% (2021: -8.4%) and a total return on net assets with debt at fair value of +15.3% (2021: -6.3%). With debt at par value, the total return on net assets was +13.2% (2021: -6.1%). This compares with the total return on the Company's benchmark of +13.4% (2021: -5.1%). At 31st January 2022, the value of the Company's investment portfolio was £2,465 million (2021: £2,229 million). The Investment Managers' Report on pages 10 to 13 includes a review of developments during the year as well as information on investment activity within the Company's portfolio.

The Company reports its performance (Financial Highlights, Chairman's Statement, Investment Managers' report etc.) to shareholders on a cum income NAV with debt on both a fair and par value basis.

The fair value of the Company's debentures and senior unsecured privately placed loan notes is calculated using a discounted cash flow technique which applies the yield from a similarly dated gilt to the debentures and senior unsecured privately placed loan notes, issued by the Company, and adds to that a margin based on the five year average for the AA Barclays Sterling Corporate Bond spread.

Total Return, Revenue and Dividends

Gross total return for the year amounted to £289.2 million (2021: £123.2 million loss) and net total return after deducting interest, management expenses and taxation amounted to £264.2 million (2021: £143.6 million loss). Distributable income for the year amounted to £51.5 million (2021: £32.5 million). The Directors have declared quarterly interim dividends totalling 6.9p (2021: 6.7p) per ordinary share for the year which totalled £54.6 million (2021: £53.0 million). The year end revenue reserve after allowing for these dividends will amount to £39.0 million (2021: £42.2 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 20.

- 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 2022 are given in the Investment Managers' Report on page 11.

- 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 24.

- 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 2022 was 0.45% (2021: 0.48%). 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

The Company has the authority to repurchase shares in the market for cancellation (or to be held in Treasury) and to issue new shares for cash.

During the year the Company did not repurchase any ordinary shares into Treasury or for cancellation (2021: None). In addition, no new Ordinary shares were issued, nor reissued from Treasury.

Resolutions to renew the authorities to issue new shares or reissue shares from Treasury, and to repurchase shares for cancellation or to be held in Treasury will be put to shareholders at the forthcoming Annual General Meeting. It should be noted that the Board would only reissue shares from Treasury at a premium to NAV. It is not seeking authority to reissue shares from Treasury at a discount to NAV.

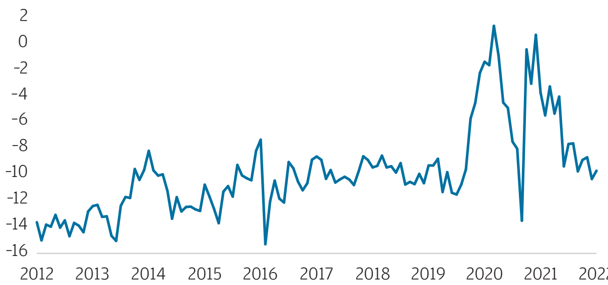
The full text of these resolutions is set out in the Notice of Meeting on pages 84 to 86.

Board Diversity

At 31st January 2022, there were five male Directors and two female Directors on the Board. Following the retirement of Jeremy Tigue at the forthcoming Annual General Meeting, the Board will once again comprise six Directors and comply with the recommendations of the Hampton-Alexander Review concerning its female representation, having not been compliant for a short period from May 2021, following the retirement of a long standing female colleague. In the absence of any unforeseen circumstances it is the intention that the Company will remain compliant going forward. The Board's policy on diversity is set out on page 38.

Discount History

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 increased from 3.8% to 9.7%, calculated on the cum income NAV with debt at fair value.



Source: Morningstar.

Mercantile Investment Trust Plc – share price discount to cum income net asset value, with debt at fair value.

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 are carried out by third parties. There are therefore no disclosures to be made in respect of employees. The Board notes the JPMorgan Asset Management ('JPMAM') 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. Although our priority at all times is the best economic interests of our clients, we recognise that, increasingly, non-financial issues such as social and environmental factors have the potential to impact the share price, as well as the reputation of companies. Specialists within JPMAM's environmental, social and governance ('ESG') team are tasked with assessing how companies deal with and report on social and environmental risks and issues specific to their industry.

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

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. Further details of the Investment Managers' approach to ESG is set out on pages 14 to 16.

Greenhouse Gas Emissions

The Company has no premises and does not consume electricity, gas or diesel fuel. Consequently, the Company does not have a net measurable carbon footprint. JPMAM is a signatory to the Carbon Disclosure Project. JPMorgan Chase is also a signatory to the Equator Principles on managing social and environmental risk in project finance. The Company is categorised as a lower energy user under the HMRC Environmental Reporting Guidelines March 2019 and is therefore not required to make the detailed disclosures of energy and carbon information set out within the guidelines. The Company's energy and carbon information is therefore not disclosed in this report.

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. J.P. Morgan's statement on the MSA can be found on the following link:
https://www.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/documents/JPMC-Group-Statement-on-Modern-Slavery-FY2019_Final-w-signature.pdf

Corporate Criminal 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.

Duty to promote the success of the Company

Section 172 of the Companies Act 2006 requires that a Director must act in the way they consider, 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 is responsible for all decisions relating to the Company's investment objective and policies, gearing, discount management, corporate governance and strategy, and for monitoring the performance of the Company's third party service providers, including the Manager. The Board's philosophy is that the Company should foster a culture where all the Company's stakeholders are treated fairly and with respect. As an externally managed investment company with no employees, the Board considers that the Company's key stakeholders are its shareholders, its Manager, its investee companies, and its other professional third party service providers (corporate broker, registrar, auditor, custodian and depositary) and wider society. The Board believes the best interests of the Company are aligned with those of these key stakeholders as all parties wish to see and ultimately benefit from the Company achieving its investment objectives whilst carrying on business in compliance with the highest possible regulatory, legal, ethical and commercial standards.

The table below sets out details of the Company's engagement with these stakeholders:

Stakeholder Engagement
Shareholders
Continued shareholder engagement is critical to the continued existence of the Company and the successful delivery of its long term strategy. The Board is focused on fostering and maintaining good working relationships with shareholders and understanding the views of shareholders in order to incorporate them into the Board's strategic thinking and objectives. Full details on how the Board ensures it is fully appraised of shareholder views and how it engages with all shareholder groups can be found on page 39.
Manager
The principal supplier is the Manager, in particular the investment management team who are 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. The Board monitors the Company's investment performance at each Board Meeting in relation to its objective and also to its investment policy and strategy. The Board also maintains strong lines of communication with the Manager via its dedicated company secretary and client director whose interactions extend well beyond the formal business addressed at each Board and Committee meeting. This enables the Board to remain regularly informed of the views of the Manager and the Company's shareholders (and vice versa).
Investee companies
The Board is committed to responsible investing and actively monitors the activities of investee companies through its delegation to the Manager. In order to achieve this, the Manager has discretionary powers to exercise voting rights on behalf of the Company on all resolutions proposed by the investee companies. In respect of the year under review, where able to do so, the Manager voted at all of the annual general meetings and extraordinary meetings held during the year by the Company's portfolio companies (full details can be found in the ESG report on pages 14 to 16). The Board monitors investments made and divested and questions the Manager's rationale for exposures taken and voting decisions made.
Other key service providers
The Board ensures that it promotes the success of the Company by engaging specialist third party suppliers, with appropriate capability, performance records, resources and controls in place to deliver the services that the Company requires for support in meeting relevant obligations and safeguarding the Company's assets. For this reason, the Board consider the Company's Custodian, Depositary, Registrar, Auditor and Broker to be stakeholders. The Board maintains regular contact with its key external service providers, either directly, or via its dedicated company secretary or client director, and receives regular reporting from these providers at Board and Committee meetings. The Management Engagement Committee meets annually to review and appraise its key service providers.

Wider society and the Environment

Whilst strong long term investment performance is essential for an investment trust, 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 ('ESG') considerations are integrated into the Manager's investment process and will continue to evolve. Further details of the Manager's integrated approach to ESG can be found on pages 14 to 16.

The Directors confirm that they have considered their duty under Section 172 when making decisions during the financial year under review. Key decisions and actions during the year which have required the Directors to have regard to applicable section 172 factors include:

Key Decisions and Actions

Dividends Payable to Shareholders

Although the Company's objective is to deliver capital growth, the level of dividends paid is a key consideration for the Board, given the ongoing demand for income. After a fall of 46% in revenue receipts in the year ended 31st January 2021 over the prior year, income receipts for the year ended 31st January 2022 have recovered by nearly 60%, although they still fall short of the revenue received in 2020.

The Company has in the past built up reserves which can be used to supplement or smooth dividends in excess of current revenue in challenging years. The Board took the decision to utilise some of the Company's reserves in 2021 and will be further utilising reserves this year. The Board has declared a fourth quarterly interim dividend of 2.85 pence per share, giving a total dividend of 6.9 pence per share for the year, an increase of 3.0% over last year.

Succession Planning

The Board has progressed its succession plans this year resulting in the decision to appoint Rachel Beagles and Damien Maltarp as independent Non-Executive Directors with effect from 1st June 2021. Having served as a Director since 2011, Helen James retired from the Board at the Company's Annual General Meeting held in May 2021. Jeremy Tigue joined the Board in 2012 and he will be retiring from the Board at this year's forthcoming Annual General Meeting. Further details are included in the Chairman's statement. Shareholder interests are best served by ensuring a smooth and orderly succession for the Board which serves to provide both continuity and refreshment whilst ensuring diversity of both background and experience.

Borrowings and Gearing

With the increase in the Company's asset base over recent years, the Board wanted to ensure that the Investment Managers have sufficient flexibility to be able to increase the gearing when they see appropriate investment opportunities. Accordingly, in September 2021, the Company supplemented its existing fixed and floating debt, through the issue of £150 million of Senior Unsecured Loan Notes (the 'Notes'). The Notes were issued at extremely attractive rates and complement the Company's existing debt, with the overall debt framework now providing a good spread of maturities, which enables diversification on the liabilities side of the balance sheet.

Engagement with Shareholders

In an effort to increase and maintain dialogue with the Company's existing shareholders, the Board approved an initiative to invite investors holding their shares through platforms to sign-up to receive email updates from the Company. These updates, which are delivered on a monthly basis, deliver regular news and views, as well as the latest performance. A significant number of shareholders have signed up to keep themselves informed on The Mercantile's progress.

