

The Mercantile Investment Trust plc
The home of tomorrow's UK market leaders

Half Year Report & Financial Statements

for the six months ended 31st July 2020

Putting the brightest
sparks in your portfolio



J.P.Morgan
Asset Management



Your Company

Objective

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

Investment Policy

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

Benchmark

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

Capital Structure

At 31st July 2020 the Company's share capital comprised 944,492,180 ordinary shares of 2.5p each, including 152,969,287 shares held in Treasury.

At 31st July 2020, the Company also had in issue a £3.85 million 4.25% perpetual debenture and a £175 million 6.125% debenture repayable on 25th February 2030.

Management Company and Company Secretary

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

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

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

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

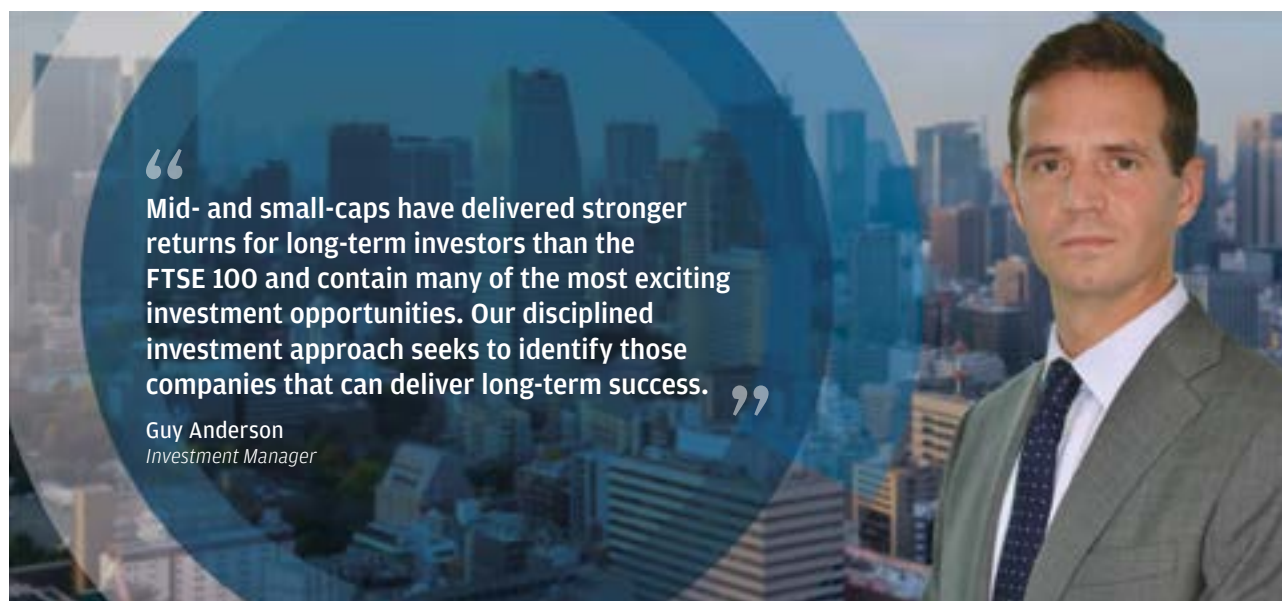
Association of Investment Companies ('AIC')

The Company is a member of the AIC.

Website

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

Why invest in The Mercantile Investment Trust plc?



PUTTING THE BRIGHTEST SPARKS IN YOUR PORTFOLIO

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

- **Dynamic sector access:** Mid- and small-sized companies provide exciting investment opportunities for long-term investors. The Company's benchmark, the FTSE All Share excluding FTSE 100 companies and investment trusts, has outperformed the FTSE 100 over the last 5, 10 and 25-year periods.
- **Long heritage of success:** With over £1.8 billion in assets as at the end of July 2020 and 130 years' experience, the Mercantile Investment Trust is the leading UK equity investment trust.
- **Actively managed by a first class investment team:** As the flagship investment trust of J.P.Morgan Asset Management, one of the world's leading asset managers, The Mercantile Investment Trust benefits from a stable and experienced management team with the passion and skill for investing outside of the FTSE 100.
- **Track record of outperformance:** Rigorous sector and stock selection by its experienced management team of mid- and small-cap experts has helped The Mercantile Investment Trust to outperform its benchmark over the last 3, 5, 10 and 25 years.

