The Mercantile Investment Trust plc

The home of tomorrow’s UK market leaders

Annual Report & Financial Statements
for the year ended 31st January 2023

J.P.Morgan
ASSET MANAGEMENT

Key Features

Objective

The Mercantile Investment Trust plc (the 'Company') aims to achieve long term capital growth from a portfolio of UK medium and smaller companies.

Investment Policy

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

Further details on the objective and structure of the Company, together with investment restrictions and guidelines, are given in the Strategic Report on page 24.

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 2023 the Company's share capital comprised 944,492,180 ordinary shares of 2.5p each, including 154,411,518 shares held in Treasury.

At 31st January 2023, the Company had in issue a £3.85 million 4.25% perpetual debenture, a £175 million 6.125% debenture repayable on 25th February 2030 and £150 million of long-term debt through the issue of three fixed rate, senior unsecured privately placed loan notes (the 'Notes'). The Notes, which were funded on 8th September 2021, are: £55 million maturing in 2041 with a fixed coupon of 1.98%; £50 million maturing in 2051 with a fixed coupon of 2.05%; and £45 million maturing in 2061 with a fixed coupon of 1.77%.

Management Company and Company Secretary

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

Environment, Social and Governance ('ESG') Considerations

ESG considerations are fully integrated into the stock selection process. JPMAM research teams compile proprietary ESG analysis on each company as well as using external vendor research, and rank them. Following in-depth strategic and financial analysis, these ESG rankings and factors are taken into consideration as part of the investment case. In addition, the Manager, together with Stewardship specialists, conducts extensive engagement on specific ESG issues with investee companies. JPMAM is a United Nations Principles of Responsible Investment ('UN PRI') signatory and Financial Reporting Council ('FRC') UK Stewardship Code signatory and endeavours to vote at all of the meetings called by companies in which your portfolio invests. An ESG report is on pages 16 to 18.

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

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

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

Association of Investment Companies ('AIC')

The Company is a member of the AIC.

Website

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

"Our investment horizon is geared to the long term - the next three to five years and beyond. There are plenty of UK companies facing challenges in the near term from political and economic turmoil and prevailing consumer weakness. We look through a longer lens, identifying stocks trading at compelling valuations and thus providing great investment opportunities for the long-term investor.

Our disciplined investment approach seeks to ensure that the companies we pick are both resilient and high quality businesses that can deliver long-term success."

Guy Anderson, Investment Manager,
The Mercantile Investment Trust plc

Why invest in The Mercantile Investment Trust plc?

The home of tomorrow's UK market leaders

Some of the UK's most attractive investment opportunities lie outside the FTSE 100, in the mid and small cap markets. It's here that investors can find the true innovators and disruptors that will drive the UK's future growth. The Mercantile Investment Trust draws on almost 140 years' of experience to tap into the long-term growth potential of the most exciting medium and smaller sized companies, focusing on identifying those with a certain spark that could ignite long-term success.

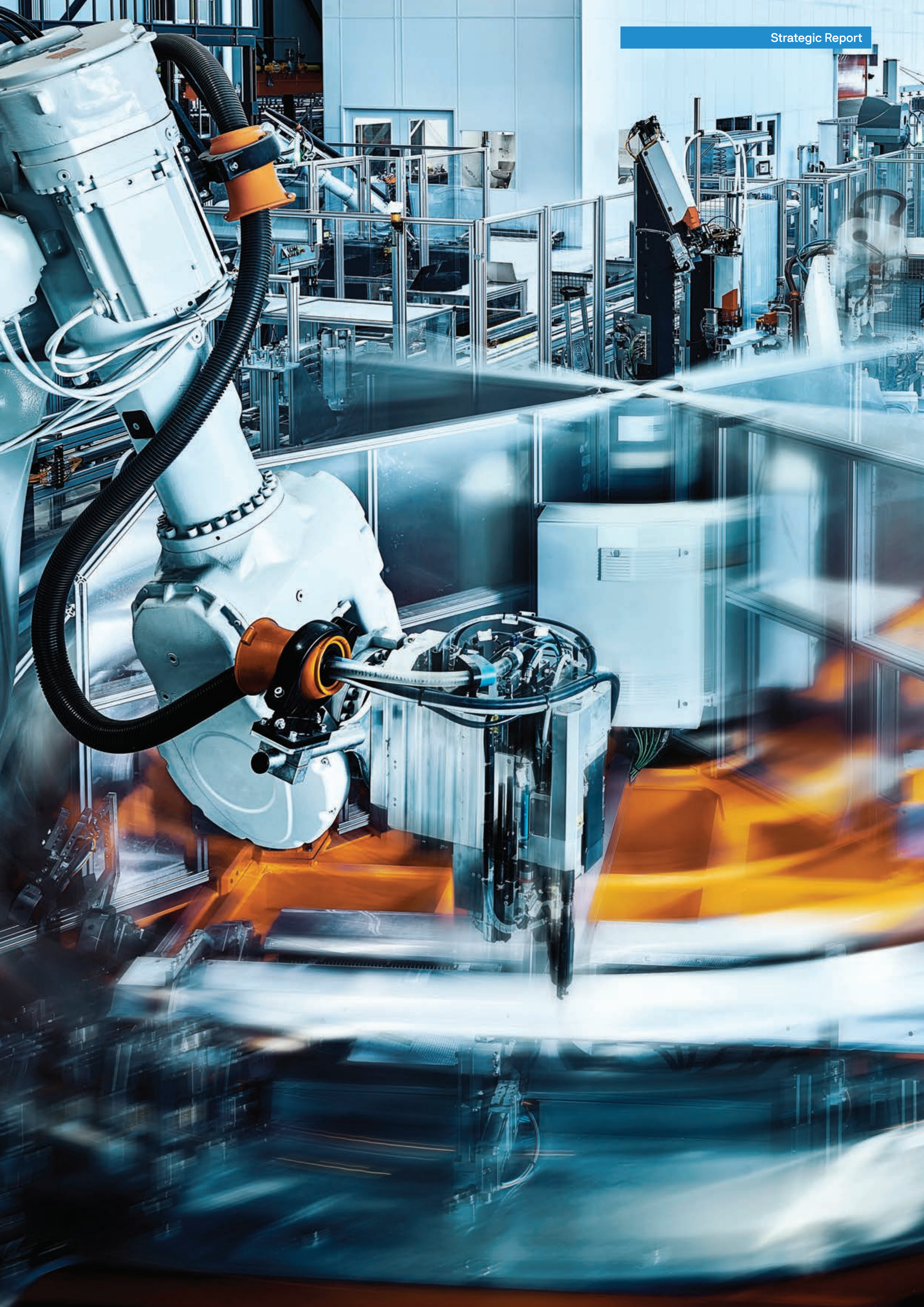
- **Discover the home of tomorrow's UK market leaders**: share in the return potential of this often overlooked area of the UK market.
- **Dynamic market access**: medium and smaller sized companies provide strong investment opportunities for long-term investors. The Company's benchmark, the FTSE All Share Index excluding FTSE 100 and investment trusts, has outperformed the FTSE 100 over a ten year time period.
- **Nimble business models**: medium and smaller sized companies have greater ability than large caps to adapt and change to reflect evolving market dynamics and new sector opportunities.
- **Track record of outperformance**: in a segment of the market that demands rigorous scrutiny, The Mercantile Investment Trust's expert and dedicated team has delivered benchmark-beating returns over a five and ten year time period.
- **Steady income generator**: thanks to its focus on quality companies with strong cash flows, The Mercantile Investment Trust has the ability to generate an attractive, regular income for shareholders, and aims to achieve long-term dividend growth at least in line with inflation.
- **Heritage**: as one of the largest UK equity investment trusts, and with a history stretching back almost 140 years, The Mercantile Investment Trust has a long and successful track record of championing the growth potential of quality UK medium and smaller sized companies.
- **Top-class investment team**: as the flagship investment trust of J.P. Morgan Asset Management, one of the world's leading asset managers, The Mercantile Investment Trust benefits from the insights of an experienced management team with the passion and specialist skill required to find the most attractive stocks outside the FTSE 100.

Stay in touch: receive the latest Mercantile news

To keep investors informed, J.P. Morgan Asset Management offers regular email updates on the Company's progress. **Mercantile News** delivers topical and relevant news and views directly to your inbox.

Scan this QR code on your smartphone camera or opt in via tinyurl.com/MRC-Sign-Up to sign-up to receive regular updates on The Mercantile Investment Trust plc.

Contents



Financial Highlights

Total returns (including dividends reinvested)

	2023	2022	3 Year Cumulative	5 Year Cumulative	10 Year Cumulative
Return on net assets with debt at fair value[1,APM]	–8.5%	+15.3%	–1.1%	+16.4%	+133.3%
Return on net assets with debt at par[1,APM]	–12.3%	+13.2%	–6.8%	+9.8%	+120.3%
Return to shareholders[2,APM]	–11.0%	+8.3%	–11.7%	+13.8%	+139.5%
Benchmark return[3]	–7.5%	+13.4%	–0.4%	+8.4%	+95.0%
Dividend[4]	7.15p	6.90p			
Dividend increase	3.6%	+3.0%			

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

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

[2] Source: Morningstar.

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

[4] Includes the fourth quarterly dividend which has been declared in respect of the year ended 31st January 2023 but payable in May 2023. Further details are show in note 10(b) to the financial statements on page 72.

A glossary of terms and APMs is provided on pages 91 to 93.

Financial Highlights

Summary of results

	2023	2022	% change
Total returns for the year ended 31st January			
Return on net assets:			
– debt at fair value[1,4,APM]	–8.5%	+15.3%	
– debt at par value[1,APM]	–12.3%	+13.2%	
Return to shareholders[2,APM]	–11.0%	+8.3%	
Benchmark return[3]	–7.5%	+13.4%	
Net asset value and discount at 31st January			
Shareholders' funds (£'000)	1,865,676	2,198,211	–15.1
Net asset value per share:			
– debt at fair value[4,APM]	239.8p	270.3p	–11.3
– debt at par value[APM]	236.1p	277.7p	–15.0
Share price discount to net asset value:			
– debt at fair value[4,APM]	12.6%	9.7%	
– debt at par value[APM]	11.3%	12.1%	
Market data at 31st January			
The FTSE All-Share Index excluding constituents of the FTSE 100 Index and investment trusts – capital only[5]	3,988.3	4,440.4	–10.2
Share price	209.5p	244.0p	–14.1
Ordinary shares in issue at year end (excluding shares held in Treasury)	790,080,662	791,522,893	
Revenue for the year ended 31st January			
Net revenue available for shareholders (£'000)	56,880	51,478	+10.5
Revenue return per share	7.19p	6.50p	+10.6
Dividend per share	7.15p	6.90p	+3.6
Ongoing Charges[APM]	**0.46%**	**0.45%**	
Gearing[APM]	**9.5%**	**12.1%**	

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

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

[2] Source: Morningstar.

[3] FTSE Russell. The Company's benchmark is the FTSE All-Share Index excluding constituents of the FTSE 100 Index and investment trusts.

[4] The current replacement or market value of the debt, which assumes it is repaid and renegotiated under current market conditions, is often referred to as the 'Debt at Fair Value'. The fair value of the Company's debentures and senior unsecured privately placed loan notes have been calculated using discounted cash flow techniques, using the yield from similarly dated gilts plus a margin based on the five year average for the AA Barclays Sterling Corporate Bond spread. The fair value is further explained in note 18 on page 76 and in the glossary of terms and APMs on page 91.

[5] Source: Datastream.

A glossary of terms and APMs is provided on pages 91 to 93.

Chairman's Statement

Angus Gordon Lennox
Chairman

Market Background

A series of extraordinary geopolitical and economic developments threw markets into turmoil over the year covered by this statement. Russia's invasion of Ukraine in February 2022 placed severe pressure on energy and commodity markets, adding to already worrying inflation trends. The forthright response of central banks, including the Bank of England, meant fears of inflation were replaced by fears of recession. UK financial markets were further destabilised by a mid-year policy vacuum and two new Prime Ministers. Liz Truss's tenure as Prime Minister proved very short, but nonetheless damaging, as investors resoundingly rejected her policies as radical, untested and unfunded. The appointment of former Chancellor Rishi Sunak as her replacement heralded a significant improvement in market sentiment and the UK market began to recover, outperforming its global counterparts in the final months of 2022. Despite recent upheavals in the global financial sector with the collapse of some US regional banks and the rescue of Credit Suisse, there are grounds for cautious optimism based on hopes that inflation, and thus interest rates, may have peaked, and that any UK recession will be shorter and shallower than feared previously.

Performance

As I reported in my Half Year statement, the first half of the year to the end of July 2022 saw the Company's NAV (based on debt at fair value) drop 11.5%. The NAV fell further after 1st August 2022 and reached its nadir in mid-September; however, I am pleased to report we have seen a marked improvement since then such that for the year to 31st January 2023, the Company's net asset total return, based on debt at fair was –8.5%; the second half performance has been 3.9 percentage points better than our benchmark. With the debt at par, the return for the year was –12.3%. Over the year, the share price discount to net asset value (with debt at fair) widened, from 9.7% to 12.6%, resulting in a total return to shareholders for the year of –11.0%. On all bases, the Company underperformed its benchmark, which declined by 7.5%.

This overall performance for the year is clearly disappointing, but since October there has been a much more positive feel to the market and indeed portfolio companies' businesses have largely performed well, delivering better than expected results. The performance during the year has been closely monitored by the Directors and the subject of much discussion between the Board and the Investment Managers. The Investment Managers' Report on the following pages discusses recent performance and portfolio changes in more detail, as well as considering their outlook for the coming year.

The Company's recent annual performance also needs to be assessed within the longer-term context in which the Company operates. On this basis, this year's underperformance follows a year of very strong absolute returns during the financial year ended 31st January 2022, and outperformance over five years and the longer term. The Company's average annualised return over the ten years ended 31st January 2023 was 8.8% per annum on a net asset total return fair value basis and +9.1% in share price terms, both returns outpacing the benchmark's return of +6.9%.

The Company's long term track record of high absolute returns and outperformance of the broader small and medium cap market attests to your Investment Managers' skill at identifying this sector's future market leaders and outperformers.

Returns and Dividends

The Company aims to provide shareholders with long term dividend growth at least in line with the rate of inflation over a five to ten year period, as detailed in the table below. The Company has paid three interim dividends of 1.35p per ordinary share in respect of the year to 31st January 2023 and the Board has declared a fourth quarterly interim dividend of 3.1 per share. This brings the total dividend for the year to 7.15p per share, an increase of 3.6% over last year.

	CPI (% per annum)	Mercantile Dividend Growth (% per annum)
Three Years	5.3%	2.7%
Five Years	3.9%	6.2%
Ten Years	2.7%	7.1%

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

In deciding our dividend payments, we look to pay dividends that are at least covered by current year earnings, while also allowing us to build revenue reserves. However, it is a great advantage of the investment trust structure that the Company is able to partially fund dividend payments from revenue reserves when necessary to bolster the dividend during challenging times – something that the Company has done over the past three years. I am pleased to confirm that this is the first year since 2020 that the dividend is fully covered by earnings, meaning that the Company has not needed to draw on its reserves to partially fund the dividend. This has been possible because revenues per share over the past year increased by 10.6% to 7.19p, from 6.50p in the previous year. After payment of the fourth interim dividend, the Company will have revenue reserves of in excess of 4.9p per share (2022: 4.9p).

Discount

Over the year ended 31st January 2023, the Company's discount widened, ending the reporting period at 12.6%, from 9.7% at the same time the previous year. Your Directors recognise that it is in the interests of shareholders that the Company's share price does not differ excessively from the underlying NAV under normal market conditions. However, the past year's market conditions have been far from normal, and the widening of the Company's discount is consistent with the experience of investment companies across many asset classes. In an effort to equalise supply and demand in the face of this market turmoil, the Board utilised the Company's authority to buy back shares, repurchasing a total of 1,442,231 shares at a cost of £2.61 million. These shares were purchased at an average discount to NAV of 15.9%, producing a modest accretion to the NAV for continuing shareholders.

The Board closely monitors the discount and markets, and will continue to undertake share buybacks when it deems it appropriate. The Board therefore recommends that the powers to repurchase up to 14.99% of the Company's shares be renewed by shareholders at the forthcoming Annual General Meeting, with repurchased shares to be cancelled or held in Treasury. The Board is also seeking shareholder approval to issue shares at a premium to NAV and to disapply pre-emption rights on any such issues. As with buying shares at a discount, issuing new shares at a premium to NAV enhances returns to existing shareholders and improves liquidity.

Gearing

The Company ended the year with gearing of 9.5%. During the year, the level of gearing ranged between 4.8% and 14.2%. It is the Board's intention to continue to operate within the range of 10% net cash to 20% geared, under normal market conditions and having gone into the downturn mildly geared we were especially keen not to be ungeared into any upturn. Gearing is regularly discussed by the Board and the Investment Managers and is implemented via the use of long-dated, fixed-rate financing, from several sources, consistent with the Board's aim to ensure a diversification of source, tenure and cost of leverage available to the Company. The Company has in place a £3.85 million perpetual debenture and a £175 million debenture repayable on 25th February 2030, together with £150 million of long-term debt raised in September 2021 through the issue of three, fixed rate, senior unsecured privately placed notes (the 'Notes'). The Notes mature between 2041 and 2061 and were secured with a blended rate of 1.94%, at a time when interest rates were near their lows.

With inflation now in double digits and long-term interest rates significantly higher, the Company's borrowing profile is now very attractive, and should benefit shareholders, as it provides ample opportunity to enhance future returns, at relatively low cost.

Marketing, Promotion and Shareholder Interaction

The Company continues to raise its profile with investors and potential investors, via targeted media and promotional campaigns, and ongoing interaction with national and investment industry journalists. It is the Board's view that enhancing The Mercantile's profile will benefit all shareholders by creating sustained demand for its shares, particularly from retail investors, where demand has grown steadily in recent years. We seek to undertake this promotional activity in the most cost-effective manner.

The Board and the Investment Managers maintain a dialogue with the Company's shareholders via regular email updates, which deliver news and views, and discuss the latest performance. If you have

Chairman's Statement

not already signed up to receive these communications and you wish to do so, you can opt in via tinyurl.com/MRC-Sign-Up or by scanning the QR code on this page.

To further promote the Company to the broader investment community, the Investment Managers follow an established marketing and investor relations programme targeting wealth managers, institutions and private client stockbrokers via video conferences, podcasts and in-person meetings.

It is the Board's hope that these initiatives will give many more of the Company's investors and potential investors the opportunity to interact with the Board and Investment Managers than has been the case in the past.

I and the Board welcome feedback from shareholders and any shareholder who wants to contact me should do so by contacting the Company Secretary on the details provided on page 95.

Environmental, Social and Governance ('ESG') Considerations

In their search for tomorrow's UK market leaders, our Investment Managers look beyond the near-term financial attributes of a company. As part of their efforts to identify businesses with sustainable business models and long-lasting competitive advantages, they scrutinise the environmental, social and governance ('ESG') aspects of the companies in which they invest. The Board shares the Investment Managers' view of the importance of ESG factors when making investments for the long term. For this reason, ESG considerations are fully integrated into the investment process. Equally importantly, the Investment Managers engage continually with investee companies on ESG issues, as well as on broader matters of company strategy and performance, throughout the duration of the investment, with the aim of fully understanding any ESG risks and encouraging investee companies to adopt best practice on ESG matters.

Further information on the Investment Manager's ESG process and engagement is set out in the ESG Report on pages 16 to 18.

Reporting under the Task Force on Climate Related Financial Disclosures

In accordance with the requirements of the Taskforce on Climate Related Financial Disclosures ('TCFD'), J.P. Morgan Asset Management will provide product level reports for the investment trusts it manages, including The Mercantile, in late June 2023 and annually thereafter. The report will be made available on the Company's website.

Key elements of the report will include Scope 1 and 2 greenhouse gas ('GHG') emissions (i.e. emissions that are owned or controlled by the Company), total carbon footprint, weighted average carbon intensity ('WACI') and, from June 2024, scope 3 GHG emissions (i.e. emissions generated as a consequence of the activities of Company but occur from sources not owned or controlled by it). The report will also include a scenario analysis of how climate change is likely to impact the Company's assets under orderly, disorderly and hothouse world scenarios, and discussion of the most significant drivers of performance under those scenarios.

Board Succession

Having served as a Director since 2012, Jeremy Tigue retired from the Board at the Annual General Meeting in May 2022. Graham Kitchen succeeded Jeremy in the roles of the Company's Senior Independent Director and Remuneration Committee Chairman. To spread the Board responsibilities more evenly, the role of Senior Independent Director was taken on by Rachel Beagles, with effect from 1st February 2023.

Harry Morley, who joined the Board in 2014, will be retiring at the forthcoming Annual General Meeting. On behalf of the Board, I would like to thank Harry for the significant contribution he has made to the Company and the wise counsel that he provided the Board during his tenure. We wish him well for the future. Damien Maltarp will succeed Harry in the role of Audit Committee Chairman.

The Board plans for succession to ensure it retains an appropriate balance of skills and knowledge. To this end, the Board was pleased to announce the appointment of Julia Goh with effect from 1st January 2023, and we look forward to working with her. For full details of Julia's experience and current roles please refer to pages 35 and 40. Following Harry's retirement, the Board will once again comprise six Directors.

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

In 2022, the FCA published new rules to encourage companies to be more transparent about the ethnic and gender diversity of their boards. The rules take effect for accounting periods starting after 1st April 2022, meaning that The Mercantile will need to report against these requirements from next year. However, I am able to confirm that the Company's Board constitution already complies with the FCA's ethnic and gender diversity guidelines for listed companies and the recommendations of the Hampton-Alexander Review concerning female representation on the Board. In the absence of any unforeseen circumstances, it is the intention that the Company will remain compliant with these requirements going forward.

