

# The Mercantile Investment Trust plc

Half Year Report & Accounts for the six months ended 31st July 2013



# Features

## Contents

### About the Company

- 1 Half Year Performance
- 2 Chairman's Statement
- 4 Investment Managers' Report

### Investment Review

- 5 List of Investments
- 8 Portfolio Analyses

### Accounts

- 9 Income Statement
- 10 Reconciliation of Movements in Shareholders' Funds
- 11 Balance Sheet
- 12 Cash Flow Statement
- 13 Notes to the Accounts

### Shareholder Information

- 15 Interim Management Report
- 16 Glossary of Terms and Definitions
- 17 Information about the Company

## Objective

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

## Investment Policy

- To emphasise growth from medium and smaller companies.
- 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 90% to 120% invested.
- To invest no more than 15% of gross assets in other UK listed investment companies (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 2013, the Company's issued share capital comprised 98,240,719 ordinary shares of 25p each.

At 31st July 2013, 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

The Company employs JPMorgan Asset Management (UK) Limited ('JPMAM') as its Manager and Company Secretary.

## Website

The Company's website, which can be found at [www.mercantileit.co.uk](http://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)

## 20.6%

Return to shareholders<sup>1</sup>

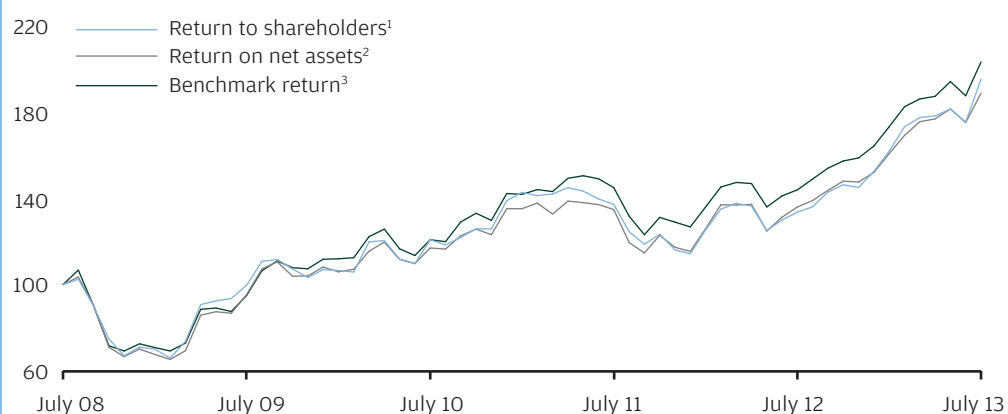
## 18.2%

Return on net assets<sup>2</sup>

## 17.3%

Benchmark return<sup>3,4</sup>

### 5 Year Performance (figures have been rebased to 100 as at 31st July 2008)



### Financial Data

|   | 31st July<br>2013 | 31st January<br>2013 | %<br>change |
|---|-------------------|----------------------|-------------|
| Shareholders' funds (£'000)   | 1,577,710         | 1,361,433            | +15.9       |
| Number of shares in issue   | 98,240,719        | 98,455,719           | -0.2        |
| Net asset value per share with debt at par value (p)                      | 1,606.0           | 1,382.8              | +16.1       |
| Net asset value per share with debt at fair value <sup>5</sup> (p)        | 1,578.3           | 1,351.2              | +16.8       |
| Net asset value return with dividends reinvested (%)                      | +18.2             | +26.6                |             |
| Share price (p)   | 1,383.0           | 1,171.0              | +18.1       |
| Share price discount to net asset value per share with debt at par value  | 13.9%             | 15.3%                |             |
| Share price discount to net asset value per share with debt at fair value | 12.4%             | 13.3%                |             |
| Gearing <sup>6</sup>  | 10.3%             | 2.7%                 |             |

A glossary of terms and definitions is provided on page 16.

<sup>1</sup>Source: Morningstar.

<sup>2</sup>Source: J.P. Morgan.

<sup>3</sup>Source: Russell/Mellon Caps.

<sup>4</sup>The Company's benchmark is the FTSE All-Share Index excluding constituents of the FTSE 100 Index and Investment trusts.

<sup>5</sup>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.

<sup>6</sup>Gearing represents the excess amount above shareholders' funds of total assets (including net current assets/liabilities) less cash/cash equivalents, expressed as a percentage of the shareholders' funds. If the amount so calculated is negative, this is shown as a 'net cash' position.

# Chairman's Statement



## Performance and Market Review

The Company's net asset value total return in the six months to 31st July 2013 was 18.2%, ahead of the return of 17.3% from our benchmark index, the FTSE All-Share, excluding FTSE 100 constituents and investment trusts. The share price total return was 20.6%.

## Returns and Dividends

The income received from investments in the first half of the current year was substantially greater than that for the half year ended 31st July 2012. This reflects an increase in dividend income from portfolio companies.

Having reviewed the revenue received to date and taking account of anticipated revenues over the remaining months of the Company's financial year, the Board is pleased to advise shareholders that it expects to pay a fourth dividend of 15.0 pence, making a total dividend for the year of 39.0 pence per share. This would be an increase of 8.3 per cent in the total level of dividends paid compared with the previous financial year. The result of this is that dividend income has increased by 107% over the last 10 years to 31st January 2014, compared with estimated inflation of 34%.