The Company's purpose, values, strategy and culture

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

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

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

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Half Year Performance

FINANCIAL HIGHLIGHTS

TOTAL RETURNS (INCLUDING DIVIDENDS REINVESTED)

	6 Months	3 Years Cumulative	5 Years Cumulative	10 Years Cumulative
Return to shareholders ^{1,A}	-28.5%	+0.9%	+23.6%	+159.5%
Return on net assets ^{2,A}	-22.1%	-0.7%	+20.1%	+152.2%
Benchmark return ³	-23.2%	-13.5%	+1.5%	+115.2%

^A Alternative Performance Measure ('APM').

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

² Source: Morningstar.

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

A glossary of terms and APMs is provided on pages 27 and 28.

SUMMARY OF RESULTS

	31st July 2020	31st January 2020	% change
Shareholders' funds (£'000)	1,668,977	2,182,822	-23.5
Number of shares in issue (excluding shares held in Treasury)	791,522,893	791,522,893	
Net asset value per share with debt at par value ^A	210.9p	275.8p	-23.5 ¹
Net asset value per share with debt at fair value ^{3,A}	199.0p	264.8p	-24.8
Return on net assets with dividend reinvested	-22.1%	+28.0%	
Share price	182.8p	261.0p	-30.0 ²
Share price discount to net asset value per share with debt at par value ^A	13.3%	5.4%	
Share price discount to net asset value per share with debt at fair value ^A	8.1%	1.4%	
Gearing^A	10.2%	4.9%	
Ongoing Charges^A	0.47%	0.44%	

¹ % change, excluding dividends paid. Including dividends, the return would be -22.1%.

² % change, excluding dividends paid. Including dividends, the return would be -28.5%.

³ The fair value of the Company's debentures have been calculated using discounted cash flow techniques, using the yield from a similarly dated gilt plus a margin based on the 5 year average for the AA Barclays Sterling Corporate Bond spread. Please refer to page 6 for further details.

^A Alternative Performance Measure ('APM').

A glossary of terms and APMs is provided on pages 27 and 28.

Chairman's Statement



Angus Gordon Lennox
Chairman

When I signed my statement for last year's Annual Report, in mid April, we were in the midst of the COVID-19 pandemic and the UK had gone into full lockdown. At that stage no one was sure what the immediate future held but we remained convinced of the quality of our portfolio and that the Mercantile was well placed to ride out the coming storm. This report covers both the initial shock to markets brought about by COVID and also the partial rally in equity markets which followed. Since then, although volatile, markets stabilised somewhat and Government restrictions were progressively eased. The economy seemed to be on the mend. However, as I write, the rate of infection is increasing again and some restrictions are being reintroduced. As we enter winter we are once again facing challenging times, but this time we are in a more robust position as we continue to identify tomorrow's market leaders.

Performance

In the six months to 31st July 2020 the Company produced a return on net assets of -22.1%. This compares with the return of -23.2% from our benchmark index. Although such negative returns are always distressing, for our Investment Managers to outperform our benchmark index is a highly creditable achievement especially given the circumstances, the market volatility and the fact that the portfolio has been geared for most of the period.

The return to shareholders was -28.5%, as the discount at which the Company's shares trade widened from 1.4% to 8.1% (calculated with debt at fair value) over the half year, consistent with a general widening of discounts across the investment trust sector.

Returns and Dividends

The Company's revenue account has been severely impacted by the consequences of COVID-19 as many portfolio companies either cut or cancelled their dividends. The revenue return in the first half of the Company's current financial year decreased from 4.32 pence per share for the corresponding period last year to 1.40 pence per share, a decrease of 67.6%.

A first quarterly interim dividend of 1.35 pence was paid on 3rd August 2020 and a second quarterly interim dividend of 1.35 pence per share has been declared by the Board, payable on 2nd November 2020 to shareholders on the register at close of business on 25th September 2020. This brings the total dividend for the year to date to 2.70 pence (2019: 2.70 pence). The Board intends to pay a third quarterly interim dividend of 1.35 pence in early February 2021.

One of the structural advantages of a closed end investment trust is the ability to use revenue reserves to smooth dividend payments in more difficult times and the Board confirms that its current intention is at least to maintain last year's total dividend of 6.60p per share for this financial year.

Discount and Share Buy Backs

At the end of the last financial year, the Company's shares traded at a narrow discount, closing the year at 1.4%, but it widened rapidly during the period as market volatility increased sharply following the onset of COVID-19. The Board continues to monitor closely the discount at which the Company's shares trade however, given the volatile nature of the market, it did not use its authority to buy back any shares in the six months to 31st July 2020.

Marketing

You may notice a different image on the cover of this report than in previous years. The Board approved a refresh to the Company's branding in conjunction with an advertising and PR campaign. Our goal is to increase demand for our Company's shares among retail investors. Early signs are that the campaign is having an impact and we will continue to monitor the shareholder register closely.