The Manager

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

Annual General Meeting

The Company's one hundred and thirty seventh Annual General Meeting will be held at Trinity House, Tower Hill, London EC3N 4DH on Wednesday 24th May 2023 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.

Outlook

Even though there has been significant disruption in the global financial sector recently, following the collapse of some US regional banks and the takeover and rescue of Credit Suisse in Europe, and therefore the resultant jitters in markets, I am pleased to say that the outlook for your Company and our investments appears considerably brighter now than when I sat down in October last year to write my statement for the Company's Half Year Report. As our Investment Managers have said, credit markets may tighten somewhat but the financial sector in the UK and our companies in particular are in a much healthier position. Although the tragic war in Ukraine drags on, its impact on energy and commodity prices is beginning to ease. There are signs that inflation may be peaking, and while central banks are unlikely to begin easing monetary policy any time soon, interest rates may stabilise, while monetary authorities take time to assess the medium-term inflation outlook. In addition, forecasts suggest that the UK economy, will, at worst, experience a mild recession this year. Furthermore, the UK's political climate has calmed considerably, with an improvement in relations with the EU and a new Pan Pacific trade agreement. The potential for UK companies to increase business is encouraging.

The UK market remains attractively priced relative to many of its global counterparts, and with sterling still weak, the market is likely to see continued interest from foreign investors, and private equity firms and others seeking to acquire UK companies. These factors should continue to support the market.

The recovery in your Company's fortunes in the second half of the financial year suggests that the portfolio is well-positioned to continue benefitting from the improving economic and market environment, and the Board shares the Investment Managers' confidence in their strategy, the portfolio and the Company's prospects for capital and dividend growth over the coming year and over the long term.

We thank you for your ongoing support.

Angus Gordon Lennox
Chairman

3rd April 2023

Investment Managers' Report

Guy Anderson
Investment Manager

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

Anthony Lynch
Investment Manager

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

Setting the scene: Challenging times give way to signs of improvement

This has been an especially challenging year for financial markets. Having recovered from pandemic-driven losses and climbed to all-time highs, equity markets subsequently struggled following the Russian invasion of Ukraine, as investors digested the conflict's multitude of first- and second-order knock-on effects. Existing pandemic-induced supply side constraints, combined with rising and broad-based inflation, were exacerbated by the conflict, with energy supplies and prices under pressure. Against such a backdrop, central banks surprised investors by the pace and extent of monetary tightening, which in turn fuelled fears of global recession.

Political instability in the UK added further to this negative dynamic. Investor confidence was unsettled as the ruling Conservative party faced a series of scandals which eventually led to a change of leadership. The incoming Truss administration's attempts to boost growth by implementing unfunded corporate and individual tax cuts, alongside a two-year energy price guarantee, were greeted with widespread criticism and market scepticism. This triggered a surge in financial market volatility: equity markets dropped sharply, the pound briefly hit an all-time low against the US dollar, and gilts yields rose so sharply the Bank of England was forced to implement a multi-day bond-buying programme to stabilise bond markets.

At its nadir in mid-October, the Company's target market of UK medium and smaller companies (the 'benchmark'), had declined by 25% over the financial year-to date. However, the appointment of former Chancellor Rishi Sunak as Prime Minister to replace Truss, and Sunak's subsequent reversal of several of her most controversial policies, calmed markets. Investors were further reassured by a decline in energy prices thanks to a mild winter, which raised hopes that inflation was approaching a peak, while fears of a serious recession were assuaged by resilient consumption. These factors, combined to fuel a significant recovery in UK equity markets, which have in fact outperformed other major markets in recent months. UK medium and small cap companies benefitted from this recovery, allowing this part of the market to claw back a portion of its previous losses, closing the financial year ended 31st January 2023 down a more modest 7.5%.

FTSE All-Share Ex FTSE 100 Ex Investment Trusts

Mercantile performance

Against this backdrop, the Company delivered a return on net assets, with debt measured at par value, of –12.3%. With debt at fair value, this decline was –8.5%.

It is worthy of note that all of this underperformance occurred in the first half of the year, driven by a combination of two factors. The first was stock selection, which detracted mainly due to the portfolio's substantial overweight to consumer discretionary stocks that were especially hard-hit by rising inflation and interest rates. The second was gearing, which impacted performance as the trust remained geared into a declining market.

However, relative performance began to improve in the second half of the year, supported by the recovery in market sentiment, the better-than-feared macroeconomic outlook, and portfolio adjustments made in response to events in the first half of the year, although the pick-up in performance has not yet been sufficient to recoup the Company's first half losses.

To under-perform over the course of the year has been frustrating as portfolio companies have for the most part continued to deliver financial results, including dividends to shareholders, ahead of the market's expectations, while the broader market has disappointed. This is partly a result of a decline in valuations ascribed by the market to many of the higher quality, structurally growing businesses in which we invest, reflecting higher discount rates and cautious sentiment.

Performance attribution

For the year ended 31st January 2023

Performance attribution analyses how the Company achieved its recorded performance relative to its benchmark index.

	%	%
Contributions to total return		
Benchmark total return		**–7.5%**
Allocation/Stock/Sector Effect	–2.5%	
Effect of Cash & Gearing	–1.2%	
Cost of Debentures and Senior Unsecured Privately Placed Loan Notes	–0.6%	
Portfolio Total Return		**–11.8%**
Management Fees/Other Expenses		–0.5%
Share Buy-Back/Issuance		0.0%
Cum Par Net Asset Value Total ReturnAPM		**–12.3%**
Impact of Debt Valuation		3.8%
Cum Fair Net Asset Value Total ReturnAPM		**–8.5%**

APM Alternative Performance Measure ('APM').

Source: JPMAM and Morningstar. All figures are on a total return basis.

Contributions calculated using an Arithmetic methodology.

A glossary of terms and APMs is provided on pages 91 to 93.

Spotlight on stocks

Winners

Portfolio highlights in the past year included our longstanding investment in **Telecom Plus**, a multi-utility provider with an everyday low-price proposition, which has been a beneficiary of the changing landscape in the energy supply market. This had been a modestly sized position for several years, but we increased exposure dramatically in late 2021 and early 2022 as the competitive landscape evolved in their favour, increasing the potential for accelerated growth in the company's customer base. We also enjoyed success with our investment in **4Imprint**, a provider of branded promotional materials for corporates. Its recovery from the pandemic accelerated as conferences and trade fairs resumed. Growth in new clients has been particularly strong. Finally, another long-term holding, in asset manager **Brewin Dolphin**, was subject to an agreed takeover by Royal Bank of Canada (RBC), which came at a handsome premium.

Losers

On the negative side, as mentioned above, our holdings in consumer-facing companies such as **Watches of Switzerland**, a luxury watch retailer, and **Jet2**, an airline and holiday company, detracted from performance. While the operational performance of both these businesses has remained encouraging, with continued growth in earnings and a promising long-term growth runway ahead, their shares came under pressure due to understandable concerns about the outlook for discretionary spending.

Elsewhere, our investment in **Future**, a specialist media company, was disappointing. Having built the business through a series of acquisitions alongside impressive organic revenue growth and profitability gains, the CEO announced her intention to step down once a successor had been appointed. This, combined with market concerns regarding the outlook for media spending and e-commerce activity through a widely-anticipated recession, put the share price under sustained pressure during the year.

Positioning the portfolio for future success

We target UK companies outside of the FTSE 100 Index that have significant opportunities for growth and which may be overlooked by other investors. We invest in the shares of companies that we believe possess the characteristics that may facilitate this growth, for example nimble business models that can innovate or disrupt their industries, or companies that occupy prime positions in rapidly growing markets.

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

The last few years have presented a particularly volatile operating environment for many companies, with Brexit uncertainty, pandemic restrictions, supply chain challenges, surging inflation, war in Europe and open talk of souring East-West relations. We believe that this backdrop has made it even more important to focus on well-positioned and well-managed businesses that have the resilience to cope and even thrive in such a situation, and which may ultimately emerge with stronger competitive positions. Furthermore, given the broadly negative narrative surrounding the UK and its economic prospects, the valuations of UK stocks – including valuations of the future winners – have reduced, which presents a compelling investment proposition.

In view of the deterioration in the economic outlook, we made some notable changes to the portfolio over the first half of the year. The most material of these was the reduction in exposure to the consumer discretionary sector, offset by increases in the telecommunications and energy sectors. However, despite the reduction in consumer discretionary holdings such as **DFS** and **Moonpig**, consumer facing stocks remain an important area of the portfolio, including some of our largest individual investments, such as **Watches of Switzerland**, **Dunelm**, the UK's leading homewares retailer, and **WH Smith**, a travel retailer. In each of these cases, it is noteworthy that growth is being underpinned by improving customer propositions and resultant increases in market share, rather than being solely dependent on the strength of consumer demand.

The portfolio's exposure to energy has been increased both directly, via investments in energy producers such as **Harbour Energy** that are set to benefit from higher oil and gas prices, and indirectly, via companies providing goods and services to the energy industry and indeed those that distribute it, such as the aforementioned investment in Telecom Plus.

At the sector level, Support Services is now our largest overweight position, with example holdings including our longstanding investments in **Inchcape**, the vehicle distributor, and the industrial and electronic product distributors **Diploma** and **RS Group**. The Software & Computer Services sector remains another substantial overweight for the portfolio, with example holdings including **Softcat**, one of the UK's leading value-added technology resellers, **Computacenter**, a leading technology services provider to large corporate and public sector organisations, and **Big Technologies**, the provider of electronic monitoring systems primarily to criminal justice systems around the world.

The portfolio also retains substantial investments in the industrial sectors. Two such examples are **IMI** and **Rotork**, engineering companies that design, manufacture and service a range of complex and often customised products that control the movement of fluids and gases in a host of different industries. In both cases the business leadership has re-emphasised the commercial focus, aligning new product development more closely with customer needs and thus driving higher growth.

We have a number of holdings in the financial services industry, including a large investment in the buy-to-let lender **OSB Group**. While recent events in the banking industry have re-emphasised the risks associated with certain business models, we are reassured by the high profitability, appropriate capitalisation and diverse funding sources of our holdings, which should position them for continued success. We maintained our very large underweight in the real estate sector on the expectation that valuations could come under downward pressure in an environment of potentially rapid increases to interest rates and thus the discount rates upon which property valuations are based. Having witnessed at least a major portion of this expected reset, we recently made an initial foray back into this sector, taking a modest position in **LondonMetric Property**, a diversified REIT.

Outlook for the coming year

The economic outlook today is far from rosy, yet there are reasons for cautious optimism. The US regional bank failures and the takeover of Credit Suisse by UBS have sent shockwaves through the financial system and may lead to further credit tightening, but at this time appear unlikely to materially impact UK banks and their ability to lend, given their stronger profitability and liquidity. In addition, a less intense inflationary environment and continued recovery from the pandemic, have the potential to support economic growth, with the UK now expected to avoid a recession. Against this backdrop, valuations of UK equities have fallen, and despite the recent outperformance of the UK market, this de-rating has created some exciting investment opportunities.

Despite the natural and widespread caution in outlook statements, portfolio companies are for the most part performing well, and we believe they possess the wherewithal to withstand near-term challenges and continue to thrive and grow. While there is naturally nervousness around the near-term outlook, we have a positive view as expressed by the portfolio's 10% gearing and are excited by the opportunities that we see.

We will maintain our focus on investing in high quality businesses that operate in growing end markets with the ability to invest capital at attractive returns and which can also adapt to the changing environments in which they operate. We believe that a portfolio of such investments offers the best prospect of delivering compelling returns for our shareholders over the long-term.

Guy Anderson
Anthony Lynch
Investment Managers

3rd April 2023

Environmental, Social and Governance Report

ESG and The Mercantile Investment Trust plc

Introduction

ESG stands for Environmental, Social and Governance. Awareness of these issues has increased significantly in recent years within the asset management industry, including with the Investment Managers responsible for the Company's portfolio, among the Board members of your Company, among shareholders and potential shareholders in the Company and, indeed in society at large.

Why do we integrate ESG into our investment processes?

At J.P. Morgan Asset Management, we define ESG integration as the systematic inclusion of financially material ESG factors (including sustainability risks) as additional inputs into investment analysis and investment decision-making, where possible and appropriate. Essentially, we aim to determine whether, in our opinion, a company faces potential headwinds or tailwinds from ESG considerations which may ultimately have a significant impact on its share price.

ESG Integration within the Company's portfolio

ESG integration does not change a fund's investment objective, exclude specific types of companies, or constrain the investable universe. However, our assessment of financially material ESG factors may influence our investment decision. Ultimately, it may impact your Investment Managers' decision to purchase a company or not, or impact the size of the position taken in a company due to the level of conviction.

Engagement

We recognise and embrace our wider stewardship responsibilities to clients as a major asset owner. We engage with companies not only to understand how companies consider issues related to ESG but also to try to influence their behaviour and encourage best practices, for the purpose of enhancing returns for our clients. Active ownership in the context of ESG integration allows us to manage ESG risks and to systematically incorporate insights gained from engagement into our investment decisions. For further details on our engagement processes, please see our Annual Investment Stewardship Report at https://am.jpmorgan.com/content/dam/jpm-am-aem/global/en/sustainable-investing/investment-stewardship-report.pdf).

Examples of our recent activity with regard to engagement with stocks in the Company's portfolio at the end of the Company's financial year are provided below:

We met with **Beazley**, the insurance underwriter, to discuss how the company is incorporating climate risk into underwriting. The company confirmed that qualification is based on external ratings by S&P Sustainalytics and RepRisk. Beazley does not currently offer a discount for clients with a better ESG score, but now that they have the data, they will be able to test whether or not such clients prove to have less underwriting loss risk. In terms of estimating climate risk, the company is building proprietary tools to consider this more explicitly, and this could ultimately become a pricing competitive advantage. Beazley has a 2050 Net Zero target, together with near-term reduction targets and will be developing Science Based Targets.

As part of a collaborative engagement, we wrote a letter to **Bellway**, the UK housebuilder, on behalf of the 30% Club UK Investor Group. This Group encourages best practice on diversity, specifically aligning with the Parker Review requirements to have ethnic minority representation at Board level by 2024. We believe boards that embrace diversity, as manifested through appropriate gender and racial representation and a broad spectrum of skills and experience, are more likely to achieve better outcomes for our clients. The letter, written by J.P. Morgan Asset Management as lead engager, was addressed to the Nomination Chair at Bellway, outlining best practice on diversity at board and company level. Following our engagement and the subsequent December 2022 AGM, there is now 33% female representation at Board level. We will continue to engage with the company to ensure that it embraces diversity on its board more widely by including ethnic minority representation by 2024.

We held a meeting with **Oxford Instruments**, a UK-based equipment provider, following the company's 2022 AGM. The dialogue was broadly based on diversity. The company came under scrutiny at the time of the AGM for not meeting the requirements of the FTSE Women's Leader Review (formerly the Hampton Alexander Review) of reaching 33% female Board representation. We decided to support the re-election of the Nomination Chair as the company wrote to us outlining its future commitments towards Board diversity, where the board will strive to reach 37.5% female board representation. Our next steps will be to follow up with the company on the creation of a standalone diversity policy, ethnicity pay gap reporting and achieving 37.5% female board representation by the 2025 target.

Proxy Voting

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

Corporate governance is integral to our investment process. We examine the share structure and voting structure of the companies in which we invest, as well as the board balance, oversight functions and remuneration policy. For full details, please see JPMAM's Corporate Governance Policy & Voting Guidelines, copies of which are available on request, or to download from our website.

A summary of key voting statistics and activity for the Company during the year is detailed below:

	For	Against	Abstain	Did Not Vote*	Total Items	Against/ Abstain Total	% Against/ Abstain
Audit Related	130	0	0	2	132	0	0.0
Capitalisation	255	0	0	3	258	0	0.0
Company Articles	7	0	0	0	7	0	0.0
Compensation	95	4	0	1	100	4	4.0
Director Election	503	3	1	9	516	4	0.8
No Research	9	0	0	0	9	0	0.0
Non-Routine Business	1	0	0	0	1	0	0.0
Routine Business	128	1	0	3	132	1	0.8
Social	31	0	0	0	31	0	0.0
Strategic Transactions	8	1	0	0	9	1	11.1
Takeover Related	53	0	0	1	54	0	0.0
Miscellaneous	1	0	0	0	1	0	0.0
TOTAL	**1221**	**9**	**1**	**19**	**1250**	**10**	**0.8**

* Due to share blocking implications, and to avoid split voting, a Did Not Vote was applied against a meeting by issuer TBC Bank Group PLC with 19 resolutions.

An example of our proxy voting activity over the last year is provided below:

Berkeley Group is a UK listed homebuilder. At its last AGM, the company sought to introduce a restricted share plan and a long-term option plan as part of its remuneration scheme. The Remuneration Committee Chair explained that Directors had undertaken an extensive review of the existing long-term incentive plan together with proposed updated plans and had concluded that the scheme presented was the best designed to be able to attract and retain, incentivise, and allow for long-term succession planning of executive management. Overall, while we felt the plan could have been better designed with more stretching performance metrics or targets, the implementation of a cap gave re-assurance about the level of pay-out. As such, we supported the plan and will follow up with continued engagement.

Environmental, Social and Governance Report

The Future

In investing your Company's assets, your Investment Managers always look for companies with the ability to create value over the longer term. That scrutiny remains firmly embedded in our process and we know that the Directors of the Company, shareholders and potential investors, view attention to ESG factors as important in their assessment of us as Managers. We expect ESG to remain an important consideration for the Company's portfolio and the course being taken by regulators suggests that its importance will only increase in years to come. The research we do and the approach we take in investing the Company's assets will continue to reflect that and to evolve as necessary.

On 7th September 2022, J.P.Morgan Asset Management became a signatory to the UK Stewardship Code. This reflects our commitment to our stewardship responsibilities to drive positive corporate change and industry developments that benefit our clients and the communities we serve.

Guy Anderson
Anthony Lynch
Investment Managers

3rd April 2023

Portfolio Information

Ten largest investments as at 31st January

Company Name	Company Description	Holding £'000s in 2023	% of portfolio in 2023[1]	% of portfolio in 2022[1]
Inchcape	Inchcape is a global automotive distributor and retailer. It operates in the UK and in markets across Europe, Asia and Australasia where it acts as a vehicle and parts distributor for a focused portfolio of premium and luxury brand partners.	82,080	4.0	2.4
Watches of Switzerland	Watches of Switzerland is a British retailer of luxury watches with 16 stores in the UK. It floated on the stock market in May 2019.	80,538	3.9	4.4
Intermediate Capital	Intermediate Capital is a private equity asset management firm operating globally in the debt, credit, bridge financing and equity markets.	69,375	3.4	3.2
IMI	IMI is a specialist engineering company that designs, manufactures and services highly engineered products that control the precise movement of fluids.	60,564	3.0	3.1
Softcat	Softcat is a British technology company providing communications, software licencing, procurement and management services.	59,094	2.9	3.1
OSB[2]	OSB is a leading specialist mortgage lender, primarily focused on carefully selected sub-segments of the mortgage market such as Buy-to-Let, Residential (including Help to Buy and shared ownership), complex commercial and semi-commercial, development finance, bridging and asset finance.	58,914	2.9	2.3
Man[2]	Man Group is an active investment management business providing a range of funds across liquid and private markets for institutional and private investors globally and is the world's largest publicly traded hedge fund company.	58,172	2.9	2.0
Dunelm	Dunelm sells a broad selection of household goods and furnishing from its retail stores across the UK. It also markets its items through its online store.	57,950	2.8	2.7
WH Smith[2]	WH Smith is a leading global travel retailer for news, books and convenience, with a smaller business located on UK high streets.	54,993	2.7	1.9
Bellway	Bellway is a UK based property developer focusing on smaller and first-time buyer homes, including two and three bedroom flats, semi-detached and terraced houses.	52,738	2.6	2.9
Total[3]		**634,418**	**31.1**	

All of the above investments are listed in the UK.

[1] Based on total portfolio of £2,043m (2022: £2,465m).

[2] Not Included in the ten largest investments at 31st January 2022.

As at 31st January 2022, the value of the ten largest investments amounted to £742.5m representing 30.1% of the total portfolio.

Portfolio Information

Listed equity market capitalisation at 31st January (%)[1]

	2023	2022
UK FTSE 250	79.3	76.7
UK FTSE 100	10.7	14.5
UK AIM	5.8	5.4
UK FTSE Small & Fledgling	3.9	3.2
UK Unquoted	0.3	0.2
Total	**100.0**	**100.0**

[1] Based on total portfolio of £2,043m (2022: £2,465m).
Source: J.P. Morgan.

Sector analysis at 31st January (%)

	Portfolio 2023[1]	Benchmark 2023	Portfolio 2022[1]	Benchmark 2022
Industrials	31.4	22.4	27.5	21.8
Consumer Discretionary	26.5	21.7	33.3	22.8
Financials	18.4	17.4	16.7	16.5
Technology	8.2	4.5	11.2	4.6
Consumer Staples	6.9	5.1	6.1	4.5
Energy	2.6	3.1	0.2	2.4
Telecommunications	2.3	1.3	1.0	1.2
Basic Materials	1.7	3.4	3.5	5.4
Health Care	1.4	5.3	0.5	2.9
Real Estate	0.6	13.7	—	14.5
Utilities	—	2.1	—	3.4
Total	**100.0**	**100.0**	**100.0**	**100.0**

[1] Based on total portfolio of £2,043m (2022: £2,465m).
Source: J.P. Morgan.

