

THE MERCANTILE INVESTMENT TRUST PLC

Annual Report & Financial Statements for the year ended 31st January 2018

Discovering Tomorrow's
Market Leaders



J.P.Morgan
Asset Management

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Financial Highlights

Total returns (includes dividends reinvested)

+25.5%

Return on net assets¹
(2017: +6.1%)

+25.5%

Return to shareholders²
(2017: +4.3%)

+14.6%

Benchmark return³
(2017: +12.5%)

53.0p

Dividend
(2017: 46.0p)

+15.2%

Dividend increase
(2017: +7.0%)

Long Term Performance for periods ended 31st January 2018

A glossary of terms and alternative performance measures is provided on page 68.

¹Source: J.P. Morgan/Morningstar, using cum income net asset value per share, with debt at par value. 10 year performance is based on capital only NAVs, due to a lack of historic cum income NAVs.

²Source: Morningstar.

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

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 January 2018 the Company's share capital comprised 94,449,218 ordinary shares of 25p each, including 12,549,179 shares held in Treasury.

At 31st January 2018, 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 ('JPAM').

FCA regulation of 'non-mainstream pooled investments' and MiFID II 'complex instruments'

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

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

AIC

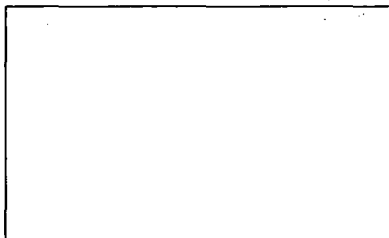
The Company is a member of the Association of Investment Companies.

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.

Strategic Report

Chairman's Statement



Performance

I am delighted to present my first annual statement as Chairman of your Company and very pleased to report on a year in which we have achieved an excellent return for shareholders.

Over the year to 31st January 2018, your Company produced a return on net assets of +25.5% against a return of +14.6% for the benchmark. The share price total return was also +25.5%.

The Company's long term performance has also been very strong, with both the net asset value and share price having outperformed the benchmark over three, five and ten years as well. Not only has the Company outperformed its UK mid and small cap benchmark over those periods, but that benchmark has also outperformed the broader UK market over the same periods and in seven of the last ten calendar years.

Share Split

As a consequence of the Company's strong performance, the share price has risen sharply in recent years. Indeed, over the last ten years, it has more than doubled. Whilst this is excellent for our existing shareholders, the Board believes that the high share price may be unhelpful for those investing smaller amounts, monthly savers and dividend re-investment programmes and therefore it is proposing to sub-divide the shares on a 10 for 1 basis. This is known as a 'share split'. Following the share split each shareholder will hold ten new ordinary shares for each share held immediately prior to the share split. We hope that sub-dividing the Company's ordinary shares will make buying the shares more attractive to new investors and increase market liquidity. I would like to reassure existing shareholders that the splitting of the shares will not affect the overall value of their holdings in the Company as the reduction in the price per share will be offset by a commensurate increase in the number of shares they hold. By way of example, taking the price as at 31st January 2018 of 2,150.0p per share, following the sub-division each holder of one ordinary share would receive ten new shares which would be priced at 215.0p per share immediately after the share split. Shareholders will have the opportunity to vote on this proposal at the forthcoming AGM and more details are set out on pages 26 and 27.

Returns and Dividends

Earnings per share increased significantly to 61.2p, from 53.2p in 2016, as underlying dividend growth from the portfolio was very strong. The Company has paid three interim dividends of 10.50p per ordinary share in respect of the year to 31st January 2018. The Board has declared a fourth quarterly interim dividend of 21.5p, giving a total dividend of 53.0p per share for the year, a 15.2% increase on last year's total dividend of 46.0p per share.

The Board intends to spread out the payment of the total dividend more evenly in the current financial year ending 31st January 2019. Therefore it will increase the level of the first three interim dividends, the first of which will be paid in August, to 12.5p per share (pre the share split). As per usual practice, the Board will determine the level of the fourth interim dividend following the end of the financial year and it will depend on the level of dividends received by the Company. If the Company's shareholders approve the Board's proposal for a share split (see above) the first three quarterly interim dividends will be paid at the rate of 1.25p per share. I would emphasise that the total amount of cash to be received by shareholders in the form of dividends will be the same whether or not the share split is approved. As you know, we aim for dividend increases at least in line with inflation, and also to continue to build our revenue reserves for any downturn. At the year end, taking account of the payment of the fourth interim dividend, the revenue reserve stood at £44.5 million, which is the equivalent to 54.3p per share.

Strategic Report – continued

Discount and Share Buybacks

Over the year, the discount widened marginally from 12.5% to 12.8% on the basis of a cum income calculation with debt at par. Using the cum income valuation with debt at fair value, the discount moved from 8.6% to 9.5%. There is an explanation of the calculation methodologies on page 20.

The Board intends to continue to use the share repurchase authority to enhance value, to manage imbalances between the supply and demand of the Company's shares and thereby reduce the volatility of the discount. It believes that, to date, this mechanism has been helpful and therefore recommends that the powers to repurchase up to 14.99% of the Company's shares, to be cancelled or held in Treasury, be renewed by shareholders at the forthcoming AGM.

During the year a total of 5,080,380 shares were repurchased into Treasury, amounting to 5.8% of the issued share capital at the beginning of the year, at a total cost of £98.6 million. Buying those shares back at a discount to net asset value added approximately 11.0p to the net asset value per share for continuing shareholders.

Gearing

The Company ended the year with gearing of 3.5%. During the year the level of gearing ranged between 0% and 6% geared. It is the Board's intention to continue to operate within the range of 10% net cash to 20% geared, under normal market conditions. Gearing is facilitated by two long term debentures and is regularly discussed between the Board and the Investment Managers.

Board

Sandy Nairn will retire from the Board at the conclusion of the Company's AGM on 23rd May 2018. Sandy has been a Director since 2003 and the Board's Senior Independent Director since 2014. His considerable investment management experience has been very valuable and on behalf of the Board, I would like to thank him for his contribution over the past 15 years. We have commenced the process to recruit a new Director using an external agency and we will announce their appointment in due course. Jeremy Tigue will succeed Sandy as the Board's Senior Independent Director.

All of the Directors, with the exception of Sandy Nairn, will stand for annual reappointment at the forthcoming AGM, in accordance with the Board's policy and corporate governance best practice.

The Manager

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

Strategic Report – continued

Management Fee Change

As I have reported previously, the Board agreed with the Manager that the management fee be reduced to 0.45% on the Company's market capitalisation with effect from 1st February 2018, having already been reduced to 0.475% from 1st February 2017. As a result, the Company's ongoing charges ratio fell to 0.45% for the year. This level is significantly lower than the average for our investment trust peer group and represents outstanding value for an actively managed portfolio with such a strong long term performance record.

Annual General Meeting

Your Company's one hundred and thirty second Annual General Meeting will be held at Trinity House, Tower Hill, London EC3N 4DH on Wednesday 23rd May 2018 at 12.00 noon. In addition to the formal part of the meeting, there will be a presentation from the Investment Managers who will answer questions on the portfolio and performance. The meeting will be followed by a buffet lunch which will give shareholders an opportunity to meet the Board, the Investment Managers and representatives of J.P. Morgan. I look forward to seeing as many of you as possible at the meeting.

If you have any detailed or technical questions, it would be helpful if you could raise them in advance with the Company Secretary at 60 Victoria Embankment, London EC4Y 0JP or via the 'Ask a Question' link on the Company's website. Shareholders who are unable to attend the AGM are encouraged to use their proxy votes.

Outlook

The Investment Managers in their report highlight a positive economic backdrop for the companies we are invested in, but also identify some potential risks. Your Company is well placed to prosper in normal market conditions but also has the wherewithal to take advantage of opportunities should they arise. As I said at the beginning of this report, mid and smaller UK companies have historically outperformed their larger counterparts and we see no reason for this to be different in the future. As a long term investment, we look forward to the years ahead, confident that we have the right investment vehicle and the right Investment Managers investing in the right area of the market.

This year celebrates the 150th year of investment trusts as collective investment vehicles. For good reasons the investment trust sector is in rude health and increasingly popular with individuals and advisors alike. The benefits of an independent board, the ability to gear, the use of revenue reserves to underpin dividends and the enhancement of net asset value through share repurchases are advantages unavailable for open ended alternatives. As far as your Company is concerned, we can add significant revenue reserves, low ongoing charges, sheer scale and an historically attractive asset class managed by experts in their field to the list of attractions.

Angus Gordon Lennox
Chairman

11th April 2018

Strategic Report – continued

Investment Managers' Report

Contributions to total returns in the year ended 31st January 2018

	%
Benchmark total return	14.6
Stock/Sector – selection/allocation	10.9
Effect of Gearing/Cash	0.4
Effect of Management fee/Other expenses	–0.5
Cost of debentures	–0.5
Repurchase of shares	0.6
Return on net assets	25.5
Effect of change in discount	—
Return to shareholders	25.5

Source: JPMAM and Morningstar.

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

A glossary of terms and alternative performance measures is provided on page 68.

Market background: a surprisingly calm year

The UK equity market delivered a positive performance last year despite remaining firmly out of favour with most international investors. The FTSE All-Share generated a total return of +11.3% for the twelve months ending 31st January 2018 as the market was encouraged by the combination of a relatively resilient domestic economy, versus fairly low expectations, and improving international economic growth prospects. Following the gyrations of the previous year – most keenly felt in the immediate aftermath of the UK's vote to leave the EU – this was a year of calm for the market as it absorbed in relaxed fashion the various geopolitical events and associated risks, including the Conservatives' misjudged calling of a General Election and the uncertainty emanating on a virtually daily basis from the Brexit negotiations. Having lagged the FTSE 100 in the prior year, the performance of medium and smaller companies, excluding investment companies, (the 'Benchmark') improved, with a return of +14.6% compared to the +10.4% return from the FTSE 100. This higher return was driven by a combination of better earnings growth and a small increase in valuations being applied by the market to smaller companies.

UK Equity Market Total Return

Source: J.P. Morgan Asset Management, Bloomberg.

Strategic Report – continued

Mercantile performance: an encouraging year

Against this positive market backdrop, your Company had an encouraging twelve months; the return on net assets was +25.5%, well ahead of the +14.6% return from the Benchmark. The return to shareholders was also +25.5%, reflecting a stable discount versus the prior year. Furthermore, this was a very strong year for income in the portfolio, which has supported the sizeable increase in dividend payable as announced.

Mercantile Performance

Source: J.P. Morgan Asset Management, Bloomberg data.

This positive relative performance has been delivered from a combination of stock selection and sector allocation. The charts overleaf show the relative contributions to performance for the best and worst ten stocks and sectors within the portfolio. The positive contribution from both stock selection and sector allocation has been achieved across an extremely diverse range of individual stocks and sectors, as opposed to a limited number of significant wins. The greatest contributing sector was financial services with success across a large number of holdings including most notably our position in Intermediate Capital, the debt investor. The company generated strong returns as its fundraising momentum increased alongside better than forecast results from its proprietary investment portfolio. The support services sector was also a significant contributor, with our avoidance of Capita, the outsourced services provider, adding significantly to our relative performance as the company's woes continued. At an individual stock level Sophos, the IT security software provider that we invested in through its initial public offering in 2015, yielded a strong return. It continued to deliver excellent billings growth and various high profile cyber breaches, including 'WannaCry', alerted the market to the tremendous long term growth potential in this area.

Strategic Report – continued

Detractors from performance are inevitable. While at a sector level there were very few, at a stock level there were several holdings, including Domino's Pizza and Saga, where operational and financial performance did not meet either our or the market's expectations. We have limited tolerance of such investments and neither of these feature in the portfolio today.

Having increased the level of gearing through the latter part of 2016, the portfolio benefited from the rising market and gearing peaked at 6% in March, before being reduced to 3.5% at the year end, having been at least fully invested (i.e. 0% geared), throughout the year. The benefit from being geared broadly offset the cost of the Company's debenture through the year.

Mercantile Performance Attribution Relative to Benchmark (Sector and Stock level)

Year to 31st January 2017

o = overweight

u = underweight

Source: J.P. Morgan Asset Management, B-One.

Portfolio positioning and the year ahead – where are the opportunities?

While we focus primarily on company specific analysis and stock selection, we remain mindful of the broader macro-economic conditions and trends that influence the relative attractiveness of different industries over time. From that perspective this was a year of relative continuity, as changes in the aggregate shape and key end market exposures of the portfolio followed a consistent theme of increasing exposure to what we view to be improving industrial end markets, given the acceleration experienced in global economic growth. This has been funded by reduced exposure to the consumer, who in our view has been stretched through a period of negative real wage growth and pressure on savings rates. These changes can be seen in the charts overleaf, which show the change in make-up of the top and bottom ten sectors relative to benchmark through the year: there is a now greater preponderance of industrial sectors at the top of the list, while exposure to travel & leisure has been substantially reduced. In tandem with this, the level of international relative to domestic exposure has also increased such that around 52% of revenue generated by companies in the portfolio is sourced internationally, up from around 49% a year ago.

Strategic Report – continued

Top 10 Sector Active Positions

Portfolio weights relative to the benchmark weight, 31st January 2017 and 31st January 2018

Source: J.P. Morgan Asset Management, Factset.

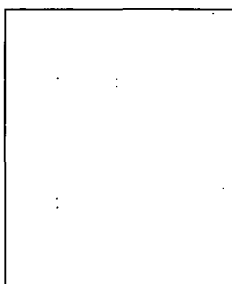
At a stock level, additions to the portfolio have reflected specific opportunities. For example, one of our largest new investments was in Electrocomponents, the international distributor of electronic components used by engineers across a hugely diverse set of applications. The management team's restructuring work has translated into substantial improvements within the business, which are now driving a combination of improving growth, profitability and cash generation. Another of our more material new investments was in Vesuvius, a provider of engineering products and services to the steel and foundry industries, which are inherently cyclical end markets, but where the outlook was improving from the cyclical trough. The leadership team had managed the cost base very well through the down cycle, while positioning the business to benefit from any potential improvement in the end markets, which should result in a significant uplift in profit.

One of the greatest challenges in the market through the past year has been to avoid those companies, for example Capita, Dixons Carphone and Provident Financial, that fail to meet our or the market's expectations – due to either internal or external factors – and the market's response to such stocks is punitive. While we fared well in this regard through 2017 and it added substantially to our relative performance, this may increase yet further in importance through the coming year.