Miscellaneous

In addition, the Directors 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; spoken to industry experts to get an understanding of the emerging cyber-threats facing the Company; discussed with the Investment Managers their ongoing approach for ensuring ESG considerations are integrated into their investment processes; and continued to encourage the Manager to enhance its sales and marketing efforts.

Furthermore, throughout the course of the COVID-19 pandemic and the recent heightened market volatility arising from the Russian invasion of Ukraine, the Board has been in frequent contact with the Manager, receiving regular updates on the operating effectiveness of the Manager and key service providers and on areas such as portfolio performance and activity, portfolio liquidity, gearing and the discount to NAV at which the Company's shares trade.

Principal and Emerging Risks

The Directors confirm 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. With the assistance of JPMF, the Audit Committee has drawn up a risk matrix, which identifies the key risks to the Company. These are reviewed and noted by the Board. The risks identified and the broad categories in which they fall, and the ways in which they are managed or mitigated are summarised below. The AIC Code of Corporate Governance requires the Audit Committee to put in place procedures to identify emerging risks. The key emerging risks identified are also summarised below.

Principal Risk	Description	Mitigating Activities
Investment Management and Performance		
Underperformance	Poor implementation of the investment strategy, for example as to thematic exposure, sector allocation, stock selection, undue concentration of holdings, factor risk exposure or the degree of total portfolio risk, may lead to underperformance against the Company's benchmark index and peer companies.	The Board manages these risks by diversification of investments and through its investment restrictions and guidelines, which are monitored and reported on by the Manager. The Manager 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, at least one of whom attends all Board meetings, and reviews data which show measures of the Company's risk profile. The Investment Managers employ the Company's gearing tactically, within a strategic range set by the Board. The Board holds a separate meeting devoted to strategy each year.
Market and Economic Risk	Market risk arises from uncertainty about the future prices of the Company's investments, which may reflect underlying uncertainties arising from economic, social, fiscal, climate and regulatory changes. In the past few years Brexit and the ongoing COVID-19 pandemic have been major sources of uncertainty and have contributed to elevated levels of market volatility. Geopolitical risks have risen markedly in recent weeks with the Russian invasion of Ukraine. While direct linkages to the UK from Russia tend to be small, the impact of sanctions will be significant and the rise in commodity prices will further cause disruption to supply chains which will in turn exacerbate inflationary pressure. These risks represent the potential loss the Company might suffer through holding investments in the face of negative market movements.	This risk is managed to some extent by diversification of investments and by regular communication with the Manager on matters of investment strategy and portfolio construction which will directly or indirectly include an assessment of these risks. The Board receives regular reports from the Manager regarding market outlook and gives the Investment Mangers discretion regarding acceptable levels of gearing and/or cash. Currently the Company's gearing policy is to operate within a range of 10% net cash to 20% geared. The Board considers thematic and factor risks, stock selection and levels of gearing on a regular basis and has set investment restrictions and guidelines which are monitored and reported on by the Manager. The Board can, with shareholder approval, look to amend the investment policy and objectives of the Company to gain exposure to or mitigate the risks arising from geopolitical instability.

Principal Risk	Description	Mitigating Activities
Investment Management and Performance		
Corporate Strategy	The corporate strategy, including the investment objectives and policies, may not be of sufficient interest to current or prospective shareholders. Other factors, such as the Company not being classified as an ESG integrated investment vehicle, may also deter shareholder interest.	Our investment strategies aim to position The Mercantile as a clear and core investment choice available for investment through a number of channels. The Manager continues to deliver on the Company's objective and integrates ESG considerations into its investment process. The Board regularly reviews its strategy, and assesses, with its brokers, shareholder views. Marketing and investor relations campaigns continued throughout the year and we have identified appropriate promotional opportunities for the Company (including advertising, events and research coverage) in order to maintain a strong platform presence. A Mercantile 'Preference Centre' has been set-up to provide the Company with the ability to communicate directly and more effectively with investors.
Discount Control Risk	Investment trust shares often trade at discounts to their underlying NAVs, although they can also trade at a premium. Discounts and premiums can fluctuate considerably leading to volatile returns for shareholders.	The Board monitors the level of both the absolute and sector relative premium/discount at which the shares trade. The Board reviews both sales and marketing activity and sector relative performance, which it believes are the primary drivers of the relative discount level. In addition, the Company has authority, when it deems appropriate, to buy back its existing shares to enhance the NAV per share for remaining shareholders and to reduce the absolute level of discount and discount volatility.
Operational Risks		
Mid and Smaller Company Investment	Investing in mid and smaller sized companies is inherently more risky and volatile, partly due to a potential lack of liquidity in the shares, which could lead to the Investment Managers obtaining a lower market price in the extremely rare event of them being forced sellers.	The Board discusses these risk factors at each Board meeting with the Investment Managers. The Board has placed investment restrictions and guidelines to limit these risks. Ultimately the Company is protected to some extent given its closed end structure.
Cyber Crime	The threat of cyber attack, in all guises, is regarded as at least as important as more traditional physical threats to business continuity and security. In addition to threatening the Company's operations, such an attack is likely to raise reputational issues which may damage the Company's share price and reduce demand for its shares.	The Company benefits directly or indirectly from all elements of JPMorgan's cyber security programme. The Board reviews the cyber security precautions taken by its third party suppliers on a regular basis. 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 AAF 01/20 Standard.
Regulatory Risks		
Regulatory Change	The Company's business model could become non-viable as a result of new or revised rules or regulations arising from, for example, policy change or financial monitoring pressure.	The Board receives regular reports from its broker, depositary, registrar and Manager as well as its legal advisers and the industry trade body (the Association of Investment Companies) on changes to regulations which could impact the Company and its industry. The Company monitors events and relies on the Manager and its other key third party providers to manage this risk by preparing for any changes, adverse or otherwise.

Emerging Risk	Description	Mitigating Activities
Environmental Risks		
Climate Change	Climate change is one of the most critical emerging issues confronting asset managers and their investors. Climate change may have a disruptive effect on the business models and profitability of individual investee companies, and indeed, whole sectors.	The Manager's investment process integrates consideration of environmental, social and governance factors into decisions on which stocks to buy, hold or sell. This includes the approach investee companies take to recognising and mitigating climate change risks. In the Company's and Manager's view, companies that successfully manage climate change risks will perform better in the long-term. Consideration of climate change risks and opportunities is an integral part of the investment process.
ESG requirements from investors	The Company's policy on ESG and climate change may be out of line with ESG practices which investors are looking to invest in accordance with.	The Manager has integrated the consideration of ESG factors into the Company's investment process. Further details are set out in the ESG report on pages 14 to 16.
Pandemic Risks		
Pandemics	The emergence of COVID-19 has highlighted the speed and extent of economic damage that can arise from a pandemic. There is the risk that emergent strains may not respond to current vaccines and may be more lethal and that they may spread as global travel increases.	The Board receives reports on the business continuity plans of the Manager and other key service providers. The effectiveness of these measures has been assessed throughout the course of the COVID-19 pandemic and the Board will continue to monitor developments as they occur and seek to learn lessons which may be of use in the event of future pandemics. To date the portfolio's holdings have not exhibited a material long-term impact and have recovered as the containment measures eased, although the pandemic has yet to run its course.
Economic Responses to the COVID-19 Pandemic	The response to the Pandemic by the UK and other governments may potentially fail to mitigate the economic damage created by the Pandemic and public health responses to it, or may create new risks in their own right.	The Board seeks to manage these risks through: a broadly diversified equity portfolio, appropriate asset allocation, reviewing key economic and political events and regulatory changes, active management of risk and the application of relevant policies on gearing and liquidity.
Geopolitical Risks		
Geopolitical Instability	Geopolitical Risk is the potential for political, socio-economic and cultural events and developments to have an adverse effect on the value of the Company's assets. The Company and its assets may be impacted by geopolitical instability, in particular concerns over global economic growth. The crisis in Ukraine has already affected energy and commodity markets and may cause further damage to the global economy. The ongoing conflict between Russia and Ukraine has heightened the possibility that tensions will spill over and intensify geo-political unrest between other countries sharing a common border.	There is little direct control of risk possible. The Company addresses these global developments in regular questioning of the Manager and will continue to monitor these issues, should they develop. The Board has the ability, with shareholder approval, to amend the policy and objectives of the Company to mitigate the risks arising from geopolitical concerns.

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, including the COVID-19 crisis and the recent heightened market volatility. The Board is cognisant of the recent market uncertainty, which has now been exacerbated by Russia's invasion of Ukraine, together with its impact on the UK and global economy and the prospects for many of the Company's portfolio holdings. Notwithstanding this crisis, given the factors stated below, the Board expects the Company to continue for the foreseeable future and has conducted its assessment for a period of five years.

Taking account of the Company's current position, the principal and emerging 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 and emerging risks, the risk of breaching the Company's debentures and loan covenants pursuant to the senior unsecured loan notes and floating rate loan facility, 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
Alison Vincent, for and on behalf of
JPMorgan Funds Limited
Company Secretary

5th April 2022

Directors' Report

Angus Gordon Lennox (Chairman of the Board and Nomination Committee)

A Director since September 2015.

Last reappointed to the Board: 2021.

Remuneration: £70,000.

Angus is Chairman of Aberforth Split Level Income Trust plc and a non-executive Director of Securities Trust of Scotland 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: 150,000 ordinary shares.

Rachel Beagles

A Director since June 2021.

Last reappointed to the Board: N/A.

Remuneration: £37,500.

Rachel has over 15 years' of experience in the investment company sector, including six years as an Association of Investment Companies (the 'AIC') board member, of which three were served as chair. She was a managing director and co-head of the pan-European banks equity research and sales team at Deutsche Bank's corporate and investment banking division. Since 2003, she has worked as a non-executive director in the investment company, asset management, charity and social housing sectors. Rachel is a non-executive director of Witan Investment Trust plc and Gresham House plc.

Connections with Manager: none.

Shared directorships with other Directors: none.

Shareholding in the Company: 39,579 ordinary shares.

Heather Hopkins (Chair of the Marketing & Communications Committee)

A Director since July 2018.

Last reappointed to the Board: 2021.

Remuneration: £41,500.

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 Orbis Investments (U.K.) Limited.

Connections with Manager: none.

Shared directorships with other Directors: none.

Shareholding in the Company: 19,352 ordinary shares.

Graham Kitchen (Chair of the Management Engagement Committee)

A Director since July 2018.