Outlook

It would be a brave Chairman who predicts the future in such extraordinary and challenging times. I have already said that COVID-19 is rearing its ugly head again and the immediate future remains uncertain. However, we can but continue to do what we do best, in the knowledge that things will eventually return to something approaching normal or be managed in such a way that it allows companies and the economy to flourish once again. Such difficulties also present new opportunities and our Investment Managers have adopted a positive stance, which we fully endorse, especially when they can identify and invest in robust businesses at reasonable, even cheap, valuations. By investing in companies which have positioned themselves well to take advantage of the massive and accelerated changes that have occurred in markets, I am highly confident that when sustained recovery is upon us, we will again thrive and prosper for our shareholders.

Angus Gordon Lennox
Chairman

22nd October 2020



Guy Anderson
Investment Manager



Anthony Lynch
Investment Manager

Setting the scene: a challenging period for financial markets

The six months to 31st July 2020 were a torrid time for UK medium and smaller companies (the 'Benchmark'), which generated a total return of -23.2%. At its mid-March nadir, which roughly coincided with the commencement of the UK's national lockdown, the Benchmark had fallen over 40% since just the end of January.

The word unprecedented is much overused in financial commentary, but it seems apt for 2020: the rapid spread of the COVID-19 virus has resulted in a dramatic contraction in economic activity – in the UK potentially the most severe since before the industrial revolution – as countries around the world implemented lockdowns of varying degrees. Reacting to such widespread economic damage, and in an effort to curtail its longer-term implications, both monetary and fiscal policy have been loosened substantially. With government spending and support reaching new highs, national debt in the UK once again overtook annual GDP, a threshold unsurpassed since the 1960s when the country was still dealing with the aftermath of heavy wartime borrowing.

This massive fiscal intervention – in particular the Coronavirus Job Retention Scheme ('CJRS') but also other measures – has provided valuable support to many of the UK's corporates, including listed companies, as businesses would otherwise have struggled to retain employees and fulfil their obligations in such an environment. Markets began to recover in late March and, while the trajectory has been far from linear, have recouped nearly half of the falls from those first six weeks.

Mercantile performance

While the investment team's continued focus on investing in high quality, structurally robust and appropriately valued businesses led to outperformance against the Benchmark, the return on net assets for the six months to 31st July 2020 was nevertheless a disappointing -22.1%.

Spotlight on stocks

In a period of such drastic change it is inevitable that there would need to be changes to the portfolio as businesses may no longer be appropriately capitalised – after all very few can operate with or close to zero revenue for any sustained period. Moreover, it may be the case that previous investment hypotheses are no longer valid, or extreme share price moves open up better opportunities elsewhere. As a result of these factors and maintaining our rigorous investment criteria there were a number of changes to the portfolio, resulting in a small reduction in the number of holdings. Despite this, turnover remained in line with recent averages, reflecting a resiliently positioned portfolio.

In such an environment it is also inevitable that there would be greater bifurcation between those companies that succeed and those that – often for reasons outside of their own control – do not. As a result, the variation between stock price performances has been particularly marked this year, with those well placed such as our technology investments in AVAST, Computacenter and Softcat delivering very robust returns, while those in the travel and leisure sectors, such as National Express, SSP and WH Smith suffering significant share price declines. Indeed, in each of the latter three cases the companies have come to the market to raise new equity in order to shore up their balance sheets.

Outlook for the coming months

Having suffered such a sharp and sudden contraction through the second calendar quarter, as economies were gradually brought out of lockdown the question facing markets was and remains what the shape of this recovery looks like and whether there will be long lasting economic damage. It is too early to answer these questions and with infection rates increasing again and social distancing remaining – for now at least – the politicians' preferred approach to containing the virus, there may be setbacks and volatility on the path to recovery.

In the immediate future, in addition to developments surrounding the ongoing public health crisis, financial markets will have to contend with the implications of Brexit and of the US Presidential Election. While this may sound daunting we are viewing the future with optimism and the portfolio is currently 10% geared. We believe the challenges to be widely understood and reflected in the depressed levels of our market. In contrast, economic lead indicators suggest an encouraging recovery and many of our portfolio companies have reported substantial improvements in trading through the summer months. As a result of this we are finding an increasing number of attractive investment opportunities.

We focus on investing in structurally robust businesses that operate in growing end markets with the ability to invest capital at high returns. This pandemic has accelerated pre-existing trends and driven changes across many areas of society. We believe that many of our holdings will ultimately benefit from these and be tomorrow's market leaders.