Portfolio Information

List of investments

As at 31st January 2023

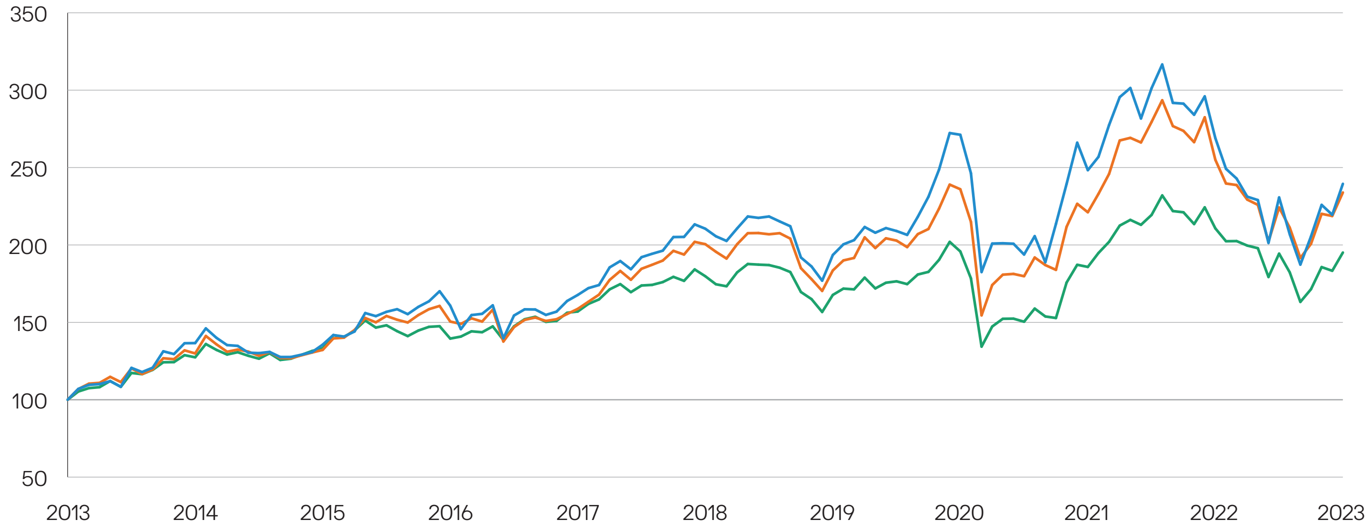
Company	Valuation £'000
Industrials	
Inchcape	82,080
IMI	60,564
RS	46,975
Diploma	40,267
Serco	39,630
Rotork	39,566
Weir	33,858
Balfour Beatty	33,159
QinetiQ	32,833
Grafton	32,331
Hays	28,336
Chemring	22,520
Page	21,840
Vesuvius	21,258
Morgan Advanced Materials	21,256
Spirax-Sarco Engineering	18,448
SThree	17,343
Morgan Sindall	16,318
Oxford Instruments	14,773
Vp	6,555
Judges Scientific[1]	6,150
Wincanton	4,959
	641,019
Consumer Discretionary	
Watches of Switzerland	80,538
Dunelm	57,950
WH Smith	54,993
Bellway	52,738
Games Workshop	51,562
4imprint	42,594
Future	36,698
Pets at Home	29,233
SSP	26,408
Redrow	23,679
Hollywood Bowl	19,351
JET2[1]	19,284
Next Fifteen Communications[1]	15,309
Howden Joinery	13,808
Berkeley	8,494
Bloomsbury Publishing	5,994
Team17[1]	2,036
	540,669
Financials	
Intermediate Capital	69,375
OSB	58,914
Man	58,172
3i	47,235
Beazley	39,900
Close Brothers	23,450
Paragon Banking	21,017
TBC Bank	17,100
Petershill Partners	14,686
Alpha International[1]	11,830
Bridgepoint	7,551
Impax Asset Management[1]	7,350
	376,580
Technology	
Softcat	59,094
Computacenter	41,255
Bytes Technology	25,155
Auto Trader	24,132
Big Technologies[1]	16,800
Tinybuild[1]	1,996
	168,432
Consumer Staples	
Cranswick	42,957
Tate & Lyle	35,382
Greggs	34,970
Premier Foods	27,440
	140,749
Energy	
Hunting	25,331
Harbour Energy	18,485
Serica Energy[1]	10,080
	53,896
Telecommunications	
Telecom Plus	45,954
	45,954
Basic Materials	
Hill & Smith	21,386
Central Asia Metals[1]	8,400
Tennants Consolidated[2,3]	5,174
	34,960
Health Care	
Ergomed[1]	19,104
Hikma Pharmaceuticals	9,909
	29,013
Real Estate	
LondonMetric Property	11,486
	11,486
Total Investments[4]	**2,042,758**

[1] AIM listed investment.
[2] Unquoted investment.
[3] Includes a fixed interest investment.
[4] The portfolio comprises investments in equity shares, and a fixed interest investment.

Ten-Year Record

Ten-Year absolute performance

Figures have been rebased to 100 at 31st January 2013



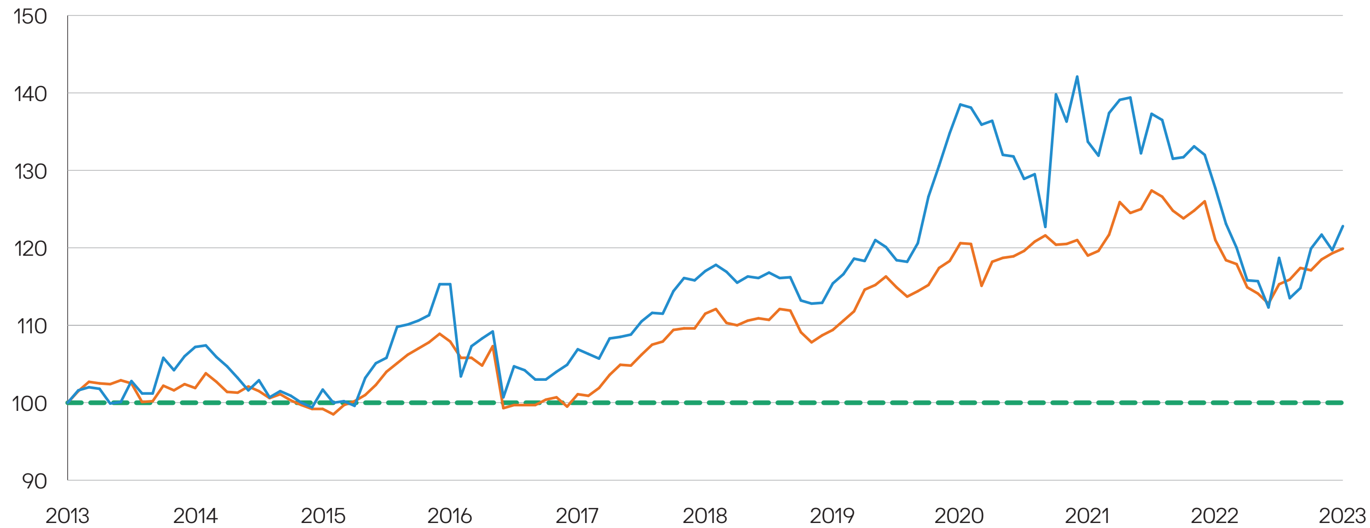
Share price total return[1] Net asset value total return[2]

Benchmark total return[3]

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

Ten year performance relative to benchmark

Figures have been rebased to 100 at 31st January 2013



Share price total return[1] Net asset value total return[2]

Benchmark total return[3]

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

Ten-Year Record

At 31st January	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total assets less current liabilities (£'m)	1,538.6	1,865.2	1,890.5	2,031.2	1,921.7	2,197.3	1,931.5	2,360.7	2,245.0	2,198.2	2,193.5
Net asset value per share (p)[1,2,APM]	138.3	171.8	175.3	193.2	200.5	246.6	221.3	275.8	251.0	277.7	236.1
Share price (p)[2]	117.1	155.0	149.8	172.7	175.5	215.0	192.0	261.0	231.0	244.0	209.5
Discount (%)[APM]	15.3	9.8	14.6	10.6	12.5	12.8	13.2	5.4	8.0	12.1	11.3
Gearing/(net cash) (%)[APM]	2.7	8.9	(0.9)	(4.2)	2.5	3.5	0.1	4.9	12.2	12.1	9.5

Year ended 31st January	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Gross revenue (£'000)	37,447	53,104	48,136	56,848	56,369	58,292	66,358	67,719	40,056	61,019	64,738
Revenue available for shareholders (£'000)	31,643	46,646	41,352	49,580	49,296	51,292	59,750	60,510	32,465	51,478	56,880
Revenue return per share (p)[2,APM]	3.2	4.8	4.2	5.2	5.3	6.1	7.5	7.6	4.1	6.5	7.2
Dividend per share (net) (p)[2]	3.6	4.0	4.1	4.3	4.6	5.3	6.3	6.6	6.7	6.9	7.15
Ongoing Charges (%)[3,APM]	0.49	0.48	0.49	0.48	0.48	0.45	0.45	0.44	0.48	0.45	0.46

Rebased to 100 at 31st January 2013	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Net asset value per share[1,APM]	100.0	124.2	126.8	139.7	145.0	178.3	160.0	199.4	181.6	200.8	170.7
Total return on net assets[4,APM]	100.0	129.9	132.2	150.5	158.7	200.5	183.5	236.0	221.1	255.0	233.3
Share price[2]	100.0	132.4	127.9	147.5	149.9	183.6	189.6	222.9	197.3	208.4	178.9
Total return to shareholders[5,APM]	100.0	136.6	135.6	160.8	167.7	210.5	193.5	271.2	248.3	269.0	239.5
Benchmark total return[5]	100.0	127.4	133.3	139.5	157.0	179.8	167.7	195.8	185.8	210.7	195.1
Revenue return per share[2]	100.0	150.0	131.3	162.5	165.6	190.6	234.4	237.5	128.1	203.1	225.0
Dividend per share[2]	100.0	111.1	113.9	119.4	127.8	147.2	175.0	183.3	186.1	191.7	198.6
Consumer Price Index[6] (%)	100.0	104.2	104.8	105.5	107.5	110.3	112.4	114.4	115.4	121.0	128.7

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

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

[2] Comparative figures from 2013 to 2018 have been restated due to the sub-division of each Ordinary share of 25p into ten ordinary shares of 2.5p each on 25th May 2018.

[3] Ongoing Charges represent the management fee and all other operating expenses excluding finance costs, expressed as a percentage of the average of the daily net assets during the year. The ongoing charges are calculated in accordance with guidance issued by the Association of Investment Companies in May 2012.

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

[5] Source: Morningstar, FTSE Russell.

[6] Source: Office of National Statistics. Calculated on a cumulative basis, rebased to 100 as at 31st January 2013.

A glossary of terms and APMs is provided on pages 91 to 93.

Company Purpose, Investment Objective, Policies and Guidelines

The Company's Purpose, Values, Strategy and Culture

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

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

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

Investment Objective

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

Structure of the Company

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

A review of the Company's activities and prospects is given in the Chairman's Statement on pages 8 to 11, and in the Investment Managers' Report on pages 12 to 15.

Investment Policies and Risk Management

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

The Board has sought to manage the Company's risk by imposing various investment limits and restrictions. These limits and restrictions may be varied at any time by the Board at its discretion. Material changes to the Company's investment policies, as defined under Chapter 15 of the Listing Rules, are subject to FCA and shareholder approval.

Investment Restrictions and Guidelines

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

Business Review

Performance

In the year to 31st January 2023, the Company produced a total return to shareholders of –11.0% (2022: +8.3%) and a total return on net assets with debt at fair value of –8.5% (2022: +15.3%). With debt at par value, the total return on net assets was –12.3% (2022: +13.2%). This compares with the total return on the Company's benchmark of –7.5% (2022: +13.4%). At 31st January 2023, the value of the Company's investment portfolio was £2,043 million (2022: £2,465 million). The Investment Managers' Report on pages 12 to 15 includes a review of developments during the year as well as information on investment activity within the Company's portfolio.

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

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

Total Return, Revenue and Dividends

Gross loss for the year amounted to £252.7 million (2022: £289.2 million profit) and net loss after deducting interest, management expenses and taxation amounted to £275.3 million (2022: £264.2 million profit). Distributable income for the year amounted to £56.9 million (2022: £51.5 million). The Directors have declared quarterly interim dividends totalling 7.15p (2022: 6.90p) per ordinary share for the year which totalled £56.5 million (2022: £54.6 million). The year end revenue reserve after allowing for these dividends will amount to £39.4 million (2022: £39.0 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 relative to benchmark' on page 22.

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

  Whilst the principal objective is to achieve capital growth relative to the benchmark, the Board also monitors the performance relative to a group of 13 comparable investment vehicles comprising four investment trusts, four open ended investment funds, three index tracking open ended funds and two ETFs.

- **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 2023 are given in the Investment Managers' Report on page 13.

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

  The Board closely monitors the Company's discount, particularly in comparison with peer companies. It operates a share repurchase programme that seeks to enhance value and address imbalances in supply and demand of the Company's shares within the market and thereby reduce the volatility and absolute level of the discount to NAV, with debt at fair value, at which the Company's shares trade. Please refer to the graph headed 'Discount History' on page 26.

- **Ongoing Charges**

  The ongoing charges ratio represents the Company's management fee and all other operating expenses, excluding finance costs, expressed as a percentage of the average of the daily net assets during the year. The ongoing charges ratio for the year ended 31st January 2023 was 0.46% (2022: 0.45%). The Board reviews each year an analysis which shows a comparison of the Company's ongoing charges ratio and its main expenses with those of its peers.

Share Capital

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

During the year the Company repurchased 1,442,231 shares into Treasury (2022: Nil). There were no shares re-issued from Treasury during the year.

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

The full text of these resolutions is set out in the Notice of Meeting on pages 87 to 90.

Business Review

Board Diversity

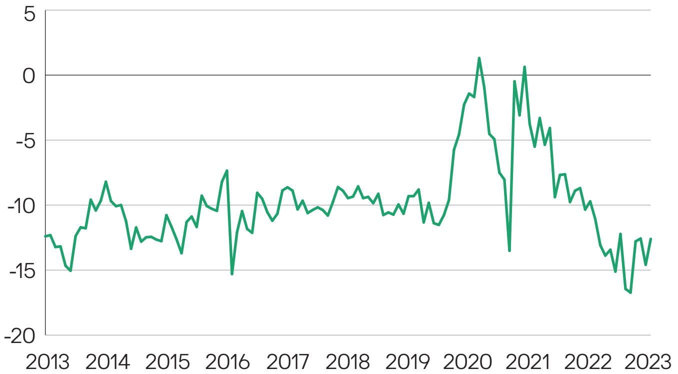
The overriding aim of the Company's diversity policy is to ensure that the Board is composed of the best combination of people for ensuring the delivery of investment performance for shareholders over the longer term.

At 31st January 2023, there were four male Directors and three female Directors on the Board. Following the retirement of Harry Morley at the forthcoming Annual General Meeting, the Board will comprise six Directors. The gender balance of three men and three women Directors, post the Company's forthcoming Annual General Meeting, will meet and exceed the target of 33% of women on FTSE 350 company boards set by The Hampton-Alexander Review. The Board also meets the proposal of the Parker Review Committee, that each FTSE 250 board has as least one director from an ethnic minority background by 2024. In the absence of any unforeseen circumstances it is the intention that the Company will remain compliant going forward.

Discount History

The Board monitors closely the level of the Company's share price discount to net asset value. Over the course of the year the discount widened from 9.7% to 12.6%, calculated on the cum income NAV with debt at fair value.

Discount (%) as at 31st January



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

Source: Morningstar.

Employees, Social, Community and Human Rights Issues

The Company has a management contract with JPMF. It has no employees and all of its Directors are non-executive. The day to day activities are carried out by third parties. There are therefore no disclosures to be made in respect of employees. The Board notes the JPMorgan Asset Management ('JPMAM') policy statements in respect of Social, Community and Environmental and Human Rights issues, as highlighted in italics:

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

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

The Manager has 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, armour and/or anti-personnel mines. Shareholders can obtain further details on the policy by contacting the Manager. Further details of the Investment Managers' approach to ESG is set out on pages 16 to 18.

Greenhouse Gas Emissions

The Company has no premises, consumes no electricity, gas or diesel fuel and consequently does not have a measurable carbon footprint. It therefore qualifies as a low energy user and is exempt from reporting under the Streamlined Energy & Carbon Reporting requirements. JPMAM is also a signatory to the 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/about/ourbusiness/human-rights

Corporate Criminal Offence

The Company has zero tolerance for tax evasion. Shares in the Company are purchased through intermediaries or brokers and 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.

Principal and Emerging Risks

The Directors confirm that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. With the assistance of JPMF, the Audit Committee has drawn up a risk matrix, which identifies the key risks to the Company. These are reviewed and noted by the Board. The key risks identified and the broad categories in which they fall, and the ways in which they are managed or mitigated are summarised below. The key principal risks identified by the Audit Committee are unchanged from the prior year. The AIC Code of Corporate Governance requires the Audit Committee to put in place procedures to identify emerging risks. The key emerging risks identified are also summarised below.

Principal risk	Description	Mitigating activities
Investment Management and Performance		
Underperformance	Poor implementation of the investment strategy, for example as to thematic exposure, sector allocation, stock selection, undue concentration of holdings, factor risk exposure or the degree of total portfolio risk, may lead to underperformance against the Company's benchmark index and peer companies.	This risk is managed by diversification of investments and through its investment restrictions and guidelines, which are monitored and reported on by the Manager. The Manager provides the Directors with timely and accurate management information, including performance data and attribution analyses, revenue estimates, liquidity reports and shareholder analyses. The Board monitors the implementation and results of the investment process with the Investment Managers, at least one of whom attends all Board meetings, and reviews data which show measures of the Company's risk profile. The Investment Managers employ the Company's gearing tactically, within a strategic range set by the Board. The Board holds a separate meeting devoted to strategy each year.
Market and Economic Risk	Market risk arises from uncertainty about the future prices of the Company's investments, which may reflect underlying uncertainties arising from economic, social, fiscal, climate and regulatory changes. In the past few years the COVID-19 pandemic has been a major source of uncertainty and has contributed to elevated levels of market volatility, whilst more recently interest rate risk has also become a key driver of market and economic uncertainty. Geopolitical risks have risen markedly following the Russian invasion of Ukraine. While direct linkages to the UK from Russia tend to be small, the impact of sanctions has been significant and the rise in commodity prices has lead to a cost of living crisis in the UK, which has hindered the Company's holdings in the consumer sectors in particular. These risks represent the potential loss the Company might suffer through holding investments in the face of negative market movements.	This risk is managed to some extent by diversification of investments and by regular communication with the Manager on matters of investment strategy and portfolio construction which will directly or indirectly include an assessment of these risks. The Board receives regular reports from the Manager regarding market outlook and gives the Investment Mangers discretion regarding acceptable levels of gearing and/or cash. Currently the Company's gearing policy is to operate within a range of 10% net cash to 20% geared. The Board considers thematic and factor risks, stock selection and levels of gearing on a regular basis and has set investment restrictions and guidelines which are monitored and reported on by the Manager. The Board can, with shareholder approval, look to amend the investment policy and objectives of the Company to gain exposure to or mitigate the risks arising from geopolitical instability.
Corporate Strategy	The corporate strategy, including the investment objectives and policies, may not be of sufficient interest to current or prospective shareholders. Other factors, such as the Company not being classified as an ESG integrated investment vehicle, may also deter shareholder interest.	Our investment strategies aim to position The Mercantile as a clear and core investment choice available for investment through a number of channels. The Manager continues to deliver on the Company's objective and integrates ESG considerations into its investment process. The Board regularly reviews its strategy, and assesses, with its brokers, shareholder views. Marketing and investor relations campaigns continued throughout the year and we have identified appropriate promotional opportunities for the Company (including advertising, events and research coverage) in order to maintain a strong platform presence. A Mercantile 'Preference Centre' has been set up to provide the Company with the ability to communicate directly and more effectively with investors.

Principal and Emerging Risks

Principal risk	Description	Mitigating activities
Investment Management and Performance		
Discount Control Risk	Investment trust shares often trade at discounts to their underlying NAVs, although they can also trade at a premium. Discounts and premiums can fluctuate considerably leading to volatile returns for shareholders.	The Board monitors the level of both the absolute and sector relative premium/discount at which the shares trade. The Board reviews both sales and marketing activity and sector relative performance, which it believes are the primary drivers of the relative discount level. In addition, the Company has authority, when it deems appropriate, to buy back its existing shares to enhance the NAV per share for remaining shareholders and to reduce the absolute level of discount and discount volatility.
Operational Risks		
Mid and Smaller Company Investment	Investing in mid and smaller sized companies is inherently more risky and volatile, partly due to a spotential lack of liquidity in the shares, which could lead to the Investment Managers obtaining a lower market price in the extremely rare event of them being forced sellers.	The Board discusses these risk factors at each Board meeting with the Investment Managers. The Board has placed investment restrictions and guidelines to limit these risks. Ultimately the Company is protected to some extent given its closed end structure.
Cyber Crime	The threat of cyber attack, in all guises, is regarded as at least as important as more traditional physical threats to business continuity and security. In addition to threatening the Company's operations, such an attack is likely to raise reputational issues which may damage the Company's share price and reduce demand for its shares.	The Company benefits directly or indirectly from all elements of JPMorgan's cyber security programme. The Board reviews the cyber security precautions taken by its third party suppliers on a regular basis. The information technology controls around the physical security of JPMorgan's data centres, security of its networks and security of its trading applications are tested by independent reporting accountants and reported on every six months against the AAF Standard.
Regulatory Risks		
Regulatory Change	The Company's business model could become non-viable as a result of new or revised rules or regulations arising from, for example, policy change or financial monitoring pressure.	The Board receives regular reports from its broker, depositary, registrar and Manager as well as its legal advisers and the industry trade body (the Association of Investment Companies) on changes to regulations which could impact the Company and its industry. The Company monitors events and relies on the Manager and its other key third party providers to manage this risk by preparing for any changes, adverse or otherwise.
Emerging risks	**Description**	**Mitigating activities**
Environmental Risks		
Climate Change	Climate change is one of the most critical emerging issues confronting asset managers and their investors. Climate change may have a disruptive effect on the business models and profitability of individual investee companies, and indeed, whole sectors.	The Manager's investment process integrates consideration of environmental, social and governance factors into decisions on which stocks to buy, hold or sell. This includes the approach investee companies take to recognising and mitigating climate change risks. In the Company's and Manager's view, companies that successfully manage climate change risks will perform better in the long-term. Consideration of climate change risks and opportunities is an integral part of the investment process.
ESG requirements from investors	The Company's policy on ESG and climate change may be out of line with ESG practices which investors are looking to invest in accordance with.	The Manager has integrated the consideration of ESG factors into the Company's investment process. Further details are set out in the ESG report on pages 16 to 18.