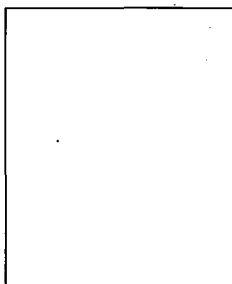
Economic growth has displayed improving momentum across the globe for well over a year now, and while this is not being uniformly experienced, it has been translating into an improving backdrop for many companies in our investment universe. In the UK specifically, growth has been less impressive, but has proved to be more resilient than feared by most commentators. While this should provide a positive backdrop for equities, the markets will also have to grapple with a number of counterbalancing factors, not least of which may be the gradual removal of monetary stimulus as well as the implications of any potential increase in inflation.

Furthermore, the geopolitical landscape presents a host of risks, some of which could generate far-reaching challenges in the future but which have not yet caused a discernible

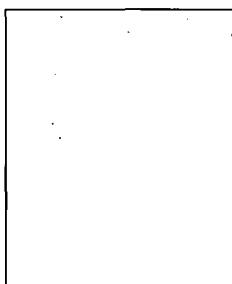
Strategic Report – continued



Guy Anderson



Martin Hudson



Anthony Lynch

impact. The lack of volatility in financial markets has been a surprise, but will not last forever, as we were reminded with the market correction through the second half of January and early February this year. At this stage the portfolio remains modestly geared, which leaves us with plenty of capacity to take advantage of any market driven or company specific opportunities for further reinvestment.

We remain committed to identifying and investing in those companies that have strong business models, are suitably financed and are well placed to succeed. The portfolio includes many innovative companies that are using advances in technology to both drive and profit from structural changes in their markets and we anticipate that the favourable dynamics of medium- and small-sized companies will continue to drive superior returns over the long-term.

Guy Anderson
Martin Hudson
Anthony Lynch
Investment Managers

11th April 2018

Strategic Report – continued

Summary of Results

	2018	2017	
Total returns for the year ended 31st January			
Return on net assets ¹	+25.5%	+6.1%	
Return to shareholders ²	+25.5%	+4.3%	
Benchmark return ³	+14.6%	+12.5%	
Net asset value and discount at 31st January			% change
Shareholders' funds (£'000)	2,019,593	1,744,143	+15.8
Net asset value per share with debt at par value	2,465.9p	2,005.2p	+23.0
Net asset value per share with debt at fair value ⁴	2,374.8p	1,921.0p	+23.6
Share price discount to net asset value with debt at par value	12.8%	12.5%	
Share price discount to net asset value with debt at fair value ⁴	9.5%	8.6%	
Market Data at 31st January			
The FTSE All-Share Index (capital only) excluding constituents of the FTSE 100 Index and investment trusts with net dividends reinvested ⁵	4,175.8	3,746.8	+11.4
Share price	2,150.0p	1,755.0p	+22.5
Ordinary shares in issue at year end (excluding shares held in Treasury)	81,900,039	86,980,419	
Revenue for the year ended 31st January			
Net revenue available for shareholders (£'000)	51,292	49,296	+4.0
Revenue return per share	61.2p	53.2p	+15.0
Dividend per share	53.0p	46.0p	+15.2
Ongoing Charges	0.45%	0.48%	
Gearing	3.5%	2.5%	

A glossary of terms and alternative performance measures is provided on page 68.

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

²Source: Morningstar.

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

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.

⁵Source: Datastream.

Strategic Report – continued

Performance

Ten Year Performance

Figures have been rebased to 100 at 31st January 2008

■ The Mercantile – net asset value total return¹

■ The Mercantile – share price total return.²

■ Benchmark return.³

■ FTSE 100 Index return.⁴

¹Source: J.P.Morgan/Morningstar, using cum income net asset value per share, with debt at fair. Prior to 30th June 2008, capital only NAV with debt at par value.

²Source: Morningstar.

³Source: FTSE Russell.

Discount History

— Discount to cum income net asset value debt at fair value. Prior to 30th June 2008, capital only NAV with debt at par value.

Source: Morningstar.

Strategic Report – continued

Ten Year Financial Record

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
At 31st January											
Total assets less current liabilities (£'m)	1,384.9	874.1	1,212.3	1,414.3	1,287.5	1,538.6	1,865.2	1,890.5	2,031.2	1,921.7	2,197.3
Net asset value per share (p) ¹	1,158.3	681.5	1,015.6	1,249.3	1,124.9	1,382.8	1,718.1	1,753.3	1,931.8	2,005.2	2,465.9
Share price (p)	1,020.0	592.5	860.0	1,109.0	940.0	1,171.0	1,550.0	1,498.0	1,727.0	1,755.0	2,150.0
Year to 31st January											
Gross revenue (£'000)	51,684	51,750	32,248	32,237	37,384	37,447	53,104	48,136	56,848	56,369	58,292
Revenue available for shareholders (£'000)	44,345	43,028	23,703	26,769	31,555	31,643	46,646	41,352	49,580	49,296	51,292
Revenue return per share (p)	39.8	41.7	23.2	26.9	31.9	32.1	47.5	42.1	51.5	53.2	61.2
Dividend per share (net) (p) ²	38.0	36.0	36.0	36.0	36.0	36.0	40.0	41.0	43.0	46.0	53.0
Discount (%)	11.9	13.0	15.3	11.2	16.4	15.3	9.8	14.6	10.6	12.5	12.8
Gearing/(net cash) (%)	(5.2)	2.8	11.9	8.9	14.3	2.7	8.9	(0.9)	(4.2)	2.5	3.5
Ongoing Charges (%) ³	0.59	0.56	0.54	0.49	0.51	0.49	0.48	0.49	0.48	0.48	0.45
Rebased to 100 at 31st January 2008											
Net asset value per share ¹	100.0	58.8	87.7	107.9	97.1	119.4	148.3	151.4	166.8	173.1	212.9
Net asset value per share – total return ⁴	100.0	59.3	96.4	122.1	109.7	138.9	180.4	183.7	209.1	220.5	276.8
Share price	100.0	58.1	84.3	108.7	92.2	114.8	152.0	146.9	169.3	172.1	210.8
Share price – total return ⁵	100.0	60.8	92.1	123.3	108.3	139.7	190.9	189.5	224.7	234.4	294.1
Benchmark – total return ⁵	100.0	63.8	100.5	127.2	122.0	155.2	197.8	206.9	216.5	243.6	279.1
Revenue return per share	100.0	104.8	58.3	67.6	80.1	80.6	119.2	105.8	129.4	133.7	153.8
Dividends per share ²	100.0	94.7	94.7	94.7	94.7	94.7	105.3	107.9	113.2	121.1	139.5
Retail Price Index ⁶ (%)	100.0	100.3	104.0	109.5	113.7	117.6	120.8	122.3	124.1	127.5	132.4

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

²2008 includes ordinary dividends of 34.0p and a special dividend of 4.0p.

³Ongoing Charges represents the management fee and all other operating expenses excluding finance costs, expressed as a percentage of the average of the daily net assets during the year (2009 to 2011: Total Expense Ratio, calculated on the average of the month end net assets; 2008 and prior years; the average of the opening and closing net assets). The ongoing charges are calculated in accordance with guidance issued by the Association of Investment Companies in May 2012.

⁴Source: J.P. Morgan/Morningstar, using cum income net asset value per share, with debt at fair value. Prior to 30th June 2008, capital only NAV with debt at par value.

⁵Source: Morningstar, FTSE Russell.

⁶Source: Office of National Statistics. Calculated on a cumulative basis, rebased to 100 as at 31st January 2008.

Strategic Report – continued

Ten Largest Investments

Company	At 31st January 2018		At 31st January 2017	
	Valuation £'000	% ¹	Valuation £'000	% ¹
Bellway	53,953	2.6	34,261	1.9
Intermediate Capital²	53,904	2.6	29,639	1.7
Spirax-Sarco Engineering²	45,399	2.2	29,691	1.7
Man²	43,760	2.1	20,068	1.1
Hays³	40,883	2.0	—	—
B&M European Value Retail²	40,753	1.9	19,813	1.1
Hiscox²	38,813	1.9	27,189	1.5
Jupiter Fund Management²	38,476	1.8	21,274	1.2
Sophos²	38,400	1.8	21,517	1.2
Beazley²	38,063	1.8	25,933	1.5
Total⁴	432,404	20.7		

All of the above investments are listed in the UK.

¹Based on total portfolio of £2,091m (2017: £1,787m).

²Not Included in the ten largest investments at 31st January 2017.

³Not held in the portfolio at 31st January 2017.

⁴At 31st January 2017, the value of the ten largest investments amounted to £384m representing 21.6% of the total portfolio.

Strategic Report – continued

Portfolio Analyses

Listed Equity Market Capitalisation at 31st January

	2018 % ¹	2017 % ¹
UK FTSE Mid Sized	79.7	84.4
UK FTSE Small & Fledgling	7.0	7.1
UK AIM	3.4	4.7
UK FTSE 100	9.7	3.5
UK Unquoted	0.2	0.2
Overseas	—	0.1
Total	100.0	100.0

¹Based on total portfolio of £2,091m (2017: £1,787m).

Source: J.P. Morgan

Sector Analysis at 31st January

	Portfolio 2018 % ¹	Benchmark 2018 %	Portfolio 2017 % ¹	Benchmark 2017 %
Industrials	31.0	28.9	29.8	30.7
Financials	23.1	15.9	19.7	15.5
Consumer Services	22.1	21.7	27.3	20.1
Consumer Goods	9.6	7.1	7.6	7.3
Technology	5.7	2.5	3.9	2.0
Basic Materials	3.8	4.1	2.4	4.2
Real Estate	3.7	9.6	4.8	9.6
Health Care	0.4	4.9	1.6	3.5
Utilities	0.4	1.1	0.7	1.4
Telecommunications	0.2	1.0	0.3	1.4
Oil & Gas	—	3.2	1.9	4.3
Total	100.0	100.0	100.0	100.0

¹Based on total portfolio of £2,091m (2017: £1,787m).

Source: J.P. Morgan

Strategic Report – continued

List of Investments

at 31st January 2018

Company	Valuation £'000
Industrials	
Spirax-Sarco Engineering	45,399
Hays	40,883
Bodycote	37,807
BBA Aviation	35,532
Melrose Industries	34,963
Electrocomponents	34,672
Weir	34,445
DS Smith	31,199
Vesuvius	26,250
RPC	25,990
Grafton	24,172
Morgan Advanced Materials	22,442
Marshalls	21,134
Polypipe	20,946
Ibstock	20,258
Morgan Sindall	19,499
Coats	19,402
Renishaw	18,630
RHI Magnesita	18,204
Fenner	17,578
Ricardo	17,408
Diploma	15,473
Halma	15,196
G4S	15,029
Hill & Smith	13,777
XP Power	9,724
Renold	6,594
Avon Rubber	5,491
	648,097

Company	Valuation £'000
Financials	
Intermediate Capital	53,904
Man	43,760
Hiscox	38,813
Jupiter Fund Management	38,476
Beazley	38,063
Phoenix	33,398
Close Brothers	30,752
3i	27,942
TP ICAP	27,836
Brewin Dolphin	21,541
Jardine Lloyd Thompson	19,988
Lancashire	18,180
John Laing	15,031
Charter Court Financial Services	14,982
IG	14,214
Vp	12,604
Arrow Global	11,779
Sabre Insurance	9,415
Mortgage Advice Bureau ¹	6,856
Cenkos Securities ¹	4,546
	482,080

Strategic Report – continued

Company	Valuation £'000
Consumer Services	
B&M European Value Retail	40,753
Inchcape	37,058
Auto Trader	35,291
Rightmove	31,994
Just Eat	31,059
WH Smith	30,630
Moneysupermarket.com	29,479
SSP	28,014
Ladbrokes Coral	25,245
National Express	25,048
UBM	24,957
William Hill	20,451
JD Sports Fashion	20,386
GVC	18,520
ZPG	16,395
Card Factory	12,358
Gocompare.com	10,427
M&C Saatchi'	8,541
4imprint	6,874
Pets at Home	4,963
Trinity Mirror	3,851
	462,294

Company	Valuation £'000
Consumer Goods	
Bellway	53,953
Cranswick	24,640
Fevertree Drinks'	23,254
Countryside Properties	20,019
Berkeley	20,013
MP Evans'	19,866
Games Workshop	17,316
AG Barr	11,722
Taylor Wimpey	10,498
	201,281
Technology	
Sophos	38,400
Computacenter	17,494
Softcat	16,985
Micro Focus International	15,457
FDM	13,764
Fidessa	9,185
Alfa Financial Software	7,436
	118,721
Basic Materials	
KAZ Minerals	25,724
Evraz	20,302
Synthomer	17,738
Polymetal International	11,305
Tennants Consolidated ^{2,3}	4,184
	79,253

Strategic Report – continued

Company	Valuation £'000
Real Estate	
Savills	23,018
Segro	16,790
LondonMetric Property	14,234
UNITE	11,144
Workspace	7,346
Shaftesbury	4,937
	77,469
Utilities	
Drax	8,451
	8,451
Health Care	
Abcam ¹	7,688
	7,688
Telecommunications	
Telecom Plus	5,278
	5,278
Total Investments⁴	2,090,612

¹AIM listed investment.

²Unquoted investment.

³Includes a fixed interest investment.

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

Strategic Report – continued

Business Review

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

Objective and Strategy of the Company

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

Structure of the Company

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

A review of the Company's activities and prospects is given in the Chairman's Statement on pages 3 to 5, and in the Investment Managers' Report on pages 6 to 10.

Investment Policies and Risk Management

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

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

Investment Restrictions and Guidelines

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

Performance

In the year to 31st January 2018, the Company produced a total return to shareholders of 25.5% and a total return on net assets of 25.5%. This compares with the return on the Company's benchmark of 14.6%. At 31st January 2018, the value of the Company's investment portfolio was £2,090.6 million. The Investment Managers' Report on pages 6 to 10 includes a review of developments during the year as well as information on investment activity within the Company's portfolio.

Total Return, Revenue and Dividends

Gross total return for the year amounted to £433.1 million (2017: £101.6 million) and net total return after deducting interest, management expenses and taxation amounted to £413.2 million (2017: £81.7 million). Distributable income for the year amounted to £51.3 million (2017: £49.3 million). The Directors have declared quarterly interim dividends totalling 53.0p (2017: 46.0p) per ordinary share for the year which totalled £43.8 million (2017: £41.4 million). The year end revenue reserve after allowing for these dividends will amount to £44.5 million (2017: £36.7 million).