Guy Anderson

Anthony Lynch

Investment Managers

22nd October 2020

LIST OF INVESTMENTS

AT 31ST JULY 2020

Company	£'000
Industrials	
Spirax-Sarco Engineering	41,200
Electrocomponents	39,032
Travis Perkins	33,225
Grafton	30,575
Marshall's	28,536
QinetiQ	27,675
Avon Rubber	26,593
Diploma	24,018
Signature Aviation	21,197
Inchcape	18,885
Hill & Smith	18,755
Morgan Sindall	17,974
Rotork	16,485
Balfour Beatty	16,240
Coats	16,131
Morgan Advanced Materials	14,018
Vesuvius	11,628
Oxford Instruments	10,095
Ibstock	10,058
Vp	9,800
XP Power	5,126
	437,246
Consumer Services	
B&M European Value Retail	50,282
Dunelm	43,629
National Express	33,489
Howden Joinery	28,910
Auto Trader	24,129
WH Smith	20,944
Future	20,700
SSP	18,948
Trainline	14,111
4imprint	13,165
JD Sports Fashion	12,112
GoCo	9,361
boohoo ¹	8,610
DFS Furniture	7,670
Dart ¹	6,552
Reach	5,657
Pets at Home	4,921
Greggs	1,427
	324,617

Company	£'000
Financials	
Intermediate Capital	55,724
Beazley	40,572
Man	36,182
Close Brothers	32,850
John Laing	32,265
3i	26,682
OneSavings Bank	22,189
TP ICAP	20,215
Phoenix	19,758
Brewin Dolphin	17,030
Sabre Insurance	13,613
TBC Bank	5,688
	322,768
Consumer Goods	
Bellway	63,395
Games Workshop	56,192
Countryside Properties	37,551
Britvic	32,718
Tate & Lyle	31,583
Cranswick	21,468
Greencore	20,187
Premier Foods	18,684
Berkeley	14,698
Team17 ¹	11,021
	307,497
Technology	
Softcat	57,710
Computacenter	52,695
Avast	39,641
AVEVA	26,910
	176,956
Real Estate	
UNITE	41,798
Derwent London	37,166
LondonMetric Property	30,298
Segro	28,512
Workspace	11,666
Watkin Jones ¹	3,762
	153,202

Company	£'000
Basic Materials	
Polymetal International	51,165
Synthomer	23,909
Ferrexpo	12,159
Tennants Consolidated ^{2,3}	4,657
	91,890
Telecommunications	
Telecom Plus	17,662
	17,662
Health Care	
Ergomed ¹	7,425
	7,425
Total Investments⁴	1,839,263

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.

ANALYSIS

PORTFOLIO ANALYSIS

LISTED EQUITY MARKET CAPITALISATION

	31st July 2020 % ¹	31st January 2020 % ¹
UK FTSE Mid sized	76.4	80.0
UK FTSE 100	18.5	13.1
UK FTSE Small & Fledgling	2.8	5.7
UK AIM	2.0	1.0
UK Unquoted	0.3	0.2
Total	100.0	100.0

¹ Based on total investments of £1,839m (31st January 2020: £2,290m).

Source: J.P. Morgan.

SECTOR ANALYSIS

	31st July 2020		31st January 2020	
	Portfolio 2020	Benchmark 2020	Portfolio 2019	Benchmark 2019
Industrials	23.8	26.2	24.9	26.4
Consumer Services	17.7	16.3	19.8	17.7
Financials	17.5	17.3	19.5	16.7
Consumer Goods	16.7	9.2	14.7	9.1
Technology	9.6	3.5	8.3	4.3
Real Estate	8.3	14.3	7.8	14.3
Basic Materials	5.0	3.5	3.2	2.8
Telecommunications	1.0	1.0	0.8	0.8
Health Care	0.4	5.4	–	4.0
Utilities	–	1.7	–	1.7
Oil & Gas	–	1.6	1.0	2.2
Total	100.0	100.0	100.0	100.0

¹ Based on total investments of £1,839m (31st January 2020: £2,290m).

Source: J.P. Morgan.

