

THE MERCANTILE INVESTMENT TRUST PLC

Half Year Report & Financial Statements for the six months ended 31st July 2019

Discovering Tomorrow's
Market Leaders



J.P.Morgan
Asset Management

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Features

Objective

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

Investment Policy

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

Benchmark

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

Capital Structure

At 31st July 2019, the Company's issued share capital comprised 944,492,180 ordinary shares of 2.5p each, including 152,263,143 shares held in Treasury.

At 31st July 2019, 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 continue to do so for the foreseeable future.

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

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.

Half Year Performance

Total returns (includes dividends reinvested)

+8.0%

Return to shareholders^{1.A}

+10.7%

Return on net assets^{2.A}

+5.2%

Benchmark return³

Financial Data

	31st July 2019	31st January 2019	% Change
Shareholders' funds (€'000)	1,908,600	1,753,744	+8.8
Ordinary shares in issue (excluding shares held in Treasury)	792,229,037	792,492,181	
Net asset value per share with debt at par value ^A	240.9p	221.3p	+8.9
Net asset value per share with debt at fair value ^{4.A}	230.0p	211.7p	+8.6
Return on net assets with dividends reinvested	+10.7%	-8.0%	
Share price	203.5p	192.0p	+6.0
Share price discount to net asset value per share with debt at par value ^A	15.5%	13.2%	
Share price discount to net asset value per share with debt at fair value ^A	11.5%	9.3%	
Gearing ^A	0.4%	0.1%	
Ongoing Charges ^A	0.43%	0.45%	

¹Source: Morningstar.

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

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

⁴The 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.

^AAlternative Performance Measure ('APM').

A glossary of terms and APMs is provided on page 19.

5 Year Performance

(Figures have been rebased to 100 as at 31st July 2014)



About the Company

Chairman's Statement



Angus Gordon Lennox

Performance

The six months to 31st July 2019 was another successful period for your Company, which achieved a return on net assets of +10.7%. This compares with the return of +5.2% from our benchmark index and is another creditable performance by our Investment Managers, enhancing further the Company's long term performance record.

Returns and Dividends

The Company's revenue account also remains in a healthy state. The revenue return in the first half of the Company's current financial year increased to 4.32 pence per share, up from 3.95 pence per share for the corresponding period last year, an increase of 9.4%.

A first quarterly interim dividend of 1.35 pence was paid on 1st August 2019 and a second quarterly interim dividend of 1.35 pence per share has been declared by the Board, payable on 1st November 2019 to shareholders on the register at close of business on 27th September 2019. This brings the total dividend for the year to date to 2.70 pence (2018: 2.50 pence), reflecting the strong revenue position. The Board intends to pay a third quarterly interim dividend of 1.35 pence in early February 2020.

The level of the fourth quarterly interim dividend will depend on income received by the Company for the full financial year. However, as has been stated previously and in line with the Company's investment policy, the Board recognises shareholders' desire for a growing dividend whilst retaining a healthy revenue reserve.

Discount and Share Buy Backs

The Board has continued to use its share repurchase authority to enhance the net asset value for ongoing shareholders and to attempt to address any imbalance between the supply of and demand for the Company's shares in the market. In the six months to 31st July 2019, a total of 263,144 shares were repurchased at a cost of £532,000. Those shares were repurchased into Treasury and the total number of shares held in Treasury at the half year end was 152,263,143. Those shares are available for reissue by the Board, but only at a premium to net asset value. Since the half year end, the Company has repurchased a further 706,144 into Treasury.

Investment Management Team

As announced in August, Martin Hudson will be leaving JPMorgan Asset Management in the fourth quarter of this year and has stepped down from his portfolio management responsibilities. The Company's portfolio continues to be managed by Guy Anderson and Anthony Lynch. Martin has worked as part of the Company's investment management team for over 25 years and we are hugely grateful for everything that he has contributed; not only is he a highly skilled investor, but he has also been an exceptional ambassador for The Mercantile. We wish him well in the future.

About the Company – continued

Outlook

Looking back at my outlook statements in these reports over the last couple of years there have been some constant themes. We live in uncertain political and economic times. We have adopted and maintained a cautious stance. The area of the market that we invest in has historically outperformed and that we look to the Managers to continue to invest our money in good quality companies with strong business models which should deliver long term returns to shareholders. Despite the headwinds we have experienced, the advantages of having an investment in The Mercantile has shone through and we have prospered.