Last reappointed to the Board: 2021.

Remuneration: £37,500.

Graham has over 20 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 Chairman of PPT Asset Management U.K. Ltd and a non-executive Director of AVI Global Trust plc and of Places for People, a provider of affordable housing and a member of the investment committee of Independent Age, a charity that provides advice to older people.

Connections with Manager: none.

Shared directorships with other Directors: none.

Shareholding in the Company: 63,180 ordinary shares.

Damien Maltarp

A Director since June 2021.

Last reappointed to the Board: N/A.

Remuneration: £37,500.

Damien has more than 20 years' experience across a range of financial disciplines. He is currently Group Financial Controller of London Stock Exchange Group where he also sits on the Audit Committee of LCH Ltd. He was previously at BT Group plc where he was CFO of Enterprise and, before that, CFO of Wholesale & Ventures and Investor Relations Director. He spent 10 years as an equity analyst, including roles at JPMorgan Cazenove and Credit Suisse. Damien is a qualified chartered accountant.

Connections with Manager: none.

Shared directorships with other Directors: none.

Shareholding in the Company: 5,000 ordinary shares.

Jeremy Tigue (Chair of the Remuneration Committee and Senior Independent Director)

A Director since March 2012.

Last reappointed to the Board: 2021.

Remuneration: £41,500.

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 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: 197,838 ordinary shares.

Harry Morley (Chair of the Audit Committee)

A Director since May 2014.

Last reappointed to the Board: 2021.

Remuneration: £50,500.

Harry was CEO of Armajaro Asset Management LLP from 2010 until 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: 40,000 ordinary shares.

All Directors are members of the Audit Committee, Management Engagement Committee, Marketing & Communications Committee, Nomination Committee and Remuneration 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 2022.

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 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 81 and 82.

Dividends

Details of the Company's dividend policy and payments are shown on page 23 of this Report.

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 32 and 33.

Details of Directors' beneficial shareholdings may be found in the Directors' Remuneration Report on page 46.

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

In accordance with corporate governance best practice, all Directors, bar Jeremy Tigue who is standing down from the Board, 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 2006) 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 Auditor

BDO LLP have expressed their willingness to continue in office as the Auditors and a resolution to reappoint BDO LLP and authorise the Directors to determine their remuneration for the ensuing year will be proposed at the Annual General Meeting.

Section 992 Companies Act 2006 Disclosures

The following disclosures are made in accordance with Section 992 of the Companies Act 2006:

Capital Structure
The Company's capital structure is summarised on pages 1 and 23 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 86.

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	%[1]
Rathbone Investment Management Ltd	115,814,011	14.6
Brewin Dolphin Limited	87,487,017	11.1
Quilter plc	78,944,475	10.0
Investec Wealth & Investment Ltd	33,615,048	4.2

[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 respect of Listing Rule 9.8.4R.

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 39,576,144 ordinary shares for cash up to an aggregate nominal amount of £989,403, 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 pages 84 to 86. This authority will expire at the conclusion of the AGM of the Company in 2023 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 Annual General Meeting held on 20th May 2021, shareholders gave authority to the Company to purchase up to 14.99% of its then issued share capital. This authority will expire on 19th November 2022 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 2022 have totalled 6.9 pence per share.

Recommendation
The Board considers resolutions 11 to 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 514,949 shares representing approximately 0.01% of the existing issued ordinary share capital of the Company. The full text of the resolutions is set out in the Notice of Meeting on pages 84 to 86.

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.

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 seven 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 32 and 33.

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. Graham Kitchen will be taking on the role of Senior Independent Director following Jeremy's retirement.

Reappointment of Directors

With the exception of Jeremy Tigue, who will be retiring from the Board, all Directors will stand for reappointment at the forthcoming Annual General Meeting. 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.

Resolution 4 is for the reappointment of Angus Gordon Lennox, who joined the Board in September 2015 and became Chairman in 2017. He also chairs the Nomination Committee. 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. He brings an in-depth knowledge of the investment trust sector in general. For details of his current directorships, please refer to page 32.

Resolution 5 is for the reappointment of Rachel Beagles, who joined the Board in June 2021. Rachel has over 15 years' of experience in the investment company sector, including six years as an Association of Investment Companies (the 'AIC') board member, of which three were served as chair. She is a non-executive director of two other investment companies. For details of her current directorships, please refer to page 32.

Resolution 6 is for the reappointment of Heather Hopkins, who joined the Board in July 2018 and chairs the Marketing & Communications Committee. Heather has over two decades of experience in data analytics, research, financial services and international business, with expertise in retail distribution. For details of her current directorships, please refer to page 32.

Resolution 7 is for the reappointment of Graham Kitchen, who joined the Board in July 2018 and chairs the Management Engagement Committee. Graham brings to the Board considerable experience of the investment management industry and has over 20 years' experience managing UK equity funds, including OEICs, investment trusts and pension funds and was head of global equities at Janus Henderson Investors. He is a director of one other investment trust company and has a number of charitable roles. For details of his current directorships, please refer to page 32.

Resolution 8 is for the reappointment of Damien Maltarp, who joined the Board in June 2021. Damien has over 20 years' experience across a range of financial disciplines including operational and commercial finance, assurance, audit, investor relations and equity analysis. He was brought onto the Board for his operating company experience. For details of his current directorships, please refer to page 33.

Resolution 9 is for the reappointment of Harry Morley, who joined the Board in May 2014 and chairs the Audit Committee. Harry was previously the chief executive of an asset management company. He is a qualified chartered accountant and hence brings recent and relevant experience to the Audit Committee. He also has experience of commercial trading companies in a variety of industries. For details of his current directorships, please refer to page 33.

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, unless there are exceptional circumstances for doing so.

The table below details the tenure of Directors, who are standing for reappointment, as at the forthcoming Annual General Meeting and projected forward to 2030. The average tenure of a Director is less than six years.

Director	Appointment Date	2022 AGM	2023 AGM	2024 AGM	2025 AGM	2026 AGM	2027 AGM	2028 AGM	2029 AGM	2030 AGM
Harry Morley	21st May 2014									
Angus Gordon Lennox	23rd September 2015									
Heather Hopkins	1st July 2018									
Graham Kitchen	1st July 2018									
Rachel Beagles	1st June 2021									
Damien Maltarp	1st June 2021									

Key - Tenure

0 - 6 years   7 - 8 years   9+ years

Please note that the above table is a guide only and does not account for retirements of current Directors nor the appointment of new Directors.

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 Annual General Meeting.

A schedule of interests for each Director is maintained by the Company and reviewed at every Board meeting. New interests are considered carefully, taking into account the circumstances surrounding them and, if considered appropriate, are approved.

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 32 and 33.

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, three Nomination Committee meetings, two meetings of the Marketing & Communications Committee and one meeting of each of the Management Engagement and Remuneration 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	2	3	1
Rachel Beagles[1]	3	2	1	1	1	1
Heather Hopkins	6	3	1	2	3	1
Graham Kitchen	6	3	1	2	3	1
Harry Morley	6	3	1	2	3	1
Damien Maltarp[1]	3	2	1	1	1	1
Jeremy Tigue	6	3	1	2	3	1

[1] Appointed to the Board on 1st June 2021.

Board Committees

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 & Communications Committee

The Marketing & 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 in relation to the Company.

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 overriding aim of the policy is to ensure that the Board is composed of the best combination of people for ensuring the delivery of investment performance for shareholders over the longer term. In terms of progress in achieving further diversity, the gender balance of four men and two women Directors, post the Company's forthcoming Annual General Meeting, will meet the target of 33% of women on FTSE 350 company boards set by The Hampton-Alexander Review. The Board also aims to meet the proposal of the Parker Review Committee, that each FTSE 250 board has as least one director from an ethnic minority background by 2024.

In relation to the appointments of Rachel Beagles and Damien Maltarp, who joined the Board on 1st June 2021, the Board engaged a recruitment consultant, Nurole, a firm with no other connections to the Company or the individual Directors. Open advertising was not used as part of the process as the use of a recruitment consultant was deemed sufficient.

The Committee has put in place the necessary procedures to conduct, on an annual basis, an appraisal of the Chairman, the Board, its Committees and individual Directors. An external evaluation was undertaken in 2020 by Lintstock, an independent external board evaluation service provider that does not have any other connections with the Company or individual Directors. In 2021 questionnaires covering the Board, individual Directors, the Chairman and the Audit and Risk Committee Chairman were completed. Overall, this evaluation led the Committee to conclude that all Directors devoted sufficient time and contributed satisfactorily to the work of the Board. The exercise further highlighted that the Board has a relevant balance of experience and knowledge of investment markets, legal, regulation and financial accounting and continues to work in a collegiate and effective manner. The Committee intends to conduct the next externally facilitated evaluation of the Board during 2023.

Remuneration Committee

The Remuneration Committee, chaired by Jeremy Tigue, comprises all of the Directors and meets annually to review Directors' fees and make recommendations to the Board as and when appropriate, in relation to remuneration policy and implementation. Graham Kitchen will be taking on the role of Remuneration Committee Chairman following Jeremy's retirement.

Audit Committee

The report of the Audit Committee, to include the Directors' Going Concern assessment, is set out on page 40.

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 Annual General Meeting.

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.

Due to the restrictions in place due to the COVID-19 pandemic, shareholders were not permitted to attend the Company's 2020 and 2021 Annual General Meetings. This year, and it is hoped going forward, all shareholders have the opportunity, and are encouraged, to attend the Company's Annual General Meeting at which the Directors and representatives of the Manager are available in person to meet with shareholders and answer questions. In addition, a presentation is given by the Investment Managers who review the Company's performance. Please refer to the Chairman's Statement for more details.

During the year the Company's brokers and the Investment Managers held 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 91. The Chairman can also be contacted through the 'Contact Us' link 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 91.

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 AIC Code of Corporate Governance 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 and Emerging Risks on pages 27 to 29). 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 2022 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.

Going Concern

In accordance with The Financial Reporting Council's guidance on going concern and liquidity risk, the Directors have undertaken a rigorous review of the Company's ability to continue as a going concern. The Directors confirm their reasonable expectation that the Company has adequate resources to continue in operational existence for the 12 month period from the date of approval of the financial statements. This confirmation is based on a review of assumptions that took into account the outlook for the UK stock markets; the diversified portfolio of readily realisable securities which can be used to meet short-term funding commitments; and the ability of the Company to meet all of its liabilities and ongoing expenses.