Financial Statements

STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31ST JULY 2020

	(Unaudited) Six months ended 31st July 2020			(Unaudited) Six months ended 31st July 2019			(Audited) Year ended 31st January 2020		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments held at fair value through profit or loss	–	(487,657)	(487,657)	–	158,287	158,287	–	435,491	435,491
Net foreign currency gains	–	2	2	–	17	17	–	53	53
Income from investments	14,980	–	14,980	37,251	–	37,251	66,450	–	66,450
Interest receivable and similar income	137	–	137	655	–	655	1,269	–	1,269
Gross return/(loss)	15,117	(487,655)	(472,538)	37,906	158,304	196,210	67,719	435,544	503,263
Management fee	(1,090)	(2,545)	(3,635)	(1,044)	(2,437)	(3,481)	(2,206)	(5,149)	(7,355)
Other administrative expenses	(764)	–	(764)	(574)	–	(574)	(1,106)	–	(1,106)
Net return/(loss) before finance costs and taxation	13,263	(490,200)	(476,937)	36,288	155,867	192,155	64,407	430,395	494,802
Finance costs	(1,647)	(3,843)	(5,490)	(1,648)	(3,844)	(5,492)	(3,295)	(7,687)	(10,982)
Net return/(loss) before taxation	11,616	(494,043)	(482,427)	34,640	152,023	186,663	61,112	422,708	483,820
Taxation charge (note 3)	(549)	–	(549)	(393)	–	(393)	(602)	–	(602)
Net return/(loss) after taxation	11,067	(494,043)	(482,976)	34,247	152,023	186,270	60,510	422,708	483,218
Return/(loss) per share (note 4)	1.40p	(62.42)p	(61.02)p	4.32p	19.18p	23.50p	7.64p	53.37p	61.01p

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

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

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

STATEMENT OF CHANGES IN EQUITY

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve ¹ £'000	Total shareholders funds £'000
Six months ended 31st July 2020 (Unaudited)						
At 31st January 2020	23,612	23,459	13,158	2,039,659	82,934	2,182,822
Net (loss)/return	—	—	—	(494,043)	11,067	(482,976)
Dividends paid in the period (note 5)	—	—	—	—	(30,869)	(30,869)
At 31st JULY 2020	23,612	23,459	13,158	1,545,616	63,132	1,668,977
Six months ended 31st July 2019 (unaudited)						
At 31st January 2019	23,612	23,459	13,158	1,618,837	74,678	1,753,744
Repurchase of shares into Treasury	—	—	—	(532)	—	(532)
Net return	—	—	—	152,023	34,247	186,270
Dividends paid in the period (note 5)	—	—	—	—	(30,882)	(30,882)
At 31st July 2019	23,612	23,459	13,158	1,770,328	78,043	1,908,600
Year ended 31st January 2020 (audited)						
At 31st January 2019	23,612	23,459	13,158	1,618,837	74,678	1,753,744
Repurchase of shares into Treasury	—	—	—	(1,886)	—	(1,886)
Net return	—	—	—	422,708	60,510	483,218
Dividends paid in the year (note 5)	—	—	—	—	(52,254)	(52,254)
At 31st January 2020	23,612	23,459	13,158	2,039,659	82,934	2,182,822

¹ This reserve forms the distributable reserve of the Company and is used to fund distributions to investors via dividend payments.

STATEMENT OF FINANCIAL POSITION

AT 31ST JULY 2020

	(Unaudited) 31st July 2020 £'000	(Unaudited) 31st July 2019 £'000	(Audited) 31st January 2020 £'000
Fixed assets			
Investments held at fair value through profit or loss	1,839,263	1,915,995	2,289,569
Current assets			
Debtors	5,672	17,124	4,632
Cash and short term deposits	303	376	299
Cash equivalents: liquidity fund	13,340	173,616	72,042
	19,315	191,116	76,973
Current liabilities			
Creditors: amounts falling due within one year	(11,686)	(20,693)	(5,854)
Net current assets	7,629	170,423	71,119
Total assets less current liabilities	1,846,892	2,086,418	2,360,688
Creditors: amounts falling due after more than one year	(177,915)	(177,818)	(177,866)
Net assets	1,668,977	1,908,600	2,182,822
Capital and reserves			
Called up share capital	23,612	23,612	23,612
Share premium	23,459	23,459	23,459
Capital redemption reserve	13,158	13,158	13,158
Capital reserves	1,545,616	1,770,328	2,039,659
Revenue reserve	63,132	78,043	82,934
Total shareholders' funds	1,668,977	1,908,600	2,182,822
Net asset value per share (note 6)	210.9p	240.9p	275.8p