I would love to say nothing has changed, and to some extent it hasn't, just that the challenges are more pronounced, since as I write the Supreme Court has recently found the Prime Minister's actions to be unlawful, the Brexit situation remains fluid and ever changing, threats of trade wars continue and the EU economy seems to be teetering on the brink of recession. Some might say that the world has gone mad. However, if there is one thing that such a long period of uncertainty has achieved, despite the renewed shrieks from the Westminster bubble, it is that the country has remained resilient thus far and the companies we invest in have got on with doing what they do best; by running their businesses and preparing for all eventualities.

We will do the same and seek excess returns for shareholders, as we have achieved in the past. We will continue to invest in quality companies in a cautious and thoughtful way and prepare to take advantage of the opportunities that may arise.

Angus Gordon Lennox
Chairman

8th October 2019

About the Company – continued

Investment Managers' Report



Setting the scene: markets bounce but uncertainty lingers

Over the six months to 31st July 2019 the direction of travel for UK medium and smaller companies (the 'Benchmark') was encouraging, generating a total return of +5.2%.

Although the UK equity market progressed, it remained out of favour with international investors troubled by the prolonged Brexit uncertainty. Globally, equity markets defied expectations, recovering strongly from the falls witnessed in the final quarter of 2018.

Trade tensions have ratcheted up further this year with the US and China appearing no closer to settling their many differences. This protracted dispute between the world's leading economic powerhouses is hampering economic growth and increasing uncertainty.

The prospect of weakening global growth has resulted in central banks around the world pursuing monetary easing – lowering interest rates in order to make credit more easily accessible. Meanwhile in the UK the appointment of Boris Johnson as Prime Minister in late July initially appeared to increase the likelihood of a 'hard Brexit', but this remains a fluid situation.

Mercantile delivers a robust performance

For the six months to 31st July 2019, the Company's continued focus on investing in good quality, structurally robust businesses delivered a total return on net assets of +10.7%, outperforming the Benchmark. The share price total return was +8.0%.

Spotlight on stocks

Adjustments to the portfolio over the period were relatively limited although we have marginally reduced the overall number of holdings. Whilst the current environment still provides scope to uncover compelling investment opportunities, we believe the breadth is narrower than it was before. A more concentrated – but still highly diversified – approach allows us to focus on quality businesses with compelling valuations and where we believe that prospects for growth remain underpinned.

By value, the Company's largest holding is alternative asset manager **Intermediate Capital Group** (ICG) which continued to perform strongly and now manages more than €38 billion of assets.

Steam engineer **Spirax-Sarco** was promoted to the FTSE 100 Index at the end of 2018. The business has continued to perform strongly, with its share price surging to a new peak in early July after a financial first half year that exceeded expectations. Similarly, shares in **AVEVA**, the global leader in virtualisation software for industrial customers, also reached new highs as organic growth rates accelerated following the successful integration of Schneider Electric's industrial software business.

Not owning aerospace and defence systems supplier **Cobham**, which we avoided because it is in the midst of a protracted and challenging business turnaround, hurt relative performance as the aerospace and defence systems supplier's share price rose sharply when it agreed to be bought by a US private equity firm in late July.

About the Company – continued

Outlook for the coming six months

We are witnessing weaker momentum across the global economy. The trade dispute between the United States and China remains unresolved after more than a year of tit-for-tat tariffs, threats and counter threats. There is little evidence of a resolution occurring any time soon and the dispute is weighing heavily on the prospects for the global economy.

Domestically, Brexit uncertainties are creating a backdrop of elevated political risk, whilst sterling weakness and low consumer confidence are impacting the earnings of UK domestically focused businesses. Thankfully there are positives: UK companies' earnings and dividends have proved resilient, the UK labour market is strong with unemployment remaining low whilst the employment rate nudges historic highs and we are seeing real wage growth for the first time since before the EU referendum. These latter points could provide a platform for an economic upturn. Furthermore the fall in the value of sterling against other currencies may boost inward UK investment as and when economic and political clarity returns.

While the coming months may well be challenging we are confident that we can still unearth and invest in companies that are both fundamentally robust and have the potential to be long-term future winners. We also maintain our view that the favourable dynamics of medium- and small-sized companies can continue to drive superior returns, outperforming larger companies over the long-term.