The Board has, in particular, considered the impact of heightened market volatility since the COVID-19 outbreak and more recently the Russian invasion of Ukraine, but does not believe the Company's going concern status is affected. The Company's assets, the vast majority of which are investments in quoted securities which are readily realisable, exceed its liabilities significantly under all stress test scenarios reviewed by the Board and reviews of the impact of market factors, structural and financial factors and operating factors. Gearing levels and compliance with borrowing covenants are reviewed by the Manager and Board on a regular basis.

Furthermore, the Directors are satisfied that the Company and its key third party service providers have in place appropriate business continuity plans and confirm they have been able to maintain service levels through the pandemic.

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 page 24.

Corporate Governance

JPMAM believes that good 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 believes effective investment stewardship can materially contribute to helping build stronger portfolios over the long term for our clients. At the heart of JPMAM's approach lies a close collaboration between our portfolio managers, research analysts and investment stewardship specialists to engage with the companies in which JPMAM invests. Regular engagement with JPMAM's investee companies through investment-led stewardship has been a vital component of JPMAM's active management heritage.

JPMAM continues to exercise active ownership through regular and ad hoc meetings, and through its voting responsibilities.

JPMAM's formal stewardship structure is designed to identify risks and understand its portfolio companies' activities, in order to enhance value and mitigate risks associated with them. JPMAM has identified five main investment stewardship priorities it believes have universal applicability and will stand the test of time:

- *governance;*
- *strategy alignment with the long term;*
- *human capital management;*
- *stakeholder engagement; and*
- *climate risk.*

Within each priority area, JPMAM identified related themes it is seeking to address over a shorter time frame. These themes will evolve as JPMAM engages with companies to understand issues and promote best practice. This combination of long-term priorities and evolving, shorter-term themes provides JPMAM with a structured and targeted framework to guide its investors and investment stewardship teams globally as JPMAM engages with investee companies around the world.

JPMAM is also committed to reporting more widely on our activities, including working to meet the practices laid out by the Financial Reporting Council ('FRC') in the UK Stewardship Code, and on embodying the spirit of those principles across the firm. While JPMAM is not yet a signatory to the recently revised 2020 UK Stewardship Code, its current focus is on ensuring its reporting to the FRC reflects the most robust standards.

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/gb/en/asset-management/institutional/about-us/investment-stewardship/

By order of the Board
Alison Vincent, for and on behalf of
JPMorgan Funds Limited
Company Secretary
5th April 2022

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 32, 33, 36 and 37.

The Committee is responsible for monitoring and reviewing the principles, policies and practices adopted in the preparation, audit and integrity of the Company's financial statements. The Committee is also responsible for monitoring the effectiveness of the internal controls and the risk management framework. The Committee reviews the actions and judgements of the Manager in relation to the half year report and annual report and financial statements and the Company's compliance with the AIC Code of Governance.

Financial Statements and Significant Accounting Matters

During its review of the Company's financial statements for the year ended 31st January 2022, the Audit Committee considered the following significant issues, including those communicated by the Auditor during its 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 62. 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 pages 62 and 63. The Board regularly reviews subjective elements of income such as special dividends and agrees their accounting treatment.
Market Volatility	The Audit Committee has reviewed the impact of recent market volatility related to the ongoing COVID-19 pandemic, the conflict between Russia and Ukraine and other economic headwinds, on the Company's portfolio and has received regular updates on portfolio performance from the portfolio manager. The Audit Committee has also reviewed recent portfolio liquidity and updated revenue and expense forecasts in light of the recent heightened market volatility and its anticipated impact on portfolio liquidity, revenue and market valuations and considers that the Company's business model remains viable and that the Company has sufficient resources to continue in operation and to meet all liabilities as they fall due.
	The Audit Committee has further reviewed the Company's borrowing and debt facilities and considers that despite market falls over the year the Company continues to meet its financial covenants in respect of these facilities and has a wide margin before any relevant thresholds are reached.
Going Concern/Long Term Viability	The Committee has also reviewed the appropriateness of the adoption of the Going Concern basis in preparing the accounts, particularly in view of the impact of the COVID-19 pandemic and the heightened market volatility resulting from the conflict between Russia and Ukraine. The Committee recommended that the adoption of the Going Concern basis is appropriate (see Going Concern statement on page 40).
	The Committee also assessed the Long Term Viability of the Company as detailed on page 30 and recommended to the Board its expectation that the Company would remain in operation for the five year period of the assessment.
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.

Internal Audit

The Committee continues to believe that the Company does not require an internal audit function, as it delegates its day-to-day operations to third parties from whom it receives internal control reports.

Risk Management and Internal Control

The Committee examines the effectiveness of the Company's internal control systems, receives information from the Manager's Compliance department and also reviews the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the external auditors. In the Directors' opinion the Auditors are independent. A risk matrix has been developed which covers all key risks the Company faces, the likelihood of their occurrence and their potential impact, how these risks are monitored and mitigating controls in place. The Board has delegated to the Committee the responsibility for the review and maintenance of the risk matrix.

Auditor Appointment and Tenure

The Committee also has the primary responsibility for making recommendations to the Board on the reappointment and the removal of the external auditor. Representatives of the Company's Auditor attend the Audit Committee meeting at which the draft annual report and financial statements are considered and they also attend the half-year committee meeting to present their audit plan for the subsequent year's audit.

As part of its review of the continuing appointment of the Auditor, the Audit Committee considered the length of tenure of the audit firm, its fee, its independence from JPMF and the Investment Managers and any matters raised during the audit.

A formal tender exercise was undertaken in 2019, as a result of which BDO LLP was appointed in place of PricewaterhouseCoopers LLP. This is the Audit Partner's (Peter Smith) second year of a five year maximum term.

Auditor Objectivity and Independence

In order to safeguard the Auditor's 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 66. 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 Auditor's ability to remain independent and objective.

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 Financial Statements for the year ended 31st January 2022, 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 49.

Harry Morley
Audit Committee Chairman

5th April 2022

Directors’ Remuneration Report

The Board presents the Directors' Remuneration Report for the year ended 31st January 2022, which has been prepared in accordance with the requirements of Section 421 of the Companies Act 2006 as amended.

The law requires the Company's Auditor to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included in the Independent Auditor's Report on pages 51 to 56.

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, the Chairman of the Marketing and Communications Committee and the Senior Independent Director are paid higher fees than other Directors, reflecting the greater time commitment involved in fulfilling those roles.

The Remuneration 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 £70,000; Chairman of the Audit Committee £50,500; Chair of the Marketing & Communications Committee £41,500; Senior Independent Director £41,500; and other Directors £37,500.

With effect from 1st February 2022 fees have been increased to £72,000, £52,000, £43,000, £43,000 and £38,500 for the Chairman, Audit Committee Chairman, Marketing & Communications Committee Chair, Senior Independent Director, and other Directors respectively. Fees were not increased in 2021, bar an increase to recognise the additional workload demanded of the Marketing & Communication Committee Chair role.

The Company has no Chief Executive Officer and no employees and therefore no consultation of employees is required, and there is no comparative employee 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 Remuneration 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 37.

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 2021 and no changes are proposed for the year ending 31st January 2023.

At the Annual General Meeting held on 20th May 2021, of votes cast, 99.9% 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 0.1% voted against. Votes withheld were the equivalent of less than 0.05% of the votes cast. Similar details for the 2022 AGM will be given in next year's Annual Report.

Details of the implementation of the Company's remuneration policy are given overleaf.

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]

Director	2022 Fees £	2022 Taxable benefits[2] £	2022 Total £	2021 Fees £	2021 Taxable benefits[2] £	2021 Total £
Angus Gordon Lennox	70,000	3,067	73,067	70,000	2,395	72,395
Rachel Beagles[3]	25,000	–	25,000	–	–	–
Heather Hopkins	41,364	–	41,364	37,500	–	37,500
Helen James[4]	11,401	–	11,401	37,500	–	37,500
Graham Kitchen	37,500	–	37,500	37,500	–	37,500
Damien Maltarp[3]	25,000	–	25,000	–	–	–
Harry Morley	50,500	177	50,677	50,500	139	50,639
Jeremy Tigue	41,500	–	41,500	41,500	–	41,500
Total	302,265	3,244	305,509	274,500	2,534	277,034

[1] Audited information.
[2] Taxable travel and subsistence expenses incurred in attending Board and Committee meetings.
[3] Appointed on 1st June 2021.
[4] Retired on 20th May 2021.

No amounts (2021: 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.

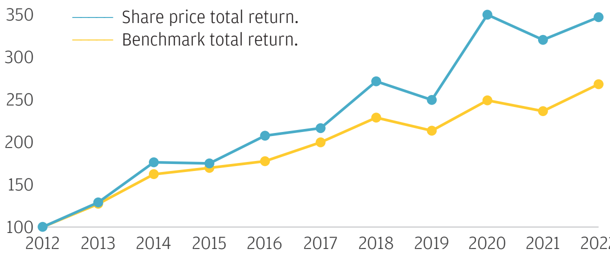
Director	31st January 2022	1st February 2021
Angus Gordon Lennox[2]	150,000	110,000
Rachel Beagles	39,579	–
Heather Hopkins	19,352	9,420
Graham Kitchen	63,180	63,180
Damien Maltarp	5,000	–
Harry Morley	40,000	40,000
Jeremy Tigue[3]	196,764	184,525
Total	513,875	407,125

[1] Audited information.
[2] Includes SIPP of 60,000 shares.
[3] On 11th February 2022 Jeremy Tigue acquired 1,074 shares through the Company's dividend reinvestment plan, taking his shareholding in the Company at the date of this report to 197,838.

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 2022



Source: Morningstar, FTSE Russell.

Annual Percentage Change in Directors' Remuneration

The following table sets out the annual percentage change in Directors' fees:

Director	Percentage change for the year to 31st January 2022	Percentage change for the year to 31st January 2021
Angus Gordon Lennox	–	1.4%
Rachel Beagles[1]	n/a	n/a
Heather Hopkins[2]	10.3%	1.4%
Graham Kitchen	–	1.4%
Damien Maltarp[1]	n/a	n/a
Harry Morley	–	1.0%
Jeremy Tigue	–	1.2%

[1] Appointed on 1st June 2021.
[2] Fee increased for the year to 31st January 2022 to reflect the increased responsibilities arising from her role as Chair of the Marketing & Communications Committee.