The increase in the level of the first three interim dividends is part of a rebalancing exercise explained in my statement dated 21st March 2013 in the last Annual Report and Accounts.

A second interim dividend of 8.0 pence per share has been declared by the Board, payable on 1st November 2013 to shareholders on the register at close of business on 4th October 2013. Together with the first interim dividend of 8.0 pence paid on 1st August 2013 this brings the total dividend for the year to date to 16.0 pence (2012: 12.0 pence). The Board anticipates that there will be a third interim dividend of 8.0 pence to be paid in early February 2014.

## Gearing

The Investment Managers' positive outlook has led to the Company employing a higher level of gearing, averaging 8.1% over the reporting period.

**Share Buy Backs**

The Board has maintained an active approach towards share repurchases in order to enhance the net asset value per share and minimise the absolute level and volatility of the discount with regard to the Company's shares. In the six months to 31st July 2013, 215,000 shares were repurchased for cancellation at a total cost of £2,739,000. These purchases added approximately 0.4 pence to the net asset value per share. The discount, with debt at fair value, has ranged between 10.1% and 13.8% in the period from 1st February 2013 to 13th September 2013, with the average discount during the period of 12.3%.

**Board Changes**

Sir Richard Beckett will retire from the Board at the Annual General Meeting in 2014. I would like to thank Sir Richard for his contribution to the Board.

**Alternative Investment Fund Managers Directive ('AIFMD')**

The final regulations for the AIFMD have now been published and as we move towards compliance we expect to enter into arrangements with our Manager, JPMAM, who will act as the Company's Alternative Investment Fund Manager. The process of appointing a Depositary, as required by the Directive, is underway. The Board anticipates that there will be no overall additional costs.

**Outlook**

The UK economy is showing signs of recovery and small and medium sized companies look set to continue to grow their revenues, earnings and dividends. For this reason, we anticipate the gearing of the Company being maintained.

For and on behalf of the Board

Hamish Leslie Melville

Chairman

24th September 2013

# Investment Managers' Report

The strong performance of mid and small sized UK quoted equities continued through the first half of the current year with share prices rising against a backdrop of a recovering UK economy, continuing low interest rates and improving investor sentiment. The FTSE All-Share Index excluding FTSE 100 constituents and investment trusts total return was 17.3% for the six months ended 31st July 2013. Your Company's performance was ahead of the benchmark with a total return on net assets of 18.2%.

The key contributor to this performance was the strength of housebuilding shares which responded well to the announcement of a new Government scheme, Help to Buy, which together with a review of planning regulations is designed to increase the number of new houses built. The relative performance of the portfolio also benefited from having sold all of our holdings in the mining sector as weak metal prices continued to weigh heavily on that sector. The oil and gas sector was a negative contributor to performance in the period as weakening oil prices led to a fall in share prices at a time when the wider stock market was rising.

Corporate activity within the quoted sector is beginning to grow and Betfair, HR Owen, Invensys and New Britain Palm Oil received takeover approaches whilst Carphone Warehouse, Lancashire, Phoenix Group, Renovo and Serviced Office have all announced substantial corporate transactions.

Mercantile is currently 9.8% geared, reflecting our positive view of prospects for the stockmarket. The political imperative is to support economic growth and improving trends in economic data releases continue to sustain investors' appetite for risk. Mid and small sized UK equities are attractive at current valuations. There are good opportunities for stock picking particularly amongst companies with leading market positions and strong balance sheets, which have the ability to invest for growth or to increase distributions to shareholders.