The Company can hold up to 10% in cash or utilise gearing of up to 20% of net assets where appropriate. At the present time, the portfolio remains fully invested but ungeared. This position allows the Company to benefit from future increases in the stock market while providing us with plenty of capacity to invest further as and when suitable opportunities arise.

Looking ahead, we remain committed to positioning the portfolio for future gains: even when the immediate geo-political and economic climate is testing we will seek out additional investment opportunities that can generate earnings growth over time, as we believe these are the stocks that will continue to be the long-term winners.

Guy Anderson
Anthony Lynch
Investment Managers

8th October 2019

Investment Review

List of Investments

at 31st July 2019

Company	Valuation £'000	Company	Valuation £'000
Industrials		Financials	
Grafton	42,748	Intermediate Capital	82,914
Marshalls	42,135	Man	50,076
Electrocomponents	41,841	John Laing	42,102
Spirax-Sarco Engineering	35,940	Beazley	41,292
Howden Joinery	34,854	Close Brothers	39,900
Vesuvius	33,858	3i	33,375
BBA Aviation	30,880	Charter Court Financial Services	22,162
Rotork	25,204	Phoenix	20,868
DS Smith	22,115	Brewin Dolphin	18,353
Diploma	20,097	Amigo	10,799
Bodycote	19,147	Sabre Insurance	9,258
Polypipe	18,378	TBC Bank	7,874
Coats	17,913	Mortgage Advice Bureau ¹	6,220
Morgan Sindall	17,422	Cenkos Securities ¹	1,798
Morgan Advanced Materials	16,278		386,991
Rhi Magnesita	15,225	Consumer Services	
Forterra	14,677	SSP	52,886
Ibstock	14,597	National Express	37,074
Babcock International	12,860	WH Smith	36,430
Hays	12,328	B&M European Value Retail	36,254
Melrose Industries	11,778	Inchcape	31,943
Vp	11,004	JD Sports Fashion	29,530
Avon Rubber	10,733	Auto Trader	27,361
Oxford Instruments	9,780	Dunelm	19,855
SThree	7,587	Future	12,995
Alpha Financial Markets Consulting ¹	2,551	4imprint	12,555
	541,930	GoCo	7,807
		Watches of Switzerland	7,661
		Reach	7,530
		DFS Furniture	7,347
		Trainline	7,233
		GVC	7,094
		easyJet	6,265
		M&C Saatchi ¹	5,459
		Hollywood Bowl	1,563
		JPJ	1,205
			356,047

Investment Review – continued

List of Investments – *continued*

Company	Valuation £'000	Company	Valuation £'000
Consumer Goods		Basic Materials	
Bellway	64,449	Polymetal International	50,765
Games Workshop	40,412	Synthomer	24,981
Britvic	34,250	Ferrexpo	13,578
Countryside Properties	25,137	Tennants Consolidated ^{2,3}	4,440
Greencore	25,121		93,764
MP Evans ¹	17,544		
Berkeley	12,788	Oil & Gas	
	219,701	Hunting	14,252
		Premier Oil	10,238
Real Estate			24,490
UNITE	43,344	Telecommunications	
Derwent London	35,040	Telecom Plus	15,451
Segro	22,509		15,451
LondonMetric Property	18,158	Health Care	
Workspace	11,816	Hikma Pharmaceuticals	9,774
Shaftesbury	7,996		9,774
Watkin Jones ¹	5,871	Total Investments⁴	1,915,995
	144,734		
Technology			
AVEVA	45,463		
Computacenter	39,490		
Softcat	38,160		
	123,113		

¹AIM listed investment.

²Unquoted investment.

³Includes a fixed interest investment.

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

Investment Review – continued

Portfolio Analyses

Listed Equity Market Capitalisation

	31st July 2019 % ¹	31st January 2019 % ¹
UK FTSE Mid sized	79.5	79.2
UK FTSE 100	13.7	11.3
UK FTSE Small & Fledgling	4.5	5.2
UK AIM	2.1	4.1
UK Unquoted	0.2	0.2
Total	100.0	100.0

¹Based on total portfolio of £1,916m (31st January 2019: £1,755m).