A table showing the total remuneration for the Chairman over the five years ended 31st January 2022 is below:

Remuneration for the Chairman over the five years ended 31st January 2022

Year ended 31st January	Fees	Performance related benefits received as a percentage of maximum payable
2022	£70,000	n/a
2021	£70,000	n/a
2020	£69,000	n/a
2019	£67,000	n/a
2018	£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	
	2022 **£**	**2021** **£**
Remuneration paid to all Directors	305,509	277,000
Distribution to shareholders		
– by way of dividend	53,033,000	52,242,000
– by way of share repurchases	–	–
Total distribution to shareholders	53,033,000	52,242,000

For and on behalf of the Board
Angus Gordon Lennox
Chairman

5th April 2022

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 32 and 33 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 Auditor does not involve consideration of the maintenance and integrity of this website and, accordingly, the Auditor accepts 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

5th April 2022

Independent Auditor's Report

To the members of The Mercantile Investment Trust plc

Report on the audit of the financial statements

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31st January 2022 and of the Company's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of The Mercantile Investment Trust plc (the 'Company') for the year ended 31st January 2022 which comprise the Statement of Comprehensive Income, Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's 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. Our audit opinion is consistent with the additional report to the Audit Committee.

Independence

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 21st May 2020 to audit the financial statements for the year ended 31st January 2021 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is two years, covering the years ended 31st January 2021 to 31st January 2022. We remain independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Company.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating the appropriateness of management's method of assessing going concern in light of market volatility and the present uncertainties due to the ongoing impact of the COVID-19 pandemic and the current geo-political situation;
- Obtaining the loan agreements to identify the covenants and assessing the likelihood of the them being breached based on management forecasts and our sensitivity analysis; and
- Assessing the liquidity position available to meet the future obligations and operating expenses for a period of 12 months from the date of approval of these financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

In relation to the Company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

		2022	2021
Key audit matters			
	Valuation and ownership of quoted investments	√	√
	Revenue recognition	√	√
Materiality	*Financial statements as a whole* £22,000,000 (2021: £19,800,000) based on 1% (2021: 1%) of Net Assets		

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Company and its environment, including the Company's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our 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) that we identified, 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 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.

Key audit matter		How the scope of our audit addressed the key audit matter
Valuation and ownership of quoted investments (note 1(b) and note 11)	The investment portfolio at the year-end comprised of investments held at fair value through profit or loss. The investment portfolio is the most significant balance in the financial statements and is the key driver of performance therefore there is a potential risk of overstatement of investment valuations. There is a risk that the investment balance includes investments which are no longer owned by the Company or that the bid price or last price used to value the investment is incorrect. We therefore determined the valuation and ownership of listed investments to be a key audit matter.	We responded to this matter by testing the valuation and ownership of 100% of the portfolio of quoted investments. We performed the following procedures: • Confirmed that the year end valuations were appropriate by agreeing to externally quoted prices and for all of the investments. • Assessed if there were contra indicators, such as liquidity considerations, to suggest bid price is not the most appropriate indication of fair value. • Recalculated the valuation by multiplying the number of shares held per the statement obtained from the custodian by the valuation per share. • Obtained direct confirmation from the custodian regarding the ownership of all investments held at the statement of financial position date. Key observations: Based on our procedures performed we did not identify any matters to suggest that the valuation and ownership of the quoted investments was not appropriate.

Key audit matter		How the scope of our audit addressed the key audit matter
Revenue Recognition (notes 1(d) and 4)	Dividend income arises from the investment portfolio and is a key factor in demonstrating the performance of the portfolio. Revenue recognition is considered a significant audit risk as it is the key driver of dividend returns to investors and judgement is required in determining the allocation of income to revenue or capital. We therefore considered this to be a key audit matter.	We performed the following procedures: • For listed investments, we derived an independent expectation of total expected income based on the investment holding and records of distributions from independent sources. • We also cross checked the portfolio against corporate actions and special dividends and challenged if these had been appropriately accounted for as income or capital by reviewing the underlying reason for issue of the dividend and whether it could be driven by a capital event. • We analysed the whole population of dividend receipts to identify any unusual items that could indicate a capital distribution, for example where a dividend represented a particularly high yield and investigated the rationale of those distributions. • We traced the sample of dividend income through from the nominal ledger to bank. Key observations: Based on our procedures performed we consider revenue recognition to be appropriate.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

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

	Company financial statements	
	2022 £	2021 £
Materiality	22,000,000	19,800,000
Basis for determining materiality	1% of Net Assets	1% of Net Assets
Rationale for the benchmark applied	As an investment trust, the net asset value is a key measure for users of the financial statements.	
Performance materiality	16,400,000	13,900,000
Basis for determining performance materiality	Performance materiality was set at 75% of total materiality taking into consideration that this is a recurring audit and there is a low expectation of known and likely misstatements, based on prior year experience.	Performance materiality was set at 70% of total materiality taking into consideration that this was the first year of our audit.

Specific materiality

We also determined that for items impacting revenue return, a misstatement of less than materiality for the financial statements as a whole, specific materiality, could influence the economic decisions of users. As a result, we determined materiality for these items to be £2,800,000 (2021: £1,637,000) based on 5% (2021: 5%) of revenue return before tax. We further applied a performance materiality level of 75% (2021: 70%) of specific materiality to ensure that the risk of errors exceeding specific materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £440,000 (2021: £397,000). We also set a separate reporting threshold of £142,000 (2021: £82,000) for the testing of transactions and balances that impact on the revenue return. We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. 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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

Corporate governance statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit.

Going concern and longer-term viability

- The Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified; and
- The Directors' explanation as to their assessment of the Company's prospects, the period this assessment covers and why the period is appropriate.

Other Code provisions

- The Directors' statement on fair, balanced and understandable;
- The Board's confirmation that it has carried out a robust assessment of the emerging and principal risks;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems; and
- The section describing the work of the Audit Committee.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

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 the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

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

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of Directors

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors 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.

Auditor's 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 auditor's 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.

Extent to which the audit was capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. We considered the significant laws and regulations to be Chapter 3 Part 6 of the Income Tax Act 2007, the Companies Act 2006, the FCA listing and DTR rules, the principles of the UK Corporate Governance Code, industry practice represented by the AIC SORP and

FRS 102. We also considered the company's qualification as an Investment Trust under UK tax legislation. We assessed the susceptibility of the financial statements to material misstatement, including fraud and considered the significant fraud risk area to be management override of controls and allocation of dividends between revenue and capital as discussed under the key audit matters section.

We focused on laws and regulations that could give rise to a material misstatement in the Company financial statements and the susceptibility of the entity's financial statements to material misstatement including fraud. Our tests included, but were not limited to:

- agreement of the financial statement disclosures to underlying supporting documentation;
- enquiries of management and those charged with governance relating to the non-compliance with laws and regulations;
- agreeing a sample of journal postings to supporting documentation based on a defined risk criteria, made during the year and at the year end to identify potential management override of controls;
- review of minutes of Board meetings throughout the period to check any discussions around laws and regulations compliance;
- obtaining an understanding of the control environment in monitoring compliance with laws and regulations; and
- assessing the Company's qualification as an Investment Trust under UK tax legislation in line with the appropriate guidelines.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that 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, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed 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 are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Peter Smith (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK
5th April 2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Financial Statements

FOR THE YEAR ENDED 31ST JANUARY 2022

	Notes	2022 Revenue £'000	2022 Capital £'000	2022 Total £'000	2021 Revenue £'000	2021 Capital £'000	2021 Total £'000
Gains/(losses) on investments held at fair value through profit or loss	3	–	228,162	228,162	–	(163,277)	(163,277)
Net foreign currency gains		–	23	23	–	13	13
Income from investments	4	60,986	–	60,986	39,914	–	39,914
Interest receivable and similar income	4	33	–	33	142	–	142
Gross return/(loss)		**61,019**	**228,185**	**289,204**	**40,056**	**(163,264)**	**(123,208)**
Management fee	5	(2,757)	(6,434)	(9,191)	(2,155)	(5,030)	(7,185)
Other administrative expenses	6	(1,439)	–	(1,439)	(1,402)	–	(1,402)
Net return/(loss) before finance costs and taxation		**56,823**	**221,751**	**278,574**	**36,499**	**(168,294)**	**(131,795)**
Finance costs	7	(3,851)	(8,984)	(12,835)	(3,323)	(7,753)	(11,076)
Net return/(loss) before taxation		**52,972**	**212,767**	**265,739**	**33,176**	**(176,047)**	**(142,871)**
Taxation	8	(1,494)	–	(1,494)	(711)	–	(711)
Net return/(loss) after taxation		**51,478**	**212,767**	**264,245**	**32,465**	**(176,047)**	**(143,582)**
Return/(loss) per share	9	**6.50p**	**26.88p**	**33.38p**	**4.10p**	**(22.24)p**	**(18.14)p**

Dividends declared in respect of the financial year ended 31st January 2022 total 6.9p (2021: 6.7p) per share amounting to £54,616,000 (2021: £53,033,000). Further information on dividends is given in note 10 on page 68.

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 62 to 79 form an integral part of these financial statements.

FOR THE YEAR ENDED 31ST JANUARY 2022

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves[1] £'000	Revenue reserve[1] £'000	Total shareholders funds £'000
At 31st January 2020	23,612	23,459	13,158	2,039,659	82,934	2,182,822
Net (loss)/return	–	–	–	(176,047)	32,465	(143,582)
Dividends paid in the year (note 10)	–	–	–	–	(52,241)	(52,241)
At 31st January 2021	23,612	23,459	13,158	1,863,612	63,158	1,986,999
Net return	–	–	–	212,767	51,478	264,245
Dividends paid in the year (note 10)	–	–	–	–	(53,033)	(53,033)
At 31st January 2022	23,612	23,459	13,158	2,076,379	61,603	2,198,211

[1] These reserves form the distributable reserve of the Company and may be used to fund distributions to shareholders.

The notes on pages 62 to 79 form an integral part of these financial statements.