Registered in England, Company registration number 20537

STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31ST JULY 2020

	(Unaudited) Six months ended 31st July 2020 £'000	(Unaudited) Six months ended 31st July 2019 £'000	(Audited) Year ended 31st January 2020 £'000
Net cash outflow from operations before dividends and interest (note 7)	(4,445)	(4,088)	(8,470)
Dividends received	16,540	34,726	63,981
Interest received	137	655	1,269
Overseas tax recovered	—	—	43
Interest paid	(5,441)	(5,443)	(10,885)
Net cash inflow from operating activities	6,791	25,850	45,938
Purchase of investments	(263,463)	(408,394)	(751,163)
Sale of investments	228,838	404,935	648,682
Settlement of foreign currency contracts	(1)	(8)	(4)
Net cash outflow from investing activities	(34,626)	(3,467)	(102,485)
Dividends paid	(30,869)	(30,882)	(52,254)
Repurchase of shares into Treasury	—	(532)	(1,886)
Net cash outflow from financing activities	(30,869)	(31,414)	(54,140)
Decrease in cash and cash equivalents	(58,704)	(9,031)	(110,687)
Cash and cash equivalents at start of period	72,341	183,021	183,021
Unrealised gain on foreign currency cash and cash equivalents	6	2	7
Cash and cash equivalents at end of period	13,643	173,992	72,341
Decrease in cash and cash equivalents	(58,704)	(9,031)	(110,687)
Cash and cash equivalents consist of:			
Cash and short term deposits	303	376	299
Cash held in JPMorgan Sterling Liquidity Fund	13,340	173,616	72,042
Total	13,643	173,992	72,341

RECONCILIATION OF NET DEBT

	As at 31st January 2020 £'000	Cash flows £'000	Other non-cash charges £'000	As at 31st July 2020 £'000
Analysis of changes in net debt				
Cash	299	(2)	6	303
Cash equivalents	72,042	(58,702)	—	13,340
	72,341	(58,704)	6	13,643
Borrowings				
Debentures falling due after more than five years	(177,866)	—	(49)	(177,915)
Total	(105,525)	(58,704)	(43)	(164,272)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31ST JULY 2020

1. Financial statements

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

The figures and financial information for the year ended 31st January 2020 are extracted from the latest published financial statements of the Company and do not constitute statutory accounts for that year. Those financial statements have been delivered to the Registrar of Companies and include the report of the auditors which was unqualified and did not contain a statement under either section 498(2) or 498(3) of the Companies Act 2006.

2. Accounting policies

The financial statements have been prepared in accordance with the Companies Act 2006, FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' of the United Kingdom Generally Accepted Accounting Practice ('UK GAAP') and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (the revised 'SORP') issued by the Association of Investment Companies in October 2019.

FRS 104, 'Interim Financial Reporting', issued by the Financial Reporting Council ('FRC') in March 2015 has been applied in preparing this condensed set of financial statements for the six months ended 31st July 2020.

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

The accounting policies applied to this condensed set of financial statements are consistent with those applied in the financial statements for the year ended 31st January 2020.

3. Taxation

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

4. Return/(loss) per share

	(Unaudited) Six months ended 31st July 2020 £'000	(Unaudited) Six months ended 31st July 2019 £'000	(Audited) Year ended 31st January 2020 £'000
Return per share is based on the following:			
Revenue return	11,087	34,247	60,510
Capital (loss)/return	(494,043)	152,023	422,708
Total (loss)/return	(482,976)	186,270	483,218
Weighted average number of shares in issue	791,522,893	792,480,550	792,023,084
Revenue return per share	1.40p	4.32p	7.64p
Capital (loss)/return per share	(62.42)p	19.18p	53.37p
Total (loss)/return per share	(61.02)p	23.50p	61.01p

5. Dividends paid

	(Unaudited) Six months ended 31st July 2020 £'000	(Unaudited) Six months ended 31st July 2019 £'000	(Audited) Year ended 31st January 2020 £'000
Unclaimed dividends refunded to the Company ¹	—	(26)	(26)
2020 fourth quarterly dividend of 2.55p (2019: 2.55p) paid to shareholders in May	20,184	20,209	20,209
2021 first quarterly dividend of 1.35p (2020: 1.35p) paid to shareholders in August	10,685	10,699	10,699
2020 second quarterly dividend of 1.35p paid to shareholders in November	n/a	n/a	10,686
2020 third quarterly dividend of 1.35p paid to shareholders in February	n/a	n/a	10,686
Total dividends paid in the period	30,869	30,882	52,254

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

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

The first 2021 quarterly dividend of 1.35p (2020: 1.35p) per share, amounting to £10,685,000 (2020: £10,699,000) was paid on 3rd August 2020 in respect of the six months ended 31st July 2020.

A second quarterly dividend of 1.35p (2020: 1.35p) per share, amounting to £10,685,000 (2020: £10,686,000), has been declared payable in respect of the six months ended 31st July 2020.