Key Performance Indicators ('KPIs')

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

- **Performance against the benchmark index**
This is the most important KPI by which performance is judged. Please refer to the graph headed 'Ten Year Performance' on page 12.

Strategic Report – continued

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

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

- **Dividends**

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

- **Performance attribution**

The purpose of performance attribution analysis is to assess how the Company achieved its performance relative to its benchmark index, i.e. to understand the impact on the Company's relative performance of the various components such as stock selection and sector allocation. Details of the attribution analysis for the year ended 31st January 2018 are given in the Investment Managers' Report on page 6.

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

The Board operates a share repurchase programme that seeks to enhance value and address imbalances in supply and demand of the Company's shares within the market and thereby reduce the volatility and absolute level of the discount to NAV at which the Company's shares trade. Please refer to the graph headed 'Discount History' on page 12.

- **Ongoing Charges**

The ongoing charges represent the Company's management fee and all other operating expenses, excluding finance costs, expressed as a percentage of the average of the daily net assets during the year. The ongoing charges for the year ended 31st January 2018 were 0.45% (2017: 0.48%). The Board reviews each year an analysis which shows a comparison of the Company's ongoing charges and its main expenses with those of its peers.

Share Capital

During the year, the Company repurchased a total of 5,080,380 shares, amounting to 5.8% of issued share capital at the beginning of the year. Of those shares nil (2017: 1,507,822) were repurchased for a total consideration of £nil (2017: £25,073,000) and cancelled. The balance of 5,080,380 shares were repurchased for a total consideration of £98,559,000 and held in Treasury. As the shares were repurchased at a discount to the underlying net asset value ('NAV') they enhanced the NAV of the remaining shares. The Company has repurchased a further 1,239,000 shares since the year end (as at 9th April 2018).

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

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

Board Diversity

At 31st January 2018, there were five male Directors and one female Director on the Board. The Company has no employees. The Board's policy on diversity is set out on page 28.

Discount

The Board monitors closely the level of the Company's share price discount to net asset value. During the year the discount increased from 12.5% to 12.8% on the basis of a cum income calculation with debt at par. Several different methodologies are currently employed by different bodies to assess net asset value and consequently different conclusions are drawn which can be difficult to interpret.

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

The AIC, for its industry statistics, stipulates the NAV as Shareholder Funds, both capital and income, expressed as an amount per ordinary share. Shareholder Funds are the net value of total assets having deducted prior charges at their fair (not par) value. The AIC does not however prescribe a methodology for the basis of calculation of fair value. Income for the current financial year is included (dividends are deducted from the income value on the day that shares go ex-dividend). This is equivalent to the cum income NAV with debt at fair value as calculated and published by ourselves, via the Regulatory News Service, on a daily basis.

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

Using this calculation, i.e. NAV cum income with debt at fair value, the discount would be shown to have increased over the course of the year from 8.6% to 9.5%.

Strategic Report – continued

Employees, Social, Community and Human Rights Issues

The Company has no employees. Since many of its functions are carried out by employees of the Manager and its affiliate, JPMorgan Asset Management (UK) Limited ('JPMAM'), it notes the JPMAM policy statements in respect of social and environmental issues.

Social, Environmental and Human Rights

JPMAM believes that companies should act in a socially responsible manner. Although our priority at all times is the best economic interests of our clients, we recognise that, increasingly, non-financial issues such as social and environmental factors have the potential to impact the share price, as well as the reputation of companies. Specialists within JPMAM's environmental, social and governance ('ESG') team are tasked with assessing how companies deal with and report on social and environmental risks and issues specific to their industry.

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

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

Greenhouse Gas Emissions

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

The Modern Slavery Act 2015 (the 'MSA')

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

Criminal Corporate Offence

The Company has zero tolerance for tax evasion. Shares in the Company are purchased through intermediaries or brokers, therefore no funds flow directly into the Company. As the Company has no employees, the Board's focus is to ensure that the risk of the Company's service providers facilitating tax evasion is also low. To this end it seeks assurance from its service providers that effective policies and procedures are in place to prevent this.

Principal Risks

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

With the assistance of the Manager, the Board has drawn up a risk matrix, which identifies the key risks to the Company. These key risks fall broadly under the following categories:

- **Investment and Strategy:** An inappropriate investment strategy, for example sector allocation or the level of gearing, may lead to underperformance against the Company's benchmark index and peer companies, resulting in the Company's shares trading on a wider discount. The Board manages these risks by diversification of investments through its investment restrictions and guidelines which are monitored and reported on by the Manager. JPMF provides the Directors with timely and accurate management information, including performance data and attribution analyses, revenue estimates, liquidity reports and shareholder analyses. The Board monitors the implementation and results of the investment process with the Investment Managers, who attend all Board meetings, and reviews data which show statistical measures of the Company's risk profile. The Investment Managers employ the Company's gearing tactically, within a strategic range set by the Board.
- **Accounting, Legal and Regulatory:** In order to qualify as an investment trust, the Company must comply with Section 1158 of the Corporation Tax Act 2010 ('Section 1158'). Details of the Company's approval are given under 'Structure of the Company' on page 19. Were the Company to breach Section 1158, it might lose investment trust status and, as a consequence, gains within the Company's portfolio could be subject to Capital Gains Tax. The Section 1158 qualification criteria are monitored continually by JPMF and the results reported to the Board each month. The Company must also comply with the provisions of the Companies Act and, since its shares are listed on the London Stock Exchange, the UKLA Listing Rules and Disclosure Guidance and Transparency Rules ('DTRs'). A breach of the Companies Act could result in the

Strategic Report – continued

Company and/or the Directors being fined or the subject of criminal proceedings. Breach of the UKLA Listing Rules or DTRs could result in the Company's shares being suspended from listing which in turn would breach Section 1158. The Board relies on the services of its Company Secretary, JPMF, to ensure compliance with The Companies Act and the UKLA Listing Rules and DTRs.

- **Corporate Governance and Shareholder Relations:** Details of the Company's compliance with Corporate Governance best practice, including information on relations with shareholders, are set out in the Corporate Governance Statement on pages 27 to 31.
- **Operational and Cyber Crime:** Disruption to, or failure of, JPMF's accounting, dealing or payments systems or the custodian's records could prevent accurate reporting and monitoring of the Company's financial position. This includes the risk of cybercrime and the consequent potential threat to security and business continuity. Details of how the Board monitors the services provided by JPMF and its associates and the key elements designed to provide effective risk management and internal control are included within the Risk Management and Internal Control section of the Corporate Governance statement on pages 27 and 31.

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

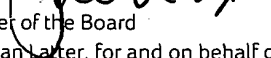
- **Financial:** The financial risks faced by the Company include market price risk, interest rate risk, liquidity risk and credit risk. Bank counterparties are subject to regular credit analysis by the Manager and regular consideration at meetings of the Board. In addition the Board receives regular reports on the Manager's monitoring and mitigation of credit risks on share transactions carried out by the Company. Further details are disclosed in note 24 on pages 57 to 61.

Long Term Viability

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

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

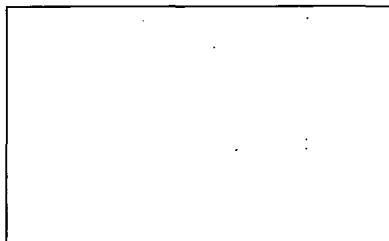
The Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period of assessment.


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

11th April 2018

Directors' Report

Board of Directors



Angus Gordon Lennox*

A Director since September 2015.

Last reappointed to the Board: 2017.

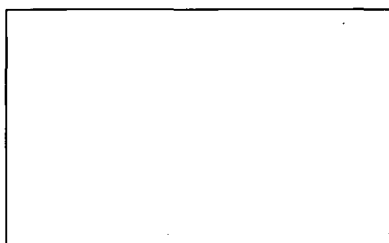
Remuneration: £66,000.

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

Connections with Manager: none.

Shared directorships with other Directors: none.

Shareholding in the Company: 11,000 ordinary shares.



Helen James**

A Director since September 2011.

Last reappointed to the Board: 2017.

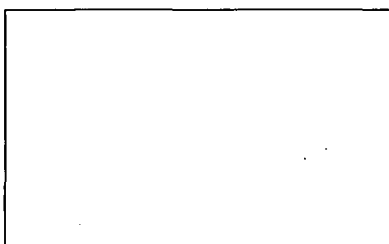
Remuneration: £36,000.

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

Connections with Manager: none.

Shared directorships with other Directors: none.

Shareholding in the Company: 650 ordinary shares (non-beneficial).



Harry Morley**

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

Last reappointed to the Board: 2017.

Remuneration: £48,000.

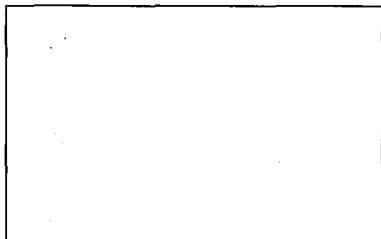
Harry was CEO of Armajaro Asset Management LLP from 2010 until 2016, and a non-executive Director of Bibendum Wine Holdings Ltd until May 2016. He was Co-founder and CFO of Tragus Holdings Ltd, owner of Café Rouge and Bella Italia restaurant chains, and also worked in the shipping industry for P&O. He is currently a non-executive Director of JD Wetherspoon plc. He was appointed a Trustee of The Ascot Authority in July 2017. He qualified as a chartered accountant with Price Waterhouse.

Connections with Manager: none.

Shared directorships with other Directors: none.

Shareholding in the Company: 3,000 ordinary shares.

Directors' Report – continued



Sandy Nairn**

A Director since 2003 and Senior Independent Director since December 2014.

Last reappointed to the Board: 2017.

Remuneration: £40,000.

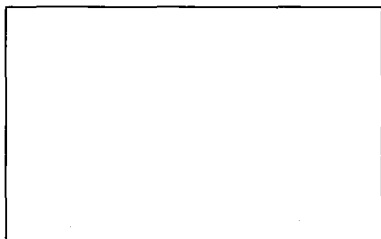
Sandy is Chief Executive of Edinburgh Partners Ltd. Previously, he served on the boards of Vebnet (Holdings) plc, Vebnet Ltd, Franklin Templeton Investment Management Limited, Hill Samuel Asset Management International Limited, Waverley General Private Equity Limited and Scottish Widows Investment Partnership Limited.

Sandy is the sole shareholder of Nairn Capital Ltd, which holds a 30% interest in Goodhart Partners LLP.

Connections with Manager: none.

Shared directorships with other Directors: none.

Shareholding in the Company: 5,000 ordinary shares.



Ian Russell**

A Director since January 2007 and Chairman of the Audit Committee from May 2007 to March 2015.

Last reappointed to the Board: 2017.

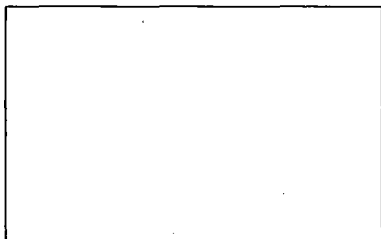
Remuneration: £36,000.

Ian is Chairman of HICL Infrastructure Company Limited and of Scottish Futures Trust Limited. He is also a non-executive director of Aberdeen Diversified Income and Growth Trust plc. Previously he held senior positions with Scottish Power, Tomkins and HSBC.

Connections with Manager: none.

Shared directorships with other Directors: none.

Shareholding in the Company: 5,000 ordinary shares.



Jeremy Tighe**

A Director since March 2012.

Last reappointed to the Board: 2017.

Remuneration: £36,000.

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

Connections with Manager: none.

Shared directorships with other Directors: none.

Shareholding in the Company: 13,132 ordinary shares.

*A member of the Audit Committee throughout the year.

*A member of the Nomination Committee throughout the year.

All Directors are considered independent of the Manager.

Directors' Report – continued

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31st January 2018.

Management of the Company

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

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

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

The Board conducts a formal evaluation of the performance of, and contractual relationship with, the Manager on an annual basis. No separate Management Engagement Committee has been established because all Directors are considered to be independent of the Manager and, given the nature of the Company's business, it is felt that all Directors should take part in the review process.

The Alternative Investment Fund Managers Directive ('AIFMD')

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

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

The Company's leverage and JPMF's remuneration disclosures are set out on pages 63 and 64.

Management Fee

With effect from 1st February 2017, the management fee was charged at the rate of 0.475% of the value of the Company's market capitalisation and is calculated and paid monthly in arrears. With effect from 1st February 2018 the rate was reduced further, to 0.45% of the Company's market capitalisation. If the Company invests in funds managed or advised by JPMF, or any of its associated companies that charge an underlying fee, they are excluded from the calculation and therefore attract no fee. Prior to 1st February 2017, the management fee was charged at the rate of 0.5% of the Company's market capitalisation.

Directors

Hamish Leslie Melville retired from the Board on 24th May 2017. The Directors of the Company who held office at the year end, are detailed on pages 23 and 24.

Details of Directors' beneficial shareholdings may be found in the Directors' Remuneration Report on page 33.

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

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

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

Director Indemnification and Insurance

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

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

Disclosure of Information to Auditors

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

- so far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act) of which the Company's Auditors are unaware; and
- each of the Directors has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company's Auditors are aware of that information.

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

Directors' Report – continued

Independent Auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as Auditors to the Company and resolutions proposing their re-appointment and authorising the Directors to determine their remuneration for the ensuing year will be proposed to shareholders at the Annual General Meeting.

Section 992 Companies Act 2006

Capital Structure

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

Voting Rights in the Company's shares

Details of the voting rights in the Company's shares as at the date of this report are given in note 16 to the Notice of AGM on page 67.

Notifiable Interests in the Company's Voting Rights

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

Shareholders	Number of voting rights	% ¹
Brewin Dolphin Ltd	9,587,481	10.0
Rathbone Brothers Plc	9,416,994	10.0
Old Mutual Plc	6,765,884	7.1
Investec Wealth & Investment Ltd	4,141,454	4.3

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

The Company is also aware that approximately 6.1% of the Company's total voting rights are held by individuals through savings products managed by JPMAM, registered in the name of Chase Nominees Limited. If those voting rights are not exercised by the beneficial holders, in accordance with the terms and conditions of those savings products, under certain circumstances the Manager has the right to exercise those voting rights. That right is subject to certain limits and restrictions and falls away at the conclusion of the relevant general meeting.