AT 31ST JANUARY 2022

	Notes	2022 £'000	2021 £'000
Fixed assets			
Investments held at fair value through profit or loss	11	**2,465,122**	**2,228,555**
Current assets	13		
Debtors		4,271	14,127
Cash and short term deposits		2,765	1,346
Cash equivalents: liquidity fund		62,896	22,001
		69,908	37,474
Creditors: amounts falling due within one year	14	(9,124)	(21,067)
Net current assets		**60,808**	**16,407**
Total assets less current liabilities		2,525,930	2,244,962
Creditors: amounts falling due after more than one year	15	(327,719)	(257,963)
Net assets		**2,198,211**	**1,986,999**
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	2,076,379	1,863,612
Revenue reserve	17	61,603	63,158
Total shareholders' funds		**2,198,211**	**1,986,999**
Net asset value per share	18	**277.7p**	**251.0p**

The financial statements on pages 58 to 79 were approved and authorised for issue by the Directors on 5th April 2022 and are signed on their behalf by:

Angus Gordon Lennox
Director

The notes on pages 62 to 79 form an integral part of these financial statements.

Registered in England, company registration number 20537

FOR THE YEAR ENDED 31ST JANUARY 2022

	Notes	2022 £'000	2021 £'000
Net cash outflow from operations before dividends and interest	19	(10,642)	(8,574)
Dividends received		58,827	40,276
Interest received		34	141
Overseas tax recovered		429	–
Interest paid		(11,638)	(10,905)
Net cash inflow from operating activities		**37,010**	**20,938**
Purchases of investments	11	(693,957)	(567,302)
Sales of investments	11	682,614	469,612
Settlement of foreign currency contracts		7	(1)
Net cash outflow from investing activities		**(11,336)**	**(97,691)**
Dividends paid		(53,033)	(52,241)
Drawdown of loans		149,659	80,000
Repayment of loan		(80,000)	–
Net cash inflow from financing activities		**16,626**	**27,759**
Increase/(decrease) in cash and cash equivalents		**42,300**	**(48,994)**
Cash and cash equivalents at start of year		23,347	72,341
Exchange movements		14	–
Cash and cash equivalents at end of year		65,661	23,347
Increase/(decrease) in cash and cash equivalents		**42,300**	**(48,994)**
Cash and cash equivalents consist of:			
Cash and short term deposits		2,765	1,346
Cash held in JPMorgan Sterling Liquidity Fund		62,896	22,001
Total		**65,661**	**23,347**

RECONCILIATION OF NET DEBT

	As at 31st January 2021 £'000	Cash flow £'000	Other non-cash changes £'000	As at 31st January 2022 £'000
Analysis of changes in net debt				
Cash	1,346	1,405	14	2,765
Cash equivalents	22,001	40,895	–	62,896
	23,347	42,300	14	65,661
Borrowings				
Debentures falling due after more than five years	(177,963)	–	(97)	(178,060)
Debt due after one year	(80,000)	80,000	–	–
Private Placement due after more than five years	–	(149,659)	–	(149,659)
Total	**(234,616)**	**(27,359)**	**(83)**	**(262,058)**

The notes on pages 62 to 79 form an integral part of these financial statements.

FOR THE YEAR ENDED 31ST JANUARY 2022

General Information

The Company is a closed-ended investment company incorporated in accordance with the Companies Act 2006.

The address of its registered office is 60 Victoria Embankment, London EC4Y 0JP.

The principal activity of the Company is investing in securities as set out in the Company's Objective and Investment Policies.

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 April 2021.

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 40 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. 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 of the investment.

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 held at fair value through profit or loss'.

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.

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 classification 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 69.

(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 readily available and are not subject to significant changes in value. 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 debentures and senior unsecured privately placed loan notes in issue are 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.

Interest paid in relation to loans, debentures and senior unsecured privately placed loan notes are classified under operating activities in the Statement of Cash Flows. Drawdowns and repayments are classified under financing activities in the Statement of Cash Flows.

Derivative transactions which the Company may enter into comprise forward exchange contracts, 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.

1. Accounting policies *continued*

(h) Taxation

The Company is an approved investment trust and is therefore exempt from tax on capital gains. 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 paid.

(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 exercise judgement in determining whether special dividends are classified as capital or revenue based upon an assessment of the prevailing factors that led to the distribution of the special dividend.

The Directors do not believe that any other 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

	2022 £'000	2021 £'000
Realised gains/(losses) on sales of investments[1]	85,281	(31,773)
Net change in unrealised gains/(losses) on investments	142,896	(131,491)
Other capital charges	(15)	(13)
Total capital gains/(losses) on investments held at fair value through profit or loss	**228,162**	**(163,277)**

[1] Includes £2,161,000 (2021: £1,629,000) of special dividends classified as Capital.

4. Income

	2022 £'000	2021 £'000
Income from investments:		
UK dividends	39,647	24,381
Special dividends	11,722	6,471
Property income distribution from UK REITs	484	2,419
Overseas dividends	9,133	6,643
	60,986	39,914
Interest receivable and similar income:		
Interest from liquidity fund	30	140
Deposit interest	3	2
	33	142
Total income	**61,019**	**40,056**

5. Management fee

	2022			2021		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Management fee	2,757	6,434	9,191	2,155	5,030	7,185

Details of the management fee are given in the Directors' Report on page 34.

6. Other administrative expenses

	2022 £'000	2021 £'000
Administration expenses[1]	1,089	1,080
Directors' fees[2]	306	277
Auditors' remuneration for audit services[3]	38	42
Auditors' remuneration for all other services[4]	6	3
	1,439	**1,402**

[1] Includes approximately £212,000 (ex VAT) (2021: £320,000 (ex VAT)) of marketing costs.
[2] Full disclosure is given in the Directors' Remuneration Report on page 46.
[3] Includes £6,000 (2021: £8,000) irrecoverable VAT. The 2021 figure also includes £3,750 in relation to an audit overrun fee from the 2020 audit.
[4] Includes £1,000 (2021: £nil) irrecoverable VAT.

7. Finance costs

	2022			2021		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Interest on private placement loan	347	810	1,157	–	–	–
Debenture interest	3,255	7,594	10,849	3,265	7,618	10,883
Amortisation of debenture issue costs	29	68	97	29	68	97
Interest on overdrafts	–	–	–	1	1	2
Interest on Bank of Nova Scotia loan	220	512	732	28	66	94
	3,851	**8,984**	**12,835**	**3,323**	**7,753**	**11,076**

8. Taxation

(a) Analysis of tax charge for the year

	2022 £'000	2021 £'000
Overseas withholding tax charge	1,494	711
Total tax charge for the year	**1,494**	**711**

8. Taxation *continued*

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

The total tax charge for the year is lower (2021: higher) than the Company's applicable rate of corporation tax for the year of 19% (2021: 19%). The factors affecting the total tax charge for the year are as follows:

	2022 Revenue £'000	2022 Capital £'000	2022 Total £'000	2021 Revenue £'000	2021 Capital £'000	2021 Total £'000
Net return/(loss) before taxation	52,972	212,767	265,739	33,176	(176,047)	(142,871)
Net return/(loss) before taxation multiplied by the Company's applicable rate of corporation tax of 19% (2021: 19%)	10,065	40,426	50,491	6,303	(33,449)	(27,146)
Effects of:						
Non taxable UK dividends	(9,113)	–	(9,113)	(4,631)	–	(4,631)
Non taxable overseas dividends	(2,382)	–	(2,382)	(2,492)	–	(2,492)
Non taxable capital (gains)/losses	–	(43,355)	(43,355)	–	31,020	31,020
Unrelieved expenses	1,085	1,222	2,307	596	956	1,552
Overseas withholding tax charge	1,494	–	1,494	711	–	711
Disallowed interest	365	1,707	2,052	224	1,473	1,697
Total tax charge for the year	**1,494**	**–**	**1,494**	**711**	**–**	**711**

(c) Deferred taxation

The Company has an unrecognised deferred tax asset of £75,964,000 (2021: £55,420,000) based on a prospective corporation tax rate of 25% (2021: 19%). The deferred tax asset has arisen due to the cumulative excess of deductible expenses over taxable income.

Given the composition of the Company's portfolio, it is not likely that this asset will be utilised in the foreseeable future and therefore no asset has been recognised in the financial statements.

Given the Company's status as an approved investment trust company and the intention to maintain 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

	2022 £'000	2021 £'000
Revenue return	51,478	32,465
Capital return/(loss)	212,767	(176,047)
Total return/(loss)	**264,245**	**(143,582)**
Weighted average number of shares in issue during the year	791,522,893	791,522,893
Revenue return per share	6.50p	4.10p
Capital return/(loss) per share	26.88p	(22.24)p
Total return/(loss) per share	**33.38p**	**(18.14)p**

The diluted return/(loss) per share is the same as above.

10. Dividends

(a) Dividends paid and declared

	2022 £'000	2021 £'000
Dividends paid		
2021 fourth quarterly dividend of 2.65p (2020: 2.55p) paid to shareholders in April 2021[1]	20,975	20,183
First quarterly dividend of 1.35p (2021: 1.35p) paid to shareholders in August 2021[1]	10,686	10,686
Second quarterly dividend of 1.35p (2021: 1.35p) paid to shareholders in November 2021[1]	10,686	10,686
Third quarterly dividend of 1.35p (2021: 1.35p) paid to shareholders in February 2022[1]	10,686	10,686
Total dividends paid in the year	**53,033**	**52,241**

	2022 £'000	2021 £'000
Dividend declared		
Fourth quarterly dividend declared of 2.85p (2021: 2.65p) payable to shareholders in May 2022[1]	22,558	20,975

[1] The Company irrevocably transfers the funds to its Registrar in the month prior to which the dividend is paid to shareholders.

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 2022. In accordance with the accounting policy of the Company, these dividends will be reflected in the financial statements for the year ending 31st January 2023.

(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 £51,478,000 (2021: £32,465,000).

The maximum amount of income that the Company is permitted to retain under Section 1158 is £9,153,000 (2021: £6,008,000), calculated as 15% of total income. Therefore the minimum distribution required by way of dividend is £42,325,000 (2021: £26,457,000).

	2022 £'000	2021 £'000
First quarterly dividend of 1.35p (2021: 1.35p) paid to shareholders in August 2021[1]	10,686	10,686
Second quarterly dividend of 1.35p (2021: 1.35p) paid to shareholders in November 2021[1]	10,686	10,686
Third quarterly dividend of 1.35p (2021: 1.35p) paid to shareholders in February 2022[1]	10,686	10,686
Fourth quarterly dividend declared of 2.85p (2021: 2.65p) payable in May 2022[1]	22,558	20,975
	54,616	**53,033**

[1] The Company irrevocably transfers the funds to its Registrar in the month prior to which the dividend is paid to shareholders.