Martin Hudson  
Guy Anderson  
Anthony Lynch

24th September 2013

# List of Investments

at 31st July 2013

| Company                          | Sector             | Value<br>£'000 | %   |
|----------------------------------|--------------------|----------------|-----|
| Persimmon                        | Consumer Goods     | 76,723         | 4.4 |
| Bovis Homes                      | Consumer Goods     | 52,054         | 3.0 |
| Jardine Lloyd Thompson           | Financials         | 49,859         | 2.8 |
| Cable & Wireless Communications  | Telecommunications | 41,121         | 2.3 |
| Mondi                            | Basic Materials    | 38,399         | 2.2 |
| Barratt Developments             | Consumer Goods     | 38,360         | 2.2 |
| Taylor Wimpey                    | Consumer Goods     | 36,181         | 2.1 |
| Berkeley                         | Consumer Goods     | 35,763         | 2.0 |
| Bellway                          | Consumer Goods     | 31,587         | 1.8 |
| Hiscox                           | Financials         | 30,242         | 1.7 |
| Cobham                           | Industrials        | 28,899         | 1.6 |
| 3i Group                         | Financials         | 28,755         | 1.6 |
| Inmarsat                         | Telecommunications | 27,658         | 1.6 |
| St James's Place                 | Financials         | 27,635         | 1.6 |
| Partnership Assurance Group      | Financials         | 27,495         | 1.6 |
| SIG                              | Industrials        | 26,508         | 1.5 |
| Bwin.Party Digital Entertainment | Consumer Services  | 26,358         | 1.5 |
| 888                              | Consumer Services  | 25,549         | 1.5 |
| Intu Properties                  | Financials         | 25,354         | 1.4 |
| Daily Mail                       | Consumer Services  | 24,180         | 1.4 |
| Mitchells & Butlers              | Consumer Services  | 24,000         | 1.4 |
| Catlin                           | Financials         | 23,622         | 1.3 |
| Ladbrokes                        | Consumer Services  | 23,055         | 1.3 |
| Amlin                            | Financials         | 22,068         | 1.3 |
| Invensys                         | Technology         | 20,855         | 1.2 |
| Savills                          | Financials         | 20,818         | 1.2 |
| International Personal Finance   | Financials         | 20,590         | 1.2 |
| Inchcape                         | Consumer Services  | 20,520         | 1.2 |
| Stagecoach                       | Consumer Services  | 20,134         | 1.1 |
| Premier Farnell                  | Industrials        | 19,568         | 1.1 |
| Hays                             | Industrials        | 18,862         | 1.1 |
| Jupiter Fund Management          | Financials         | 18,363         | 1.0 |
| Sports Direct International      | Consumer Services  | 18,357         | 1.0 |
| Pennon                           | Utilities          | 18,288         | 1.0 |
| Howden Joinery Group             | Industrials        | 18,201         | 1.0 |
| Lancashire                       | Financials         | 18,195         | 1.0 |
| Intermediate Capital Group       | Financials         | 17,645         | 1.0 |
| IG                               | Financials         | 17,614         | 1.0 |
| Phoenix Group Holdings           | Financials         | 17,614         | 1.0 |
| Bodycote                         | Industrials        | 17,551         | 1.0 |
| MP Evans <sup>1</sup>            | Consumer Goods     | 16,863         | 1.0 |
| Beazley                          | Financials         | 16,791         | 1.0 |
| Dixons Retail                    | Consumer Services  | 16,362         | 0.9 |
| Ricardo                          | Industrials        | 16,297         | 0.9 |
| Close Brothers                   | Financials         | 15,232         | 0.9 |
| Ithaca Energy <sup>1</sup>       | Oil & Gas          | 14,189         | 0.8 |
| Balfour Beatty                   | Industrials        | 13,392         | 0.8 |
| Debenhams                        | Consumer Services  | 13,387         | 0.8 |
| Brewin Dolphin                   | Financials         | 13,332         | 0.8 |

## List of Investments continued

| Company                           | Sector             | Value<br>£'000 | %   |
|-----------------------------------|--------------------|----------------|-----|
| Ophir Energy                      | Oil & Gas          | 13,240         | 0.8 |
| Ashtead Group                     | Industrials        | 13,078         | 0.7 |
| Carphone Warehouse                | Consumer Services  | 13,047         | 0.7 |
| Xchanging                         | Industrials        | 12,136         | 0.7 |
| Fidessa                           | Technology         | 12,009         | 0.7 |
| Derwent London                    | Financials         | 11,783         | 0.7 |
| Electrocomponents                 | Industrials        | 11,748         | 0.7 |
| CSR                               | Technology         | 11,380         | 0.6 |
| Moneysupermarket.Com Group        | Consumer Services  | 11,132         | 0.6 |
| Soco International                | Oil & Gas          | 10,728         | 0.6 |
| Young & Co's Brewery <sup>1</sup> | Consumer Services  | 10,703         | 0.6 |
| De La Rue                         | Industrials        | 10,655         | 0.6 |
| Premier Oil                       | Oil & Gas          | 10,388         | 0.6 |
| VP                                | Industrials        | 10,042         | 0.6 |
| New Britain Palm Oil              | Consumer Goods     | 9,922          | 0.6 |
| RPS                               | Industrials        | 9,906          | 0.6 |
| Colt Telecom                      | Telecommunications | 9,839          | 0.6 |
| Helical Bar                       | Financials         | 9,730          | 0.6 |
| Betfair Group                     | Consumer Services  | 9,512          | 0.5 |
| Sportech                          | Consumer Services  | 9,354          | 0.5 |
| Rathbone Brothers                 | Financials         | 9,167          | 0.5 |
| Chime Communications              | Consumer Services  | 9,056          | 0.5 |
| E2V Technologies                  | Industrials        | 8,811          | 0.5 |
| Advanced Computer Software        | Technology         | 8,714          | 0.5 |
| Vernalis <sup>1</sup>             | Health Care        | 8,609          | 0.5 |
| WH Smith                          | Consumer Services  | 8,564          | 0.5 |
| Rightmove                         | Consumer Services  | 8,509          | 0.5 |
| Spirit Pub                        | Consumer Services  | 8,448          | 0.5 |
| Hunting                           | Oil & Gas          | 8,306          | 0.5 |
| London & Stamford                 | Financials         | 8,287          | 0.5 |
| Halfords                          | Consumer Services  | 8,098          | 0.5 |
| Go-Ahead Group                    | Consumer Services  | 8,090          | 0.5 |
| Glanbia                           | Consumer Goods     | 7,975          | 0.5 |
| M&C Saatchi <sup>1</sup>          | Consumer Services  | 7,950          | 0.4 |
| Fisher (James) & Sons             | Industrials        | 7,793          | 0.4 |
| Man                               | Financials         | 7,684          | 0.4 |
| Providence Resources              | Oil & Gas          | 7,212          | 0.4 |
| Smith (DS)                        | Industrials        | 7,088          | 0.4 |
| Ferrexpo                          | Basic Materials    | 6,569          | 0.4 |
| Britvic                           | Consumer Goods     | 6,527          | 0.4 |
| Countrywide                       | Financials         | 6,429          | 0.4 |
| Rentokil Initial                  | Industrials        | 6,036          | 0.3 |
| Afren                             | Oil & Gas          | 6,032          | 0.3 |
| Provident Financial               | Financials         | 5,570          | 0.3 |
| Great Portland Estates            | Financials         | 5,313          | 0.3 |
| Cranswick                         | Consumer Goods     | 5,242          | 0.3 |
| Robert Walters                    | Industrials        | 5,133          | 0.3 |
| Shore Capital <sup>1</sup>        | Financials         | 4,813          | 0.3 |
| Kier                              | Industrials        | 4,724          | 0.3 |