Miscellaneous Information

The rules concerning the appointment and replacement of Directors, amendment of the Articles of Association and powers to issue or buy back the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006. There are no restrictions concerning the transfer of securities in the Company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; no agreements which the Company is party to that affect its control following a takeover bid; and no agreements between the Company and its directors concerning compensation for loss of office.

Listing Rule 9.8.4R

Listing Rule 9.8.4R requires the Company to include certain information in an identified section of the Annual Report or a cross reference table indicating where the information is set out. The

Directors confirm that there are no disclosures to be made in this report.

Annual General Meeting

NOTE: THIS SECTION IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

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

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

(i) Sub-division of existing ordinary shares (resolution 10)

At the Annual General Meeting the Directors will seek authority to sub-divide each existing ordinary share of 25 pence each (the 'Existing Ordinary Shares') into ten new ordinary shares of 2.5 pence each (the 'New Ordinary Shares'). The full text of this resolution is set out on page 65. The resolution is conditional upon the New Ordinary Shares being listed on the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange.

If resolution 10 is passed at the Annual General Meeting and the conditions attaching to the resolution are fulfilled there will be 944,492,180 New Ordinary Shares in issue (including those held in Treasury) immediately following completion of the sub-division (on the basis that there are currently 94,449,218 Existing Ordinary Shares in issue, including those held in Treasury). The Directors consider the sub-division to be in the best interests of shareholders as a whole as lowering the price at which the shares are traded should improve their marketability.

The New Ordinary Shares will rank *pari passu* with each other and will be subject to the same rights and restrictions as the Existing Ordinary Shares, including the same rights to participate in dividends or income of the Company. Mandates and other instructions for the payment of dividends, including any dividend reinvestment instruction received, in paper form or via CREST, will, unless and until revised, continue to apply to the New Ordinary Shares. A holding of New Ordinary Shares following the sub-division will represent the same proportion of the issued ordinary share capital of the Company as the corresponding holding of Existing Ordinary Shares.

If resolution 10 is approved at the Annual General Meeting it is expected that: (i) dealings in Existing Ordinary Shares will cease as at close of business on 24th May 2018 and that admission of the New Ordinary Shares to the Official List and to trading on the London Stock Exchange and dealings will commence in the New Ordinary Shares on 25th May 2018; (ii) where Existing Ordinary Shares are held in certificated form, share certificates will cease to be valid from 24th May 2018. Certificates in respect of the New Ordinary Shares will be posted, at the risk of shareholders, by 8th June 2018 (these will replace existing certificates which should be destroyed); and (iii) shareholders who hold their Existing Ordinary Shares in uncertificated form will have their CREST accounts credited with the relevant entitlements to New Ordinary Shares on 25th May 2018.

Directors' Report – continued

Shareholders who invest through J.P. Morgan savings plans will receive confirmation of their holding in the Company in their next statement.

The New Ordinary Shares have been allocated new stock identification codes as follows: SEDOL Code BF4JDH5; and ISIN Code: GB00BF4JDH58, to be effective from the date of Admission of the New Ordinary Shares to the Official List and to trading on the London Stock Exchange, expected to be 25th May 2018.

The share split will not itself give rise to any liability to UK income tax (or corporation tax on income) for shareholders. For the purposes of UK capital gains tax and corporation tax on chargeable gains, the receipt of the New Ordinary Shares from the share split will be a reorganisation of the share capital of the Company. Accordingly, a shareholder's holding of New Ordinary Shares will be treated as the same asset as a shareholder's holding of Existing Ordinary Shares and as having been acquired at the same time and for the same consideration, as that holding of Existing Ordinary Shares.

Authority to allot new shares and to disapply statutory pre-emption rights (resolutions 11 and 12)

The Directors will seek renewal of the authority at the AGM to issue up to 40,385,519 Ordinary shares for cash up to an aggregate nominal amount of £1,009,638, such amount being equivalent to 5% of the issued ordinary share capital as at the last practicable date before the publication of this document. The full text of the resolutions is set out in the Notice of Meeting on page 65. This authority will expire at the conclusion of the AGM of the Company in 2019 unless renewed at a prior general meeting.

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

Authority to repurchase the Company's shares for cancellation (resolution 13)

At the Annual General Meeting held in May 2017, shareholders gave authority to the Company to purchase up to 14.99% of its then issued share capital. This authority will expire on 23rd November 2018 unless renewed by shareholders. The Directors consider that the renewing of the authority is in the interests of shareholders as a whole, as the repurchase of shares at a discount to the underlying NAV enhances the NAV of the remaining shares. Repurchased shares may be cancelled or held in Treasury. Any shares held in Treasury will only be reissued at a premium to NAV.

Approval of dividend policy (resolution 14)

The Directors seek approval of the Company's dividend policy to continue to pay four quarterly interim dividends, which for the year ended 31st January 2018 have totalled 53.0 pence per share.

Recommendation

The Board considers resolutions 10-14 are likely to promote the success of the Company and are in the best interests of the Company and its shareholders as a whole. The Directors unanimously recommend that you vote in favour of the resolutions as they intend to do in respect of their own beneficial holdings which amount in aggregate to 37,782 shares representing approximately 0.05% of the existing issued ordinary share capital of the Company. The full text of the resolutions are set out in the Notice of Meeting on pages 65 and 66.

Corporate Governance Statement

Compliance

The Company is committed to high standards of corporate governance. This statement, together with the Statement of Directors' Responsibilities on page 35, indicates how the Company has applied the principles of good governance of the Financial Reporting Council 2016 UK Corporate Governance Code (the 'UK Corporate Governance Code') and the AIC's Code of Corporate Governance, (the 'AIC Code'), which complements the UK Corporate Governance Code and provides a framework of best practice for investment trusts.

The Board is responsible for ensuring the appropriate level of corporate governance and considers that the Company has complied with the best practice provisions of the UK Corporate Governance Code, insofar as they are relevant to the Company's business, and the AIC Code throughout the year under review.

Role of the Board

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

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

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

The Board meets at least quarterly during the year and additional meetings are arranged as necessary. Full and timely information is

Directors' Report – continued

provided to the Board to enable it to function effectively and to allow Directors to discharge their responsibilities.

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

Board Composition

The Board, chaired by Angus Gordon Lennox, consists of six non-executive Directors, all of whom are regarded by the Board as independent, including the Chairman. The Directors have a breadth of investment, business and financial skills and experience relevant to the Company's business and brief biographical details of each Director are set out on pages 23 and 24. Upon the retirement of Sandy Nairn the Board will comprise five Directors. The Board has commenced the process to recruit a new Director.

There have been no changes to the Chairman's other significant commitments during the year under review.

A review of Board composition and balance is included as part of the annual performance evaluation of the Board. The Board appointed Sandy Nairn as its Senior Independent Director with effect from 3rd December 2014. Jeremy Tigue will become Senior Independent Director at the conclusion of the 2018 AGM.

The Senior Independent Director leads the evaluation of the performance of the Chairman and may be contacted by shareholders if they have concerns that cannot be resolved through discussion with the Chairman.

Tenure

Directors are initially appointed until the following Annual General Meeting when, under the Company's Articles of Association, it is required that they be reappointed by shareholders. Thereafter, subject to the performance evaluation carried out each year, the Board will agree whether it is appropriate for each Director to seek reappointment. In accordance with the UK Corporate Governance Code, Directors continuing in office seek annual reappointment.

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

Sandy Nairn and Ian Russell, having been Directors of the Company for more than nine years, have retained their independence by standing for annual reappointment. Dr. Nairn will retire from the Board at the forthcoming AGM. Mr. Russell will offer himself for reappointment at the AGM but has indicated his intention to retire at the 2019 AGM.

Induction and Training

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

training needs are carried out by the Nomination Committee by means of the evaluation process described below.

Meetings and Committees

The Board delegates certain responsibilities and functions to committees. Details of membership of committees are shown with the Directors' profiles on pages 23 and 24. Directors who are not members of Committees may attend at the invitation of the Chairman.

The table below details the number of Board, Audit Committee and Nomination Committee meetings attended by each Director. During the year there were seven Board meetings, including a separate meeting devoted to strategy, three Audit Committee meetings and one Nomination Committee meeting.

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

Director	Board Meetings Attended	Audit Committee Meetings Attended	Nomination Committee Meetings Attended
Angus Gordon Lennox	7	3 ¹	1
Helen James	7	3	1
Hamish Leslie Melville ²	3	1 ³	–
Harry Morley	7	3	1
Sandy Nairn	5	2	–
Ian Russell	7	3	1
Jeremy Tigue	7	3	1

¹Attended by invitation following appointment as Chairman

²Retired from the Board on 24th May 2017.

³Attended by invitation.

Board Committees

Nomination Committee

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

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

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

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

Directors' Report – continued

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

Audit Committee

The report of the Audit Committee is set out on pages 30 to 31.

Terms of Reference

Both the Nomination Committee and the Audit Committee have written terms of reference which define clearly their respective responsibilities, copies of which are available for inspection on the Company's website, on request at the Company's registered office and at the Company's AGM.

Relations with Shareholders

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

All shareholders have the opportunity, and are encouraged, to attend the Company's Annual General Meeting at which the Directors and representatives of the Manager are available in person to meet with shareholders and answer questions. In addition, a presentation is given by the Investment Managers who review the Company's performance. During the year the Company's brokers and the Investment Managers hold regular discussions with larger shareholders. The Directors are made fully aware of their views. The Chairman and Directors conduct visits to larger shareholders when requested and make themselves available as and when required to address shareholder queries. The Directors may be contacted through the Company Secretary whose details are shown on page 73. The Chairman can also be contacted via the Company's website at www.mercantileit.co.uk.

The Company's Annual Report and Accounts is published in time to give shareholders at least 20 working days' notice of the Annual General Meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to submit questions via the Company's website or write to the Company Secretary at the address shown on page 73.

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

Risk Management and Internal Control

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

The Directors are responsible for the Company's system of risk management and internal control which is designed to safeguard the Company's assets, maintain proper accounting records and ensure that financial information used within the business, or

published, is reliable. However, such a system can only be designed to manage rather than eliminate the risk of failure to achieve business objectives and therefore can only provide reasonable, but not absolute, assurance against fraud, material mis-statement or loss.

Since investment management, custody of assets and all administrative services are provided to the Company by JPMF and its associates, the Company's system of risk management and internal control mainly consists of monitoring the services provided by JPMF and its associates, including the operating controls established by them, to ensure they meet the Company's business objectives. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company (see Principal Risks on pages 21 and 22). This process, which was in place during the year under review and up to the date of approval of the Annual Report and Accounts, accords with the guidance of the Financial Reporting Council. As explained above, the Company is not required to have an internal audit function of its own, but relies on the internal audit department of the Manager. This arrangement is kept under review. The key elements designed to provide effective risk management and internal control are as follows:

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

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

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

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

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

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

By the means of the procedures set out above, the Board confirms that it has carried out a robust assessment of the effectiveness of the Company's system of risk management and internal control for the

Directors' Report – continued

year ended 31st January 2018 and to the date of approval of this Annual Report and Financial Statements.

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

Audit Committee Report

The Audit Committee, chaired by Harry Morley, consists of all the Directors other than the Chairman and meets on at least three occasions each year. The members of the Committee consider that at least one member has recent and relevant financial experience and that the committee as a whole has competency relevant to the sector in which the Company operates. For details of their qualifications see pages 23 and 24. Angus Gordon Lennox is not a member of the Audit Committee, however, he is invited to attend meetings as a guest.

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

During its review of the Company's financial statements for the year ended 31st January 2018, the Audit Committee considered the following significant issues, including those communicated by the Auditors during their reporting:

Significant issue	How the issue was addressed
Valuation and existence of investments	The valuation of investments is undertaken in accordance with the accounting policies, disclosed in note 1(b) to the accounts on page 46. Controls are in place to ensure that valuations are appropriate and existence is verified through custodian reconciliations.
Recognition of investment income	The recognition of investment income is undertaken in accordance with accounting policy note 1(d) to the accounts on page 46. The Board regularly reviews subjective elements of income such as special dividends and agrees their accounting treatment.
Going concern	The Directors have considered the Company's investment objective, risk management policies, capital management policies and procedures, the nature of the portfolio and expenditure and cash flow projections. As a result, they have determined that the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for at least twelve months from the date of approval of these financial statements. Please refer to the section headed 'Going Concern' on page 31 for further details.

Significant issue	How the issue was addressed
Compliance with Sections 1158 and 1159	Approval for the Company as an investment trust under Sections 1158 and 1159 has been obtained and ongoing compliance with the eligibility criteria is monitored on a regular basis.

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

Having taken all available information into consideration and having discussed the content of the annual report and accounts with the Alternative Investment Fund Manager, Investment Managers, Company Secretary and other third party service providers, the Audit Committee has concluded that the Annual Report and Accounts for the year ended 31st January 2018, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy and has reported these findings to the Board. The Board's conclusions in this respect are set out in the Statement of Directors' Responsibilities on page 35.

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

The Audit Committee also has primary responsibility for making recommendations to the Board on the reappointment and removal of external auditors. A predecessor firm of PricewaterhouseCoopers LLP ('PwC') was appointed on 8th January 1885, shortly after the Company's launch. The audit engagement partner rotates every five years in accordance with ethical guidelines and 2018 is the third year for the current partner.

As part of its review of the continuing appointment of the Auditors, the Audit Committee considered the length of tenure of the audit firm, its fee, its independence from JPMF and the Investment Managers and any matters raised during the audit. A formal tender exercise was undertaken in 2014, as a result of which PwC was reappointed. Written submissions were received from five audit firms. These were considered in full by Board representatives and a shortlist of three firms was drawn up. Meetings were held between a Committee of the Board and the shortlisted firms, using a selection checklist. Following those meetings, PwC were reappointed by Board resolution. A further tender review will be conducted in 2019 and a change of Audit firm will be proposed to shareholders for approval at the 2020 AGM.

The Audit Committee reviews and approves any non-audit services provided by the independent Auditors and assesses the impact of any non-audit work on the ability of the Auditors to remain independent. PwC reviews debenture loan covenants on an annual

Directors' Report – continued

basis. Otherwise, no such work was undertaken during the year. Details of the fees paid for audit services are included in note 6 on page 49.