Principal and Emerging Risks

Emerging risks	Description	Mitigating activities
Pandemic Risks		
Pandemics	The emergence of COVID-19 illustrated the speed and extent of economic damage that can arise from a pandemic. Whilst the impact of COVID-19 has now subsided, at least in the UK, pandemics in general remain an emerging risk. Evidence suggests that the likelihood of pandemics has increased over the past century due to increased global travel and integration, urbanisation, changes in land use, and greater exploitation of the natural environment.	During the COVID-19 pandemic the Board received reports on the business continuity plans of the Manager and other key service providers. The effectiveness of these measures was assessed throughout the course of the COVID-19 pandemic and no issues were identified. The Board is mindful that implications arising from future pandemics will vary and hence the ability to assess mitigation activities is limited.
Geopolitical Risks		
Geopolitical Instability	Geopolitical Risk is the potential for political, socio-economic and cultural events and developments to have an adverse effect on the value of the Company's assets. The Company and its assets may be impacted by geopolitical instability, in particular concerns over global economic growth. The crisis in Ukraine has already affected energy and commodity markets and may cause further damage to the global economy. The ongoing conflict between Russia and Ukraine has heightened the possibility that tensions will spill over and intensify geopolitical unrest between other countries sharing a common border.	There is little direct control of this risk possible. The Company addresses these global developments in regular questioning of the Manager, including challenging the Manager on the extent of geopolitical exposure within inidividual investee companies, or the portfolio more broadly. The Board has the ability, with shareholder approval, to amend the policy and objectives of the Company to mitigate the risks arising from geopolitical concerns.

Long-Term Viability

The Company was established in 1884 and has been in existence for almost 140 years. It is an investment trust that has the objective of long term capital growth from a portfolio of UK medium and smaller companies. The Company has invested through many economic cycles and difficult market conditions, including the COVID-19 crisis and the ongoing heightened market volatility. The Board is cognisant of the deterioration in the economic outlook and the near-term challenges facing the UK and the Company's target market of UK medium and smaller companies. Notwithstanding this backdrop, given the factors stated below, the Board expects the Company to continue for the foreseeable future and has conducted its assessment for a period of five years.

Taking account of the Company's current position, the principal and emerging risks that it faces and their potential impact on its future development and prospects, the Directors have assessed the prospects of the Company, to the extent that they are able to do so, over the next five years. They have made that assessment by considering those principal and emerging risks, the risk of breaching the covenants pursuant to the debentures and senior unsecured loan notes as a result of a material reduction in its asset base, the Company's investment objective and strategy, the investment capabilities of the Manager and the current outlook for the UK economy and equity market.

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

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

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

3rd April 2023

Duty to Promote the Success of the Company

Section 172 of the Companies Act 2006 requires that a Director must act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members (i.e. shareholders) as a whole and in doing so, have regard (amongst other matters) to: the likely consequences of any decision in the long term; the need to foster the Company's business relationships with suppliers, customers and others; the impact of the Company's operations on the community and the environment; the desirability of the Company maintaining a reputation for high standards of business conduct; and the need to act fairly as between members of the Company.

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

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

Shareholders
Continued shareholder engagement is critical to the continued existence of the Company and the successful delivery of its long term strategy. The Board is focused on fostering and maintaining good working relationships with shareholders and understanding the views of shareholders in order to incorporate them into the Board's strategic thinking and objectives. Full details on how the Board ensures it is fully appraised of shareholder views and how it engages with all shareholder groups can be found on pages 32 and 42.
Manager
The principal supplier is the Manager, in particular the investment management team who are responsible for managing the Company's assets in order to achieve its stated investment objective. The Board maintains a good working relationship with the Manager, who also provides administrative support and promotes the Company through its investment trust sales and marketing teams. The Board monitors the Company's investment performance at each Board Meeting in relation to its objective and also to its investment policy and strategy. The Board also maintains strong lines of communication with the Manager via its dedicated company secretary and client director whose interactions extend well beyond the formal business addressed at each Board and Committee meeting. This enables the Board to remain regularly informed of the views of the Manager and the Company's shareholders (and vice versa).
Investee companies
The Board is committed to responsible investing and actively monitors the activities of investee companies through its delegation to the Manager. In order to achieve this, the Manager has discretionary powers to exercise voting rights on behalf of the Company on all resolutions proposed by the investee companies. In respect of the year under review, where able to do so, the Manager voted at all of the annual general meetings and extraordinary meetings held during the year by the Company's portfolio companies (full details can be found in the ESG report on pages 16 to 18). The Board monitors investments made and divested and questions the Manager's rationale for exposures taken and voting decisions made.
Other key service providers
The Board ensures that it promotes the success of the Company by engaging specialist third party suppliers, with appropriate capability, performance records, resources and controls in place to deliver the services that the Company requires in order for it to meet relevant obligations and safeguard its assets. For this reason, the Board considers the Company's Custodian, Depositary, Registrar, Auditor and Broker to be stakeholders. The Board maintains regular contact with its key external service providers, either directly, or via its dedicated company secretary or client director, and receives regular reporting from these providers at Board and Committee meetings. The Management Engagement Committee meets annually to review and appraise its key service providers.

Duty to Promote the Success of the Company

Wider society and the Environment

Whilst strong long term investment performance is essential for an investment trust, the Board recognises that to provide an investment vehicle that is sustainable over the long term, both it and the Manager must have regard to ethical and environmental issues that impact society. Hence environmental, social and governance ('ESG') considerations are integrated into the Manager's investment process and will continue to evolve. Further details of the Manager's integrated approach to ESG can be found on pages 16 to 18.

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

Key Decisions and Actions

Dividends Payable to Shareholders

Although the Company's objective is to deliver capital growth, the level of dividends paid is a key consideration for the Board, given the ongoing demand for income. After two challenging years for dividend receipts it is pleasing to note that this is the first year in three years that the dividend is fully covered and the Company is not required to use its reserves for the payment of the total dividend in 2023.

The Board has declared a fourth quarterly interim dividend of 3.1 pence per share, giving a total dividend of 7.15 pence per share for the year, an increase of 3.6% over last year. When setting the total dividend for the year, the Board took into account long-term inflation, the level of revenue generated in the year and the importance of providing shareholders with dividend growth.

Share price rating to net asset value ('NAV') per share and share buybacks

In yet another exceptional year, very few investment trusts, regardless of performance, asset class or investment approach, were immune from discount volatility as global markets reacted to the Russian invasion of Ukraine, and rising commodity and energy prices led to a surge in inflation across the globe, which included the UK.

Your Company was no exception as its discount widened to 12.6%. The Board recognises that a widening of, and volatility in, the Company's discount is seen by some investors as a disadvantage of investment trusts. With a strong investment team, a strong process and long-term performance, a narrower and more stable discount is the preferred position.

Over the long term the Board is seeking a stable discount or premium commensurate with investors' appetite for UK medium and small cap equities and the Company's various attractions, not least the quality of the investment team and the investment process, and the strong long-term performance these have delivered. This commitment has resulted this year in a series of targeted buybacks.

Succession Planning

The Board has progressed its succession plans this year resulting in the decision to appoint Julia Goh as an independent Non-Executive Director with effect from 1st January 2023. Having served as a Director since 2012, Jeremy Tigue retired from the Board at the Company's Annual General Meeting held in May 2022. Harry Morley joined the Board in 2014 and he will be retiring from the Board at this year's forthcoming Annual General Meeting. Further details are included in the Chairman's statement. Shareholder interests are best served by ensuring a smooth and orderly succession for the Board which serves to provide both continuity and refreshment whilst ensuring diversity of both background and experience.

Engagement with Shareholders

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

At the same time, the Company has this year been able to re-establish its full programme of in-person marketing and investor relations to wealth managers, institutions and private client stockbrokers. Alongside video and podcast content and sponsored research, the Investment Managers have recently completed their annual 'roadshow' visiting investors across the UK. The Chairman was also in attendance at a number of the meetings thus enabling direct contact between shareholders and the Board. Over a 30 day period, the Investment Managers met over 400 investors presenting the case for investing in the Company and addressing questions raised by larger shareholders face to face.

Duty to Promote the Success of the Company

Miscellaneous

In addition, the Directors have: kept under review the competitiveness of the management fee and the Company's other operating costs; approved a revised Investment Management Agreement (to reflect regulatory and statutory changes coming into effect since the last Agreement was signed); continued to hold the Manager to account on investment performance; undertaken a robust review of the principal and emerging risks faced by the Company; completed an evaluation of third-party services providers, including an assessment of value for money for each party; discussed with the Investment Managers their ongoing approach for ensuring ESG considerations are integrated into their investment processes; and continued to encourage the Manager to enhance its sales and marketing efforts.

Furthermore, throughout the heightened market volatility arising from the Russian invasion of Ukraine, the Board has been in frequent contact with the Manager, receiving regular updates on the operating effectiveness of the Manager and key service providers and on areas such as portfolio performance and activity, portfolio liquidity and gearing.

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

3rd April 2023

Board of Directors

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

A Director since September 2015.

Last reappointed to the Board: 2022.

Remuneration: £72,000.

Angus is Chairman of 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 Company: 150,000 ordinary shares.

Rachel Beagles

Director since June 2021.

Last appointed to the Board: 2022.

Remuneration: £38,500.

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

Connections with Manager: None.

Shared directorships with other Directors: None.

Shareholding in Company: 39,668 ordinary shares.

Julia Goh

A Director since January 2023.

Last reappointed to the Board: N/A.

Remuneration: £38,500.

Julia has over 25 years of broad-based financial services experience in London. She was a Managing Director at Barclays Investment Bank from 2010-2018 in various senior front office positions including from 2017 the COO of Global Markets. She was a Managing Director and the Global Head of Prime Services Risk at Credit Suisse from 1998-2009. Prior to that, she was a risk manager at Nomura International. She is a non-executive director of Schroder AsiaPacific Fund plc and Pension Insurance Corporation plc and also of its parent company, Pension Insurance Corporation Group. She is also a director of the charity, Children of the Mekong. Julia is a qualified chartered accountant and has a MSc in Quantitative Finance.

Connections with Manager: None.

Shared directorships with other Directors: None.

Shareholding in Company: no ordinary shares.

Heather Hopkins (Chair of the Marketing & Communications Committee)

A Director since July 2018.

Last reappointed to the Board: 2022.

Remuneration: £43,000.

Heather has over two decades of experience in data analytics, research, financial services and international business, with expertise in retail distribution. She is Founder and Managing Director of NextWealth Limited which provides research and consultancy to platforms, asset managers and financial advice firms on the future of retail investment distribution. She is also a Director of Orbis Investments (U.K.) Limited.

Connections with Manager: None.

Shared directorships with other Directors: None.

Shareholding in Company: 20,244 ordinary shares.

Board of Directors

Graham Kitchen (Chair of the Management Engagement Committee)

A Director since 2018.

Last reappointed to the Board: 2022.

Remuneration: £43,000.

Graham has over 20 years experience managing UK equity funds, including OEICs, investment trusts and pension funds. He was Global Head of Equities at Janus Henderson Investors from 2011 to 2018. Formerly Head of UK Equities at Threadneedle Investments and held various positions at Invesco Asset Management. He is a CFA Charterholder and Chairman of Perpetual Asset Management UK Ltd and non-executive Chairman of AVI Global Trust plc, a non-executive director of Places for People, a provider of affordable housing and a member of the investment committee of Independent Age, a charity that provides advice to older people.

Connections with Manager: None.

Shared directorships with other Directors: None.

Shareholding in Company: 73,180 ordinary shares.

Damien Maltarp

A Director since June 2021.

Last reappointed to the Board: 2022.

Remuneration: £38,500.

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

Connections with Manager: None.

Shared directorships with other Directors: None.

Shareholding in Company: 15,000 ordinary shares.

Harry Morley (Chair of the Audit Committee)

Director since May 2014.

Last appointed to the Board: 2022.

Remuneration: £52,000.

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

Connections with Manager: None.

Shared directorships with other Directors: None.

Shareholding in Company: 40,000 ordinary shares.

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

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31st January 2023.

Management of the Company

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

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

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

The Alternative Investment Fund Managers Directive ('AIFMD')

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

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

The Company's leverage and JPMF's remuneration disclosures are set out on page 85.

Dividends

Details of the Company's dividend policy and payments are shown on page 25 of this Report.

Management Fee

The management fee is charged at the rate of 0.45% of the value of the Company's market capitalisation and is calculated and paid monthly in arrears. If the Company invests in funds managed or advised by JPMF, or any of its associated companies that charge an underlying fee, they are excluded from the calculation and therefore attract no fee.

Directors

The Directors of the Company who held office at the year end, are detailed on pages 35 and 36.

Details of Directors' beneficial shareholdings may be found in the Directors' Remuneration Report on page 49.

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

In accordance with corporate governance best practice, all Directors, bar Harry Morley who is standing down from the Board, will retire at the Company's forthcoming Annual General Meeting and, being eligible, will offer themselves for reappointment by shareholders.

Director Indemnification and Insurance

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

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

Disclosure of Information to Auditors

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

(a) so far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's Auditors are unaware; and

(b) each of the Directors has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company's Auditors are aware of that information.

Directors' Report

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

Independent Auditor

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

Section 992 Companies Act 2006 Disclosures

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

Capital Structure

The Company's capital structure is summarised on pages 2 and 25 of this report.

Voting Rights in the Company's shares

Details of the voting rights in the Company's shares as at the date of this report are given in note 16 to the Notice of Annual General Meeting on page 90.

Notifiable Interests in the Company's Voting Rights

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

Shareholders	Number of voting rights	%[1]
Rathbone Investment Management Limited	107,939,183	13.7
Brewin Dolphin Limited	85,169,729	10.8
Quilter plc	48,509,780	6.1
Evelyn Partners	34,647,763	4.4

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

Miscellaneous Information

The rules concerning the appointment and replacement of Directors, amendment of the Articles of Association and powers to issue or buy back the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006.

There are no restrictions concerning the transfer of securities in the Company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; no agreements which the Company is party to that affect its control following a takeover bid; and no agreements between the Company and its directors concerning compensation for loss of office.

Listing Rule 9.8.4R

Listing Rule 9.8.4R requires the Company to include certain information in an identified section of the Annual Report or a cross reference table indicating where the information is set out. The Directors confirm that there are no disclosures to be made in respect of Listing Rule 9.8.4R.

Annual General Meeting

Note: This section is important and requires your immediate attention.

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

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

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

The Directors will seek renewal of the authority at the AGM to issue up to 79,008,066 ordinary shares for cash up to an aggregate nominal amount of £1,975,201, such amount being equivalent to 10% of the issued ordinary share capital as at the last practicable date before the publication of this report. The full text of the resolutions is set out in the Notice of Meeting on pages 87 to 90. This authority will expire at the conclusion of the AGM of the Company in 2024 unless renewed at a prior general meeting.

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

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

At the Annual General Meeting held on 17th May 2022, shareholders gave authority to the Company to purchase up to 14.99% of its then issued share capital. This authority will expire on 16th November 2023 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 2023 have totalled 7.15 pence per share.

Recommendation

The Board considers resolutions 11 to 14 are likely to promote the success of the Company and are in the best interests of the Company and its shareholders as a whole. The Directors unanimously recommend that you vote in favour of the resolutions as they intend to do in respect of their own beneficial holdings which amount in aggregate to 338,092 shares representing approximately 0.04% of the existing issued ordinary share capital of the Company. The full text of the resolutions is set out in the Notice of Meeting on pages 87 to 90.

Corporate Governance Statement

Compliance

The Board is committed to high standards of corporate governance. It has considered the principles and provisions of the AIC Code of Corporate Governance published in 2019 (the 'AIC Code'), which addresses the principles and provisions set out in the UK Corporate Governance Code (the 'UK Code') published in 2018, as they apply to investment trust companies. It considers that reporting against the AIC Code, therefore, provides more appropriate information to the Company's shareholders. The Board confirms that the Company has complied with the principles and provisions of the AIC Code, in so far as they apply to the Company's business, throughout the year under review. As all of the Company's day-to-day management and administrative functions are outsourced to third parties, it has no executive directors, employees or internal operations and therefore has not reported in respect of the following:

- the role of the executive directors and senior management;
- executive directors' and senior management remuneration; and
- the workforce.

Role of the Board

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

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

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

Heather Hopkins is founder and managing director of NextWealth Limited, whose clients include JPMorgan Asset Management. The Board does not believe this connection is a conflict of interest, nor that it influences Heather's independence as a Director of the Company.

The Board meets at least quarterly during the year and additional meetings are arranged as necessary. Full and timely information is provided to the Board to enable it to function effectively and to allow Directors to discharge their responsibilities.

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

Board Composition

The Board, chaired by Angus Gordon Lennox, consists of seven non-executive Directors, all of whom are regarded by the Board as independent, including the Chairman. The Directors have a breadth of investment, business and financial skills and experience relevant to the Company's business and brief biographical details of each Director are set out on pages 35 and 36.

A review of Board composition and balance is included as part of the annual performance evaluation of the Board. Following the retirement of Jeremy Tigue in May 2022, Graham Kitchen assumed the role of Senior Independent Director and he led the evaluation of the performance of the Chairman. To ensure a more even spread of Board responsibilities, the role of Senior Independent Director was taken on by Rachel Beagles on 1st February 2023. Rachel may be contacted by shareholders if they have concerns that cannot be resolved through discussion with the Chairman.

Reappointment of Directors

With the exception of Harry Morley, who will be retiring from the Board and Julia Goh who will be seeking initial appointment, all Directors will stand for reappointment at the forthcoming Annual General Meeting. The skills and experience that each Director brings to the Board, and hence why their contributions are important to the long term success of the Company, are summarised below.

Resolution 4 is for the reappointment of Angus Gordon Lennox, who joined the Board in September 2015 and became Chairman in 2017. He also chairs the Nomination Committee.

Corporate Governance Statement

Angus had a 24 year career as a corporate broker, working in the investment company sector, and is a director of one other investment trust company. He brings an in-depth knowledge of the investment trust sector in general. For details of his current directorships, please refer to page 35.

Resolution 5 is for the reappointment of Rachel Beagles, who joined the Board in June 2021 and took on the role of the Company's Senior independent Director from 1st February 2023. Rachel has over 15 years' of experience in the investment company sector, including six years as an Association of Investment Companies (the 'AIC') board member, of which three were served as chair. She is a non-executive director of one other investment company and asset manager Gresham House plc. For details of her current directorships, please refer to page 35.

Resolution 6 is for the appointment of Julia Goh, who joined the Board in January 2023. Julia has significant senior front office operational experience within financial services at managing director and executive level, having been the COO for Global Markets at Barclays Investment Bank and Global Head of Prime Services Risk at Credit Suisse. She is a non-executive director of one other investment company. For details of her current directorships, please refer to page 35.

Resolution 7 is for the reappointment of Heather Hopkins, who joined the Board in July 2018 and chairs the Marketing & Communications Committee. Heather has over two decades of experience in data analytics, research, financial services and international business, with expertise in retail distribution. For details of her current directorships, please refer to page 35.

Resolution 8 is for the reappointment of Graham Kitchen, who joined the Board in July 2018 and chairs the Management Engagement Committee and Remuneration Committee and was the Company's Senior Independent Director until 1st February 2023. Graham brings to the Board considerable experience of the investment management industry and has over 20 years' experience managing UK equity funds, including OEICs, investment trusts and pension funds and was head of global equities at Janus Henderson Investors. He is a director of one other investment trust company and has a number of charitable roles. For details of his current directorships, please refer to page 36.

Resolution 9 is for the reappointment of Damien Maltarp, who joined the Board in June 2021. Damien has over 20 years' experience across a range of financial disciplines including operational and commercial finance, assurance, audit, investor relations and equity analysis. He was brought onto the Board for his operating company experience. For details of his current directorships, please refer to page 36.

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

Tenure

Directors are initially appointed until the following Annual General Meeting when, under the Company's Articles of Association, it is required that they be reappointed by shareholders. Thereafter, subject to the performance evaluation carried out each year, the Board will agree whether it is appropriate for each Director to seek reappointment. In accordance with corporate governance best practice, Directors continuing in office seek annual reappointment and no Directors, including the Chairman, will seek reappointment at an annual general meeting that falls after having served for nine years on the Board, unless there are exceptional circumstances for doing so.