6. Net asset value per share

	(Unaudited) Six months ended 31st July 2020	(Unaudited) Six months ended 31st July 2019	(Audited) Year ended 31st January 2020
Net assets (£'000)	1,668,977	1,908,600	2,182,822
Number of 2.5p ordinary shares in issue	791,522,893	792,229,037	791,522,893
Net asset value per share	210.9p	240.9p	275.8p

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

	(Unaudited) Six months ended 31st July 2020 £'000	(Unaudited) Six months ended 31st July 2019 £'000	(Audited) Year ended 31st January 2020 £'000
Net (loss)/ return before finance costs and taxation	(476,937)	192,155	494,802
Add capital losses/(less capital return) before finance costs and taxation	490,200	(155,867)	(430,395)
Decrease/(increase) in accrued income and other debtors	2,049	(2,201)	(1,867)
Decrease in accrued expenses	(36)	(69)	(45)
Management fee charged to capital	(2,545)	(2,437)	(5,149)
Overseas withholding tax	(496)	(311)	(616)
Dividends received	(16,540)	(34,726)	(63,981)
Interest received	(137)	(655)	(1,269)
Realised (losses)/gains on foreign currency transactions	(3)	23	50
Net cash outflow from operations before dividends and interest	(4,445)	(4,088)	(8,470)

8. Fair valuation of investments

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

	(Unaudited) Six months ended 31st July 2020		(Unaudited) Six months ended 31st July 2019		(Audited) Year ended 31st January 2020	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Level 1	1,834,605	—	1,911,555	—	2,285,129	—
Level 3 ¹	4,657	—	4,440	—	4,440	—
Total	1,839,263	—	1,915,995	—	2,289,569	—

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

A reconciliation of the fair value measurements using valuation techniques using non-observable data is set out below.

	Six months ended 31st July 2020 (Unaudited)		
	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 period	217	—	217
Closing balance	4,563	94	4,563

	Six months ended 31st July 2019 (Unaudited)		
	Equity Investments £'000	Fixed Interest Investment £'000	Total £'000
Level 3			
Opening balance	4,080	94	4,174
Change in fair value of unquoted investment during the period	266	—	266
Closing balance	4,346	94	4,440

	Year ended 31st January 2020 (Audited)		
	Equity Investments £'000	Fixed Interest Investment £'000	Total £'000
Level 3			
Opening balance	4,080	94	4,174
Change in fair value of unquoted investment during the year	266	—	266
Closing balance	4,346	94	4,440

9. Net (debt)/cash

	(Unaudited) Six months ended 31st July 2020 £'000	(Unaudited) Six months ended 31st July 2019 £'000	(Audited) Year ended 31st January 2020 £'000
Cash and cash equivalents	13,643	173,992	72,341
Debentures falling due after more than five years	(177,915)	(177,818)	(177,866)
Net (debt)/cash	(164,272)	(3,826)	(105,525)

10. Subsequent events

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

Interim Management Report

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

Principal Risks and Uncertainties

The principal risks and uncertainties faced by the Company fall into the following broad categories: investment and strategy; accounting, legal and regulatory; corporate governance and shareholder relations; operational and cyber crime; and financial. Information on each of these areas is given in the Directors' Report within the Annual Report and Financial Statements for the year ended 31st January 2020.

Related Parties Transactions

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

Going Concern

The Directors believe, having considered the Company's investment objectives, risk management policies, capital management policies and procedures, nature of the portfolio and expenditure projections, that the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future and, more specifically, that there are no material uncertainties pertaining to the Company that would prevent its ability to continue in such operation existence for at least 12 months from the date of the approval of this half yearly financial report. For these reasons, they consider there is sufficient evidence to continue to adopt the going concern basis in preparing the accounts.

Directors' Responsibilities

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

- (i) the condensed set of financial statements contained within the half year financial report has been prepared in accordance with FRS 104 'Interim Financial Reporting' and gives a true and fair view of the state of affairs of the Company, and of the assets, liabilities, financial position and net return of the Company as at 31st July 2020 as required by the UK Listing Authority Disclosure Guidance and Transparency Rules ('DTRs') 4.2.4R; and
- (ii) the interim management report includes a fair review of the information required by 4.2.7R and 4.2.8R of the DTRs.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- notify the Company's shareholders in writing about the use, if any, of disclosure exemptions in FRS102 in the preparation of the financial statements;

and the Directors confirm that they have done so.

For and on behalf of the Board

Angus Gordon Lennox

Chairman

22nd October 2020

Shareholder Information

Return to Shareholders (APM)

Total return to the 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	Six months ended 31st July 2020	
Opening share price (p)	5	261.0	(a)
Closing share price (p)	5	182.8	(b)
Total dividend adjustment factor ¹		1.020399	(c)
Adjusted closing share price (p) (d = b x c)		186.5	(d)
Total return to shareholders (e = d / a - 1)		-28.5%	(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 Par Value (APM)

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

Total return calculation	Page	Six months ended 31st July 2020	
Opening cum-income NAV per share with debt at par value (p)	5	275.8	(a)
Closing cum-income NAV per share with debt at par value (p)	5	210.9	(b)
Total dividend adjustment factor ¹		1.019595	(c)
Adjusted closing cum-income NAV per share with debt at par value (p) (d = b x c)		215.1	(d)
Total return on net assets with debt at par value (e = d / a - 1)		-22.1%	(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.