Representatives of the Company's Auditors attend the Audit Committee meeting at which the draft Annual Report & Accounts are considered. Having conducted the formal tender in 2014, and reviewed the performance of the external auditors, including the quality of work, timing of communications and work with JPMF, the Committee considered it appropriate to recommend their reappointment. The Board supported this recommendation which was put to shareholders at the 2015 Annual General Meeting.

In order to safeguard the Auditors' objectivity and independence, any significant non-audit services are carried out through a partner other than the audit engagement partner where appropriate. Fees paid for audit services, audit-related services and other non-audit services are set out, where relevant, in note 6 on page 49. There were no significant non-audit engagements during the year under review. The Audit Committee has assessed the impact of any non-audit work carried out and is content with the Auditors' ability to remain independent and objective. The Directors' statement on the Company's system of risk management and internal control is set out below.

Going Concern

The Directors believe that, having considered the Company's investment objective (see page 19), risk management policies (see pages 57 and 61), capital management policies and procedures (see page 62), the nature of the portfolio and expenditure and cash flow projections, the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence and they have not identified any material uncertainties to the Company's ability to continue to do so over a period of at least 12 months from the date of approval of these financial statements.

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

Corporate Governance and Voting Policy

The Company delegates responsibility for voting to the Manager.

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

Corporate Governance

JPMAM believes that corporate governance is integral to our investment process. As part of our commitment to delivering superior investment performance to our clients, we expect and encourage the companies in which we invest to demonstrate the highest standards of corporate governance and best business practice. We examine the share structure and voting structure of the companies in which we invest, as well as the board balance,

oversight functions and remuneration policy. These analyses then form the basis of our proxy voting and engagement activity.

Proxy Voting

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

Stewardship/Engagement

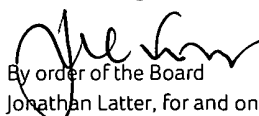
JPMAM recognises its wider stewardship responsibilities to its clients as a major asset owner. To this end, we support the introduction of the FRC Stewardship Code, which sets out the responsibilities of institutional shareholders in respect of investee companies. Under the Code, managers should:

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

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

JPMAM's Voting Policy and Corporate Governance Guidelines are available on request from the Company Secretary or can be downloaded from JPMAM's website:

<http://www.jpmorganinvestmenttrusts.co.uk/governance>. This also sets out its approach to the seven principles of the FRC Stewardship Code, its policy relating to conflicts of interest and its detailed voting record.



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

11th April 2018

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

Directors' Remuneration Report

The Board presents the Directors' Remuneration Report for the year ended 31st January 2018, which has been prepared this Report in accordance with the requirements of Section 421 of the Companies Act 2006 as amended.

The law requires the Company's Auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included in the Independent Auditors' Report on pages 36 to 41.

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

Directors' Remuneration Policy

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

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

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

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

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

In the year under review, Directors' fees were paid at the following annual rates: Chairman £66,000; Chairman of the Audit Committee £48,000; Senior Independent Director £40,000; and other Directors £36,000. With effect from 1st February 2018 fees have been increased to £67,000, £49,000, £41,000 and £36,500 respectively.

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

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

The terms and conditions of Directors' appointments are set out in formal letters of appointment which are available for review at the Company's Annual General Meeting and the Company's registered office. Details of the Board's policy on tenure are set out on page 28.

Directors Remuneration Policy Implementation

The Directors' Remuneration Policy Implementation Report is subject to an annual advisory vote and therefore an ordinary resolution to approve this report will be put to shareholders at the forthcoming Annual General Meeting. There have been no changes to the policy compared with 31st January 2017 and no changes are proposed for the year ending 31st January 2019.

At the Annual General Meeting held on 24th May 2017, of votes cast, 99.5% of votes cast were in favour of (or granted discretion to the Chairman who voted in favour of) both the remuneration policy and the remuneration report and 0.5% voted against. Votes withheld were the equivalent of less than 0.1% of the votes cast. Similar details for the 2018 AGM will be given in next year's Annual Report.

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

Single total figure of remuneration

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

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

Directors' Remuneration Report – continued

Single total figure table¹

	2018		2017	
	Fees £	Taxable expenses ² £	Fees £	Taxable expenses ² £
Hamish Leslie Melville ³	20,951	240	66,000	61
Helen James	36,000	—	36,000	—
Angus Gordon Lennox ⁴	54,049	5,846	36,000	2,163
Harry Morley	48,000	884	48,000	1,240
Sandy Nairn	40,000	4,849	40,000	1,227
Ian Russell	36,000	4,899	36,000	3,726
Jeremy Tigue	36,000	—	36,000	—
Total	271,000	16,718	298,000	8,417

¹Audited information.

²Taxable travel and subsistence expenses incurred in attending Board and Committee meetings.

³Retired from the Board on 24th May 2017.

⁴Appointed Chairman on 24th May 2017.

Directors' Shareholdings¹

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

	31st January 2018 ¹	1st February 2017 ¹
Helen James ²	650	650
Angus Gordon Lennox ³	11,000	11,000
Harry Morley	3,000	3,000
Sandy Nairn	5,000	5,000
Ian Russell	5,000	5,000
Jeremy Tigue ⁴	13,070	12,763
	37,720	37,413

¹Audited information.

²Non-beneficial holding.

³Includes SIPP of 6,000 shares.

⁴On 1st February 2018 Jeremy Tigue acquired 62 shares through the Company's dividend reinvestment plan, taking his shareholding in the Company at the date of this report to 13,132.

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

No amounts (2017: nil) were paid to third parties for making available the services of Directors.

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

Ten year share price and benchmark total return to 31st January 2018

— Share price total return.
— Benchmark total return.

Source: Morningstar, FTSE Russell.

A table showing the total remuneration for the Chairman over the five years ended 31st January 2018 is below:

Remuneration for the Chairman over the five years ended 31st January 2018

Year ended 31st January	Fees	Performance related benefits received as a percentage of maximum payable ¹
2018	£66,000	n/a
2017	£66,000	n/a
2016	£66,000	n/a
2015	£60,000	n/a
2014	£60,000	n/a

¹In respect of one year period and periods of more than one year.

Directors' Remuneration Report – continued

A table showing actual expenditure by the Company on remuneration and distributions to shareholders for the year and the prior year is below:

Expenditure by the Company on remuneration and distributions to shareholders

	Year ended 31st January	
	2018	2017
	£	£
Remuneration paid to all Directors	270,800	298,000
Distribution to shareholders		
— by way of dividend	39,149,000	40,564,000
— by way of share repurchases	98,559,000	150,683,000
Total distribution to shareholders	137,708,000	191,247,000

For and on behalf of the Board

Angus Gordon Lennox

Chairman

11th April 2018

Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual report and the accounts in accordance with applicable law and regulations.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- notify the Company's shareholders in writing about the use, if any, of disclosure exemptions in FRS 102 in the preparation of the financial statements

and the Directors confirm that they have done so.

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

Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Each of the Directors, whose names and functions are listed on pages 23 and 24 confirms that, to the best of his/her knowledge, the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities, financial position and net return or loss of the Company.

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

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

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

For and on behalf of the Board
Angus Gordon Lennox
Chairman

11th April 2018

Independent Auditors' Report

to the members of The Mercantile Investment Trust plc

Report on the audit of the financial statements

Our opinion

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

- give a true and fair view of the state of the Company's affairs as at 31st January 2018 and of its net return and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report & Financial Statements (the 'Annual Report'), which comprise: Statement of Comprehensive Income; Statement of Changes in Equity; Statement of Financial Position as at 31st January 2018; Statement of Cash Flows; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

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

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

Other than those disclosed in the Directors' Report, we have provided no non-audit services to the company in the period from 1st February 2017 to 31st January 2018.

Our audit approach

Overview

- Overall materiality: £20.2 million (2017: £17.4 million), based on 1% of net assets.
 - The Company is a standalone investment trust company and engages JPMorgan Funds Limited (the 'Manager') to manage its assets.
 - We conducted our audit of the financial statements using information from JPMorgan Corporate & Investment Bank (the 'Administrator') to whom the Manager has, with the consent of the Directors, delegated the provision of certain administrative functions.
 - We tailored the scope of our audit taking into account the types of investments within the Company, the involvement of the third parties referred to above, the accounting processes and controls, and the industry in which the Company operates.
-
- Income from investments.
 - Valuation and existence of investments.

The scope of our audit

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

Independent Auditors' Report – continued

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Company's financial statements, including, but not limited to the UK Corporate Governance Code, Listing Rules, Companies Act 2006, section 1158 of the Corporation Tax Act 2010 and the Alternative Investment Fund Managers Directive (AIFMD). Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, enquiries with management and testing the Company's compliance with section 1158 in the current year. We also tested the tax disclosures in Note 8. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Key audit matters

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

Key Audit Matter	How our audit addressed the key audit matter
<p>Income from Investments <i>Refer to page 30 (Audit Committee Report), page 46 (Accounting Policies) and page 49 (Notes to the Financial Statements).</i></p> <p>We focused on the accuracy and completeness of dividend income recognition and its presentation in the Statement of Comprehensive Income as set out in the requirements of The Association of Investment Companies Statement of Recommended Practice (the 'AIC SORP'). This is because incomplete or inaccurate income could have a material impact on the Company's net assets value.</p> <p>We also focused on the accuracy and occurrence of realised and unrealised gains or losses on the investment portfolio.</p>	<p>We assessed the accounting policy for income recognition for compliance with accounting standards and the AIC SORP and performed testing to check that income had been accounted for in accordance with this stated accounting policy.</p> <p>We found that the accounting policies implemented were in accordance with accounting standards and the AIC SORP, and that income has been accounted for in accordance with the stated accounting policy.</p> <p>We tested the accuracy of dividend receipts by agreeing the dividend rates from investments to independent market data. No material misstatements were identified which required reporting to those charged with governance.</p> <p>To test for completeness, we tested all investment holdings in the portfolio, to ensure that all dividends declared in the market by investment holdings had been recorded.</p> <p>We tested occurrence by testing that all dividends recorded in the year had been declared in the market by investment holdings, and we traced a sample of dividends received to bank statements.</p> <p>We tested the allocation and presentation of dividend income between the revenue and capital return columns of the Statement of Comprehensive Income in line with the requirements set out in the AIC SORP by determining reasons behind dividend distributions. Our procedures did not identify any material misstatements which required reporting to those charged with governance.</p>

Independent Auditors' Report – continued

Key Audit Matter	How our audit addressed the key audit matter
	<p>We also checked that the gains or losses on investments held at fair value comprise realised and unrealised gains or losses. We tested a sample of disposal proceeds to bank statements. For unrealised gains or losses, we tested the valuation of the portfolio at the year-end, and also tested the reconciliation of opening and closing investments.</p> <p>Our testing did not identify any material misstatements which required reporting to those charged with governance.</p>
<p>Valuation and existence of investments <i>Refer to page 30 (Audit Committee Report), page 46 (Accounting Policies) and page 52 (Notes to the Financial Statements).</i></p> <p>The investment portfolio at the year-end principally comprised of listed equity investments of £2,086.4 million and unlisted equity investments of £4.2 million.</p> <p>We focused on the valuation and existence of investments because investments represent the principal element of the net asset value as disclosed on the Statement of Financial Position in the financial statements.</p>	<p>We tested the valuation of the listed investment portfolio by agreeing the prices used in the valuation to independent third party sources. We also tested the Directors' valuation of the unquoted stock.</p> <p>No misstatements were identified by our testing which required reporting to those charged with governance.</p> <p>We tested the existence of the investment portfolio by agreeing the holdings for investments to an independent custodian confirmation from JPMorgan Chase Bank, N.A. as at 31st January 2018.</p> <p>No misstatements were identified by our testing which required reporting to those charged with governance.</p>

How we tailored the audit scope

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

The Company's accounting is delegated to the Administrator who maintains the Company's accounting records and who has implemented controls over those accounting records.

As part of our risk assessment, we understood and assessed the internal controls in place at both the Manager and the Administrator to the extent relevant to our audit. This assessment of the operating and accounting structure in place at both organisations involved obtaining and analysing the relevant control reports issued by the independent service auditor of the Manager and the Administrator in accordance with generally accepted assurance standards for such work. Following this assessment, we then identified those relevant controls at the J.P. Morgan on which we could place reliance to provide audit evidence. We then applied professional judgement to determine the extent of substantive testing required over each balance in the financial statements.

Materiality

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

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

Overall materiality £20.2 million (2017: £17.4 million).

How we determined it 1% of net assets.

Rationale for benchmark applied We applied this benchmark, which is a generally accepted auditing practice for investment trust audit.

Independent Auditors' Report – continued

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1.0 million (2017: £0.9 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons..

Going concern

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

Reporting obligation

We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.

Outcome

We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Reporting obligation

We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Outcome

We have nothing to report.

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31st January 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

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

Independent Auditors' Report – continued

The Directors' assessment of the prospects of the company and of the principal risks that would threaten the solvency or liquidity of the company

We have nothing material to add or draw attention to regarding:

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

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

Other Code Provisions

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

- The statement given by the Directors, on page 35, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Company obtained in the course of performing our audit.
- The section of the Annual Report on pages 30 and 31 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 35, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditors' Report – continued

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting


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

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

We have no exceptions to report arising from this responsibility.

Appointment

We were appointed by the members in 1884 to audit the financial statements for the year ended 31st January 1885 and subsequent financial years. The period of total uninterrupted engagement is 134 years, covering the years ended 31st January 1885 to 31st January 2018.


Alex Bertolotti (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors London

11th April 2018

Financial Statements

Statement of Comprehensive Income for the year ended 31st January 2018

		2018			2017		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments held at fair value through profit or loss	3	—	374,818	374,818	—	45,220	45,220
Net foreign currency gains/(losses)		—	15	15	—	(2)	(2)
Income from investments	4	57,652	—	57,652	55,112	—	55,112
Interest receivable and similar income	4	640	—	640	1,257	—	1,257
Gross return		58,292	374,833	433,125	56,369	45,218	101,587
Management fee	5	(2,264)	(5,282)	(7,546)	(2,173)	(5,071)	(7,244)
Other administrative expenses	6	(1,151)	—	(1,151)	(1,382)	—	(1,382)
Net return on ordinary activities before finance costs and taxation		54,877	369,551	424,428	52,814	40,147	92,961
Finance costs	7	(3,293)	(7,685)	(10,978)	(3,335)	(7,783)	(11,118)
Net return on ordinary activities before taxation		51,584	361,866	413,450	49,479	32,364	81,843
Taxation	8	(292)	—	(292)	(183)	—	(183)
Net return on ordinary activities after taxation		51,292	361,866	413,158	49,296	32,364	81,660
Return per share	9	61.20p	431.78p	492.98p	53.20p	34.93p	88.13p

Dividends declared in respect of the financial year ended 31st January 2018 total 53.0p (2017: 46.0p) per share amounting to £43,790,000 (2017: £41,433,000). Further information on dividends is given in note 10 on page 51.