Sector Analysis

	31st July 2019		31st January 2019	
	Portfolio % ¹	Benchmark %	Portfolio % ¹	Benchmark %
Industrials	28.3	29.2	32.0	28.8
Financials	20.2	13.7	21.0	15.7
Consumer Services	18.6	19.2	14.6	18.0
Consumer Goods	11.5	7.7	12.4	8.2
Real Estate	7.5	11.8	6.2	12.6
Technology	6.4	2.6	6.2	2.8
Basic Materials	4.9	3.9	4.0	4.0
Oil & Gas	1.3	3.4	2.0	2.6
Telecommunications	0.8	1.4	0.8	1.1
Health Care	0.5	5.7	0.8	4.6
Utilities	—	1.4	—	1.6
Total	100.0	100.0	100.0	100.0

¹Based on total portfolio of £1,916m (31st January 2019: £1,755m).

Financial Statements

Statement of Comprehensive Income for the six months ended 31st July 2019

	(Unaudited) Six months ended 31st July 2019			(Unaudited) Six months ended 31st July 2018			(Audited) Year ended 31st January 2019		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on investments held at fair value through profit or loss	—	158,287	158,287	—	40,233	40,233	—	(208,880)	(208,880)
Net foreign currency gains	—	17	17	—	1	1	—	42	42
Income from investments	37,251	—	37,251	34,901	—	34,901	65,363	—	65,363
Interest receivable and similar income	655	—	655	377	—	377	995	—	995
Gross return/(loss)	37,906	158,304	196,210	35,278	40,234	75,512	66,358	(208,838)	(142,480)
Management fee	(1,044)	(2,437)	(3,481)	(1,138)	(2,655)	(3,793)	(2,177)	(5,079)	(7,256)
Other administrative expenses	(574)	—	(574)	(604)	—	(604)	(1,212)	—	(1,212)
Net return/(loss) before finance costs and taxation	36,288	155,867	192,155	33,536	37,579	71,115	62,969	(213,917)	(150,948)
Finance costs	(1,648)	(3,844)	(5,492)	(1,647)	(3,843)	(5,490)	(3,294)	(7,685)	(10,979)
Net return/(loss) before taxation	34,640	152,023	186,663	31,889	33,736	65,625	59,675	(221,602)	(161,927)
Taxation (charge)/credit (note 3)	(393)	—	(393)	(31)	—	(31)	75	—	75
Net return/(loss) after taxation	34,247	152,023	186,270	31,858	33,736	65,594	59,750	(221,602)	(161,852)
Return/(loss) per share (note 4)	4.32p	19.18p	23.50p	3.95p	4.18p	8.13p	7.47p	(27.69)p	(20.22)p

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.

Financial Statements – continued

Statement of Changes in Equity

For the six months ended 31st July 2019 (unaudited)

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve ¹ £'000	Total £'000
At 31st January 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

For the six months ended 31st July 2018 (unaudited)

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve ¹ £'000	Total £'000
At 31st January 2018	23,612	23,459	13,158	1,897,243	62,121	2,019,593
Repurchase of shares into Treasury	—	—	—	(42,590)	—	(42,590)
Net return	—	—	—	33,736	31,858	65,594
Dividends paid in the period (note 5)	—	—	—	—	(27,364)	(27,364)
At 31st July 2018	23,612	23,459	13,158	1,888,389	66,615	2,015,233

Year ended 31st January 2019 (audited)

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve ¹ £'000	Total £'000
At 31st January 2018	23,612	23,459	13,158	1,897,243	62,121	2,019,593
Repurchase of shares into Treasury	—	—	—	(56,804)	—	(56,804)
Net return	—	—	—	(221,602)	59,750	(161,852)
Dividends paid in the year (note 5)	—	—	—	—	(47,193)	(47,193)
At 31st January 2019	23,612	23,459	13,158	1,618,837	74,678	1,753,744