| Company                              | Sector            | Value<br>£'000   | %            |
|--------------------------------------|-------------------|------------------|--------------|
| Barr A.G.                            | Consumer Goods    | 4,676            | 0.3          |
| Shaftesbury                          | Financials        | 4,627            | 0.3          |
| Vectura                              | Health Care       | 4,204            | 0.2          |
| Cenkos Securities <sup>1</sup>       | Financials        | 4,201            | 0.2          |
| Renold                               | Industrials       | 3,895            | 0.2          |
| Cairn Energy                         | Oil & Gas         | 3,816            | 0.2          |
| Bowleven                             | Oil & Gas         | 3,678            | 0.2          |
| ICAP                                 | Financials        | 3,659            | 0.2          |
| Fusionex International               | Technology        | 3,627            | 0.2          |
| Trinity Mirror                       | Consumer Services | 3,442            | 0.2          |
| Mountview Estates                    | Financials        | 3,375            | 0.2          |
| Renovo <sup>1</sup>                  | Health Care       | 3,277            | 0.2          |
| H.R.Owen <sup>1</sup>                | Consumer Services | 3,173            | 0.2          |
| R.E.A. <sup>1</sup>                  | Consumer Goods    | 3,110            | 0.2          |
| Serviced Office                      | Financials        | 3,065            | 0.2          |
| Anglo-Eastern Plantations            | Consumer Goods    | 2,904            | 0.2          |
| Camellia                             | Financials        | 2,789            | 0.2          |
| Tennants Consolidated <sup>2,3</sup> | Basic Materials   | 2,628            | 0.1          |
| F&C Asset Management                 | Financials        | 2,434            | 0.1          |
| Clarke (T)                           | Industrials       | 2,234            | 0.1          |
| Channel Islands Property             | Financials        | 2,127            | 0.1          |
| Mothercare                           | Consumer Services | 2,091            | 0.1          |
| Johnston Press                       | Consumer Services | 2,071            | 0.1          |
| Lansdowne Oil & Gas                  | Oil & Gas         | 1,915            | 0.1          |
| Travis Perkins                       | Industrials       | 1,793            | 0.1          |
| Trinity Exploration & Production     | Oil & Gas         | 1,784            | 0.1          |
| Panmure Gordon <sup>1</sup>          | Financials        | 1,614            | 0.1          |
| Lookers                              | Consumer Services | 1,570            | 0.1          |
| Infrastrata <sup>1</sup>             | Oil & Gas         | 1,544            | 0.1          |
| Sphere Medical Holding <sup>1</sup>  | Health Care       | 1,283            | 0.1          |
| Wolfson Microelectronics             | Technology        | 1,144            | 0.1          |
| Argos Resources                      | Oil & Gas         | 1,118            | 0.1          |
| WH Ireland <sup>1</sup>              | Financials        | 796              | 0.0          |
| Tullett Prebon                       | Financials        | 686              | 0.0          |
| Peel Hotels <sup>1</sup>             | Consumer Services | 570              | 0.0          |
| Marwyn Management Partners           | Financials        | 500              | 0.0          |
| Cluff Natural Resources <sup>1</sup> | Financials        | 413              | 0.0          |
| Brookwell Preference Shares          | Financials        | 212              | 0.0          |
| ISG                                  | Industrials       | 44               | 0.0          |
| Net current assets                   |                   | 1,333            | 0.1          |
| <b>Total<sup>4</sup></b>             |                   | <b>1,754,948</b> | <b>100.0</b> |

<sup>1</sup>AIM listed investment.

<sup>2</sup>Unquoted investment.

<sup>3</sup>Includes a fixed interest investment.

<sup>4</sup>Total assets less current liabilities.

# Portfolio Analyses

| <b>Listed Equity Market Capitalisation</b> | <b>31st July<br/>2013<br/>%</b> | <b>31st January<br/>2013<br/>%</b> |
|--|---------------------------------|------------------------------------|
| UK FTSE Mid 250 Companies                  | 77.2                            | 73.5                               |
| UK Smaller Companies                       | 18.1                            | 18.3                               |
| UK FTSE 100                                | 4.5                             | –                                  |
| Unquoted                                   | 0.1                             | 0.3                                |
| Overseas Companies                         | –                               | –                                  |
| Net current assets                         | 0.1                             | 7.9                                |
| <b>Total</b>                               | <b>100.0</b>                    | <b>100.0</b>                       |

Based on total assets less current liabilities of £1,755m (31st January 2013: £1,539m).