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

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

Net return on ordinary activities after taxation represents the profit for the year and also Total Comprehensive Income.

The notes on pages 46 to 62 form an integral part of these financial statements.

Financial Statements – continued

Statement of Changes in Equity for the year ended 31st January 2018

	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve ¹ £'000	Total £'000
At 31st January 2016 :	23,989	23,459	12,781	1,752,255	41,246	1,853,730
Repurchase and cancellation of the Company's own shares	(377)	—	377	(25,073)	—	(25,073)
Repurchase of shares into Treasury	—	—	—	(125,610)	—	(125,610)
Net return on ordinary activities	—	—	—	32,364	49,296	81,660
Dividends paid in the year (note 10)	—	—	—	—	(40,564)	(40,564)
At 31st January 2017	23,612	23,459	13,158	1,633,936	49,978	1,744,143
Repurchase of shares into Treasury	—	—	—	(98,559)	—	(98,559)
Net return on ordinary activities	—	—	—	361,866	51,292	413,158
Dividends paid in the year (note 10)	—	—	—	—	(39,149)	(39,149)
At 31st January 2018	23,612	23,459	13,158	1,897,243	62,121	2,019,593

¹This reserve forms the distributable reserve of the Company and may be used to fund distribution of profits to investors via dividend payments.

The notes on pages 46 to 62 form an integral part of these financial statements.

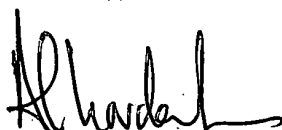
Financial Statements – continued

Statement of Financial Position at 31st January 2018

	Notes	2018 £'000	2017 £'000
Fixed assets			
Investments held at fair value through profit or loss	11	2,090,612	1,787,131
Current assets	13		
Debtors		13,836	10,945
Cash and short term deposits		6,636	38,295
Cash Equivalents: liquidity fund		99,895	99,763
		120,367	149,003
Creditors: amounts falling due within one year	14	(13,713)	(14,415)
Net current assets		106,654	134,588
Total assets less current liabilities		2,197,266	1,921,719
Creditors: amounts falling due after more than one year	15	(177,673)	(177,576)
Net assets		2,019,593	1,744,143
Capital and reserves			
Called up share capital	16	23,612	23,612
Share premium	17	23,459	23,459
Capital redemption reserve	17	13,158	13,158
Capital reserves	17	1,897,243	1,633,936
Revenue reserve	17	62,121	49,978
Total shareholders' funds		2,019,593	1,744,143
Net asset value per share	18	2,465.9p	2,005.2p

The financial statements on pages 42 to 62 were approved and authorised for issue by the Directors on 11th April 2018 and are signed on their behalf by:

Angus Gordon Lennox
Director



The notes on pages 46 to 62 form an integral part of these financial statements.

The Mercantile Investment Trust plc

Registered in England, company registration number 20537

Financial Statements – continued

Statement of Cash Flows for the year ended 31st January 2018

	Notes	2018 £'000	2017 £'000
Net cash outflow from operations before dividends and interest	19	(8,384)	(8,427)
Dividends received		56,647	55,055
Interest received		404	944
Overseas tax (paid)/recovered		(1)	412
Interest paid		(10,881)	(11,060)
Net cash inflow from operating activities		37,785	36,924
Purchases of investments		(699,483)	(732,866)
Sales of investments		773,842	755,321
Settlement of foreign currency contracts		(2)	15
Net cash inflow from investing activities		74,357	22,470
Dividends paid		(39,149)	(40,564)
Repurchase and cancellation of the Company's own shares		—	(25,073)
Repurchase of shares into Treasury		(104,520)	(118,356)
Net cash outflow from financing activities		(143,669)	(183,993)
Decrease in cash and cash equivalents		(31,527)	(124,599)
Cash and cash equivalents at start of year		138,058	262,644
Exchange movements		—	13
Cash and cash equivalents at end of year		106,531	138,058
Decrease in cash and cash equivalents		(31,527)	(124,599)
Cash and cash equivalents consist of:	20		
Cash and short term deposits		6,636	38,295
Cash held in JPMorgan Sterling Liquidity Fund		99,895	99,763
Total		106,531	138,058

The notes on pages 46 to 62 form an integral part of these financial statements.

Financial Statements – continued

Notes to the Financial Statements for the year ended 31st January 2018

1. Accounting Policies

(a) Basis of accounting

The financial statements are prepared under the historical cost convention, modified to include fixed asset investments at fair value, and in accordance with the Companies Act 2006, United Kingdom Generally Accepted Accounting Practice ('UK GAAP'), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (the 'SORP') issued by the Association of Investment Companies in November 2014 and updated in January 2017.

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

The financial statements have been prepared on a going concern basis. The disclosures on going concern on page 31 of the Directors' Report form part of these financial statements.

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

(b) Valuation of investments

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

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

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

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

(c) Accounting for reserves

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

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

(d) Income

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

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

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

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

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

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

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

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

Financial Statements – continued

(e) Expenses

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

- The management fee is allocated 30% to revenue and 70% to capital, in line with the Board's expected long term split of revenue and capital return from the Company's investment portfolio.
- Expenses incidental to the purchase of an investment are included within the cost of the investment and those incidental to the sale are deducted from the sale proceeds. These expenses are commonly referred to as transaction costs and comprise brokerage commission and stamp duty. Details of transaction costs are given in note 11 on page 52.

(f) Finance costs

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

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

(g) Financial instruments

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

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

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

Bank loans are classified as financial liabilities measured at amortised cost. They are initially measured as proceeds and subsequently measured at amortised cost. Interest payable on the bank loan is accounted for on an accruals basis in the Statement of Comprehensive Income.

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

(h) Taxation

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

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

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

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

(i) Value Added Tax ('VAT')

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

(j) Functional currency

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

Financial Statements – continued

1. Accounting Policies – continued

(j) Functional currency – continued

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

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

(k) Dividends payable

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

(l) Repurchase of ordinary shares for cancellation

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

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

(m) Repurchase of shares into Treasury

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

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

2. Significant accounting judgements, estimates and assumptions

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

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

3. Gains on investments held at fair value through profit or loss

	2018 £'000	2017 £'000
Gains on investments held at fair value through profit or loss based on historical cost	158,623	50,192
Amounts recognised in investment holding gains and losses in the previous year in respect of investments sold during the year	(110,015)	(128,025)
Gains/(losses) on sales of investments based on the carrying value at the previous balance sheet date	48,608	(77,833)
Net movement in investment holding gains	326,223	123,076
Other capital charges	(13)	(23)
Total capital gains on investments held at fair value through profit or loss	374,818	45,220

Financial Statements – continued

4. Income

	2018 £'000	2017 £'000
Income from investments:		
UK dividends	42,107	36,092
Special dividends	7,308	11,361
Property income distribution from UK REITs	1,450	1,164
Overseas dividends	6,141	6,393
Scrip dividends	646	102
	57,652	55,112
Interest receivable and similar income:		
Interest from liquidity fund	336	494
Deposit interest	68	406
Underwriting commission	236	357
	640	1,257
Total income	58,292	56,369

5. Management fee

	2018			2017		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Management fee	2,264	5,282	7,546	2,173	5,071	7,244

Details of the management fee are given in the Directors' Report on page 25.

6. Other administrative expenses

	2018 £'000	2017 £'000
Administration expenses	723	928
Directors' fees ¹	271	298
Savings scheme costs ²	119	118
Auditors' remuneration for audit services ³	36	36
Auditors' remuneration for all other services	2	2
	1,151	1,382

¹Full disclosure is given in the Directors' Remuneration Report on pages 32 and 34.

²These amounts were paid to the Manager for the administration of saving scheme products. Includes £20,000 (2017: £19,000) irrecoverable VAT.

³Includes £6,000 (2017: £6,000) irrecoverable VAT.

Financial Statements – continued

7. Finance costs

	2018			2017		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Interest on bank loans and overdrafts	—	—	—	41	97	138
Debenture interest	3,264	7,617	10,881	3,265	7,618	10,883
Amortisation of debenture issue costs	29	68	97	29	68	97
	3,293	7,685	10,978	3,335	7,783	11,118

8. Taxation

(a) Analysis of tax charge in the year

	2018 £'000	2017 £'000
Overseas withholding tax	292	183
Total tax charge for the year	292	183

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

The tax charge for the year is lower (2017: lower) than the Company's applicable rate of corporation tax for the year of 19.16% (2017: 20.00%). The factors affecting the total tax charge for the year are as follows:

	2018			2017		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net return on ordinary activities before taxation	51,584	361,866	413,450	49,479	32,364	81,843
Net return on ordinary activities before taxation multiplied by the Company's applicable rate of corporation tax of 19.16% (2017: 20.00%)	9,884	69,334	79,218	9,896	6,473	16,369
Effects of:						
Non taxable scrip dividends	(124)	—	(124)	(20)	—	(20)
Non taxable UK dividends	(8,068)	—	(8,068)	(8,714)	—	(8,714)
Non taxable overseas dividends	(2,578)	—	(2,578)	(2,056)	—	(2,056)
Non taxable capital gains	—	(71,818)	(71,818)	—	(9,044)	(9,044)
Unrelieved expenses	886	2,484	3,370	894	2,571	3,465
Overseas withholding tax	292	—	292	183	—	183
Total tax charge for the year	292	—	292	183	—	183

(c) Deferred taxation

The Company has an unrecognised deferred tax asset of £46,724,000 (2017: £43,633,000) based on a prospective corporation tax rate of 17% (2017: 17%). The UK corporation tax rate is enacted to fall to 17% with effect from 1st April 2020. The deferred tax asset has arisen due to the cumulative excess of deductible expenses over taxable income. Given the composition of the Company's portfolio, it is not likely that this asset will be utilised in the foreseeable future and therefore no asset has been recognised in the financial statements.

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

Financial Statements – continued

9. Return per share

	2018 £'000	2017 £'000
Revenue return	51,292	49,296
Capital return	361,866	32,364
Total return	413,158	81,660
Weighted average number of shares in issue during the year	83,807,904	92,666,092
Revenue return per share	61.20p	53.20p
Capital return per share	431.78p	34.93p
Total return per share	492.98p	88.13p

10. Dividends

(a) Dividends paid and declared

	2018 £'000	2017 £'000
Dividends paid		
Unclaimed dividends refunded to the Company ¹	(19)	(26)
2017 fourth quarterly dividend of 15.25p (2016: 13.0p) paid to shareholders in May	12,987	12,422
First quarterly dividend of 10.5p (2017: 10.25p) paid to shareholders in August	8,830	9,648
Second quarterly dividend of 10.5p (2017: 10.25p) paid to shareholders in November	8,719	9,471
Third quarterly dividend of 10.5p (2017: 10.25p) paid to shareholders in February	8,632	9,049
Total dividends paid in the year	39,149	40,564
	2018 £'000	2017 £'000
Dividends declared		
Fourth quarterly dividend declared of 21.5p (2017: 15.25p) payable to shareholders in May	17,609	13,265
Total declared dividend	17,609	13,265

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

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

The fourth quarterly dividend declared in respect of the year ended 31st January 2017 amounted to £13,265,000. However, the actual payment amounted to £12,987,000 due to share repurchases after the balance sheet date but prior to the share register record date.

The fourth quarterly dividend has been declared in respect of the year ended 31st January 2018. In accordance with the accounting policy of the Company, this dividend will be reflected in the accounts for the year ending 31st January 2019.

Financial Statements – continued

10. Dividends – continued

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

The requirements of Section 1158 are considered on the basis of dividends declared in respect of the financial year as shown below. The revenue available for distribution by way of dividend for the year is £51,292,000 (2017: £49,296,000).

The maximum amount of income that the Company is permitted to retain under Section 1158 is £8,744,000 (2017: £8,455,000), calculated as 15% of total income. Therefore the minimum distribution required by way of dividend is £42,548,000 (2017: £40,841,000).

	2018 £'000	2017 £'000
First quarterly dividend of 10.5p (2017: 10.25p) paid to shareholders in August	8,830	9,648
Second quarterly dividend of 10.5p (2017: 10.25p) paid to shareholders in November	8,719	9,471
Third quarterly dividend of 10.5p (2017: 10.25p) paid to shareholders in February	8,632	9,049
Fourth quarterly dividend payable of 21.5p (2017: 15.25p) payable in May	17,609	12,987
	43,790	41,155

11. Investments

	2018 £'000	2017 £'000
Investments listed on a recognised stock exchange	2,015,678	1,699,279
Investments listed on AIM and unlisted investments	74,934	87,852
	2,090,612	1,787,131

	Listed UK £'000	Listed Overseas £'000	AIM and Unlisted £'000	Total £'000
Opening book cost	1,342,746	2,170	50,960	1,395,876
Opening investment holding gains	354,363	—	36,892	391,255
Opening valuation	1,697,109	2,170	87,852	1,787,131
Movements in the year:				
Purchases at cost	692,965	—	12,389	705,354
Sales proceeds	(731,376)	(2,166)	(43,162)	(776,704)
Gains/(losses) on sales of investments based on the carrying value at the previous balance sheet date	49,492	(4)	(880)	48,608
Net movement in investment holding gains and losses	307,488	—	18,735	326,223
	2,015,678	—	74,934	2,090,612
Closing book cost	1,454,920	—	28,229	1,483,149
Closing investment holding gains	560,758	—	46,705	607,463
Total investments held at fair value through profit or loss	2,015,678	—	74,934	2,090,612

Stamp duty and brokerage commission on purchases during the year amounted to £2,728,000 (2017: £3,204,000) and £637,000 (2017: £608,000) respectively. Brokerage commission on sales during the year amounted to £692,000 (2017: £635,000).

Investments include Alternative Investment Market stocks which are valued at £70,751,000 (2017: £84,246,000).

During the year, prior year investment holding gains amounting to £110,015,000 have been transferred to gains on sales of investments as disclosed in note 17.