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

Financial Statements – continued

Statement of Financial Position at 31st July 2019

	(Unaudited) 31st July 2019 £'000	(Unaudited) 31st July 2018 £'000	(Audited) 31st January 2019 £'000
Fixed assets			
Investments held at fair value through profit or loss	1,915,995	2,022,857	1,754,994
Current assets			
Debtors	17,124	23,223	7,783
Cash and short term deposits	376	60,572	83,047
Cash equivalents: liquidity fund	173,616	99,974	99,974
	191,116	183,769	190,804
Current liabilities			
Creditors: amounts falling due within one year	(20,693)	(13,672)	(14,285)
Net current assets	170,423	170,097	176,519
Total assets less current liabilities	2,086,418	2,192,954	1,931,513
Creditors: amounts falling due after more than one year	(177,818)	(177,721)	(177,769)
Net assets	1,908,600	2,015,233	1,753,744
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	1,770,328	1,888,389	1,618,837
Revenue reserve	78,043	66,615	74,678
Total shareholders' funds	1,908,600	2,015,233	1,753,744
Net asset value per share (note 6)	240.9p	252.2p	221.3p

Registered in England, Company registration number 20537

Financial Statements – continued

Statement of Cash Flows for the six months ended 31st July 2019

	(Unaudited) Six months ended 31st July 2019 £'000	(Unaudited) Six months ended 31st July 2018 £'000	(Audited) Year ended 31st January 2019 £'000
Net cash outflow from operations before dividends and interest (note 7)	(4,088)	(4,247)	(8,370)
Dividends received	34,726	32,980	63,984
Interest received	655	340	958
Overseas tax recovered	—	39	315
Interest paid	(5,443)	(5,442)	(10,883)
Net cash inflow from operating activities	25,850	23,670	46,004
Purchases of investments	(408,394)	(339,185)	(592,224)
Sales of investments	404,935	440,089	728,000
Settlement of foreign currency contracts	(8)	—	—
Net cash (outflow)/inflow from investing activities	(3,467)	100,904	135,776
Dividends paid	(30,882)	(27,364)	(47,193)
Repurchase of shares into Treasury	(532)	(43,195)	(58,097)
Net cash outflow from financing activities	(31,414)	(70,559)	(105,290)
(Decrease)/increase in cash and cash equivalents	(9,031)	54,015	76,490
Cash and cash equivalents at start of period/year	183,021	106,531	106,531
Exchange movements	2	—	—
Cash and cash equivalents at end of period/year	173,992	160,546	183,021
(Decrease)/increase in cash and cash equivalents	(9,031)	54,015	76,490
Cash and cash equivalents consist of:			
Cash and short term deposits	376	60,572	83,047
Cash held in JPMorgan Sterling Liquidity Fund	173,616	99,974	99,974
Total	173,992	160,546	183,021

Financial Statements – continued

Notes to the Financial Statements for the six months ended 31st July 2019

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 2019 are extracted from the latest published financial statements of the Company and do not constitute statutory accounts for that year. Those financial statements have been delivered to the Registrar of Companies and including the report of the auditors which was unqualified and did not contain a statement under either section 498(2) or 498(3) of the Companies Act 2006.

2. Accounting Policies

The financial statements have been prepared in accordance with the Companies Act 2006, FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' of the United Kingdom Generally Accepted Accounting Practice ('UK GAAP') and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (the revised 'SORP') issued by the Association of Investment Companies in November 2014 and updated in February 2018.

FRS 104, 'Interim Financial Reporting', issued by the Financial Reporting Council ('FRC') in March 2015 has been applied in preparing this condensed set of financial statements for the six months ended 31st July 2019.

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 2019.

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 2019 £'000	(Unaudited) Six months ended 31st July 2018 £'000	(Audited) Year ended 31st January 2019 £'000
Return per share is based on the following:			
Revenue return	34,247	31,858	59,750
Capital return/(loss)	152,023	33,736	(221,602)
Total return/(loss)	186,270	65,594	(161,852)
Weighted average number of shares in issue	792,480,550	807,080,131	800,340,427
Revenue return per share	4.32p	3.95p	7.47p
Capital return/(loss) per share	19.18p	4.18p	(27.69)p
Total return/(loss) per share	23.50p	8.13p	(20.22)p

Financial Statements – continued

5. Dividends paid

	(Unaudited) Six months ended 31st July 2019 £'000	(Unaudited) Six months ended 31st July 2018 £'000	(Audited) Year ended 31st January 2019 £'000
Unclaimed dividends refunded to the Company ¹	(26)	(11)	(11)
2019 fourth quarterly dividend of 2.55p (2018: 2.15p) paid to shareholders in May	20,209	17,334	17,334
2020 first quarterly dividend of 1.35p (2019: 1.25p) paid to shareholders in August	10,699	10,041	10,041
2019 second quarterly dividend of 1.25p paid to shareholders in November	n/a	n/a	9,923
2019 third quarterly dividend of 1.25p paid to shareholders in February	n/a	n/a	9,906
Total dividends paid in the period/year	30,882	27,364	47,193

¹Represents 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.