| <b>Sector Analysis</b> | <b>at 31st July 2013</b> |                        | <b>at 31st January 2013</b> |                        |
|------------------------|--------------------------|------------------------|-----------------------------|------------------------|
|                        | <b>Portfolio<br/>%</b>   | <b>Benchmark<br/>%</b> | <b>Portfolio<br/>%</b>      | <b>Benchmark<br/>%</b> |
| Financials             | 29.0                     | 25.3                   | 23.5                        | 23.8                   |
| Consumer Services      | 19.1                     | 19.1                   | 17.0                        | 20.8                   |
| Consumer Goods         | 19.0                     | 7.8                    | 15.6                        | 7.7                    |
| Industrials            | 15.5                     | 25.6                   | 13.7                        | 23.5                   |
| Oil & Gas              | 4.8                      | 4.5                    | 6.9                         | 4.7                    |
| Telecommunications     | 4.5                      | 2.5                    | 5.1                         | 2.8                    |
| Technology             | 3.3                      | 5.4                    | 4.2                         | 5.8                    |
| Basic Materials        | 2.7                      | 5.8                    | 4.2                         | 6.8                    |
| Health Care            | 1.0                      | 2.1                    | 1.4                         | 1.9                    |
| Utilities              | 1.0                      | 1.9                    | 0.5                         | 2.2                    |
| Net current assets     | 0.1                      | –                      | 7.9                         | –                      |
| <b>Total</b>           | <b>100.0</b>             | <b>100.0</b>           | <b>100.0</b>                | <b>100.0</b>           |

Based on total assets less current liabilities of £1,755m (31st January 2013: £1,539m).

# Income Statement

for the six months ended 31st July 2013

|  | (Unaudited)<br>Six months ended<br>31st July 2013 |                  |                | (Unaudited)<br>Six months ended<br>31st July 2012 |                  |                | (Audited)<br>Year ended<br>31st January 2013 |                  |                |
|--|---|------------------|----------------|---|------------------|----------------|--|------------------|----------------|
|  | Revenue<br>£'000                                  | Capital<br>£'000 | Total<br>£'000 | Revenue<br>£'000                                  | Capital<br>£'000 | Total<br>£'000 | Revenue<br>£'000                             | Capital<br>£'000 | Total<br>£'000 |
| Gains on investments held at<br>fair value through profit or loss              | –   | 221,244          | 221,244        | –   | 62,354           | 62,354         | –  | 269,028          | 269,028        |
| Net foreign currency losses  | –   | (13)             | (13)           | –   | (163)            | (163)          | –  | (136)            | (136)          |
| Income from investments  | 31,611  | –                | 31,611         | 20,155  | –                | 20,155         | 36,200                                       | –                | 36,200         |
| Other interest receivable and<br>similar income                                | 697   | –                | 697            | 494   | –                | 494            | 1,247  | –                | 1,247          |
| <b>Gross return</b>  | <b>32,308</b>                                     | <b>221,231</b>   | <b>253,539</b> | <b>20,649</b>                                     | <b>62,191</b>    | <b>82,840</b>  | <b>37,447</b>                                | <b>268,892</b>   | <b>306,339</b> |
| Management fee   | (922)   | (2,150)          | (3,072)        | (723)   | (1,687)          | (2,410)        | (1,494)                                      | (3,485)          | (4,979)        |
| Other administrative expenses  | (383)   | –                | (383)          | (412)   | –                | (412)          | (985)  | –                | (985)          |
| <b>Net return on ordinary activities<br/>before finance costs and taxation</b> | <b>31,003</b>                                     | <b>219,081</b>   | <b>250,084</b> | <b>19,514</b>                                     | <b>60,504</b>    | <b>80,018</b>  | <b>34,968</b>                                | <b>265,407</b>   | <b>300,375</b> |
| Finance costs  | (1,647)   | (3,843)          | (5,490)        | (1,646)   | (3,843)          | (5,489)        | (3,293)                                      | (7,685)          | (10,978)       |
| <b>Net return on ordinary<br/>activities before taxation</b>                   | <b>29,356</b>                                     | <b>215,238</b>   | <b>244,594</b> | <b>17,868</b>                                     | <b>56,661</b>    | <b>74,529</b>  | <b>31,675</b>                                | <b>257,722</b>   | <b>289,397</b> |
| Taxation (note 4)  | (17)  | –                | (17)           | –   | –                | –              | (32)   | –                | (32)           |
| <b>Net return on ordinary activities<br/>after taxation</b>                    | <b>29,339</b>                                     | <b>215,238</b>   | <b>244,577</b> | <b>17,868</b>                                     | <b>56,661</b>    | <b>74,529</b>  | <b>31,643</b>                                | <b>257,722</b>   | <b>289,365</b> |
| <b>Return per share (note 5)</b>   | <b>29.84p</b>                                     | <b>218.93p</b>   | <b>248.77p</b> | <b>18.11p</b>                                     | <b>57.44p</b>    | <b>75.55p</b>  | <b>32.09p</b>                                | <b>261.34p</b>   | <b>293.43p</b> |

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 Total column represents all the information that is required to be disclosed in a 'Statement of Total Recognised Gains and Losses' ('STRGL'). For this reason a STRGL has not been presented.