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

Director	Appointment Date	2023 AGM	2024 AGM	2025 AGM	2026 AGM	2027 AGM	2028 AGM	2029 AGM	2030 AGM
Harry Morley	21st May 2014	9+ years	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Angus Gordon Lennox	23rd September 2015	7 – 8 years	7 – 8 years	9+ years	9+ years	9+ years	9+ years	9+ years	9+ years
Heather Hopkins	1st July 2018	0 – 6 years	0 – 6 years	0 – 6 years	7 – 8 years	7 – 8 years	9+ years	9+ years	9+ years
Graham Kitchen	1st July 2018	0 – 6 years	0 – 6 years	0 – 6 years	7 – 8 years	7 – 8 years	9+ years	9+ years	9+ years
Rachel Beagles	1st June 2021	0 – 6 years	0 – 6 years	0 – 6 years	0 – 6 years	0 – 6 years	0 – 6 years	7 – 8 years	7 – 8 years
Damien Maltarp	1st June 2021	0 – 6 years	0 – 6 years	0 – 6 years	0 – 6 years	0 – 6 years	0 – 6 years	7 – 8 years	7 – 8 years
Julia Goh	1st January 2023	0 – 6 years	0 – 6 years	0 – 6 years	0 – 6 years	0 – 6 years	0 – 6 years	0 – 6 years	7 – 8 years

Key - Tenure
0 – 6 years 7 – 8 years 9+ years

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

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

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

Induction and Training

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

Meetings and Committees

The Board delegates certain responsibilities and functions to committees. Details of membership of committees are shown with the Directors' profiles on pages 35 and 36.

The table below details the number of Board and Committee meetings attended by each Director. During the year there were six Board meetings, including a separate meeting devoted to strategy, three Audit Committee meetings, three Nomination Committee meetings, two meetings of the Marketing & Communications Committee and one meeting of each of the Management Engagement and Remuneration Committees.

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

Meetings Attended

Director	Board Meetings Attended	Audit Committee Meetings Attended	Management Engagement Committee Meetings Attended	Marketing & Communications Committee Meetings Attended	Nomination Committee Meetings Attended	Remuneration Committee Meetings Attended
Angus Gordon Lennox	6	3	1	2	3	1
Rachel Beagles	6	3	1	2	3	1
Julia Goh[1]	1	1	1	1	1	1
Heather Hopkins	6	3	1	2	3	1
Graham Kitchen	6	3	1	2	3	1
Harry Morley	6	3	1	2	3	1
Damien Maltarp	6	3	1	2	3	1

[1] Appointed to the Board on 1st January 2023 and attended the Meetings in December 2022 in an observatory capacity only.

Board Committees

Management Engagement Committee

The Management Engagement Committee, chaired by Graham Kitchen, comprises all of the Directors and meets annually to review the performance of the Manager.
It conducts a formal evaluation of the Manager on an annual basis. The evaluation includes consideration of the investment strategy and process of the Investment Manager, noting outperformance of the benchmark over the long term, and the quality of support that the Company receives from JPMF. As a result of the evaluation process, the Board confirms that it is satisfied that the continuing appointment of the Manager is in the interests of shareholders as a whole.
The Committee also reviews the contractual terms and performance of its other key suppliers.

Marketing & Communications Committee

The Marketing & Communications Committee, chaired by Heather Hopkins, comprises all of the Directors and meets twice each year. The Committee reviews the effectiveness and results of JPMAM's Sales and Marketing strategy in relation to the Company.

Nomination Committee

The Nomination Committee, chaired by Angus Gordon Lennox, comprises all the Directors and meets at least annually to ensure that the Board has an appropriate balance of skills and experience to carry out its fiduciary duties and to select and propose suitable candidates for appointment when necessary. The appointment process takes account of the benefits of diversity, including gender. The Board's diversity policy is set out on page 26.

In relation to the appointment of Julia Goh, who joined the Board on 1st January 2023, the Board engaged a recruitment consultant, Sapphire Partners, a firm with no other connections to the Company or the individual Directors. Open advertising was not used as part of the process as the use of a recruitment consultant was deemed sufficient.

The Committee has put in place the necessary procedures to conduct, on an annual basis, an appraisal of the Chairman, the Board, its Committees and individual Directors. An external evaluation was undertaken in 2020 by Lintstock, an independent external board evaluation service provider that does not have any other connections with the Company or individual Directors. In 2022 questionnaires covering the Board, individual Directors, the Chairman and the Audit and Risk Committee Chairman were completed. Overall, this evaluation led the Committee to conclude that all Directors devoted sufficient time and contributed satisfactorily to the work of the Board. The exercise further highlighted that the Board has a relevant balance of experience and knowledge of investment markets, legal, regulation and financial accounting and continues to work in a collegiate and effective manner. The Committee intends to conduct the next externally facilitated evaluation of the Board during 2023.

Remuneration Committee

The Remuneration Committee, chaired by Graham Kitchen, comprises all of the Directors and meets annually to review Directors' fees and make recommendations to the Board as and when appropriate, in relation to remuneration policy and its implementation.

Audit Committee

The report of the Audit Committee, which includes the Directors' Going Concern assessment, is set out on page 43.

Terms of Reference

All of the various Board committees have written terms of reference which define clearly their respective

Corporate Governance Statement

responsibilities, copies of which are available for inspection on the Company's website, on request at the Company's registered office and at the Company's Annual General Meeting.

Relations with Shareholders

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

All shareholders have the opportunity, and are encouraged, to attend the Company's Annual General Meeting at which the Directors and representatives of the Manager are available in person to meet with shareholders and answer questions. In addition, a presentation is given by the Investment Managers who review the Company's performance. Please refer to the Chairman's Statement for more details.

During the year the Company's brokers and the Investment Managers held regular discussions with larger shareholders. The Directors are made fully aware of their views. The Chairman and Directors conduct visits to larger shareholders when requested and make themselves available as and when required to address shareholder queries. The Directors may be contacted through the Company Secretary whose details are shown on page 95. The Chairman can also be contacted through the 'Contact Us' link via the Company's website at www.mercantileit.co.uk.

The Company's Annual Report and Financial Statements are published in time to give shareholders at least 20 working days' notice of the Annual General Meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to submit questions via the Company's website or write to the Company Secretary at the address shown on page 95.

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

Risk Management and Internal Control

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

The Directors are responsible for the Company's system of risk management and internal control which is designed to safeguard the Company's assets, maintain proper accounting records and ensure that financial information used within the business, or published, is reliable. However, such a system can only be designed to manage rather than eliminate the risk of failure to achieve business objectives and therefore can only provide reasonable, but not absolute, assurance against fraud, material mis-statement or loss.

Since investment management, custody of assets and all administrative services are provided to the Company by JPMF and its associates, the Company's system of risk management and internal control mainly consists of monitoring the services provided by JPMF and its associates, including the operating controls established by them, to ensure they meet the Company's business objectives. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company (see Principal and Emerging Risks on pages 27 to 29). This process, which was in place during the year under review and up to the date of approval of the Annual Report and Financial Statements, accords with the guidance of the Financial Reporting Council.

Given the foregoing, and in common with most investment trust companies, the Company does not have an internal audit function of its own. The Manager's internal audit department conducts regular and rigorous reviews of the various functions within its asset management business. Any significant findings that are relevant to the Company and/or the Manager's investment trust business are reported to the Board.

The key elements designed to provide effective risk management and internal control are as follows:

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

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

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

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

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

- the Board, through the Management Engagement Committee, reviews the terms of the management agreement and the Audit Committee receives regular reports from JPMorgan's Compliance department; and
- the Board, through the remit of the Audit Committee, reviews a report, which is also independently reviewed, on the internal controls and the operations of its custodian, JPMorgan Chase Bank, N.A; and
- the Board, through the remit of the Audit Committee, reviews every six months a report from the Company's Depositary, Bank of New York Mellon (International) Limited, which summarises the activities performed by the Depositary during the reporting period; and
- the Board, through the remit of the Audit Committee, reviews every six months an independent report on the internal controls and the operations of JPMF's investment trust department.

By the means of the procedures set out above, the Board confirms that it has carried out a robust assessment of the effectiveness of the Company's system of risk management and internal control for the year ended 31st January 2023 and to the date of approval of this Annual Report and Financial Statements.

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

Going Concern

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

The Board has, in particular, considered the impact of heightened market volatility since the COVID-19 outbreak, the ongoing conflict between Ukraine and Russia and the surge in inflation affecting both business and individuals in the UK, but does not believe the Company's going concern status is affected. The Company's assets, the vast majority of which are investments in quoted securities which are readily realisable, exceed its liabilities significantly under a number of downside scenarios reviewed by the Board. Gearing levels and compliance with borrowing covenants are reviewed by the Manager and Board on a regular basis.

Furthermore, the Directors are satisfied that the Company's key third party service providers have in place appropriate business continuity plans to ensure their operational resilience and the performance of these service providers is reviewed at least annually by the Management Engagement Committee.

Corporate Governance and Voting Policy

The Company delegates responsibility for voting to the Manager.

The following is a summary of the Manager's policy statements on corporate governance, voting policy and stewardship/engagement issues, which has been reviewed and noted by the Board. Details of social and environmental issues are included in the Strategic Report on page 26.

Corporate Governance

JPMAM believes that good corporate governance is integral to our investment process. As part of our commitment to delivering superior investment performance to our clients, we expect and encourage the companies in which we invest to demonstrate the highest standards of corporate governance and best business practice. We examine the share structure and voting structure of the companies in which we invest, as well as the board balance, oversight functions and remuneration policy. These analyses then form the basis of our proxy voting and engagement activity.

Proxy Voting

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

Stewardship/Engagement

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

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

Corporate Governance Statement

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

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

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

JPMAM is also committed to reporting more widely on our activities, including working to meet the practices laid out by the Financial Reporting Council ('FRC') in the UK Stewardship Code, to which JPMAM is a signatory.

JPMAM's Voting Policy and Corporate Governance Guidelines are available on request from the Company Secretary or can be downloaded from JPMAM's website:
https://am.jpmorgan.com/gb/en/asset-management/institutional/about-us/investment-stewardship/

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

3rd April 2023

Role and Composition

The Audit Committee, chaired by Harry Morley, comprises of all the Directors and meets on at least three occasions each year. The members of the Committee consider that at least one member has recent and relevant financial experience and that the Committee as a whole has competency relevant to the sector in which the Company operates. For details of their qualifications see pages 35, 36, 39 and 40. Damien Maltarp will be taking on the role of Audit Committee Chairman following Harry's retirement.

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

Financial Statements and Significant Accounting Matters

During its review of the Company's financial statements for the year ended 31st January 2023, the Audit Committee considered the following significant issues, including those communicated by the Auditor during its reporting:

Significant issue	How the issue was addressed
Valuation and existence of investments	The valuation of investments is undertaken in accordance with the accounting policies, disclosed in note 1(b) to the financial statements on page 66. Controls are in place to ensure that valuations are appropriate and existence is verified through custodian reconciliations.
Recognition of investment income	The recognition of investment income is undertaken in accordance with accounting policy note 1(d) to the financial statements on pages 66 and 67. The Board regularly reviews subjective elements of income such as special dividends and agrees their accounting treatment.
Market Volatility	The Audit Committee has reviewed the impact of recent market volatility related to the conflict between Russia and Ukraine and other economic headwinds, to include the higher interest rate environment, on the Company's portfolio and has received regular updates on portfolio performance from the portfolio manager. The Audit Committee has also reviewed recent portfolio liquidity and updated revenue and expense forecasts in light of the recent heightened market volatility and its anticipated impact on portfolio liquidity, revenue and market valuations and considers that the Company's business model remains viable and that the Company has sufficient resources to continue in operation and to meet all liabilities as they fall due.
	The Audit Committee has further reviewed the Company's borrowing and debt facilities and considers that despite market falls over the year the Company continues to meet its financial covenants in respect of these facilities and has a wide margin before any relevant thresholds are reached.
Going Concern/ Long Term Viability	The Committee has also reviewed the appropriateness of the adoption of the Going Concern basis in preparing the accounts, particularly in view of the impact of the COVID-19 pandemic, the heightened market volatility resulting from the conflict between Russia and Ukraine and the higher interest rate environment. The Committee recommended that the adoption of the Going Concern basis is appropriate (see Going Concern statement on page 43). The Committee also assessed the Long Term Viability of the Company as detailed on page 30 and recommended to the Board its expectation that the Company would remain in operation for the five year period of the assessment.
Compliance with Sections 1158 and 1159	Approval for the Company as an investment trust under Sections 1158 and 1159 has been obtained and ongoing compliance with the eligibility criteria is monitored on a regular basis.

Internal Audit

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

Risk Management and Internal Control

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

Auditor Appointment and Tenure

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

Audit Committee Report

meeting to present their audit plan for the subsequent year's audit.

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

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

Auditor Objectivity and Independence

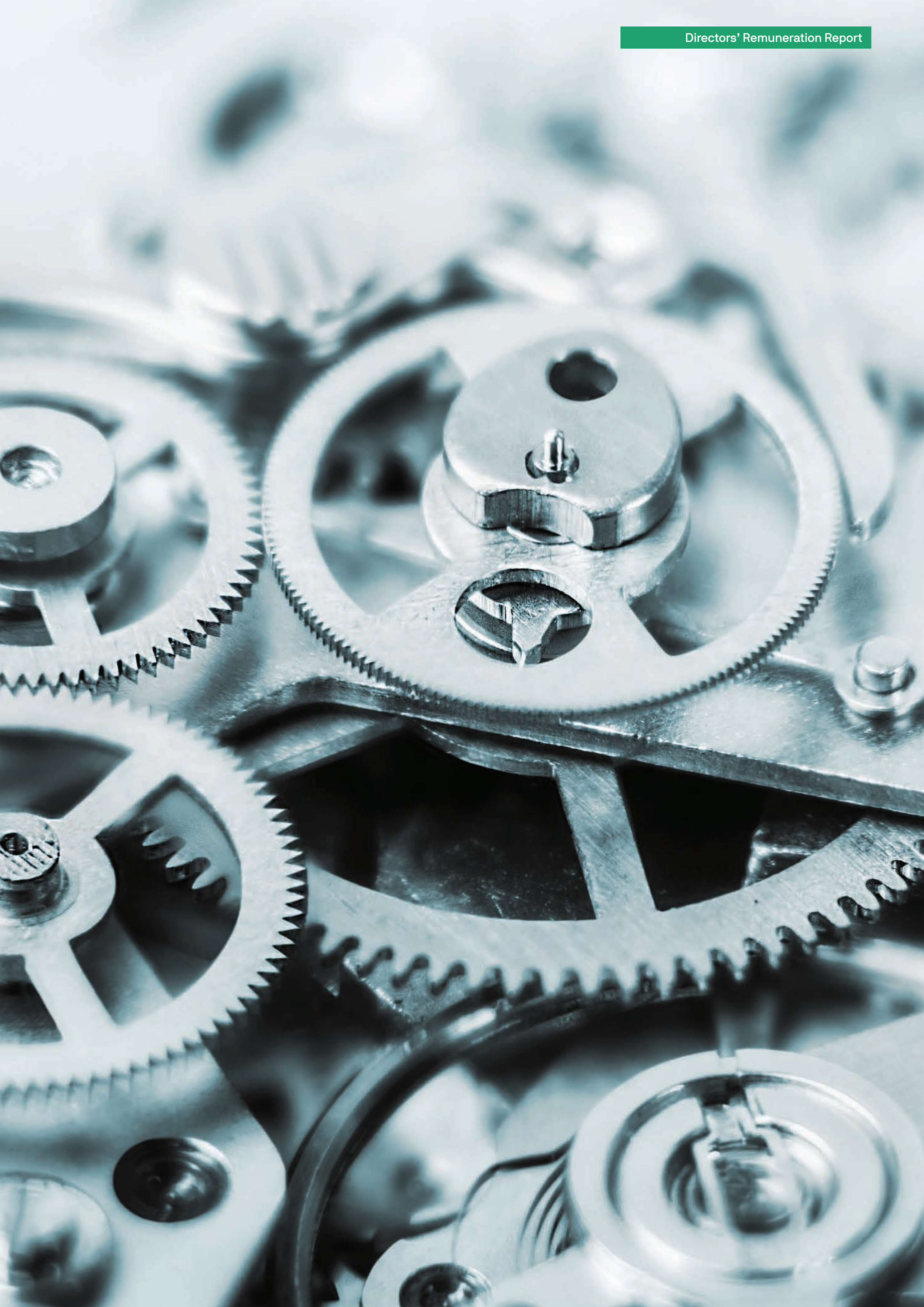
In order to safeguard the Auditor's objectivity and independence, any significant non-audit services are carried out through a partner other than the audit engagement partner where appropriate. Fees paid for audit services, audit-related services and other non-audit services are set out, where relevant, in note 6 on page 69. There were no significant non-audit engagements during the year under review. The Audit Committee has assessed the impact of any non-audit work carried out and is content with the Auditor's ability to remain independent and objective.

Fair, Balanced and Understandable

Having taken all available information into consideration and having discussed the content of the annual report and accounts with the Alternative Investment Fund Manager, Investment Managers, Company Secretary and other third party service providers, the Audit Committee has concluded that the Annual Report and Financial Statements for the year ended 31st January 2023, 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 52.

Harry Morley
Chairman of the Audit Committee

3rd April 2023



Directors' Remuneration Report

The Board presents the Directors' Remuneration Report for the year ended 31st January 2023, which has been prepared in accordance with the requirements of Section 421 of the Companies Act 2006 as amended.

The law requires the Company's Auditor to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included in the Independent Auditor's Report on pages 54 to 60.

Directors' Remuneration Policy

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

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

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

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

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

In the year under review, Directors' fees were paid at the following annual rates: Chairman £72,000; Chairman of the Audit Committee £52,000; Chair of the Marketing & Communications Committee £43,000; Senior Independent Director £43,000; and other Directors £38,500.

With effect from 1st February 2023 fees have been increased to £75,000, £54,000, £44,750, £44,750 and £40,000 for the Chairman, Audit Committee Chairman, Marketing & Communications Committee Chair, Senior Independent Director, and other Directors respectively.

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

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

The terms and conditions of Directors' appointments are set out in formal letters of appointment which are available for review at the Company's Annual General Meeting and the Company's registered office. Details of the Board's policy on tenure are set out on page 40.

Directors Remuneration Policy Implementation

The Directors' Remuneration Policy Implementation Report is subject to an annual advisory vote and therefore an ordinary resolution to approve this report will be put to shareholders at the forthcoming Annual General Meeting. There have been no changes to the policy compared with the year ended 31st January 2022 and no changes are proposed for the year ending 31st January 2024.

At the Annual General Meeting held on 17th May 2022, of votes cast, 99.9% of votes cast were in favour of (or granted discretion to the Chairman who voted in favour of) both the remuneration policy and the remuneration report and 0.1% voted against. Votes withheld were the equivalent of less than 0.05% of the votes cast. Similar details for the 2023 AGM will be given in next year's Annual Report.

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

Directors' Remuneration Report

Single total figure of remuneration

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

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

Single total figure table (Audited)[1]

Directors' Name	2023 Fees £	2023 Taxable expenses[2] £	2023 Total £	2022 Fees £	2022 Taxable expenses[2] £	2022 Total £
Angus Gordon Lennox	72,000	—	72,000	70,000	3,067	73,067
Rachel Beagles[3]	38,500	—	38,500	25,000	—	25,000
Julia Goh[4]	3,208	—	3,208	—	—	—
Heather Hopkins	43,000	—	43,000	41,364	—	41,364
Graham Kitchen	41,167	619	41,786	37,500	—	37,500
Damien Maltarp[3]	38,500	285	38,785	25,000	—	25,000
Harry Morley	52,000	960	52,960	50,500	177	50,677
Jeremy Tigue[5]	12,719	—	12,719	41,500	—	41,500
Helen James[6]	—	—	—	11,401	—	11,401
Total	**301,094**	**1,864**	**302,958**	**302,265**	**3,244**	**305,509**

1 Audited information. Other subject headings for the single figure table as prescribed by regulation are not included because there is nothing to disclose in relation thereto.

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

3 Appointed on 1st June 2021.

4 Appointed on 1st January 2023.

5 Retired on 17th May 2022.

6 Retired on 20th May 2021.

No amounts (2022: nil) were paid to third parties for making available the services of Directors.

Directors' Shareholdings (Audited)[1]

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

Directors' Name	31st January 2023	1st February 2022
Angus Gordon Lennox[2]	150,000	150,000
Rachel Beagles[3]	39,579	39,579
Julia Goh	—	—
Heather Hopkins[4]	25,365	19,352
Graham Kitchen	73,180	63,180
Damien Maltarp	15,000	5,000
Harry Morley	40,000	40,000
Total	**343,124**	**317,111**

1 Audited information.

2 Includes SIPP of 60,000 shares.

3 On 13th February 2023 Rachel Beagles' holding reduced by 5,411 shares following the sale of shares in a family trust of which she is a beneficiary. On the same day she acquired 5,500 shares, taking her shareholding in the Company at the date of this report to 39,668.

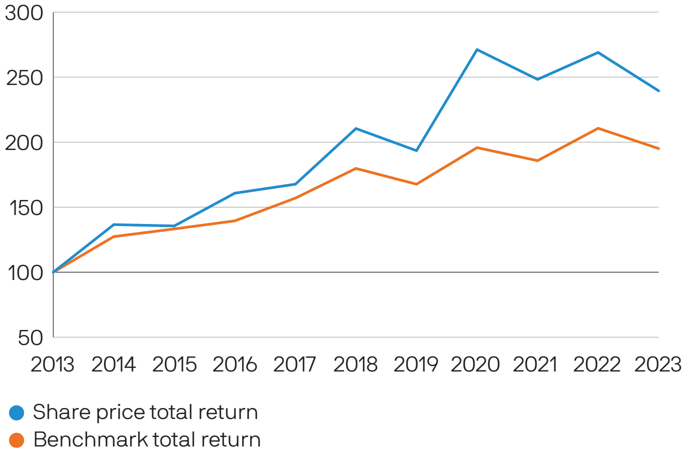
4 On 15th February 2023 Heather Hopkins sold 5,121 shares, taking her shareholding in the Company at the date of this report to 20,244.