A second quarterly dividend of 1.35p (2018: 1.25p) per share, amounting to £10,695,000 (2018: £9,989,000), has been declared payable in respect of the six months ended 31st July 2019.

6. Net asset value per share

	(Unaudited) Six months ended 31st July 2019	(Unaudited) Six months ended 31st July 2018	(Audited) Year ended 31st January 2019
Net assets (£'000)	1,908,600	2,015,233	1,753,744
Number of 2.5p ordinary shares in issue	792,229,037	799,111,099	792,492,181
Net asset value per share	240.9p	252.2p	221.3p

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

	(Unaudited) Six months ended 31st July 2019 £'000	(Unaudited) Six months ended 31st July 2018 £'000	(Audited) Year ended 31st January 2019 £'000
Net return/(loss) before finance costs and taxation	192,155	71,115	(150,948)
(Less capital return)/add capital losses before finance costs and taxation	(155,867)	(37,579)	213,917
Scrip dividends received as income	—	(328)	(328)
Increase in accrued income and other debtors	(2,201)	(1,402)	(621)
(Decrease)/increase in accrued expenses	(69)	94	14
Management fee charged to capital	(2,437)	(2,655)	(5,079)
Overseas withholding tax	(311)	(173)	(425)
Dividends received	(34,726)	(32,980)	(63,984)
Interest received	(655)	(340)	(958)
Realised gains on foreign currency transactions	23	1	42
Net cash outflow from operations before dividends and interest	(4,088)	(4,247)	(8,370)

Financial Statements – continued

8. Fair valuation of investments

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

	(Unaudited) Six months ended 31st July 2019		(Unaudited) Six months ended 31st July 2018		(Audited) Year ended 31st January 2019	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Level 1	1,911,555	—	2,018,673	—	1,750,820	—
Level 3 ¹	4,440	—	4,184	—	4,174	—
Total	1,915,995	—	2,022,857	—	1,754,994	—

¹Consists 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 month 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

	Six month ended 31st July 2018 (Unaudited)		
	Equity Investments £'000	Fixed Interest Investment £'000	Total £'000
Level 3			
Opening balance	4,090	94	4,184
Closing balance	4,090	94	4,184

	Year ended 31st January 2019 (Audited)		
	Equity Investments £'000	Fixed Interest Investment £'000	Total £'000
Level 3			
Opening balance	4,090	94	4,184
Change in fair value of unquoted investment during the year	(10)	—	(10)
Closing balance	4,080	94	4,174

Financial Statements – continued

9. Net (debt)/cash

	(Unaudited) Six months ended 31st July 2019 £'000	(Unaudited) Six months ended 31st July 2018 £'000	(Audited) Year ended 31st January 2019 £'000
Cash and cash equivalents	173,992	160,546	183,021
Debentures falling due after more than five years	(177,818)	(177,721)	(177,769)
Net (debt)/cash	(3,826)	(17,175)	5,252

10. Subsequent events

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

Shareholder Information – continued

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 Accounts for the year ended 31st January 2019.

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 2019 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

8th October 2019

Shareholder Information – continued

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

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 2019	
Opening share price (p)	2	192.0	(a)
Closing share price (p)	2	203.5	(b)
Total dividend adjustment factor ¹		1.019244	(c)
Adjusted closing share price (p) (d = b x c)		207.4	(d)
Total return to shareholders (e = d / a – 1)		8.0%	(e)

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

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

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

Total return calculation	Page	Six months ended 31st July 2019	
Opening cum-income NAV per share with debt at par value (p)	2	221.3	(a)
Closing cum-income NAV per share with debt at par value (p)	2	240.9	(b)
Total dividend adjustment factor ²		1.016525	(c)
Adjusted closing share price (p) (d = b x c)		244.9	(d)
Total return on net assets with debt at par value (e = d / a – 1)		10.7%	(e)

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

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

The Company's debt (debentures) is valued in the Statement of Financial Position (within Creditors: amounts falling due after more than one year) at amortised cost, £177,818,000, 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 2019, the cum-income NAV with debt at fair value was £1,822,022,000 or 230.0p per share.