# Reconciliation of Movements in Shareholders' Funds

for the six months ended 31st July 2013 (unaudited)

|  | Called up<br>share<br>capital<br>£'000 | Share<br>premium<br>£'000 | Capital<br>redemption<br>reserve<br>£'000 | Capital<br>reserves<br>£'000 | Revenue<br>reserve<br>£'000 | Total<br>£'000 |
|--|--|---------------------------|---|------------------------------|-----------------------------|----------------|
| <b>At 31st January 2013</b>                                | 24,614                                 | 23,459                    | 12,156                                    | 1,271,741                    | 29,463                      | 1,361,433      |
| Repurchase and cancellation of<br>the Company's own shares | (54)                                   | –                         | 54  | (2,739)                      | –                           | (2,739)        |
| Net return on ordinary activities                          | –                                      | –                         | –   | 215,238                      | 29,339                      | 244,577        |
| Dividends appropriated in the period                       | –                                      | –                         | –   | –                            | (25,561)                    | (25,561)       |
| <b>At 31st July 2013</b>                                   | 24,560                                 | 23,459                    | 12,210                                    | 1,484,240                    | 33,241                      | 1,577,710      |

Six months ended 31st July 2012 (unaudited)

|  | Called up<br>share<br>capital<br>£'000 | Share<br>premium<br>£'000 | Capital<br>redemption<br>reserve<br>£'000 | Capital<br>reserves<br>£'000 | Revenue<br>reserve<br>£'000 | Total<br>£'000 |
|--|--|---------------------------|---|------------------------------|-----------------------------|----------------|
| <b>At 31st January 2012</b>                                | 24,678                                 | 23,459                    | 12,092                                    | 1,016,809                    | 33,323                      | 1,110,361      |
| Repurchase and cancellation of<br>the Company's own shares | (24)                                   | –                         | 24  | (980)                        | –                           | (980)          |
| Net return on ordinary activities                          | –                                      | –                         | –   | 56,661                       | 17,868                      | 74,529         |
| Dividends appropriated in the period                       | –                                      | –                         | –   | –                            | (23,673)                    | (23,673)       |
| <b>At 31st July 2012</b>                                   | 24,654                                 | 23,459                    | 12,116                                    | 1,072,490                    | 27,518                      | 1,160,237      |

Year ended 31st January 2013 (audited)

|  | Called up<br>share<br>capital<br>£'000 | Share<br>premium<br>£'000 | Capital<br>redemption<br>reserve<br>£'000 | Capital<br>reserves<br>£'000 | Revenue<br>reserve<br>£'000 | Total<br>£'000 |
|--|--|---------------------------|---|------------------------------|-----------------------------|----------------|
| <b>At 31st January 2012</b>                                | 24,678                                 | 23,459                    | 12,092                                    | 1,016,809                    | 33,323                      | 1,110,361      |
| Repurchase and cancellation of<br>the Company's own shares | (64)                                   | –                         | 64  | (2,790)                      | –                           | (2,790)        |
| Net return on ordinary activities                          | –                                      | –                         | –   | 257,722                      | 31,643                      | 289,365        |
| Dividends appropriated in the year                         | –                                      | –                         | –   | –                            | (35,503)                    | (35,503)       |
| <b>At 31st January 2013</b>                                | 24,614                                 | 23,459                    | 12,156                                    | 1,271,741                    | 29,463                      | 1,361,433      |

# Balance Sheet

at 31st July 2013

|  | (Unaudited)<br>31st July<br>2013<br>£'000 | (Unaudited)<br>31st July<br>2012<br>£'000 | (Audited)<br>31st January<br>2013<br>£'000 |
|--|---|---|--|
| <b>Fixed assets</b>  |   |   |  |
| Investments held at fair value through profit or loss          | 1,753,615                                 | 1,197,892                                 | 1,417,228                                  |
| <b>Current assets</b>  |   |   |  |
| Debtors  | 9,936                                     | 21,884                                    | 2,723                                      |
| Cash and short term deposits                                   | 5,320                                     | 125,464                                   | 139,879                                    |
|  | 15,256                                    | 147,348                                   | 142,602                                    |
| <b>Creditors: amounts falling due within one year</b>          | (13,923)                                  | (7,861)                                   | (21,207)                                   |
| <b>Net current assets</b>                                      | 1,333                                     | 139,487                                   | 121,395                                    |
| <b>Total assets less current liabilities</b>                   | 1,754,948                                 | 1,337,379                                 | 1,538,623                                  |
| <b>Creditors: amounts falling due after more than one year</b> | (177,238)                                 | (177,142)                                 | (177,190)                                  |
| <b>Net assets</b>  | 1,577,710                                 | 1,160,237                                 | 1,361,433                                  |
| <b>Capital and reserves</b>                                    |   |   |  |
| Called up share capital  | 24,560                                    | 24,654                                    | 24,614                                     |
| Share premium  | 23,459                                    | 23,459                                    | 23,459                                     |
| Capital redemption reserve                                     | 12,210                                    | 12,116                                    | 12,156                                     |
| Capital reserves   | 1,484,240                                 | 1,072,490                                 | 1,271,741                                  |
| Revenue reserve  | 33,241                                    | 27,518                                    | 29,463                                     |
| <b>Shareholders' funds</b>                                     | 1,577,710                                 | 1,160,237                                 | 1,361,433                                  |
| <b>Net asset value per share (note 6)</b>                      | 1,606.0p                                  | 1,176.5p                                  | 1,382.8p                                   |