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

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

Directors' Remuneration Report

Ten year share price and benchmark total return to 31st January 2023



Source: Morningstar, FTSE Russell.

Annual Percentage Change in Directors' Remuneration

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

	Percentage change for the year to 2023	Percentage change for the year to 2022	Percentage change for the year to 2021
Angus Gordon Lennox	+2.9	—	+2.0
Rachel Beagles[1]	+2.7	n/a	n/a
Julia Goh[2]	n/a	n/a	n/a
Heather Hopkins[3]	+4.0	+10.3	+1.3
Graham Kitchen[4]	+9.8	—	+0.3
Damien Maltarp[1]	+2.7	n/a	n/a
Harry Morley	+3.0	—	+5.9

[1] Appointed 1st June 2021; for ease of comparison, the 2.7% increase for Mrs Beagles and Mr Maltarp assumes that they were Directors for the whole of the financial year ended 2022.

[2] Appointed on 1st January 2023.

[3] Fee increased for the year to 31st January 2022 to reflect the increased responsibilities arising from her role as Chair of the Marketing & Communications Committee.

[4] Fee increase takes into account an increase in Director fees plus the additional fee arising from his appointment as Senior Independent Director.

A table showing the total remuneration for the Chairman over the five years ended 31st January 2023 is below:

Remuneration for the Chairman over the five years ended 31st January 2023

Year ended 31st January	Fees	Performance related benefits received as a percentage of maximum payable
2023	£72,000	n/a
2022	£70,000	n/a
2021	£70,000	n/a
2020	£69,000	n/a
2019	£67,000	n/a

The table below is provided to enable shareholders to assess the relative importance of expenditure on Directors' remuneration. It compares the remuneration with distributions to shareholders by way of dividends and share repurchases.

Expenditure by the Company on remuneration and distributions to shareholders

	Year ended 31st January 2023 £	2022 £
Remuneration paid to all Directors	302,958	305,509
Distribution to shareholders		
— by way of dividend	54,567,000	53,033,000
— by way of share repurchases	2,623,000	—
Total distribution to shareholders	**57,190,000**	**53,033,000**

For and on behalf of the Board
Angus Gordon Lennox
Chairman

3rd April 2023

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

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

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

and the Directors confirm that they have done so.

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

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

Each of the Directors, whose names and functions are listed on pages 35 and 36 confirms that, to the best of his/her knowledge, the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities, financial position and net return or loss of the Company.

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

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

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

For and on behalf of the Board
Angus Gordon Lennox
Chairman

3rd April 2023

Independent Auditor's Report

Independent Auditor's Report to the members of The Mercantile Investment Trust plc

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31st January 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of The Mercantile Investment Trust plc (the 'Company') for the year ended 31st January 2023 which comprise the statement of comprehensive income, statement of changes in equity, statement of financial position, statement of cashflows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

Independence

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 21st May 2020 to audit the financial statements for the year ending 31st January 2021 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is three years, covering the year ended 31st January 2021 to 31st January 2023. We remain independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Company.

Conclusions relating to going concern

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

- Evaluating the appropriateness of the Directors' method of assessing going concern in light of market volatility by reviewing the information used by the Directors in completing their assessment;
- Assessing the liquidity of the investment portfolio, which underpins the ability to meet the future obligations and operating expenses for a period of 12 months from the date of approval of these financial statements; and
- Reviewing the loan agreements to identify the covenants and assessing the likelihood of them being in breach based on the Directors' forecast and sensitivity analysis.

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

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

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

Independent Auditor's Report

Overview

		2023	2022
Key audit matters	Valuation and ownership of quoted investments	✔	✔
	Revenue recognition	✔	✔
Materiality	*Company financial statements as a whole* £18.6m (2022: £22.0m) based on 1% (2022: 1%) of *Net assets*		

An overview of the scope of our audit

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

Key audit matters

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

Key audit matter		How the scope of our audit addressed the key audit matter
Valuation and ownership of quoted investments (Note 11 on page 72)	The investment portfolio at the year-end comprised of 99.7% of the listed equity investments held at fair value through profit or loss. There is a risk that the prices used for the listed investments held by the Company are not reflective of fair value and the risk that errors made in the recording of investment holdings result in the incorrect reflection of investments owned by the Company. Therefore we considered the valuation and ownership of quoted investments to be the most significant audit area as the quoted investments also represent the most significant balance in the financial statements and underpin the principal activity of the entity. For these reasons and the materiality of the balance in relation to the financial statements as a whole, we considered this to be a key audit matter.	We responded to this matter by testing the valuation and ownership of the whole portfolio of quoted investments. We performed the following procedures: ● Confirmed the year-end bid price was used by agreeing to externally quoted prices; ● Assessed if there were contra indicators, such as liquidity considerations, to suggest bid price was not the most appropriate indication of fair value by considering the realisation period for individual holdings; ● Obtained direct confirmation of the number of shares held per equity investment from the custodian regarding all investments held at the balance sheet date; and ● Recalculated the valuation by multiplying the number of shares held per the statement obtained from the custodian by the valuation per share. *Key observations* Based on our procedures performed we did not identify any matters to suggest that the valuation and ownership of quoted investments was not appropriate.

Independent Auditor's Report

Key audit matter		How the scope of our audit addressed the key audit matter
Revenue Recognition (Note 4 on page 69)	Income arises from dividends and is a key factor in demonstrating the performance of the portfolio. As such there may be an incentive to recognise income as revenue where it is more appropriately of a capital nature. Additionally, judgement is required by management in determining the allocation of dividend income to revenue or capital for certain corporate actions or special dividends. For this reason, we considered revenue recognition to be a key audit matter.	We performed the following procedures: ● For investments, we derived an independent expectation of total expected income based on the investment holding and records of distributions from independent sources and compared to that recognised. We also cross checked the portfolio against corporate actions and special dividends and challenged if these had been appropriately accounted for as income or capital by reviewing the underlying reason for issue of the dividend and whether it could be driven by a capital event. ● We analysed the whole population of dividend receipts to identify any unusual items that could indicate a capital distribution, for example where a dividend represented a particularly high yield and investigated the rationale of those distributions. In these instances we performed a combination of inquiry with management and our own independent research, including inspection of financial statements of investee companies, to ascertain whether the underlying event was indeed of a capital nature. *Key observations* Based on our procedures performed we found the judgements made by the Manager in determining the allocation of income to revenue or capital to be appropriate.

Our application of materiality

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

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

Independent Auditor's Report

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

Company Financial Statements		
	2023 £m	2022 £m
Materiality	18.6	22.0
Basis for determining materiality	1% of Net Assets	1% of Net Assets
Rationale for the benchmark applied	As an investment trust, the net asset value is the key measure of performance for users of the financial statements.	As an investment trust, the net asset value is the key measure of performance for users of the financial statements.
Performance materiality	13.9	16.4
Basis for determining performance materiality	75% of materiality	75% of materiality
Rationale for the percentage applied for performance materiality	The level of performance materiality applied was set after having considered a number of factors including the expected total value of known and likely misstatements and the level of transactions in the year.	The level of performance materiality applied was set after having considered a number of factors including the expected total value of known and likely misstatements and the level of transactions in the year.

Specific materiality

We also determined that for items impacting revenue return, a misstatement of less than materiality for the financial statements as a whole, specific materiality, could influence the economic decisions of users. As a result, we determined materiality for these items to be £2,800,000 (2022: £2,800,000) based on 5% (2022: 5%) of revenue return before tax. We further applied a performance materiality level of 75% (2022: 75%) of specific materiality to ensure that the risk of errors exceeding specific materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £370,000 (2022: £440,000) for the financial statements as a whole and £142,000 (2022: £142,000) for differences in transactions and balances that impact revenue return. We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report and financial statements other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent Auditor's Report

Corporate governance statement

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

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

Going concern and longer-term viability	• The Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 43; and • The Directors' explanation as to their assessment of the Company's prospects, the period this assessment covers and why the period is appropriate set out on page 30.
Other Code provisions	• Directors' statement on fair, balanced and understandable set out on page 46; • Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 27 to 29; • The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 42 and 43; and • The section describing the work of the audit committee set out on pages 45 and 46.

Other Companies Act 2006 reporting

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

Strategic report and Directors' Report	In our opinion, based on the work undertaken in the course of the audit: • the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.
Directors' remuneration	In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: • adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or • the financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or • certain disclosures of Directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit.

Independent Auditor's Report

Responsibilities of Directors

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Extent to which the audit was capable of detecting irregularities, including fraud

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

Non-compliance with laws and regulations

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. We considered the significant laws and regulations to be the Companies Act 2006, the FCA listing and DTR rules, the principles of the AIC Code of Corporate Governance, industry practice represented by the AIC SORP, the applicable accounting framework, and the Company's qualification as an Investment Trust under UK tax legislation as any non-compliance of this would lead to the Company losing various deductions and exemptions from corporation tax.

We focused on laws and regulations that could give rise to a material misstatement in the Company financial statements. Our tests included:

- agreement of the financial statement disclosures to underlying supporting documentation;
- enquiries of management and those charged with governance relating to any instances of non-compliance with laws and regulations;
- review of minutes of board meetings throughout the period for instances of non-compliance with laws and regulations;
- obtaining an understanding of the control environment in monitoring compliance with laws and regulations; and
- reviewing the calculation in relation to the Company's Investment Trust compliance to check that the Company was meeting its requirements to retain its Investment Trust Status.

Fraud

We assessed the susceptibility of the financial statement to material misstatement including fraud and considered the fraud risk areas to be management override of controls and the classification of the dividend income.

Our tests included:

- The procedures set out in the Key Audit Matters section above;
- Recalculating investment management fees in total;
- Obtaining independent confirmation of bank balances; and
- Testing journals which met a defined risk criteria by agreeing to supporting documentation and evaluating whether there was evidence of bias by the Manager and Directors that represented a risk of material misstatement due to fraud.

Independent Auditor’s Report

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

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

Use of our report

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

Peter Smith (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, United Kingdom

3rd April 2023

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

Statement of Comprehensive Income

For the year ended 31st January

	Notes	2023 Revenue £'000	2023 Capital £'000	2023 Total £'000	2022 Revenue £'000	2022 Capital £'000	2022 Total £'000
(Losses)/gains on investments held at fair value through profit or loss	3	—	(317,548)	(317,548)	—	228,162	228,162
Net foreign currency gains		—	64	64	—	23	23
Income from investments	4	61,589	—	61,589	60,986	—	60,986
Interest receivable and similar income	4	3,149	—	3,149	33	—	33
Gross return/(loss)		**64,738**	**(317,484)**	**(252,746)**	**61,019**	**228,185**	**289,204**
Management fee	5	(2,072)	(4,835)	(6,907)	(2,757)	(6,434)	(9,191)
Other administrative expenses	6	(1,413)	—	(1,413)	(1,439)	—	(1,439)
Net return/(loss) before finance costs and taxation		**61,253**	**(322,319)**	**(261,066)**	**56,823**	**221,751**	**278,574**
Finance costs	7	(4,245)	(9,906)	(14,151)	(3,851)	(8,984)	(12,835)
Net return/(loss) before taxation		**57,008**	**(332,225)**	**(275,217)**	**52,972**	**212,767**	**265,739**
Taxation	8	(128)	—	(128)	(1,494)	—	(1,494)
Net return/(loss) after taxation		**56,880**	**(332,225)**	**(275,345)**	**51,478**	**212,767**	**264,245**
Return/(loss) per share	9	**7.19p**	**(42.02)p**	**(34.83)p**	**6.50p**	**26.88p**	**33.38p**

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

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

Net return/(loss) after taxation represents the profit/(loss) for the year and also total comprehensive income/(loss).

The notes on pages 66 to 83 form an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31st January

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves[1] £'000	Revenue reserve[1] £'000	Total £'000
At 31st January 2021	**23,612**	**23,459**	**13,158**	**1,863,612**	**63,158**	**1,986,999**
Net return	—	—	—	212,767	51,478	264,245
Dividends paid in the year (note 10)	—	—	—	—	(53,033)	(53,033)
At 31st January 2022	**23,612**	**23,459**	**13,158**	**2,076,379**	**61,603**	**2,198,211**
Repurchase of shares into Treasury	—	—	—	(2,623)	—	(2,623)
Net (loss)/return	—	—	—	(332,225)	56,880	(275,345)
Dividends paid in the year (note 10)	—	—	—	—	(54,567)	(54,567)
At January 2023	**23,612**	**23,459**	**13,158**	**1,741,531**	**63,916**	**1,865,676**

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

The notes on pages 66 to 83 form an integral part of these financial statements.

Statement of Financial Position

At 31st January

	Notes	2023 £'000	2022 £'000
Fixed assets			
Investments held at fair value through profit or loss	11	**2,042,758**	**2,465,122**
Current assets	13		
Debtors		2,737	4,271
Cash and short term deposits		386	2,765
Cash equivalents: liquidity fund		157,220	62,896
		160,343	69,932
Creditors: amounts falling due within one year	14	(9,599)	(9,124)
Net current assets		**150,744**	**60,808**
Total assets less current liabilities		2,193,502	2,525,930
Creditors: amounts falling due after more than one year	15	(327,826)	(327,719)
Net assets		**1,865,676**	**2,198,211**
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	1,741,531	2,076,379
Revenue reserve	17	63,916	61,603
Total shareholders' funds		**1,865,676**	**2,198,211**
Net asset value per share	18	**236.1p**	**277.7p**

The financial statements on pages 62 to 83 were approved and authorised for issue by the Directors on 3rd April 2023 and are signed on their behalf by:

Angus Gordon Lennox
Chairman

The notes on pages 66 to 83 form an integral part of these financial statements.

Registered in England, company registration number 20537.

Statement of Cash Flows

For the year ended 31st January

	Notes	2023 £'000	2022 £'000
Net cash outflow from operations before dividends and interest	19	(8,172)	(10,642)
Dividends received		62,063	58,827
Interest received		3,149	34
Overseas tax recovered		604	429
Interest paid		(14,058)	(11,638)
Net cash inflow from operating activities		**43,586**	**37,010**
Purchases of investments	11	(507,308)	(693,957)
Sales of investments	11	612,839	682,614
Settlement of foreign currency contracts		—	7
Net cash inflow/(outflow) from investing activities		**105,531**	**(11,336)**
Dividends paid		(54,567)	(53,033)
Repurchase of shares into Treasury		(2,623)	—
Drawdown of loans		—	149,659
Repayment of loan		—	(80,000)
Net cash (outflow)/inflow from financing activities		**(57,190)**	**16,626**
Increase in cash and cash equivalents		**91,927**	**42,300**
Cash and cash equivalents at start of year		65,661	23,347
Exchange movements		18	14
Cash and cash equivalents at end of year		**157,606**	**65,661**
Cash and cash equivalents consist of:			
Cash and short term deposits		386	2,765
Cash held in JPMorgan Sterling Liquidity Fund		157,220	62,896
Total		**157,606**	**65,661**

Reconciliation of net debt

	As at 31st January 2022 £'000	Cash flows £'000	Other non-cash movements £'000	As at 31st January 2023 £'000
Cash and cash equivalents				
Cash	2,765	(2,397)	18	386
Cash equivalents	62,896	94,324	—	157,220
	65,661	91,927	18	157,606
Borrowings:				
Debentures falling due after more than five years	(178,060)	—	(97)	(178,157)
Private Placement due after more than five years	(149,659)	—	(10)	(149,669)
	(327,719)	—	(107)	(327,826)
Net debt	**(262,058)**	**91,927**	**(89)**	**(170,220)**

The notes on pages 66 to 83 form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31st January 2023

General Information

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

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

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

1. Accounting policies

(a) Basis of accounting

The financial statements have been prepared in accordance with the Companies Act 2006, FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' of the United Kingdom Generally Accepted Accounting Practice ('UK GAAP') and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (the 'SORP') issued by the Association of Investment Companies in July 2022.

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 43 of the Directors' Report form part of these financial statements.

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

(b) Valuation of investments

The Company has chosen to apply the provisions of 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 the documented investment strategy and information is provided internally on that basis to the Company's Board of Directors.

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

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

(c) Accounting for reserves

Capital reserve – realised gains and losses

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

Capital reserve – investment holding gains and losses

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 change in unrealised losses and gains on investments'.

(d) Income

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

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

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

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

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

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

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

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

(e) Expenses

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

- The management fee is allocated 30% to revenue and 70% to capital, in line with the Board's expected long term split of revenue and capital return from the Company's investment portfolio.
- Expenses incidental to the purchase of an investment are included within the cost of the investment and those incidental to the sale are deducted from the sale proceeds. These expenses are commonly referred to as transaction costs and comprise brokerage commission and stamp duty. Details of transaction costs are given in note 11 on pages 72 and 73.

(f) Finance costs

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

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

(g) Financial instruments

Cash and cash equivalents may comprise cash (including demand deposits which are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value) as well as cash equivalents. Liquidity funds are considered cash equivalents as they are readily available and are not subject to significant changes in value. They are held for cash management purposes as an alternative to cash. The Liquidity fund portfolio consists of short dated deposits and commercial paper, with a maturity profile of less than three months and low volatility net asset value.

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

The debentures and senior unsecured privately placed loan notes in issue are classified as a financial liability at amortised cost. They were initially measured at the proceeds net of direct issue costs and subsequently measured at amortised cost. The amortisation of direct issue costs are accounted for on an accruals basis in the Statement of Comprehensive Income using the effective interest rate method.

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

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

The Company does not apply hedge accounting.

(h) Taxation

The Company is an approved investment trust and is therefore exempt from tax on capital gains. Current tax is provided at the amounts expected to be paid or recovered.

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

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

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

Notes to the Financial Statements

1. Accounting policies (continued)

(i) Value Added Tax ('VAT')

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

(j) Foreign currency

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

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

Gains and losses on investments arising from a change in exchange rates are included in net change in unrealised losses and gains on investments, recognised under 'Investment holding gains and losses' for investments still held at year end, and in 'Gains and losses on sales of investments' for investments sold during the year.

(k) Dividends payable

Dividends are included in the financial statements in the year in which they are paid.

(l) Repurchase of ordinary shares for cancellation

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

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

(m) Repurchase of shares into Treasury

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

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

2. Significant accounting judgements, estimates and assumptions

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

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

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

Notes to the Financial Statements

3. Gains/(losses) on investments held at fair value through profit or loss

	2023 £'000	2022 £'000
Net realised (losses)/gains on sales of investments	(42,747)	85,281
Net change in unrealised (losses)/gains on investments[1]	(274,787)	142,896
Other capital charges	(14)	(15)
Total capital (losses)/gains on investments held at fair value through profit or loss	**(317,548)**	**228,162**

[1] Includes £4,761,000 (2022: £2,161,000) of special dividends classified as Capital.

4. Income

	2023 £'000	2022 £'000
Income from investments:		
UK dividends	50,557	39,647
Special dividends	7,440	11,722
Property income distribution from UK REITs	—	484
Overseas dividends	3,592	9,133
	61,589	**60,986**
Interest receivable and similar income:		
Interest from liquidity fund	3,036	30
Deposit interest	113	3
	3,149	**33**
Total income	**64,738**	**61,019**

5. Management fee

	2023 Revenue £'000	2023 Capital £'000	2023 Total £'000	2022 Revenue £'000	2022 Capital £'000	2022 Total £'000
Management fee	2,072	4,835	6,907	2,757	6,434	9,191

Details of the management fee are given in the Directors' Report on page 37.

6. Other administrative expenses

	2023 £'000	2022 £'000
Administration expenses[1]	1,054	1,089
Directors' fees[2]	303	306
Auditors' remuneration for audit services[3]	50	38
Auditors' remuneration for all other services[4]	6	6
Total	**1,413**	**1,439**

[1] Includes approximately £169,000 (ex VAT) (2022: £212,000 (ex VAT)) of marketing costs.
[2] Full disclosure is given in the Directors' Remuneration Report on page 49.
[3] Includes £8,000 (2022: £6,000) irrecoverable VAT.
[4] Includes £1,000 (2022: £1,000) irrecoverable VAT.

Notes to the Financial Statements

7. Finance costs

	2023 Revenue £'000	2023 Capital £'000	2023 Total £'000	2022 Revenue £'000	2022 Capital £'000	2022 Total £'000
Interest on private placement loan notes	873	2,037	2,910	347	810	1,157
Debenture interest	3,260	7,606	10,866	3,255	7,594	10,849
Amortisation of debenture and private placement loan notes issue costs	32	75	107	29	68	97
Interest on Bank of Nova Scotia loan	80	188	268	220	512	732
	4,245	**9,906**	**14,151**	**3,851**	**8,984**	**12,835**

8. Taxation

(a) Analysis of tax charge for the year

	2023 £'000	2022 £'000
Overseas withholding tax charge	128	1,494
Total tax charge for the year	**128**	**1,494**

(b) Factors affecting total tax charge for the year

The total tax charge for the year is higher (2022: lower) than the Company's applicable rate of corporation tax for the year of 19% (2022: 19%). The factors affecting the total tax charge for the year are as follows:

	2023 Revenue £'000	2023 Capital £'000	2023 Total £'000	2022 Revenue £'000	2022 Capital £'000	2022 Total £'000
Net return/(loss) before taxation	57,008	(332,225)	(275,217)	52,972	212,767	265,739
Net return/(loss) before taxation multiplied by the Company's applicable rate of corporation tax of 19% (2022: 19%)	10,832	(63,123)	(52,291)	10,065	40,426	50,491
Effects of:						
Non taxable UK dividends	(11,019)	—	(11,019)	(9,113)	—	(9,113)
Non taxable overseas dividends	(683)	—	(683)	(2,382)	—	(2,382)
Non taxable capital losses/(gains)	—	60,322	60,322	—	(43,355)	(43,355)
Unrelieved expenses	870	1,091	1,961	1,085	1,222	2,307
Overseas withholding tax charge	128	—	128	1,494	—	1,494
Disallowed interest	—	1,710	1,710	345	1,707	2,052
Total tax charge for the year	**128**	**—**	**128**	**1,494**	**—**	**1,494**

(c) Deferred taxation

The Company has an unrecognised deferred tax asset of £78,538,000 (2022: £75,964,000) based on a prospective corporation tax rate of 25% (2022: 25%). The deferred tax asset has arisen due to the cumulative excess of deductible expenses over taxable income.