Shareholder Information – continued

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 2019 £'000	Year ended 31st January 2019 £'000	
Investments held at fair value through profit or loss	12	1,915,995	1,754,994	(a)
Net assets	12	1,908,600	1,753,744	(b)
Gearing (c = a / b + 1)		0.4%	0.1%	(c)

Ongoing Charges (APM)

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

The figure as at 31st July 2019 is an estimated annualised figure based on the numbers for the six months ended 31st July 2018.

Ongoing charges calculation	Page	Six months ended 31st July 2019 £'000	Year ended 31st January 2019 £'000	
Management Fee	10	6,962	7,256	
Other administrative expenses	10	1,148	1,212	
Total management fee and other administrative expenses		8,110	8,468	(a)
Average daily cum-income net assets		1,868,598	1,901,714	(b)
Ongoing charges (c = a / b)		0.43%	0.45%	(c)

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

If the share price of an investment trust is lower than the NAV per share, the shares are said to be trading at a discount, meaning there are more sellers than buyers.

The discount is shown as a percentage of the NAV per share. The opposite of a discount is a premium. It is more common for an investment trust company's shares to trade at a discount than at a premium.

Shareholder Information – continued

Where to buy J.P. Morgan investment trusts

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

1. Via a third party provider

Third party providers include;

AJ Bell	Hargreaves Lansdown
Alliance Trust Savings	Interactive Investor
Barclays Smart Investor	Selftrade
Charles Stanley Direct	The Share Centre
FundsNetwork	

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.

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

Information for J.P. Morgan investment account and stocks & shares ISA account holders

From 28th September 2019 J.P. Morgan Asset Management ceased offering investment accounts and stocks & shares ISA savings products. Investors are able to remain invested in J.P. Morgan managed investment trusts by transferring to another service provider. For full details of all the options available to investors, please refer to correspondence sent by J.P. Morgan on 8th April 2019 or contact your financial adviser.

The Board continues to encourage all of its shareholders to exercise their rights and notes that many specialist platforms, to include the default options offered by JPMorgan, provide shareholders with the ability to continue 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 AIC's website at www.theaic.co.uk/aic/shareholder-voting-consumer-platforms for information on which platforms support these services and how to utilise them.

Be ScamSmart

Investment scams are designed to look like genuine investments

Spot the warning signs

Have you been:

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

If so, you might have been contacted by fraudsters.

Avoid investment fraud

1 Reject cold calls

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

2 Check the FCA Warning List

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

3 Get impartial advice

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

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

Report a Scam

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

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

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



Information about the Company

Financial Calendar

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

*or nearest following business day.

History

The Mercantile Investment & General Trust Company Limited was formed in December 1884 with issued capital of £500,000. The Company merged with three other investment trusts in 1960 under a scheme of arrangement and changed its name to The Mercantile Investment Trust Limited. In 1982 the Company became The Fleming Mercantile Investment Trust plc. JPMorgan has been the Company's manager and secretary since its appointment in 1976. In April 2008, the Company adopted its present name, The Mercantile Investment Trust plc.

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

Directors

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

Company Numbers

Company Registration number: 20537
London Stock Exchange number: BF4JDH5
ISIN: GB00BF4JDH58
Bloomberg ticker: MRC LN
LEI:549300BGX3CJIHLP2H42

Market Information

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

Website

www.mercantileit.co.uk

Share Transactions

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

Dividend Reinvestment Plan

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

Manager and Company Secretary

JPMorgan Funds Limited

Company's Registered Office

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

Please contact Jonathan Latter for Company Secretarial and administrative matters.

Depository

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

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

Registrars

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

Calls to this number cost 10p per minute plus network charges. Other providers' costs may vary. Lines open 8.30 am to 5.30 pm, Monday to Friday. The overseas helpline number is +44 (0)121 415 0225

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

Independent Auditors

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

Brokers

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

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



The Association of
Investment Companies

A member of the AIC

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Telephone lines are open Monday to Friday, 9 a.m. to 5.30 p.m.

Your telephone call may be recorded for your security

www.mercantileit.co.uk