Financial Statements – continued

12. Significant interests

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

Name of company	Country of registration	Class of share	% of class held
MP Evans	UK	Ordinary	4.7
Vp	UK	Ordinary	3.7
Morgan Sindall	UK	Ordinary	3.5
Ricardo	UK	Ordinary	3.3

In addition to the above, the Company has interests of 3% or more in the share capital of another 2 (2017: 8) investee companies.

The Company does not exercise significant influence over the operating and financial policies of the above mentioned companies which are therefore not considered to be associated companies. The total value of investments in which the Company had an interest of 3% or more at 31st January 2018 was £80,517,000 (2017: £135,911,000).

13. Current assets

Debtors

	2018 £'000	2017 £'000
Securities sold awaiting settlement	11,875	9,027
Dividends and interest receivable	1,928	1,647
Overseas tax recoverable	—	230
Other debtors	33	41
	13,836	10,945

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

Cash and cash equivalents

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

14. Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Securities purchased awaiting settlement	7,486	2,261
Repurchases of the Company's own shares awaiting settlement	1,293	7,254
Other creditors and accruals	4,934	4,900
	13,713	14,415

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

Financial Statements – continued

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

	2018 £'000	2017 £'000
£175 million 6.125% debenture stock ¹	173,823	173,726
£3,850,000 4.25% perpetual debenture stock ²	3,850	3,850
	177,673	177,576

¹The £175m 6.125% debenture stock is repayable at par on 25th February 2030 and is secured by a floating charge over the assets of the Company.

²The £3,850,000 4.25% debenture stock is irredeemable and secured by a floating charge over the assets of the Company. The debenture is repayable at 105% if the Company goes into default and the security is enforced.

16. Called up share capital

	2018 £'000	2017 £'000
Ordinary shares allotted and fully paid:		
Opening Balance of 86,980,419 ordinary shares of 25p each (2017: 95,957,040) shares excluding shares held in Treasury	21,745	23,989
Repurchase and cancellation of nil shares (2017: 1,507,822)	—	(377)
Repurchase of 5,080,380 shares into treasury (2017: 7,468,799)	(1,270)	(1,867)
Subtotal of 81,900,039 (2017: 86,980,419) shares of 25p each excluding shares held in Treasury	20,475	21,745
12,549,179 (2017: 7,468,799) shares held in Treasury	3,137	1,867
Closing Balance of 94,449,218 (2017: 94,449,218) shares of 25p each including shares held in Treasury	23,612	23,612

During the year, the Company repurchased a total of 5,080,380 shares (2017: 8,976,621 shares) for a total consideration of £98,559,000 (2017: £150,683,000), amounting to 5.8% (2017: 9.4%) of issued share capital at the beginning of the year.

Financial Statements – continued

17. Capital and reserves

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves		Revenue reserve ¹ £'000	Total £'000
				Gains on sales of investments £'000	Investment holding gains £'000		
Opening balance	23,612	23,459	13,158	1,242,681	391,255	49,978	1,744,143
Net foreign currency gains on cash and cash equivalents	—	—	—	15	—	—	15
Gains on sales of investments based on the carrying value at the previous balance sheet date	—	—	—	48,608	—	—	48,608
Net movement in investment holding gains and losses	—	—	—	—	326,223	—	326,223
Transfer on disposal of investments	—	—	—	110,015	(110,015)	—	—
Repurchase of shares into Treasury	—	—	—	(98,559)	—	—	(98,559)
Management fee and finance costs charged to capital	—	—	—	(12,967)	—	—	(12,967)
Other capital charges	—	—	—	(13)	—	—	(13)
Dividends paid in the year	—	—	—	—	—	(39,149)	(39,149)
Retained revenue for the year	—	—	—	—	—	51,292	51,292
Closing balance	23,612	23,459	13,158	1,289,780	607,463	62,121	2,019,593

¹This reserve forms the distributable reserve of the Company and may be used to fund distribution of profits to investors via dividend payments.

18. Net asset value per share

	2018	2017
Net assets (£'000)	2,019,593	1,744,143
Number of shares in issue	81,900,039	86,980,419
Net asset value per share	2,465.9p	2,005.2p

19. Reconciliation of net return on ordinary activities before finance costs and taxation to net cash outflow from operations before dividends and interest

	2018 £'000	2017 £'000
Net return on ordinary activities before finance costs and taxation	424,428	92,961
Less capital return on ordinary activities before finance costs and taxation	(369,551)	(40,147)
Scrip dividends received as income	(646)	(102)
(Increase)/decrease in accrued income and other debtors	(273)	318
Increase/(decrease) in accrued expenses	35	(106)
Management fee charged to capital	(5,282)	(5,071)
Overseas withholding tax	(61)	(251)
Dividends received	(56,647)	(55,055)
Interest received	(404)	(944)
Realised gains/(losses) on foreign currency transactions	17	(30)
Net cash outflow from operations before dividends and interest	(8,384)	(8,427)

Financial Statements – continued

20. Analysis of changes in net debt

	At 31st-January 2017 £'000	Cash flow £'000	Other exchange movements £'000	Non cash movements £'000	At 31st January 2018 £'000
Cash at bank and in hand	1,095	(474)	15	—	636
Short term deposits	37,200	(31,200)	—	—	6,000
Cash equivalents: liquidity fund	99,763	132	—	—	99,895
Total cash and cash equivalents	138,058	(31,542)	15	—	106,531
Debentures falling due after more than five years	(177,576)	—	—	(97)	(177,673)
Closing net debt	(39,518)	(31,542)	15	(97)	(71,142)

21. Contingent liabilities and capital commitments

At the balance sheet date there were no contingent liabilities or capital commitments (2017: same).

22. Transactions with the Manager and related parties

Details of the management contract are set out in the Directors' Report on page 25. The management fee payable to the Manager for the year was £7,546,000 (2017: £7,244,000) of which Enil (2017: Enil) was outstanding at the year end.

During the year £119,000 (2017: £118,000) was payable to the Manager for the administration of savings scheme products, of which £8,000 (2017: £8,000) was outstanding at the year end.

Included in administration expenses in note 6 on page 49 are safe custody fees amounting to £32,000 (2017: £27,000) payable to JPMorgan Chase Bank N.A. of which £8,000 (2017: £4,000) was outstanding at the year end.

During the year, brokerage commission on dealing transactions amounted to £74,000 (2017: £101,000) was payable to JPMorgan subsidiaries of which Enil (2017: Enil) was outstanding at the year end.

The Company also holds cash in JPMorgan Sterling Liquidity Fund, managed by JPMorgan. At the year end this was valued at £99.9 million (2017: £99.8 million). Income amounting to £336,000 (2017: £494,000) was receivable during the year of which Enil (2017: Enil) was outstanding at the year end.

Handling charges on dealing transactions amounting to £13,000 (2017: £23,000) were payable to JPMorgan Chase Bank N.A. during the year of which £2,000 (2017: £4,000) was outstanding at the year end.

At the year end, total cash of £636,000 (2017: £1,095,000) was held with JPMorgan Chase. A net amount of interest of £2,000 (2017: Enil) was receivable by the Company during the year of which Enil (2017: Enil) was outstanding at the year end.

Full details of Directors' remuneration and shareholdings can be found on page 33 and in note 6 on page 49.

23. Disclosures regarding financial instruments measured at fair value

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

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

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

The best evidence of fair value is a quoted price for an identical asset in an active market. Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted price is usually the current bid price.

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

When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the entity can demonstrate that the last transaction price is not a good estimate of fair value (e.g. because it reflects the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted.

Financial Statements – continued

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

If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, an entity estimates the fair value by using a valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

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

Details of the valuation techniques used by the Company are given in note 1(b) on page 46.

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

	2018		2017	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Level 1	2,086,428	—	1,783,525	—
Level 3 ¹	4,184	—	3,606	—
Total	2,090,612	—	1,787,131	—

¹Consists only of the holding of unquoted stock of Tennants Consolidated which is still held at 31 January 2018, and International Ferro Metals which was written off during the year.

There was no transfers between Level 1, 2 and 3 during the year (2017: same). A reconciliation of the fair value measurements using valuation techniques using non-observable data is set out below.

	2018		
	Equity Investments £'000	Fixed Interest Investment £'000	Total £'000
Level 3			
Opening balance	3,512	94	3,606
Change in fair value of unquoted investment during the year	578	—	578
Closing balance	4,090	94	4,184

	2017		
	Equity Investments £'000	Fixed Interest Investment £'000	Total £'000
Level 3			
Opening balance	2,784	94	2,878
Change in fair value of unquoted investment during the year	728	—	728
Closing balance	3,512	94	3,606

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

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

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

Financial Statements – continued

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

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

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

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

(a) Market risk

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

(i) Interest rate risk

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

Management of interest rate risk

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

Interest rate exposure

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

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

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

	2018 £'000	2017 £'000
Exposure to floating interest rates:		
Cash at bank and short term deposits	6,636	38,295
JPMorgan Sterling Liquidity Fund	99,895	99,763
Total exposure	106,531	138,058

Interest receivable on cash balances, or paid on overdrafts, is at a margin below or above LIBOR respectively (2017: same).

Interest rate sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to a 1% (2017: 1%) increase or decrease in interest rates in regards to the Company's monetary financial assets and financial liabilities. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's monetary financial instruments held at the balance sheet date with all other variables held constant.

Financial Statements – continued

	2018		2017	
	1% Increase in rate £'000	1% Decrease in rate £'000	1% Increase in rate £'000	1% Decrease in rate £'000
Statement of Comprehensive Income – return after taxation				
Revenue return	1,065	(1,065)	1,381	(1,381)
Net assets	1,065	(1,065)	1,381	(1,381)

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

(ii) Other price risk

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

Management of other price risk

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

Other price risk exposure

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

	2018 £'000	2017 £'000
Investments held at fair value through profit or loss	2,090,612	1,787,131

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

Concentration of exposure to other price risk

An analysis of the Company's investments is given on pages 14 to 18. This shows that the majority of the investments' value is in the UK. Accordingly there is a concentration of exposure to that country. However it should be noted that an investment may not be entirely exposed to the economic conditions in its country of domicile or of listing.

Other price risk sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to an increase or decrease of 10% (2017: 10%) in the fair values of the Company's investments. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's equities, adjusting for changes in the management fee but with all other variables held constant.

	2018		2017	
	10% Increase in fair value £'000	10% Decrease in fair value £'000	10% Increase in fair value £'000	10% Decrease in fair value £'000
Statement of Comprehensive Income – return after taxation				
Revenue return	(298)	298	(268)	268
Capital return	208,366	(208,366)	178,088	(178,088)
Total return after taxation	208,068	(208,068)	177,820	(177,820)
Net assets	208,068	(208,068)	177,820	(177,820)

Financial Statements – continued

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

(b) Liquidity risk

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

Management of the risk

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

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

Liquidity risk exposure

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

	2018			Total £'000
	Three months or less £'000	More than three months but not more than one year £'000	More than one year £'000	
Creditors: amounts falling due within one year				
Securities purchased awaiting settlement	7,486	—	—	7,486
Repurchase of the Company's own shares awaiting settlement	1,293	—	—	1,293
Other creditors and accruals	220	—	—	220
Debenture stock – interest ¹	5,441	5,441	—	10,882
Creditors: amounts falling due after more than one year				
Debenture stock – principal ²	—	—	178,850	178,850
Debenture stock – interest ¹	—	—	125,424	125,424
	14,440	5,441	304,274	324,155
	2017			Total £'000
	Three months or less £'000	More than three months but not more than one year £'000	More than one year £'000	
Creditors: amounts falling due within one year				
Securities purchased awaiting settlement	2,261	—	—	2,261
Repurchase of the Company's own shares awaiting settlement	7,254	—	—	7,254
Other creditors and accruals	186	—	—	186
Debenture stock – interest ¹	5,441	5,441	—	10,882
Creditors: amounts falling due after more than one year				
Debenture stock – principal ²	—	—	178,850	178,850
Debenture stock – interest ¹	—	—	136,306	136,306
	15,142	5,441	315,156	335,739

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

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

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

Financial Statements – continued

(c) Credit risk

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

Management of credit risk

Portfolio dealing

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

Cash and cash equivalents

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

Exposure to JPMorgan Chase

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

Credit risk exposure

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

(d) Fair values of financial assets and financial liabilities

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

	Carrying value		Fair value	
	2018 £'m	2017 £'m	2018 £'m	2017 £'m
£175 million 6.125% debenture stock 25th February 2030	173.8	173.7	245.8	245.2
£3.85 million 4.25% perpetual debenture stock	3.9	3.9	6.5	5.7
	177.7	177.6	252.3	250.9

Financial Statements – continued

25. Capital management policies and procedures

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

	2018 £'000	2017 £'000
Debt		
£175 million 6.125% debenture stock 25th February 2030	173,823	173,726
£3.85 million 4.25% perpetual debenture stock	3,850	3,850
	177,673	177,576
Equity		
Called up share capital	23,612	23,612
Reserves	1,995,981	1,720,531
	2,019,593	1,744,143
Total debt and equity	2,197,266	1,921,719

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

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

	2018 £'000	2017 £'000
Investments held at fair value through profit or loss	2,090,612	1,787,131
Net assets	2,019,593	1,744,143
Gearing	3.5%	2.5%

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

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

26. Subsequent events

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

Regulatory Disclosures

ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE ('AIFMD') DISCLOSURES (UNAUDITED)

Leverage

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

Alternative Investment Fund Managers — Leverage

The Company's maximum and actual leverage levels at 31st January 2018 are shown below:

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

JPMF Remuneration

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

This section of the annual report has been prepared in accordance with the Alternative Investment Fund Managers' Directive (the 'AIFMD'), the European Commission Delegated Regulation supplementing the AIFMD, and the 'Guidelines on sound remuneration policies' issued by the European Securities and Markets Authority under the AIFMD.

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

JPMF Remuneration Policy

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

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

The Board reviews and adopts the Remuneration Policy on an annual basis, and oversees its implementation, including the classification of AIFMD Identified Staff. As at 31st December 2017, the Board last reviewed and adopted the Remuneration Policy in June 2017 with no material changes and was satisfied with its implementation.

Regulatory Disclosures – continued

JPMF Quantitative Disclosures

The table below provides an overview of the aggregate 2017 total remuneration paid to staff of the Management Company and the number of beneficiaries. These figures include the remuneration of all staff of JP Morgan Asset Management (UK) Ltd (the relevant employing entity) and the number of beneficiaries, both apportioned to the Management Company on an AUM weighted basis.