Company registration number 20537

# Cash Flow Statement

for the six months ended 31st July 2013

|   | (Unaudited)<br>Six months ended<br>31st July<br>2013<br>£'000 | (Unaudited)<br>Six months ended<br>31st July<br>2012<br>£'000 | (Audited)<br>Year ended<br>31st January<br>2013<br>£'000 |
|---|---|---|--|
| Net cash inflow from operating activities (note 7)                          | 25,357  | 13,849  | 31,897   |
| Net cash outflow from servicing of finance                                  | (5,425)   | (5,441)   | (10,882)   |
| Taxation recovered  | –   | 8   | 52   |
| Net cash (outflow)/inflow from capital expenditure and financial investment | (124,719)   | 124,405   | 138,323  |
| Dividends paid  | (25,561)  | (23,673)  | (35,503)   |
| Net cash outflow from financing   | (4,198)   | (1,968)   | (2,319)  |
| <b>(Decrease)/increase in cash in the period</b>                            | <b>(134,546)</b>  | <b>107,180</b>  | <b>121,568</b>   |
| <b>Reconciliation of net cash flow to movement in net debt/funds</b>        |   |   |  |
| (Decrease)/increase in cash in the period                                   | (134,546)   | 107,180   | 121,568  |
| Exchange movements  | (13)  | (163)   | (136)  |
| Other movements   | (48)  | (48)  | (96)   |
| Changes in net debt/funds arising from cash flows                           | (134,607)   | 106,969   | 121,336  |
| Net debt at the beginning of the period                                     | (37,311)  | (158,647)   | (158,647)  |
| <b>Net debt at the end of the period</b>                                    | <b>(171,918)</b>  | <b>(51,678)</b>   | <b>(37,311)</b>  |
| <b>Represented by:</b>  |   |   |  |
| Cash and short term deposits  | 5,320   | 125,464   | 139,879  |
| Debentures falling due after more than five years                           | (177,238)   | (177,142)   | (177,190)  |
| <b>Net debt</b>   | <b>(171,918)</b>  | <b>(51,678)</b>   | <b>(37,311)</b>  |

# Notes to the Accounts

for the six months ended 31st July 2013

## 1. Financial Statements

The information contained within the accounts 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 2013 are extracted from the latest published accounts of the Company and do not constitute statutory accounts for that year. Those accounts have been delivered to the Registrar of Companies and included 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 accounts have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued in January 2009.

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

The accounting policies applied to these interim accounts are consistent with those applied in the accounts for the year ended 31st January 2013.

## 3. Dividends

|  | (Unaudited)<br>Six months ended<br>31st July 2013<br>£'000 | (Unaudited)<br>Six months ended<br>31st July 2012<br>£'000 | (Audited)<br>Year ended<br>31st January 2013<br>£'000 |
|--|--|--|---|
| Unclaimed dividends refunded to the Company                                  | (8)  | –  | (6)   |
| Fourth quarterly dividend of 18.0p (2012: 18.0p) paid to shareholders in May | 17,710   | 17,756   | 17,762  |
| First quarterly dividend of 8.0p (2012: 6.0p) paid to shareholders in August | 7,859  | 5,917  | 5,917   |
| Second quarterly dividend of 6.0p paid to shareholders in November           | n/a  | n/a  | 5,915   |
| Third quarterly dividend of 6.0p paid to shareholders in February            | n/a  | n/a  | 5,915   |
|  | 25,561   | 23,673   | 35,503  |

A second quarterly dividend of 8.0p (2012: 6.0p) per share, amounting to £7,859,000 (2012: £5,917,000), has been declared payable in respect of the six months ended 31st July 2013.

## 4. Taxation

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

## Notes to the Accounts continued

### 5. Return per share

|   | (Unaudited)<br>Six months ended<br>31st July 2013<br>£'000 | (Unaudited)<br>Six months ended<br>31st July 2012<br>£'000 | (Audited)<br>Year ended<br>31st January 2013<br>£'000 |
|---|--|--|---|
| Return per share is based on the following: |  |  |   |
| Revenue return                              | 29,339   | 17,868   | 31,643  |
| Capital return                              | 215,238  | 56,661   | 257,722   |
| <b>Total return</b>                         | <b>244,577</b>   | <b>74,529</b>  | <b>289,365</b>  |
| Weighted average number of shares in issue  | 98,314,946   | 98,647,972   | 98,614,681  |
| Revenue return per share                    | 29.84p   | 18.11p   | 32.09p  |
| Capital return per share                    | 218.93p  | 57.44p   | 261.34p   |
| <b>Total return per share</b>               | <b>248.77p</b>   | <b>75.55p</b>  | <b>293.43p</b>  |

### 6. Net asset value per share

Net asset value per share is calculated by dividing shareholders' funds by the number of shares in issue at 31st July 2013 of 98,240,719 (31st July 2012: 98,615,719 and 31st January 2013: 98,455,719).