11. Investments

	2022 £'000	2021 £'000
Investments listed on a recognised stock exchange	2,326,156	2,128,337
Investments listed on AIM	133,826	95,561
Unlisted investments	5,140	4,657
	2,465,122	**2,228,555**

	Listed UK £'000	AIM and Unlisted £'000	Total £'000
Opening book cost	1,667,360	85,249	1,752,609
Opening investment holding gains	460,977	14,969	475,946
Opening valuation	2,128,337	100,218	2,228,555
Movements in the year:			
Purchases at cost[1]	604,737	76,144	680,881
Sales proceeds[2]	(651,331)	(21,130)	(672,461)
Gains/(losses) on investments	244,413	(16,266)	228,147
	2,326,156	**138,966**	**2,465,122**
Closing book cost	1,727,318	118,962	1,846,280
Closing investment holding gains	598,838	20,004	618,842
Total investments held at fair value through profit or loss	**2,326,156**	**138,966**	**2,465,122**

[1] Of this total, £693,957,000 (2021 : £567,302,000) was recorded as a cash purchase in the Statement of Cash Flows.
[2] Of this total, £682,614,000 (2021 : £469,612,000) was recorded as a cash sale in the Statement of Cash Flows.

The Company received £672,461,000 (2021: £480,640,000) from investments sold in the year. The book cost of these investments when they were purchased was £587,210,000 (2021: £512,413,000). These investments have been revalued over time and until they were sold any unrealised gains/losses were included in the fair value of the investments.

Stamp duty and brokerage commission on purchases during the year amounted to £2,587,000 (2021: £2,263,000) and £363,000 (2021: £315,000) respectively. Brokerage commission on sales during the year amounted to £500,000 (2021: £277,000).

Investments include Alternative Investment Market stocks which are valued at £133,826,000 (2021: £95,561,000).

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
Hollywood Bowl	UK	Ordinary	4.3
Watches of Switzerland	UK	Ordinary	3.5
Vp	UK	Ordinary	3.5
Morgan Sindall	UK	Ordinary	3.3
Marshall	UK	Ordinary	3.2
National Express	UK	Ordinary	3.1

12. Significant interests *continued*

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 2022 was £265,076,000 (2021: £187,317,000).

13. Current assets

	2022 £'000	2021 £'000
Debtors		
Dividends and interest receivable	2,130	2,618
Overseas tax recoverable	1,596	873
Securities sold awaiting settlement	472	10,607
Other debtors	73	29
	4,271	**14,127**

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

	2022 £'000	2021 £'000
Securities purchased awaiting settlement	3,029	16,105
Bank of Nova Scotia loan interest	14	74
Other creditors and accruals	4,925	4,888
Senior unsecured privately placed loan notes interest	1,156	–
	9,124	**21,067**

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

	2022 £'000	2021 £'000
£175 million 6.125% debenture stock[1]	174,210	174,113
£3.85 million 4.25% perpetual debenture stock[2]	3,850	3,850
Senior unsecured privately placed loan notes[3]	149,659	–
Bank of Nova Scotia loan[4]	–	80,000
	327,719	**257,963**

[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.

[3] On 8th September 2021 the Company entered into 3 private placement loan agreements as follows:
- £55 million private placement loan at a fixed interest rate of 1.98%, repayable on 8th September 2041.
- £50 million private placement loan at a fixed interest rate of 2.05%, repayable on 8th September 2051.
- £45 million private placement loan at a fixed interest rate of 1.77%, repayable on 8th September 2061.

As at 31st January 2022, the Company had drawn down £150.0 million on these loans.

[4] As at 31st January 2022, the Company had repaid the £80 million that had been drawn down on the Bank of Nova Scotia (London Branch) £100 million loan facility.

16. Called up share capital

	2022 £'000	2021 £'000
Ordinary shares allotted and fully paid:		
Opening Balance of 791,522,893 ordinary shares of 2.5p each (2021: 791,522,893) excluding shares held in Treasury	19,788	19,788
152,969,287 (2021: 152,969,287) shares held in Treasury	3,824	3,824
Closing Balance of 944,492,180 (2021: 944,492,180) shares of 2.5p each including shares held in Treasury	**23,612**	**23,612**

17. Capital and reserves

				Capital reserves[1]			
	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Gains/ (losses) on sales of investments £'000	Investment holding gains/ (losses) £'000	Revenue reserve[1] £'000	Total shareholders' funds £'000
Opening balance	**23,612**	**23,459**	**13,158**	**1,387,666**	**475,946**	**63,158**	**1,986,999**
Net foreign currency gains on cash and cash equivalents	–	–	–	19	–	–	19
Realised gains on sale of investments	–	–	–	85,281	–	–	85,281
Net change in unrealised losses and gains on investments	–	–	–	–	142,896	–	142,896
Realised gains on repayment of loans	–	–	–	4	–	–	4
Management fee and finance costs charged to capital	–	–	–	(15,418)	–	–	(15,418)
Other capital charges	–	–	–	(15)	–	–	(15)
Dividends paid in the year	–	–	–	–	–	(53,033)	(53,033)
Retained revenue for the year	–	–	–	–	–	51,478	51,478
Closing balance	**23,612**	**23,459**	**13,158**	**1,457,537**	**618,842**	**61,603**	**2,198,211**

[1] These reserves form the distributable reserves of the Company and may be used to fund distributions to shareholders.

18. Net asset value per share

	2022	2021
Net assets (£'000)	2,198,211	1,986,999
Number of shares in issue	791,522,893	791,522,893
Net asset value per share	**277.7p**	**251.0p**

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

	2022 £'000	2021 £'000
Net return/(loss) before finance costs and taxation	278,574	(131,795)
Capital (return)/losses before finance costs and taxation	(221,751)	168,294
Decrease in accrued income and other debtors	444	1,802
Increase/(decrease) in accrued expenses	34	(14)
Management fee charged to capital	(6,434)	(5,030)
Overseas withholding tax	(2,646)	(1,428)
Dividends received	(58,827)	(40,276)
Interest received	(34)	(141)
Realised (losses)/gains on foreign currency transactions	(2)	14
Net cash outflow from operations before dividends and interest	**(10,642)**	**(8,574)**

20. Contingent liabilities and capital commitments

At the balance sheet date there were no contingent liabilities or capital commitments (2021: none).

21. Transactions with the Manager and related parties

Details of the management contract are set out in the Directors' Report on page 34. The management fee payable to the Manager for the year was £9,191,000 (2021: £7,185,000) of which £nil (2021: £nil) was outstanding at the year end.

Included in administration expenses in note 6 on page 66 are safe custody fees amounting to £50,000 (2021: £31,000) payable to JPMorgan Chase of which £4,000 (2021: £5,000) was outstanding at the year end.

The Manager may carry out some of its dealing transactions through group subsidiaries. These transactions are carried out at arm's length.

During the year, brokerage commission on dealing transactions amounting to £44,000 (2021: £nil) was payable to JPMorgan subsidiaries of which £nil (2021: £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 £62.9 million (2021: £22.0 million). Interest income amounting to £30,000 (2021: £140,000) was receivable during the year of which £nil (2021: £1,000) was outstanding at the year end.

Handling charges on dealing transactions amounting to £15,000 (2021: £13,000) were payable to JPMorgan Chase during the year of which £5,000 (2021: £2,000) was outstanding at the year end.

At the year end, total cash of £2,765,000 (2021: £1,346,000) was held with JPMorgan Chase. A net amount of interest of £3,000 (2021: £2,000) was receivable by the Company during the year from JPMorgan Chase of which £nil (2021: £nil) was outstanding at the year end.

Full details of Directors' remuneration and shareholdings can be found on page 46 and in note 6 on page 66.

22. 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 62.

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

	2022		2021	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Level 1	2,459,982	–	2,223,898	–
Level 3[1]	5,140	–	4,657	–
Total	**2,465,122**	**–**	**2,228,555**	**–**

[1] Consists only of the holding of unquoted stocks of Tennants Consolidated, which is still held at 31st January 2022.

There were no transfers between Level 1, 2 and 3 during the year (2021: none). A reconciliation of the fair value measurements using valuation techniques using non-observable data is set out below.

	2022		
	Equity Investments £'000	Fixed Interest Investment £'000	Total £'000
Level 3			
Opening balance	4,563	94	4,657
Change in fair value of unquoted investment during the year	483	–	483
Closing balance	**5,046**	**94**	**5,140**

	2021		
	Equity Investments £'000	Fixed Interest Investment £'000	Total £'000
Level 3			
Opening balance	4,346	94	4,440
Change in fair value of unquoted investment during the year	217	–	217
Closing balance	**4,563**	**94**	**4,657**

23. 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.

At the start of the year the Company had in place a £3.85 million perpetual debenture and a £175 million debenture repayable on 25th February 2030, together with a short term £100 million revolving credit facility. In September 2021 the Company added further debt and issued £150 million of Senior Unsecured Notes (the 'Notes').

The net proceeds from the placing of the Notes were used to repay the £80 million that had been drawn down under the revolving credit facility; the balance of the proceeds are available to be invested as and when attractive opportunities arise. The revolving credit facility remains available to provide further investment flexibility if required.

The Company's indebtedness brings with it a number of banking covenants. The current debt facilities include the following covenants, which represent the most onerous constraints:

- Net borrowings as a % of adjusted assets cannot exceed 35%;
- Adjusted asset cover not less than 3.3:1; and
- Minimum NAV of £725,000,000.

The Company has been compliant with all its banking covenants throughout the year and continues to be compliant.

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 applied 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 sterling denominated loan, a debenture issued by the Company and senior unsecured privately placed loan notes, 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 analysis 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 and senior unsecured privately placed loan notes in issue, as they are 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 and the senior unsecured privately placed loan notes 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.

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:

	2022 £'000	2021 £'000
Exposure to floating interest rates:		
Cash at bank and short term deposits	2,765	1,346
JPMorgan Sterling Liquidity Fund	62,896	22,001
Floating Rates Bank of Nova Scotia GBP Loan	–	(80,000)
Total exposure	**65,661**	**(56,653)**

Interest receivable on cash balances, or paid on overdrafts, is at a margin below or above SONIA respectively (2021: LIBOR).

Interest rate sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to a 1% (2021: 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.

	2022		2021	
	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	657	(657)	(7)	7
Capital return	–	–	(560)	560
Net assets	**657**	**(657)**	**(567)**	**567**

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.