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

The Company's debt (debentures) is valued in the Statement of Financial Position (within Creditors: amounts falling due after more than one year) at amortised cost, £177,195,000, which is materially equivalent to the repayment value of the debt on the assumption that it is held to maturity. This is often referred to as 'Debt at Par Value'. The current replacement or market value of the debt, which assumes it is repaid and renegotiated under current market conditions, is often referred to as the 'Debt at Fair Value'. The difference between fair and par values of the debt is subtracted from the NAV to derive the NAV with debt at fair value. The fair value of the £3.85 million perpetual debenture and the £175 million debenture issued by the Company have been calculated using discounted cash flow techniques, using the yield from a similar dated gilt plus a margin based on the five year average for the AA Barclays Sterling Corporate Bond spread.

For the £175 million debenture, the Company takes the yield on 4.75% Treasury Gilt 07/12/2030. For the £3.85 million perpetual debenture, the Company applies the yield on 3.50% Treasury Gilt 22/07/2068.

The margin applied on the 5 year average for the AA Barclays Sterling Corporate Bond spread at 31st July 2019 was 0.84%.

As at 31st July 2020, the cum-income NAV with debt at fair value was £1,574,735,000 or 199.0p per share.

Benchmark return

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

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

Gearing/(Net Cash) (APM)

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

Gearing calculation	Page	Six months ended 31st July 2020 £'000	Year ended 31st January 2020 £'000	
Investments held at fair value through profit or loss	18	1,839,263	2,289,569	(a)
Net assets	18	1,668,977	2,182,822	(b)
Gearing (c = a / b + 1)		10.2%	4.9%	(c)

Ongoing Charges (APM)

The ongoing charges represent the Company's management fee and all other operating expenses excluding finance costs payable, expressed as a percentage of the average of the daily cum-income net assets during the year and is calculated in accordance with guidance issued by the Association of Investment Companies.

The figure as at 31st July 2020 is an estimated annualised figure based on the numbers for the six months ended 31st July 2020.

Ongoing charges calculation	Page	Six months ended 31st July 2020 £'000	Year ended 31st January 2020 £'000	
Management Fee	16	7,270	7,355	
Other administrative expenses	16	1,528	1,106	
Total management fee and other administrative expenses		8,798	8,461	(a)
Average daily cum-income net assets		1,861,756	1,941,236	(b)
Ongoing charges (c = a / b)		0.47%	0.44%	(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.

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 You Invest	Halifax Share Dealing
Barclays Smart Investor	Hargreaves Lansdown
Charles Stanley Direct	Interactive Investor
EQi	The Share Centre
Fidelity Personal Investing	

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

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

2. Through a professional adviser

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

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

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

Be ScamSmart

Investment scams are designed to look like genuine investments

Spot the warning signs

Have you been:

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

If so, you might have been contacted by fraudsters.

Avoid investment fraud

1 Reject cold calls

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

2 Check the FCA Warning List

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

3 Get impartial advice

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

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

Report a Scam

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

If you have lost money to investment fraud, you should report it to Action Fraud on 0300 123 2040 or online at www.actionfraud.police.uk

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



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.

Directors

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

Company Numbers

Company Registration number: 20537
London Stock Exchange number: 0579403
ISIN: GB0005794036
Bloomberg ticker: MRC LN
LEI: 549300BGX3CJHLP2H42

Market Information

The Company's shares are listed on the London Stock Exchange. The market price is shown daily in the Financial Times, The Guardian, The Times, The Daily Telegraph, The Scotsman and on the JPMorgan internet site at www.mercantileit.co.uk, where the share price is updated every 15 minutes during trading hours.

Website

www.mercantileit.co.uk

Share Transactions

The Company's shares may be dealt in directly through a stockbroker or professional adviser acting on an investor's behalf.

Dividend Reinvestment Plan

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

Manager and Company Secretary

JPMorgan Funds Limited

Company's Registered Office

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

Please contact Jonathan Latter for Company Secretarial and administrative matters.

Depository

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

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

Registrars

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

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

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

Independent Auditors

BDO LLP
Chartered Accountants and Statutory Auditors
55 Baker Street
London W1U 7EU
Telephone number: 020 7486 588

Brokers

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

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



The Association of
Investment Companies

A member of the AIC

www.mercantileit.co.uk

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

Telephone calls may be recorded and monitored for security and training purposes.



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J.P.Morgan
Asset Management