### 7. Reconciliation of net return on ordinary activities before finance costs and taxation to net cash inflow from operating activities

|  | (Unaudited)<br>Six months ended<br>31st July 2013<br>£'000 | (Unaudited)<br>Six months ended<br>31st July 2012<br>£'000 | (Audited)<br>Year ended<br>31st January 2013<br>£'000 |
|--|--|--|---|
| Total return on ordinary activities before finance costs and taxation        | 250,084  | 80,018   | 300,375   |
| Less capital return on ordinary activities before finance costs and taxation | (219,081)  | (60,504)   | (265,407)   |
| Scrip dividends included in income   | –  | (352)  | (352)   |
| (Increase)/decrease in net debtors and accrued income                        | (2,679)  | (3,178)  | 749   |
| Decrease in accrued expenses   | (243)  | (448)  | (209)   |
| Management fee charged to capital  | (2,470)  | (1,687)  | (3,165)   |
| Overseas withholding tax   | (254)  | –  | (94)  |
| <b>Net cash inflow from operating activities</b>                             | <b>25,357</b>  | <b>13,849</b>  | <b>31,897</b>   |

# 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; market; accounting, legal and regulatory; corporate governance and shareholder relations; operational 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 2013.

## 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. 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 the Accounting Standards Board's Statement 'Half Year Financial Reports'; and
- (ii) the interim management report includes a fair review of the information required by 4.2.7R and 4.2.8R of the UK Listing Authority Disclosure and Transparency Rules.

For and on behalf of the Board.

**Hamish Leslie Melville**  
Chairman

24th September 2013

# Glossary of Terms and Definitions

## Return to shareholders

Total return to the investor, on a mid-market price to mid-market price basis, assuming that all dividends received were reinvested, without transaction costs, in the shares of the Company at the time the shares were quoted ex-dividend.

## Return on net assets

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 in the shares of the Company at the NAV per share at the time the shares were quoted ex-dividend.

In accordance with industry practice, dividends payable which have been declared but which are unpaid at the balance sheet date are deducted from the NAV per share when calculating the total return on net assets.

## Benchmark return

Total return on the benchmark, on a mid-market value to mid-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.

## Share price discount/premium to net asset value ('NAV')

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's shares to trade at a discount than at a premium.

### Warning to shareholders - Boiler Room Scams

In recent years, many companies have become aware that their shareholders have been targeted by unauthorised overseas-based brokers selling what turn out to be non-existent or high risk shares, or expressing a wish to buy their shares. If you receive unsolicited investment advice or requests:

- Make sure you get the correct name of the person or organisation
- Check that they are properly authorised by the FCA before getting involved, by visiting [www.fca.org.uk/consumers](http://www.fca.org.uk/consumers)
- Report the matter to the FCA by calling 0800 111 6768
- If the calls persist, hang up.

More detailed information on this can be found on the Money Advice Service website [www.moneyadviceservice.org.uk](http://www.moneyadviceservice.org.uk)

# Information about the Company

## Financial Calendar

|  |  |
|--|--|
| Financial year end                               | 31st January                                     |
| Final results announced                          | April  |
| Half year end                                    | 31st July  |
| Half year results announced                      | September  |
| Interim Management Statements announced          | May/November                                     |
| Dividends on ordinary shares paid                | *1st August, 1st November, 1st February, 1st May |
| Interest on 4.25% perpetual debenture stock paid | 1st June, 1st December                           |
| Annual General Meeting                           | April/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

Hamish Leslie Melville (Chairman)  
 Sir Richard Beckett  
 Helen James  
 Sandy Nairn  
 Ian Russell  
 Jeremy Tighe

## Company Numbers

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

## 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 Independent, The Scotsman, and on the JPMorgan Internet site at [www.mercantileit.co.uk](http://www.mercantileit.co.uk), where the share price is updated every fifteen minutes during trading hours.

## Website

[www.mercantileit.co.uk](http://www.mercantileit.co.uk)

## Share Transactions

The Company's shares may be dealt in directly through a stockbroker or professional adviser acting on an investor's behalf. They may also be purchased and held through the J.P. Morgan Investment Account, J.P. Morgan ISA and J.P. Morgan SIPP. These products are all available on the online wealth manager service, J.P. Morgan WealthManager+ available at [www.jpmorganwealthmanagerplus.co.uk](http://www.jpmorganwealthmanagerplus.co.uk)

## Dividend Re-investment Plan

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

## Manager and Company Secretary

JPMorgan Asset Management (UK) Limited

## Company's Registered Office

Finsbury Dials  
 20 Finsbury Street  
 London EC2Y 9AQ  
 Telephone number: 020 7742 4000  
 Please contact Juliet Dearlove for company secretarial and administrative matters.

## Custodian

JPMorgan Chase Bank, N.A.  
 25 Bank Street  
 Canary Wharf  
 London E14 5JP

## Registrars

Equiniti Limited  
 Reference 1101  
 Aspect House  
 Spencer Way  
 Lancing  
 West Sussex BN99 6DA  
 Telephone number: 0871 384 2329

Calls to this number cost 8p 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 7047

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](http://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  
 Canon Bridge House  
 25 Dowgate Hill  
 London EC4R 2GA

## Savings Product Administrators

For queries on the J.P. Morgan Investment Account, J.P. Morgan ISA and J.P. Morgan SIPP, see contact details on the back cover of this report.



JPMorgan Helpline  
Freephone 0800 20 40 20 or +44 (0)20 7742 9995

Your telephone call may be recorded for your security

[www.mercantileit.co.uk](http://www.mercantileit.co.uk)