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

(a) Market risk *continued*

(ii) Other price risk *continued*

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:

	2022 £'000	2021 £'000
Investments held at fair value through profit or loss	2,465,122	2,228,555

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 17 to 19. 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. The current outbreak of conflict between Russia and Ukraine and any related sanctions that have, and might be imposed, may result in the global economy being adversely affected, along with the economies of certain nations and individual issuers, all of which may negatively impact the market.

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% (2021: 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 normal 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.

	2022		2021	
	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	(333)	333	(301)	301
Capital return	245,736	(245,736)	222,154	(222,154)
Total return after taxation	245,403	(245,403)	221,853	(221,853)
Net assets	**245,403**	**(245,403)**	**221,853**	**(221,853)**

(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 be fully invested in normal market conditions and that short term borrowings be used to manage short term liabilities and working capital requirements and to gear the Company as appropriate.

Liquidity risk exposure

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

	2022			
	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	3,029	–	–	3,029
Other creditors and accruals	211	–	–	211
Bank of Nova Scotia loan – interest	14	–	–	14
Senior unsecured privately placed loan notes – interest[1]	1,874	2,192	–	4,066
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]	–	–	81,896	81,896
Senior unsecured privately placed loan notes – principal	–	–	150,000	150,000
Senior unsecured privately placed loan notes – interest	–	–	80,380	80,380
	10,569	**7,633**	**491,126**	**509,328**

[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.

	2021			
	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	16,105	–	–	16,105
Other creditors and accruals	174	–	–	174
Debenture stock – interest[1]	5,441	5,441	–	10,882
Bank of Nova Scotia loan	286	648	–	934
Creditors: amounts falling due after more than one year				
Debenture stock – principal[2]	–	–	178,850	178,850
Debenture stock – interest[1]	–	–	92,778	92,778
Bank of Nova Scotia loan – principal	–	–	80,000	80,000
Bank of Nova Scotia loan – interest	–	–	768	768
	22,006	**6,089**	**352,396**	**380,491**

[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.

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

(c) Credit risk

Credit risk is the risk that a counterparty to a transaction fails to discharge its obligations under that transaction, which 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.

Exposure to JPMorgan Chase Bank

JPMorgan Chase Bank is the custodian of the Company's assets. The custody agreement grants a general lien over the securities credited to the Company's 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 Statement 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 and senior unsecured privately placed loan notes which the Company has in issue. The fair value of this debenture stock and senior unsecured privately placed loan notes 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	
	2022 £'m	2021 £'m	2022 £'m	2021 £'m
£175 million 6.125% debenture stock 25th February 2030	174.2	174.1	232.7	254.5
£3.85 million 4.25% perpetual debenture stock	3.9	3.9	8.5	10.7
Senior unsecured privately placed loan notes	149.7	–	145.2	–
	327.8	178.0	386.4	265.2

24. Capital management policies and procedures

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

	2022 £'000	2021 £'000
Debt		
£175 million 6.125% debenture stock 25th February 2030	174,210	174,113
£3.85 million 4.25% perpetual debenture stock	3,850	3,850
Senior unsecured privately placed loan notes	149,659	–
Bank of Nova Scotia loan	–	80,000
	327,719	257,963
Equity		
Called up share capital	23,612	23,612
Reserves	2,174,599	1,963,387
	2,198,211	1,986,999
Total debt and equity	**2,525,930**	**2,244,962**

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

	2022 £'000	2021 £'000
Investments held at fair value through profit or loss	2,465,122	2,228,555
Net assets	2,198,211	1,986,999
Gearing	**12.1%**	**12.2%**

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 potential 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.

25. Subsequent events

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

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 2022 are shown below:

	Gross Method	Commitment Method
Leverage Exposure		
Maximum limit	200%	200%
Actual	115%	115%

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 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 2021 Performance Year in May 2021 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 2021 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 32 Alternative Investment Funds (with 4 sub-funds) and 2 UCITS (with 42 sub-funds) as at 31st December 2021, with a combined AUM as at that date of £23.4 billion and £24.8 billion respectively.

	Fixed remuneration	Variable remuneration	Total remuneration	Number of beneficiaries
All staff of the Management Company (US$’000s)	23,244	16,065	39,309	153

The aggregate 2021 total remuneration paid to AIFMD Identified Staff was USD $84,714,000, of which USD $6,570,000 relates to Senior Management and USD $78,144,000 relates to other Identified Staff.[1]

[1] For 2021, the AIFMD identified staff disclosures include 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 2022.

Shareholder Information

Notice is hereby given that the one hundred and thirty sixth Annual General Meeting of The Mercantile Investment Trust plc will be held at Two Temple Place, London WC2R 3BD on Tuesday, 17th May 2022 at 12.00 noon for the following purposes:

1. To receive the Directors' Report, the Annual Accounts and the Auditors' Report for the year ended 31st January 2022.
2. To approve the Company's Remuneration Policy.
3. To approve the Directors' Remuneration Report for the year ended 31st January 2022.
4. To reappoint Angus Gordon Lennox as a Director of the Company.
5. To reappoint Rachel Beagles as a Director of the Company.
6. To reappoint Heather Hopkins as a Director of the Company.
7. To reappoint Graham Kitchen as a Director of the Company.
8. To reappoint Damien Maltarp as a Director of the Company.
9. To reappoint Harry Morley as a Director of the Company.
10. THAT BDO LLP be reappointed as Auditors of the Company 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 £989,403 representing approximately 5% of the Company's issued share capital (excluding shares held in Treasury) as at 4th April 2022, provided that this authority shall expire at the conclusion of the Annual General Meeting of the Company held in 2023 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 £1,180,615, representing approximately 5% of the issued share capital as at 4th April 2022 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 pursuance 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 16th November 2023 unless the authority is renewed at the Company's Annual General Meeting in 2023 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
Alison Vincent, for and on behalf of
JPMorgan Funds Limited,
Company Secretary

8th April 2022

Notes

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

1. If law or Government guidance so requires at the time of the Meeting, the Chairman of the Meeting will limit, in his sole discretion, the number of individuals in attendance at the Meeting. In addition, the Company may still impose entry restrictions on certain persons wishing to attend the AGM in order to secure the orderly and proper conduct of the Meeting.
2. 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.
3. 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.
4. Any instrument appointing a proxy, to be valid, must be lodged in accordance with the instructions given on the proxy form.
5. You may change your proxy instructions by returning a new proxy appointment. The deadline for receipt of proxy appointments (see above) 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.
6. 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.

7. A corporation, which is a shareholder, may appoint individuals to act as its representatives 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 may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the company, provided that they do not do so in relation to the same shares. It is therefore no longer necessary to nominate a designated corporate representative.

   Representatives should bring to the meeting evidence of their appointment, including any authority under which it is signed.

8. Members that satisfy the thresholds in Section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter relating to: (a) the audit of the Company's accounts (including the Auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting ('AGM'); or (b) any circumstances connected with the 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 Auditor 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 http://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 AGM. 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, 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. 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 4th April 2022 (being the latest business day prior to the publication of this Report), the Company's issued share capital consists of 944,492,180 shares, including of 152,969,287 Treasury shares. 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 2022	Year ended 31st January 2021	
Opening share price (p)	5	231.0	261.0	(a)
Closing share price (p)	5	244.0	231.0	(b)
Total dividend adjustment factor[1]		1.025628	1.034409	(c)
Adjusted closing share price (p) (d = b x c)		250.3	238.9	(d)
Total return to shareholders (e = d / a – 1)		**8.3%**	**–8.4%**	(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 (debentures and senior unsecured privately placed loan notes) is valued in the Statement of Financial Position (on page 60) 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 23(d) (on page 78) 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 values of the £3.85 million perpetual debenture, the £175 million debenture and the £150 million senior unsecured privately placed loan notes have been calculated using discounted cash flow techniques, using the yield from similar dated gilts 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 2022	Year ended 31st January 2021	
Opening cum-income NAV per share with debt at fair value (p)	5	240.0	264.8	(a)
Closing cum-income NAV per share with debt at fair value (p)	5	270.3	240.0	(b)
Total dividend adjustment factor[1]		1.023987	1.033144	(c)
Adjusted closing cum-income NAV per share (d = b x c)		276.8	248.0	(d)
Total return on net assets with debt at fair value (e = d / a – 1)		**15.3%**	**–6.3%**	(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 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 2022	Year ended 31st January 2021	
Opening cum-income NAV per share with debt at par value (p)	5	251.0	275.8	(a)
Closing cum-income NAV per share with debt at par value (p)	5	277.7	251.0	(b)
Total dividend adjustment factor[1]		1.023190	1.031358	(c)
Adjusted closing cum-income NAV per share (p) (d = b x c)		284.1	258.9	(d)
Total return on net assets (e = d / a – 1)		**13.2%**	**–6.1%**	(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 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 71 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 67 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 2022 £'000	31st January 2021 £'000	
Investments held at fair value through profit or loss	60	2,465,122	2,228,555	(a)
Net assets	60	2,198,211	1,986,999	(b)
Gearing/(net cash) (c = a / b – 1)		**12.1%**	**12.2%**	(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 2022 £'000	Year ended 31st January 2021 £'000	
Management Fee	65	9,191	7,185	
Other administrative expenses	66	1,439	1,402	
Total management fee and other administrative expenses		10,630	8,587	(a)
Average daily cum-income net assets		2,342,992	1,782,515	(b)
Ongoing charges ratio (c = a / b)		0.45%	0.48%	(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 Youinvest
Barclays Smart Investor
Charles Stanley Direct
Fidelity Personal Investing
Halifax Share Dealing
Hargreaves Lansdown
Interactive Investor

Please note this list is not exhaustive and the availability of individual trusts may vary depending on the provider. These are third party providers and J.P. Morgan Asset Management does not endorse or recommend any. Please observe each provider'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	October
Dividends on ordinary shares paid to shareholders	*1st August, 1st November, 1st February, 1st May
Interest on 4.25% perpetual debenture stock paid	1st June, 1st December
Interest on 6.125% debenture paid	25th February, 25th August
Annual General Meeting	May

*or nearest following business day.

History

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

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 Alison Vincent 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 by visiting www.shareview.co.uk.

Independent Auditor

BDO LLP
Chartered Accountants and Statutory Auditors
55 Baker Street
London W1U 7EU

Brokers

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

Winterflood Securities Limited
The Atrium Building
Cannon Bridge House
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J.P.Morgan
ASSET MANAGEMENT