Due to the Firm's operational structure, the information needed to provide a further breakdown of remuneration attributable to the Company is not readily available and would not be relevant or reliable. However, for context, the Management Company manages 32 Alternative Investment Funds and 2 UCITS (with 38 sub-funds), with a combined AUM as at 31st December 2017 of €13,204 million and £15,004 million respectively.

SECURITIES FINANCING TRANSACTIONS REGULATION ('SFTR') DISCLOSURES (UNAUDITED)

The Company does not engage in Securities Financing Transactions (as defined in Article 3 of Regulation (EU) 2015/2365, securities financing transactions include repurchase transactions, securities or commodities lending and securities or commodities borrowing, buy-selling back transactions or sell-buy back transactions and margin lending transactions) or Total Return Swaps. Accordingly, disclosures required by Article 13 of the Regulation are not applicable for the year ended 31st January 2018.

Shareholder Information

Notice of Annual General Meeting

Notice is hereby given that the one hundred and thirty second Annual General Meeting of The Mercantile Investment Trust plc will be held at Trinity House, Tower Hill, London EC3N 4DH on Wednesday, 23rd May 2018 at 12.00 noon for the following purposes:

1. To receive the Directors' Report, the Annual Accounts and the Auditors' Report for the year ended 31st January 2018.
2. To approve the Company's Remuneration Policy.
3. To approve the Directors' Remuneration Report for the year ended 31st January 2018.
4. To reappoint Helen James as a Director of the Company.
5. To reappoint Angus Gordon Lennox as a Director of the Company.
6. To reappoint Harry Morley as a Director of the Company.
7. To reappoint Ian Russell as a Director of the Company.
8. To reappoint Jeremy Tigue as a Director of the Company.
9. To reappoint PricewaterhouseCoopers LLP as auditors to the Company and to authorise the Directors to determine their remuneration.

Special Business:

To consider the following resolutions:

Authority for sub-division of existing ordinary shares – Ordinary Resolution

10. THAT each of the issued ordinary shares of 25 pence each in the capital of the Company be sub-divided into ten ordinary shares of 2.5 pence each (the 'New Ordinary Shares') having the rights and being subject to the restrictions and obligations set out in the articles of association of the Company, such sub-division to be conditional on the New Ordinary Shares being admitted to the Official List of the UK Listing Authority and to trading on the main market of the London Stock Exchange (expected to be 8.00 a.m. on 25th May 2018).

Authority to allot new shares – Ordinary Resolution

11. THAT the Directors of the Company be and they are hereby generally and unconditionally authorised (in substitution of any authorities previously granted to the Directors) pursuant to and in accordance with Section 551 of the Companies Act 2006 (the 'Act') to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the

Company ('rights') up to an aggregate nominal amount of £1,008,262, representing approximately 5% of the Company's issued share capital as at 9th April 2018, provided that this authority shall expire at the conclusion of the Annual General Meeting of the Company held in 2019 unless renewed at a general meeting prior to such time, save that the Company may before such expiry make offers or agreements which would or might require shares to be allotted or rights to be granted after such expiry and so that the Directors of the Company may allot shares and grant rights in pursuance of such offers or agreements as if the authority conferred hereby had not expired.

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

12. THAT subject to the passing of Resolution 11 set out above, the Directors of the Company be and they are hereby empowered pursuant to Sections 570 and 573 of the Act to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authority conferred by Resolution 11 or by way of the sale of treasury shares as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of £1,008,262, representing approximately 5% of the issued share capital as at 9th April 2018 at a price of not less than the net asset value per share and shall expire upon the expiry of the general authority conferred by Resolution 11 above, save that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and so that the Directors of the Company may allot equity securities in pursuance of such offers or agreements as if the power conferred hereby had not expired.

Authority to repurchase the Company's shares – Special Resolution

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

PROVIDED ALWAYS THAT

- (i) the maximum number of ordinary shares hereby authorised to be purchased shall be that number of ordinary shares which is equal to 14.99% of the Company's issued share capital as at the date of the passing of this resolution;
- (ii) the minimum price which may be paid for an ordinary share shall be the nominal value;

Shareholder Information – continued

- (iii) the maximum price which may be paid for an ordinary share or unit shall be an amount equal to the highest of:
 - (a) 105% of the average of the middle market quotations for an ordinary share taken from and calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is contracted to be purchased; or (b) the price of the last independent trade; or (c) the highest current independent bid;
- (iv) any purchase of ordinary shares will be made in the market for cash at prices below the prevailing net asset value per ordinary share (as determined by the Directors);
- (v) the authority hereby conferred shall expire on 22nd November 2019 unless the authority is renewed at the Company's Annual General Meeting in 2019 or at any other general meeting prior to such time; and
- (vi) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which contract will or may be executed wholly or partly after the expiry of such authority and may make a purchase of ordinary shares pursuant to any such contract.

Approval of dividend policy – Ordinary Resolution

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

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

18th April 2018

Notes

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

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

Shareholder Information – continued

7. A corporation, which is a shareholder, may appoint an individual(s) to act as its representative(s) and to vote in person at the Meeting (see instructions given on the proxy form). In accordance with the provisions of the Companies Act 2006, each such representative(s) may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company, provided that they do not do so in relation to the same shares. It is therefore no longer necessary to nominate a designated corporate representative. Representatives should bring to the meeting evidence of their appointment, including any authority under which it is signed.
8. Members that satisfy the thresholds in Section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter relating to: (a) the audit of the Company's accounts (including the Auditors' report and the conduct of the audit) that are to be laid before the AGM; or (b) any circumstances connected with an Auditor of the Company ceasing to hold office since the previous AGM; which the members propose to raise at the meeting. The Company cannot require the members requesting the publication to pay its expenses. Any statement placed on the website must also be sent to the Company's Auditors no later than the time it makes its statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required to publish on its website pursuant to this right.
9. Pursuant to Section 319A of the Companies Act 2006, the Company must cause to be answered at the AGM any question relating to the business being dealt with at the AGM which is put by a member attending the meeting except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the meeting or if it would involve the disclosure of confidential information.
10. Under sections 338 and 338A of the 2006 Act, members meeting the threshold requirements in those sections have the right to require the Company: (i) to give, to members of the Company entitled to receive notice of the Meeting, notice of a resolution which those members intend to move (and which may properly be moved) at the Meeting; and/or (ii) to include in the business to be dealt with at the Meeting any matter (other than a proposed resolution) which may properly be included in the business at the Meeting. A resolution may properly be moved, or a matter properly included in the business unless: (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of any inconsistency with any enactment or the Company's constitution or otherwise); (b) it is defamatory of any person; or (c) it is frivolous or vexatious. A request made pursuant to this right may be in hard copy or electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be accompanied by a statement setting out the grounds for the request, must be authenticated by the person(s) making it and must be received by the Company not later than the date that is six clear weeks before the Meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.
11. A copy of this notice has been sent for information only to persons who have been nominated by a member to enjoy information rights under Section 146 of the Companies Act 2006 (a 'Nominated Person'). The rights to appoint a proxy can not be exercised by a Nominated Person: they can only be exercised by the member. However, a Nominated Person may have a right under an agreement between him and the member by whom he was nominated to be appointed as a proxy for the Meeting or to have someone else so appointed. If a Nominated Person does not have such a right or does not wish to exercise it, he may have a right under such an agreement to give instructions to the member as to the exercise of voting rights.
12. In accordance with Section 311A of the Companies Act 2006, the contents of this notice of meeting, details of the total number of shares in respect of which members are entitled to exercise voting rights at the AGM, the total voting rights members are entitled to exercise at the AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Company's website www.mercantileit.co.uk.
13. The register of interests of the Directors and connected persons in the share capital of the Company and the Directors' letters of appointment are available for inspection at the Company's registered office during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted). It will also be available for inspection at the Annual General Meeting. No Director has any contract of service with the Company.
14. You may not use any electronic address provided in this Notice of meeting to communicate with the Company for any purposes other than those expressly stated.
15. As an alternative to completing a hard copy Form of Proxy/Voting Instruction Form, you can appoint a proxy or proxies electronically by visiting www.sharevote.co.uk. You will need your Voting ID, Task ID and Shareholder Reference Number (this is the series of numbers printed under your name on the Form of Proxy/Voting Instruction Form). Alternatively, if you have already registered with Equiniti Limited's online portfolio service, Shareview, you can submit your Form of Proxy at www.shareview.co.uk. Full instructions are given on both websites.
16. As at 9th April 2018 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 94,449,218 Ordinary shares (of which 13,788,179 are held in Treasury, representing 14.6% of the shares in issue), carrying one vote each. Therefore the total voting rights in the Company are 80,661,039.
17. A copy of the current articles of association of the Company and the proposed new articles of association of the Company will be available for inspection during normal business hours (Saturdays, Sundays and public holidays excepted) at the offices of JPMorgan Funds Limited, 60 Victoria Embankment, London EC4Y 0JP, from the date of the Annual Report in which this notice is included up until the close of the Annual General Meeting. Copies will also be available at Trinity House, Tower Hill, London EC3N 4DH, being the place of the Annual General Meeting, for 15 minutes prior to, and during, the meeting.

Electronic appointment – CREST members

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

Shareholder Information – continued

Glossary of Terms and Alternative Performance Measures ('APM's) (Unaudited)

Return to Shareholders (APM)

Total return to the shareholder, 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	2018	2017	
Opening share price as at 31st January	11	1,755.0p	1,727.0p	
Closing share price as at 31st January	11	2,150.0p	1,755.0p	(a)
Total dividend adjustment factor ¹		1.024290	1.026315	(b)
Adjusted closing share price (c = a x b)		2,202.2p	1,801.2p	(c)
Total return to shareholder		25.5%	4.3%	

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 (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	2018	2017	
Opening cum-income NAV per share with debt at par value as at 31st January	11	2,005.2p	1,931.8p	
Closing cum-income NAV per share with debt at par value as at 31st January	11	2,465.9p	2,005.2p	(a)
Total dividend adjustment factor ²		1.020846	1.022480	(b)
Adjusted closing cum-income NAV per share (c = a x b)		2,517.3p	2,050.3p	(c)
Total return on net assets with debt at par value		25.5%	6.1%	

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.

Benchmark Return

Total return on the benchmark, on a closing-market value to closing-market value basis, assuming that all dividends received were reinvested in the shares of the underlying companies at the time the shares were quoted ex-dividend.

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

Net Asset Value

The net value of the Company's assets, cash and other current net assets, having deducted all debt, including bank loans at par value and provisions at their fair value. Current financial year income is included.

Shareholder Information – continued

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	2018 £'000	2017 £'000	
Investments held at fair value through profit or loss	44	2,090,612	1,787,131	(a)
Net assets	44	2,019,593	1,744,143	(b)
Gearing (c = a / b - 1)		3.5%	2.5%	(c)

Ongoing Charges (APM)

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

Ongoing charges calculation	Page	2018 £'000	2017 £'000	
Management fee	42	7,546	7,244	
Other administrative expenses	42	1,151	1,382	
Total management fee and other administrative expenses		8,697	8,626	(a)
Average daily cum-income net assets		1,919,395	1,785,468	(b)
Ongoing Charges (c = a / b)		0.45%	0.48%	(c)

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

If the share price of an investment trust is lower than the NAV per share, the shares are said to be trading at a discount, 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 (see page 1).

Fair Value

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

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% War Loan.

The margin applied on the five year average for the AA Barclays Sterling Corporate Bond spread at 31st January 2018 was 0.86%.

Shareholder Information – continued

Performance attribution

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

Performance Attribution Definitions:

Sector Allocation

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

Stock Selection

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

Gearing/Net Cash

Measures the impact on returns of borrowings or cash balances on the Company's performance relative to the benchmark.

Management fee/Other expenses

The payment of fees and expenses reduces the level of total assets, and therefore has a negative effect on performance relative to the benchmark.

Interest Expense – cost of debenture

The payment of interest has a negative effect on relative performance.

Repurchase of shares

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

Where to Buy J.P. Morgan Investment Trusts

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

1. Directly from J.P. Morgan

Investment Account

The Company's shares are available in the J.P. Morgan Investment Account, which facilitates both regular monthly investments and occasional lump sum investments in the Company's ordinary shares. Shareholders who would like information on the Investment Account should call J.P. Morgan Asset Management free on 0800 20 40 20 or visit its website at am.jpmorgan.co.uk/investor

Stocks & Shares Individual Savings Accounts (ISA)

The Company's shares are eligible investments within a J.P. Morgan ISA. For the 2017/18 tax year, from 6th April 2017 and ending 5th April 2018, the total ISA allowance is £20,000. The shares are also available in a J.P. Morgan Junior ISA. Details are available from J.P. Morgan Asset Management free on 0800 20 40 20 or via its website at am.jpmorgan.co.uk/investor

2. Via a third party provider

Third party providers include;

AJ Bell	Hargreaves Lansdown
Alliance Trust Savings	Interactive Investor
Barclays Stockbrokers	James Brearley
Bestinvest	James Hay
Charles Stanley Direct	Selftrade
FundsNetwork	The Share Centre

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

3. 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

Shareholder Information – continued

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
Dividends on ordinary shares paid to shareholders	*1st August, 1st November, 1st February, 1st May
Interest on 4.25% perpetual debenture stock paid	1st June, 1st December
Interest on 6.125% debenture paid	25th February, 25th August
Annual General Meeting	May

*or nearest following business day.

History

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

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

Company Numbers

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

Market Information

The Company's shares are listed on the London Stock Exchange. The market price is shown daily in the Financial Times, The Guardian, The Times, The Daily Telegraph, The Scotsman and on the JPMorgan internet site at www.mercantileit.co.uk, where the share price is updated every fifteen 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. They may also be purchased and held through the J.P. Morgan Investment Account, J.P. Morgan ISA and J.P. Morgan Junior ISA. These products are all available on the online service at jpmorgan.co.uk/online

Dividend Reinvestment Plan

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

Manager and Secretary

JPMorgan Funds Limited

Company's Registered Office

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

Please contact Jonathan Latter for Company Secretarial and administrative matters.

Depository

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

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

Registrars

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

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

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

Independent Auditors

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

Brokers

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

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

Savings Product Administrators

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

aic

The Association of
Investment Companies

A member of the AIC

J.P. Morgan Helpline
Freephone 0800 20 40 20 or +44 (0)1268 444470
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