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

Given the Company's status as an approved investment trust company and the intention to maintain approval, the Company has not provided for deferred tax on any capital gains or losses arising on the revaluation or disposal of investments.

Notes to the Financial Statements

9. Return/(loss) per share

	2023 £'000	2022 £'000
Revenue return	56,880	51,478
Capital (loss)/return	(332,225)	212,767
Total (loss)/return	**(275,345)**	**264,245**
Weighted average number of shares in issue during the year	790,696,064	791,522,893
Revenue return per share	7.19p	6.50p
Capital (loss)/return per share	(42.02)p	26.88p
Total (loss)/return per share	**(34.83)p**	**33.38p**

The total (loss)/return per share represents both basic and diluted return per share as the Company has no dilutive shares.

10. Dividends

(a) Dividends paid and declared

	2023 £'000	2022 £'000
Dividends paid		
2022 fourth quarterly dividend of 2.85p (2021: 2.65p) paid to shareholders in May 2022[1]	22,558	20,975
First quarterly dividend of 1.35p (2022: 1.35p) paid to shareholders in August 2022[1]	10,677	10,686
Second quarterly dividend of 1.35p (2022: 1.35p) paid to shareholders in November 2022[1]	10,666	10,686
Third quarterly dividend of 1.35p (2022: 1.35p) paid to shareholders in February 2023[1]	10,666	10,686
Total dividends paid in the year	**54,567**	**53,033**

	2023 £'000	2022 £'000
Dividend declared		
Fourth quarterly dividend declared of 3.1p (2022: 2.85p) payable to shareholders in May 2023[1]	24,493	22,558

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

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

The fourth quarterly dividend has been declared in respect of the year ended 31st January 2023. In accordance with the accounting policy of the Company, these dividends will be reflected in the financial statements for the year ending 31st January 2024.

Notes to the Financial Statements

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 £56,880,000 (2022: £51,478,000).

The maximum amount of income that the Company is permitted to retain under Section 1158 is £9,711,000 (2022: £9,153,000), calculated as 15% of total income. Therefore the minimum distribution required by way of dividend is £47,169,000 (2022: £42,325,000).

	2023 £'000	2022 £'000
First quarterly dividend of 1.35p (2022: 1.35p) paid to shareholders in August 2022[1]	10,677	10,686
Second quarterly dividend of 1.35p (2022: 1.35p) paid to shareholders in November 2022[1]	10,666	10,686
Third quarterly dividend of 1.35p (2022: 1.35p) paid to shareholders in February 2023[1]	10,666	10,686
Fourth quarterly dividend declared of 3.1p (2022: 2.85p) payable in May 2023[1]	24,493	22,558
	56,502	**54,616**

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

11. Investments held at fair value through profit or loss

	2023 £'000	2022 £'000
Investments listed on a recognised stock exchange	1,919,245	2,326,156
Investments listed on AIM	118,339	133,826
Unlisted investments	5,174	5,140
	2,042,758	**2,465,122**

	Listed UK £'000	AIM and Unlisted £'000	Total £'000
Opening book cost	1,727,318	118,962	1,846,280
Opening investment holding gains	598,838	20,004	618,842
Opening valuation	2,326,156	138,966	2,465,122
Movements in the year:			
Purchases at cost[1]	455,275	52,432	507,707
Sales proceeds[2]	(574,522)	(38,015)	(612,537)
(Losses)/gains on investments	(287,664)	(29,870)	(317,534)
	1,919,245	**123,513**	**2,042,758**
Closing book cost	1,582,075	116,628	1,698,703
Closing investment holding gains	337,170	6,885	344,055
Total investments held at fair value through profit or loss	**1,919,245**	**123,513**	**2,042,758**

[1] Of this total, £507,308,000 (2022 : £693,957,000) was recorded as a cash purchase in the Statement of Cash Flows.

[2] Of this total, £612,839,000 (2022 : £682,614,000) was recorded as a cash sale in the Statement of Cash Flows.

Notes to the Financial Statements

The Company received £612,537,000 (2022: £672,461,000) from investments sold in the year. The book cost of these investments when they were purchased was £655,284,000 (2022: £587,210,000). These investments have been revalued over time and until they were sold any unrealised gains/losses were included in the fair value of the investments.

Stamp duty and brokerage commission on purchases during the year amounted to £2,276,000 (2022: £2,587,000) and £327,000 (2022: £363,000) respectively. Brokerage commission on sales during the year amounted to £359,000 (2022: £500,000).

12. Significant interests

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

Name of company	Country of registration	Class of share	% of class held
Hunting	UK	Ordinary	4.4
Hollywood Bowl	UK	Ordinary	4.3
Watches of Switzerland	UK	Ordinary	3.6
4imprint	UK	Ordinary	3.3
Ergomed	UK	Ordinary	3.1
SThree	UK	Ordinary	3.0

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 2023 was £204,260,000 (2022: £265,076,000).

13. Current assets

	2023 £'000	2022 £'000
Debtors		
Dividends and interest receivable	1,587	2,130
Overseas tax recoverable	933	1,596
Securities sold awaiting settlement	153	472
Other debtors	64	73
	2,737	**4,271**

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

	2023 £'000	2022 £'000
Securities purchased awaiting settlement	3,428	3,029
Senior unsecured privately placed loan notes interest	1,156	1,156
Bank of Nova Scotia loan interest	—	14
Other creditors and accruals	5,015	4,925
	9,599	**9,124**

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

During the year ended 31st January 2023, the loan facility with Bank of Nova Scotia expired and, at the discretion of the Company, was not renewed.

Notes to the Financial Statements

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

	2023 £'000	2022 £'000
£175 million 6.125% debenture stock[1]	174,307	174,210
£3.85 million 4.25% perpetual debenture stock[2]	3,850	3,850
Senior unsecured privately placed loan notes[3]	149,669	149,659
	327,826	**327,719**

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

[2] The £3.85 million 4.25% debenture stock is irredeemable and secured by a floating charge over the assets of the Company. The debenture is repayable at 105% if the Company goes into default and the security is enforced.

[3] £150 million of long-term debt through the issue of three fixed rate, senior unsecured privately placed loan notes (the 'Notes'). The Notes, which were funded on 8th September 2021, are:

- £55 million with a fixed coupon of 1.98%, repayable on 8th September 2041.
- £50 million with a fixed coupon of 2.05%, repayable on 8th September 2051.
- £45 million with a fixed coupon of 1.77%, repayable on 8th September 2061.

As at 31st January 2023, the Company had drawn down £150.0 million on these Notes (2022: £150.0 million).

16. Called up share capital

	2023		2022	
	Number of Shares	£'000	Number of Shares	£'000
Ordinary shares allotted and fully paid:				
Opening Balance of ordinary shares of 2.5p each excluding shares held in Treasury	791,522,893	19,788	791,522,893	19,788
Repurchase of shares into Treasury	(1,442,231)	(36)	—	—
Subtotal of shares of 2.5p each excluding shares held in Treasury	790,080,662	19,752	791,522,893	19,788
Shares held in Treasury	154,411,518	3,860	152,969,287	3,824
Closing Balance of shares of 2.5p each including shares held in Treasury	**944,492,180**	**23,612**	**944,492,180**	**23,612**

Notes to the Financial Statements

17. Capital and reserves

2023	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves[1] Realised gains/ (losses) £'000	Capital reserves[1] Investment holding gains/ (losses) £'000	Revenue reserve[1] £'000	Total shareholders' funds £'000
Opening balance	23,612	23,459	13,158	1,457,537	618,842	61,603	2,198,211
Net foreign currency gains on cash and cash equivalents	—	—	—	64	—	—	64
Realised losses on sale of investments	—	—	—	(42,747)	—	—	(42,747)
Net change in unrealised losses and gains on investments	—	—	—	—	(274,787)	—	(274,787)
Repurchase of shares into Treasury	—	—	—	(2,623)	—	—	(2,623)
Management fee and finance costs charged to capital	—	—	—	(14,741)	—	—	(14,741)
Other capital charges	—	—	—	(14)	—	—	(14)
Dividends paid in the year	—	—	—	—	—	(54,567)	(54,567)
Retained revenue for the year	—	—	—	—	—	56,880	56,880
Closing balance	**23,612**	**23,459**	**13,158**	**1,397,476**	**344,055**	**63,916**	**1,865,676**

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

2022	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves[1] Realised gains/ (losses) £'000	Capital reserves[1] Investment holding gains/ (losses) £'000	Revenue reserve[1] £'000	Total shareholders' funds £'000
Opening balance	23,612	23,459	13,158	1,387,666	475,946	63,158	1,986,999
Net foreign currency gains on cash and cash equivalents	—	—	—	19	—	—	19
Realised gains on sale of investments	—	—	—	85,281	—	—	85,281
Net change in unrealised losses and gains on investments	—	—	—	—	142,896	—	142,896
Realised gains on repayment of loans	—	—	—	4	—	—	4
Management fee and finance costs charged to capital	—	—	—	(15,418)	—	—	(15,418)
Other capital charges	—	—	—	(15)	—	—	(15)
Dividends paid in the year	—	—	—	—	—	(53,033)	(53,033)
Retained revenue for the year	—	—	—	—	—	51,478	51,478
Closing balance	**23,612**	**23,459**	**13,158**	**1,457,537**	**618,842**	**61,603**	**2,198,211**

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

Notes to the Financial Statements

18. Net asset value per share

The net asset value per Ordinary share and the net asset value attributable to the Ordinary shares at the year end are shown below. These were calculated using 790,080,662 (2022: 791,552,893) Ordinary shares in issue at the year end (excluding Treasury shares).

	2023 Net asset value attributable		2022 Net asset value attributable	
	£'000	pence	£'000	pence
Net asset value – debt at par	**1,865,676**	**236.1**	**2,198,211**	**277.7**
Add: amortised cost of £175 million 6.125% debenture stock 25th February 2030	174,307	22.1	174,210	22.0
Less: fair value of £175 million 6.125% debenture stock 25th February 2030	(201,864)	(25.5)	(232,730)	(29.4)
Add: amortised cost of £3.85 million 4.25% perpetual debenture stock	3,850	0.5	3,850	0.5
Less: fair value of £3.85 million 4.25% perpetual debenture stock	(3,791)	(0.5)	(8,473)	(1.0)
Add: amortised cost of senior unsecured privately placed loan notes	149,669	18.9	149,659	18.9
Less: fair value of senior unsecured privately placed loan notes	(93,602)	(11.8)	(145,272)	(18.4)
Net asset value – debt at fair value	**1,894,245**	**239.8**	**2,139,455**	**270.3**

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

	2023 £'000	2022 £'000
Net (loss)/return before finance costs and taxation	(261,066)	278,574
Capital losses/(return) before finance costs and taxation	322,319	(221,751)
Decrease in accrued income and other debtors	552	444
Increase in accrued expenses	93	34
Management fee charged to capital	(4,835)	(6,434)
Overseas withholding tax	(69)	(2,646)
Dividends received	(62,063)	(58,827)
Interest received	(3,149)	(34)
Realised gains/(losses) on foreign currency transactions	46	(2)
Net cash outflow from operations before dividends and interest	**(8,172)**	**(10,642)**

20. Contingent liabilities and capital commitments

At the balance sheet date there were no contingent liabilities or capital commitments (2022: none).

21. Transactions with the Manager and related parties

Details of the management contract are set out in the Directors' Report on page 37. The management fee payable to the Manager for the year was £6,907,000 (2022: £9,191,000) of which £nil (2022: £nil) was outstanding at the year end.

Included in administration expenses in note 6 on page 69 are safe custody fees amounting to £32,000 (2022: £50,000) payable to JPMorgan Chase of which £7,000 (2022: £4,000) was outstanding at the year end.

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

During the year, brokerage commission on dealing transactions amounting to £1,000 (2022: £44,000) was payable to JPMorgan subsidiaries of which £nil (2022: £nil) was outstanding at the year end.

The Company also holds cash in JPMorgan Sterling Liquidity Fund, managed by JPMorgan. At the year end this was valued at £157.2 million (2022: £62.9 million). Interest income amounting to £3,036,000 (2022: £30,000) was receivable during the year of which £nil (2022: £nil) was outstanding at the year end.

Handling charges on dealing transactions amounting to £14,000 (2022: £15,000) were payable to JPMorgan Chase during the year of which £2,000 (2022: £5,000) was outstanding at the year end.

At the year end, total cash of £386,000 (2022: £2,765,000) was held with JPMorgan Chase. A net amount of interest of £113,000 (2022: £3,000) was receivable by the Company during the year from JPMorgan Chase of which £nil (2022: £nil) was outstanding at the year end.

Full details of Directors' remuneration and shareholdings can be found on page 49 and in note 6 on page 69.

22. Disclosures regarding financial instruments measured at fair value

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

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

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

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

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

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

Details of the valuation techniques used by the Company are given in note 1(b) on page 66.

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

	2023		2022	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Level 1	2,037,584	—	2,459,982	—
Level 3[1]	5,174	—	5,140	—
Total	**2,042,758**	**—**	**2,465,122**	**—**

[1] Consists only of a holding in Tennants Consolidated Limited (ordinary and preference shares), an unquoted stock, which is still held at 31st January 2023.

Notes to the Financial Statements

22. Disclosures regarding financial instruments measured at fair value (continued)

There were no transfers between Level 1, 2 and 3 during the year (2022: none). A reconciliation of the fair value measurements using valuation techniques using non-observable data is set out below.

	2023 Equity Investments £'000	2023 Fixed Interest Investment £'000	2023 Total £'000
Level 3			
Opening balance	5,046	94	5,140
Change in fair value of unquoted investment during the year	34	—	34
Closing balance	**5,080**	**94**	**5,174**

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

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

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

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

At the start of the year the Company had in place a £3.85 million perpetual debenture and a £175 million debenture repayable on 25th February 2030, together with £150 million of Senior Unsecured Notes (the 'Notes').

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

- Net borrowings as a % of adjusted assets cannot exceed 35%; and
- Minimum NAV of £725,000,000.

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

The Company Secretary, in close co-operation with the Board and the Manager, co-ordinates the Company's risk management strategy. The objectives, policies and processes for managing the risks and the methods used to measure the risks that are set out below, have not changed from those applied in the comparative year.

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

- investments in UK equity shares and other securities, which are held in accordance with the Company's investment objective;
- cash held within a liquidity fund;
- short term debtors, creditors and cash arising directly from its operations; and
- debentures issued by the Company and senior unsecured privately placed loan notes, 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 market price risk. Information to enable an evaluation of the nature and extent of these two elements of market risk is given in parts (i) and (ii) of this note, together with sensitivity analysis where appropriate. The Board reviews and agrees policies for managing these risks and these policies have remained unchanged from those applying in the comparative year. The Manager assesses the exposure to market risk when making each investment decision and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

(i) Interest rate risk

Interest rate movements may affect the level of income receivable on cash deposits, the liquidity fund and the interest payable on variable rate borrowings when interest rates are reset. There is no 'fair value' interest rate risk attached to the Company's fixed rate debentures and senior unsecured privately placed loan notes in issue, as they are carried in the accounts at amortised cost.

Liquidity and gearing

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

Interest rate exposure

The two series of debentures issued by the Company and the senior unsecured privately placed loan notes carry fixed rates of interest. The debentures and the privately placed loan notes are carried in the Company's Statement of Financial Position at amortised cost rather than fair value. Hence movement in interest rates will not affect equity but may have an impact on the share price and discount (at fair value).

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:

	2023 £'000	2022 £'000
Exposure to floating interest rates:		
Cash at bank and short term deposits	386	2,765
JPMorgan Sterling Liquidity Fund	157,220	62,896
Total exposure	**157,606**	**65,661**

Interest receivable on cash balances, or paid on overdrafts, is at a margin below or above SONIA respectively (2022: same).

Interest rate sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to a 4% (2022: 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 and interest rate increases in the past year. The sensitivity analysis is based on the Company's monetary financial instruments held at the balance sheet date with all other variables held constant.

	2023		2022	
	4% increase in rate £'000	4% decrease in rate £'000	1% increase in rate £'000	1% decrease in rate £'000
Statement of Comprehensive Income – return after taxation				
Revenue return	6,304	(6,304)	657	(657)
Net assets	**6,304**	**(6,304)**	**657**	**(657)**

Notes to the Financial Statements

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

(a) Market risk (continued)

(i) Interest rate risk (continued)

Interest rate sensitivity (continued)

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:

	2023 £'000	2022 £'000
Investments held at fair value through profit or loss	2,042,758	2,465,122

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 page 20. This shows that the majority of the investments' value is in the UK. Accordingly there is a concentration of exposure to that country. However it should be noted that an investment may not be entirely exposed to the economic conditions in its country of domicile or of listing. The current conflict between Russia and Ukraine and any related sanctions that have, and might be imposed, may result in the global economy being adversely affected, along with the economies of certain nations and individual issuers, all of which may negatively impact the market.

Other price risk sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to an increase or decrease of 10% (2022: 10%) in the fair values of the Company's equities. This level of change is considered to be a reasonable illustration based on observation of normal market conditions. The sensitivity analysis is based on the Company's equities, adjusting for changes in the management fee but with all other variables held constant.

	2023		2022	
	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	(276)	276	(333)	333
Capital return	203,632	(203,632)	245,736	(245,736)
Total return after taxation	203,356	(203,356)	245,403	(245,403)
Net assets	**203,356**	**(203,356)**	**245,403**	**(245,403)**

(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.

Notes to the Financial Statements

Management of the risk

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

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

Liquidity risk exposure

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

	2023			
	Three months or less £'000	More than three months but not more than one year £'000	More than one year £'000	Total £'000
Creditors: amounts falling due within one year				
Securities purchased awaiting settlement	3,428	—	—	3,428
Other creditors and accruals	301	—	—	301
Senior unsecured privately placed loan notes – interest[1]	1,874	2,192	—	4,066
Debenture stock – interest[1]	5,441	5,441	—	10,882
Creditors: amounts falling due after more than one year				
Debenture stock – principal[2]	—	—	178,850	178,850
Debenture stock – interest[1]	—	—	71,014	71,014
Senior unsecured privately placed loan notes – principal[1]	—	—	150,000	150,000
Senior unsecured privately placed loan notes – interest[1]	—	—	77,469	77,469
	11,044	**7,633**	**477,333**	**496,010**

[1] The liabilities shown above represent future contractual payments and therefore differ from the amounts shown in the Statement of Financial Position.
[2] Includes £3,850,000 4.25% debenture stock which is irredeemable and secured by a floating charge over the assets of the Company.

	2022			
	Three months or less £'000	More than three months but not more than one year £'000	More than one year £'000	Total £'000
Creditors: amounts falling due within one year				
Securities purchased awaiting settlement	3,029	—	—	3,029
Other creditors and accruals	211	—	—	211
Bank of Nova Scotia loan – interest	14	—	—	14
Senior unsecured privately placed loan notes – interest[1]	1,874	2,192	—	4,066
Debenture stock – interest[1]	5,441	5,441	—	10,882
Creditors: amounts falling due after more than one year				
Debenture stock – principal[2]	—	—	178,850	178,850
Debenture stock – interest[1]	—	—	81,896	81,896
Senior unsecured privately placed loan notes – principal[1]	—	—	150,000	150,000
Senior unsecured privately placed loan notes – interest[1]	—	—	80,380	80,380
	10,569	**7,633**	**491,126**	**509,328**

[1] The liabilities shown above represent future contractual payments and therefore differ from the amounts shown in the Statement of Financial Position.
[2] Includes £3,850,000 4.25% debenture stock which is irredeemable and secured by a floating charge over the assets of the Company.

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

Notes to the Financial Statements

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

(c) Credit risk

Credit risk is the risk that a counterparty to a transaction fails to discharge its obligations under that transaction, which could result in loss to the Company.

Management of credit risk

Portfolio dealing

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

Cash and cash equivalents

Counterparties are subject to regular credit analysis by the Manager and deposits can only be placed with counterparties that have been approved by JPMAM's Counterparty Risk Group. The Board regularly reviews the counterparties used by the Manager.

Exposure to JPMorgan Chase Bank

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

Credit risk exposure

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

(d) Fair values of financial assets and financial liabilities

All financial assets and liabilities, other than the debentures and the senior unsecured privately placed loan notes, are carried in the Statement of Financial Position at fair value or the Statement of Financial Position amount is a reasonable approximation of fair value. The fair value of the debentures and the senior unsecured privately placed loan notes have been calculated using discounted cash flow techniques, using the yield on similarly dated gilts plus a margin based on the five year average for the AA Barclays Sterling Corporate Bond spread.

	Carrying value		Fair value	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
£175 million 6.125% debenture stock 25th February 2030	174,307	174,210	201,864	232,730
£3.85 million 4.25% perpetual debenture stock	3,850	3,850	3,791	8,473
Senior unsecured privately placed loan notes	149,669	149,659	93,602	145,272
	327,826	**327,719**	**299,257**	**386,475**

24. Capital management policies and procedures

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

	2023 £'000	2022 £'000
Debt:		
£175 million 6.125% debenture stock 25th February 2030	174,307	174,210
£3.85 million 4.25% perpetual debenture stock	3,850	3,850
Senior unsecured privately placed loan notes	149,669	149,659
	327,826	327,719
Equity:		
Called up share capital	23,612	23,612
Reserves	1,842,064	2,174,599
	1,865,676	2,198,211
Total debt and equity	**2,193,502**	**2,525,930**

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

	2023 £'000	2022 £'000
Investments held at fair value through profit or loss	2,042,758	2,465,122
Net assets	1,865,676	2,198,211
Gearing	**9.5%**	**12.1%**

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

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

25. Subsequent events

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

Regulatory Disclosures

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 both a gross and a commitment method in accordance with AIFMD. Under the gross method, exposure represents the sum of the Company's positions without taking into account any hedging and netting arrangements. Under the commitment method, exposure is calculated after certain hedging and netting positions are offset against each other.

The Company's maximum and actual leverage levels at 31st January 2023 are shown below:

	Gross Method	Commitment Method
Leverage exposure		
Maximum limit	200%	200%
Actual	118%	117%

AIFMD Remuneration Disclosures

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

This section of the annual report has been prepared in accordance with the AIFMD, the European Commission Delegated Regulation supplementing the AIFMD, and the 'Guidelines on sound remuneration policies' issued by the European Securities and Markets Authority under the AIFMD. The information in this section is in respect of the most recent complete remuneration period ('**Performance Year**') as at the reporting date.

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

JPMF Remuneration Policy

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

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

The Board reviews and adopts the Remuneration Policy on an annual basis, and oversees its implementation, including the classification of AIFMD Identified Staff. The Board last reviewed and adopted the Remuneration Policy that applied for the 2022 Performance Year in July 2022 with no material changes and was satisfied with its implementation.

Quantitative Disclosures

The table below provides an overview of the aggregate total remuneration paid to staff of the Management Company in respect of the 2022 Performance Year and the number of beneficiaries. These figures include the remuneration of all staff of JP Morgan Asset Management (UK) Ltd (the relevant employing entity) and the number of beneficiaries, both apportioned to the Management Company on an Assets Under Management ('AUM') weighted basis.

Due to the Firm's operational structure, the information needed to provide a further breakdown of remuneration attributable to the Company is not readily available and would not be relevant or reliable. However, for context, the Management Company manages 25 Alternative Investment Funds (with 4 sub-funds) and 2 UCITS (with 44 sub-funds) as at 31st December 2022, with a combined AUM as at that date of £21.6 billion and £21.3 billion respectively.

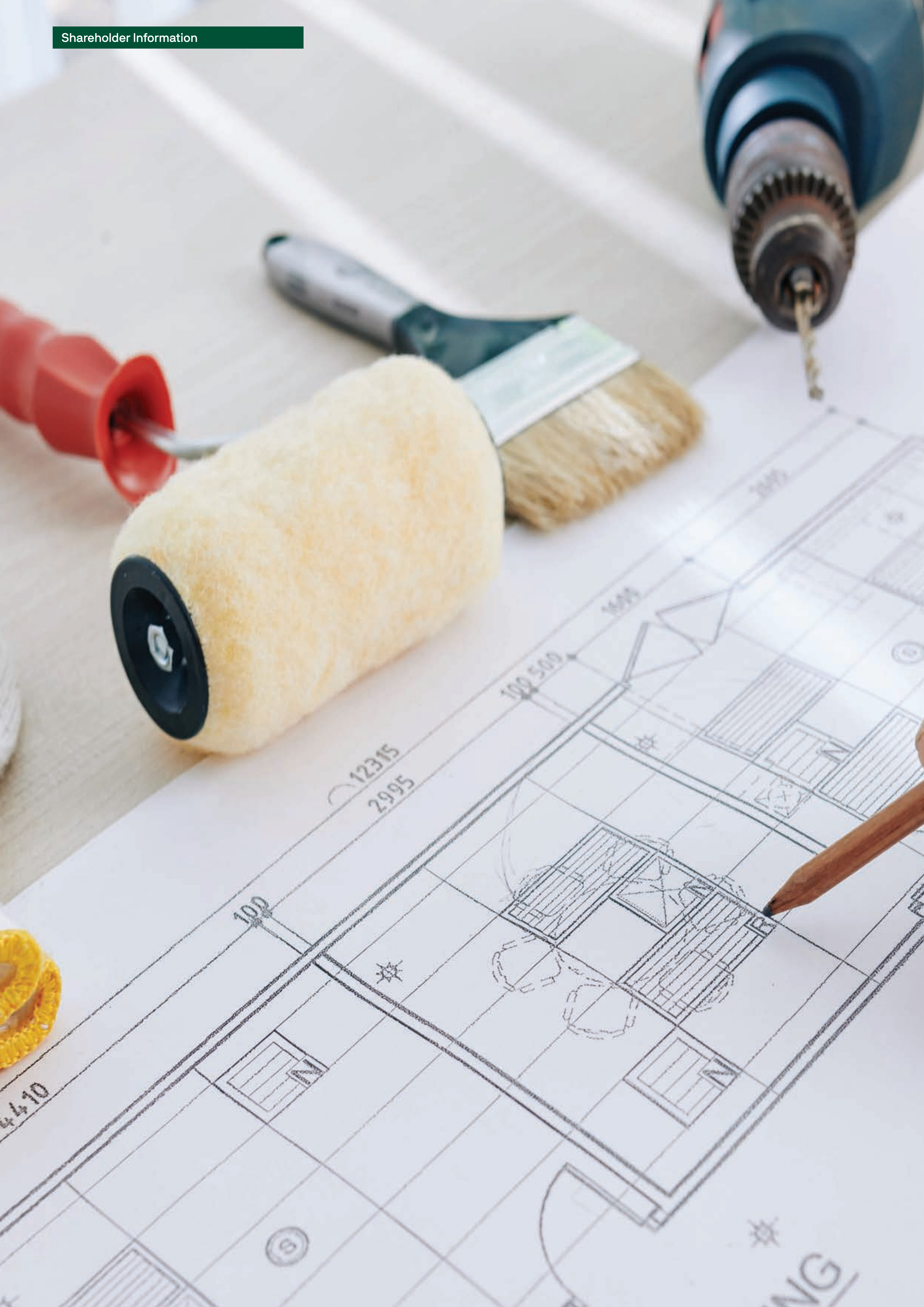
	Fixed remuneration	Variable remuneration	Total remuneration	Number of beneficiaries
All staff of the Management Company (US$'000s)	21,662	14,069	35,731	146

The aggregate 2022 total remuneration paid to AIFMD Identified Staff was USD$114,556,000, of which USD$1,232,000 relates to Senior Management and USD$113,324,000 relates to other Identified Staff.[1]

[1] For 2022, the AIFMD identified staff disclosures include employees of the companies to which portfolio management has been formally delegated in line with the latest ESMA guidance.

Securities Financing Transactions Regulation Disclosure (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 2023.



Notice of Annual General Meeting

Notice is hereby given that the one hundred and thirty seventh Annual General Meeting of The Mercantile Investment Trust plc will be held at Trinity House, Tower Hill, London EC3N 4DH on Wednesday, 24th May 2023 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 2023.
2. To approve the Company's Remuneration Policy.
3. To approve the Directors' Remuneration Report for the year ended 31st January 2023.
4. To reappoint Angus Gordon Lennox as a Director of the Company.
5. To reappoint Rachel Beagles as a Director of the Company.
6. To appoint Julia Goh as a Director of the Company.
7. To reappoint Heather Hopkins as a Director of the Company.
8. To reappoint Graham Kitchen as a Director of the Company.
9. To reappoint Damien Maltarp as a Director of the Company.
10. THAT BDO LLP be reappointed as Auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that their remuneration be fixed by the Directors.

Special Business

To consider the following resolutions:

Authority to allot new shares – Ordinary Resolution

11. THAT the Directors of the Company be and they are hereby generally and unconditionally authorised (in substitution of any authorities previously granted to the Directors) pursuant to and in accordance with Section 551 of the Companies Act 2006 (the 'Act') to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company ('rights') up to an aggregate nominal amount of £1,975,201 representing approximately 10% of the Company's issued share capital (excluding shares held in Treasury) as at 3rd April 2023, provided that this authority shall expire at the conclusion of the Annual General Meeting of the Company held in 2024 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 £2,361,230, representing approximately 10% of the issued share capital as at 3rd April 2023 at a price of not less than the net asset value per share and shall expire upon the expiry of the general authority conferred by Resolution 11 above, save that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and so that the Directors of the Company may allot equity securities in pursuance of such offers or agreements as if the power conferred hereby had not expired.

Authority to repurchase the Company's shares – Special Resolution

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

    PROVIDED ALWAYS THAT

    (i) the maximum number of ordinary shares hereby authorised to be purchased shall be that number of ordinary shares which is equal to 14.99% of the Company's issued share capital as at the date of the passing of this resolution;

    (ii) the minimum price which may be paid for an ordinary share shall be the nominal value;

    (iii) the maximum price which may be paid for an ordinary share shall be an amount equal to the highest of: (a) 105% of the average of the middle market quotations for an ordinary share taken from and calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is contracted to be purchased; or (b) the price of the last independent trade; or (c) the highest current independent bid;

Notice of Annual General Meeting

(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 23rd November 2024 unless the authority is renewed at the Company's Annual General Meeting in 2024 or at any other general meeting prior to such time; and

(vi) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which contract will or may be executed wholly or partly after the expiry of such authority and may make a purchase of ordinary shares pursuant to any such contract.

Approval of dividend policy – Ordinary Resolution

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

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

11th April 2023

Notes

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

1. If law or Government guidance so requires at the time of the Meeting, the Chairman of the Meeting will limit, in his sole discretion, the number of individuals in attendance at the Meeting. In addition, the Company may still impose entry restrictions on certain persons wishing to attend the AGM in order to secure the orderly and proper conduct of the Meeting.
2. A member entitled to attend and vote at the meeting may appoint another person(s) (who need not be a member of the Company) to exercise all or any of his rights to attend, speak and vote at the meeting. A member can appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attaching to different shares held by him.
3. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Your proxy could be the Chairman, another Director of the Company or another person who has agreed to attend to represent you. Details of how to appoint the Chairman or another person(s) as your proxy or proxies using the proxy form are set out in the notes to the proxy form. If a voting box on the proxy form is left blank, the proxy or proxies will exercise his/their discretion both as to how to vote and whether he/they abstain(s) from voting. Your proxy must attend the Meeting for your vote to count. Appointing a proxy or proxies does not preclude you from attending the Meeting and voting in person.
4. Any instrument appointing a proxy, to be valid, must be lodged in accordance with the instructions given on the proxy form.
5. You may change your proxy instructions by returning a new proxy appointment. The deadline for receipt of proxy appointments (see above) also applies in relation to amended instructions. Any attempt to terminate or amend a proxy appointment received after the relevant deadline will be disregarded. Where two or more valid separate appointments of proxy are received in respect of the same share in respect of the same meeting, the one which is last received (regardless of its date or the date of its signature) shall be treated as replacing and revoking the other or others as regards that share. If the Company is unable to determine which was last received, none of them shall be treated as valid in respect of that share.
6. To be entitled to attend and vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members as at 6.30 p.m. two business days prior to the meeting (the 'specified time'). If the meeting is adjourned to a time not more than 48 hours after the specified time applicable

to the original meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If however the meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members as at 6.30 p.m. two business days prior to the adjourned meeting or, if the Company gives notice of the adjourned meeting, at the time specified in that notice. Changes to entries on the register after this time shall be disregarded in determining the rights of persons to attend or vote at the meeting or adjourned meeting.

7. A corporation, which is a shareholder, may appoint individuals to act as its representatives and to vote in person at the meeting (see instructions given on the proxy form). In accordance with the provisions of the Companies Act 2006, each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the company, provided that they do not do so in relation to the same shares. It is therefore no longer necessary to nominate a designated corporate representative.

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

8. Members that satisfy the thresholds in Section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter relating to: (a) the audit of the Company's accounts (including the Auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting ('AGM'); or (b) any circumstances connected with the Auditor of the Company ceasing to hold office since the previous AGM, which the members propose to raise at the Meeting. The Company cannot require the members requesting the publication to pay its expenses. Any statement placed on the website must also be sent to the Company's Auditor no later than the time it makes its statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required to publish on its website pursuant to this right.

9. Pursuant to Section 319A of the Companies Act 2006, the Company must cause to be answered at the AGM any question relating to the business being dealt with at the AGM which is put by a member attending the Meeting except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the Meeting or if it would involve the disclosure of confidential information.

10. Under Sections 338 and 338A of the 2006 Act, members meeting the threshold requirements in those sections have the right to require the Company: (i) to give, to members of the Company entitled to receive notice of the Meeting, notice of a resolution which those members intend to move (and which may properly be moved) at the Meeting; and/or (ii) to include in the business to be dealt with at the Meeting any matter (other than a proposed resolution) which may properly be included in the business at the Meeting. A resolution may properly be moved, or a matter properly included in the business unless: (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of any inconsistency with any enactment or the Company's constitution or otherwise); (b) it is defamatory of any person; or (c) it is frivolous or vexatious. A request made pursuant to this right may be in hard copy or electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be accompanied by a statement setting out the grounds for the request, must be authenticated by the person(s) making it and must be received by the Company not later than the date that is six clear weeks before the Meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

11. A copy of this notice has been sent for information only to persons who have been nominated by a member to enjoy information rights under Section 146 of the Companies Act 2006 (a 'Nominated Person'). The rights to appoint a proxy can not be exercised by a Nominated Person: they can only be exercised by the member. However, a Nominated Person may have a right under an agreement between him and the member by whom he was nominated to be appointed as a proxy for the Meeting or to have someone else so appointed. If a Nominated Person does not have such a right or does not wish to exercise it, he may have a right under such an agreement to give instructions to the member as to the exercise of voting rights.

12. In accordance with Section 311A of the Companies Act 2006, the contents of this notice of meeting, details of the total number of shares in respect of which members are entitled to exercise voting rights at the AGM, the total voting rights members are entitled to exercise at the AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Company's website http://www.mercantileit.co.uk.

13. The register of interests of the Directors and connected persons in the share capital of the Company and the Directors' letters of appointment are available for inspection at the Company's registered office during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted). It will also be available for inspection at the AGM. No Director has any contract of service with the Company.

Notice of Annual General Meeting

14. You may not use any electronic address provided in this Notice of Meeting to communicate with the Company for any purposes other than those expressly stated.

15. As an alternative to completing a hard copy Form of Proxy, you can appoint a proxy or proxies electronically by visiting www.sharevote.co.uk. You will need your Voting ID, Task ID and Shareholder Reference Number (this is the series of numbers printed under your name on the Form of Proxy. Alternatively, if you have already registered with Equiniti Limited's online portfolio service, Shareview, you can submit your Form of Proxy at www.shareview.co.uk. Full instructions are given on both websites.

16. As at 3rd April 2023 (being the latest business day prior to the publication of this Report), the Company's issued share capital consists of 944,492,180 shares, including of 154,411,518 Treasury shares. Therefore the total voting rights in the Company are 790,080,662.

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.

Glossary of Terms and Alternative Performance Measures (Unaudited)

Alternative Performance Measure (APM)

Alternative Performance Measures (APMs) are numerical measures of current, historical or future financial performance, financial position or cash flow that are not GAAP measures. APMs are intended to supplement the information in the financial statements, providing useful industry-specific information that can assist shareholders to better understand the performance of the Company.

Where a measure is labelled as an APM, a definition and reconciliation to a GAAP measure is set out below.

Return on net assets with debt at fair value (APM)

The Company's debt (debentures and senior unsecured privately placed loan notes) is valued in the Statement of Financial Position (on page 64) at amortised cost, which is materially equivalent to the repayment value of the debt on the assumption that it is held to maturity. This is often referred to as 'Debt at Par Value'.

The current replacement or market value of the debt, which assumes it is repaid and renegotiated under current market conditions, is often referred to as the 'Debt at Fair Value'. This fair value is explained in note 18 (on page 76) of the accounts. The difference between fair and par values of the debt is subtracted from the NAV to derive the NAV with debt at fair value which is shown in note 18 (on page 76). The fair value of the £3.85 million perpetual debenture, the £175 million debenture and the £150 million senior unsecured privately placed loan notes have been calculated using discounted cash flow techniques, using the yield from similar dated gilts plus a margin based on the five year average for the AA Barclays Sterling Corporate Bond spread.

Total return calculation	**Page**	**Year ended 31st January 2023**	**Year ended 31st January 2022**	
Opening cum-income NAV per share with debt at fair value (p)	7	270.3	240.0	(a)
Closing cum-income NAV per share with debt at fair value (p)	7	239.8	270.3	(b)
Total dividend adjustment factor[1]		1.031470	1.023987	(c)
Adjusted closing cum-income NAV per share (d = b x c)		247.3	276.8	(d)
Total return on net assets with debt at fair value (e = d / a – 1)		**–8.5%**	**15.3%**	(e)

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

Return on net assets with debt at par value (APM)

Total return on net asset value ('NAV') per share, on a bid value to bid value basis, assuming that all dividends paid out by the Company were reinvested, without transaction costs, into the shares of the Company at the NAV per share at the time the shares were quoted ex-dividend.

Total return calculation	**Page**	**Year ended 31st January 2023**	**Year ended 31st January 2022**	
Opening cum-income NAV per share with debt at par value (p)	7	277.7	251.0	(a)
Closing cum-income NAV per share with debt at par value (p)	7	236.1	277.7	(b)
Total dividend adjustment factor[1]		1.031312	1.023190	(c)
Adjusted closing cum-income NAV per share (p) (d = b x c)		243.5	284.1	(d)
Total return on net assets (e = d / a – 1)		**–12.3%**	**13.2%**	(e)

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

Glossary of Terms and Alternative Performance Measures (Unaudited)

Return to Shareholders (APM)

Total return to the shareholders, on a last traded price to last traded price basis, assuming that all dividends received were reinvested, without transaction costs, into the shares of the Company at the time the shares were quoted ex-dividend.

Total return calculation	Page	Year ended 31st January 2023	Year ended 31st January 2022	
Opening share price (p)	7	244.0	231.0	(a)
Closing share price (p)	7	209.5	244.0	(b)
Total dividend adjustment factor[1]		1.036721	1.025628	(c)
Adjusted closing share price (p) (d = b x c)		217.2	250.3	(d)
Total return to shareholders (e = d / a – 1)		**–11.0%**	**8.3%**	(e)

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

Benchmark total return

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

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

Gearing/(Net Cash) (APM)

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

Gearing calculation	Page	31st January 2023	31st January 2022	
Investments held at fair value through profit or loss	64	2,042,758	2,465,122	(a)
Net assets	64	1,865,676	2,198,211	(b)
Gearing/(net cash) (c = a / b – 1)		**9.5%**	**12.1%**	(c)

Ongoing Charges (APM)

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

Ongoing charges calculation	Page	Year ended 31st January 2023	Year ended 31st January 2022	
Management Fee	62	6,907	9,191	
Other administrative expenses	62	1,413	1,439	
Total management fee and other administrative expenses		8,320	10,630	(a)
Average daily cum-income net assets		1,811,935	2,342,992	(b)
Ongoing charges ratio (c = a / b)		**0.46%**	**0.45%**	(c)

Glossary of Terms and Alternative Performance Measures (Unaudited)

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

If the share price of an investment trust is lower than the NAV per share, the shares are said to be trading at a discount. The discount is shown as a percentage of the NAV per share. The opposite of a discount is a premium. It is more common for an investment trust's shares to trade at a discount than at a premium (page 7).

Performance attribution

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

Performance Attribution Definitions:

Sector Allocation

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

Stock Selection

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

Gearing/(net cash)

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

Management fee/Other expenses

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

Repurchase of shares

Measures 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.

Investing in The Mercantile Investment Trust plc

You can invest in The Mercantile Investment Trust plc through the following:

1. Via a third party provider

Third party providers include:

AJ Bell
Barclays Smart investor
Bestinvest
Charles Stanley Direct
Close Brothers A.M. Self Directed Service
Fidelity Personal Investing
Freetrade
Halifax Share Dealing
Hargreaves Lansdown
iDealing
IG
Interactive investor
IWeb
ShareDeal active
Willis Owen
X-O.co.uk

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

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

2. Through a professional adviser

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

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

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

FINANCIAL CALENDAR

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

* or nearest following business day.

** Owing to bank holidays, the May dividend will be paid on 11th May 2023.

History

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

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

Company Numbers

Company Registration number: 20537
London Stock Exchange number: 0579403
ISIN: GB0005794036
Bloomberg ticker: MRC LN
LEI: 549300BGX3CJIHLP2H42

Market Information

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

Website

www.mercantileit.co.uk

Share Transactions

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

Dividend Reinvestment Plan

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

Manager and Company Secretary

JPMorgan Funds Limited

aic
The Association of Investment Companies

A member of the AIC

Company's Registered Office

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

For Company Secretarial issues and administrative matters, please contact Alison Vincent via the details above, or via the Company's website through the 'Contact Us' link.

Depositary

The Bank of New York Mellon (International) Limited
160 Queen Victoria Street
London EC4V 4LA

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

Registrar

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

Lines open 8.30 a.m. to 5.30 p.m. Monday to Friday. Calls to the helpline will cost no more than a national rate call to a 01 or 02 number. Callers from overseas should dial +44 121 415 0225. Notifications of changes of address and enquiries regarding share certificates or dividend cheques should be made in writing to the Registrar quoting reference 1101. Registered shareholders can obtain further details on their holdings on the internet by visiting www.shareview.co.uk.

Independent Auditors

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

Brokers

Cenkos Securities plc
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GB A120 | 04/23

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