



## Disclaimer – Important Notice



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# Smithson Investment Trust Update - Performance



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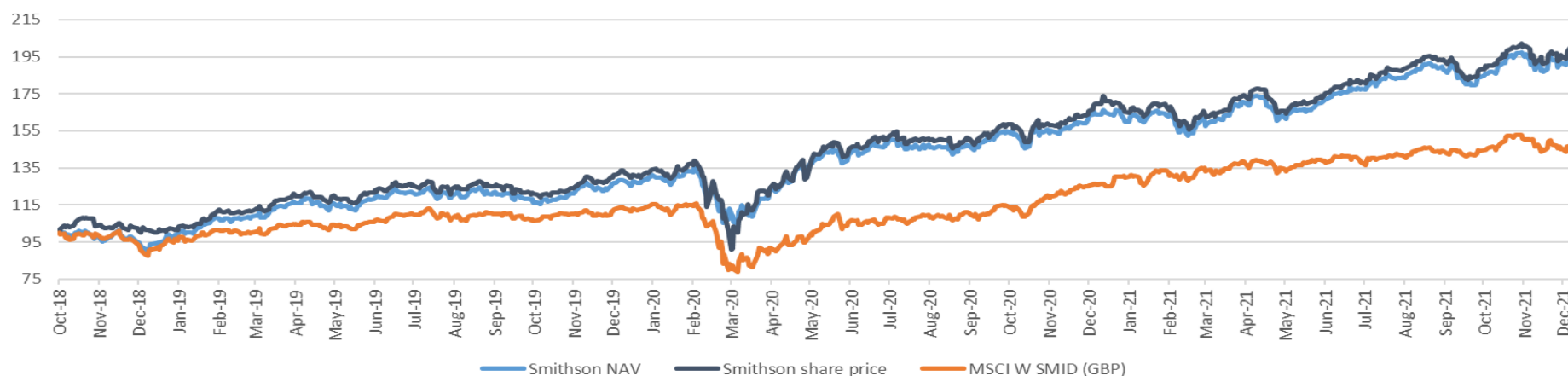
## Performance Overview, % Return

	2021	2020	2019	2018*	Inception to 31.12.21	Annualised to 31.12.21
Smithson NAV <sup>1</sup>	+18.9	+31.4	+33.2	-5.8	+96.1	+23.4
Smithson Share Price	+18.1	+31.7	+29.8	+0.0	+102.0	+24.5
Equities <sup>2</sup>	+17.8	+12.2	+21.9	-8.3	+47.8	+13.0
UK Bonds <sup>3</sup>	-4.5	+4.6	+3.8	+2.1	+5.9	+1.8
Cash <sup>4</sup>	+0.1	+0.3	+0.8	+0.2	+1.4	+0.4

<sup>1</sup>Source: Bloomberg, starting NAV 1,000.

<sup>2</sup>MSCI World SMID Index, £ net, source: [www.msci.com](http://www.msci.com)

<sup>3</sup>Bloomberg/Barclays Bond Indices UK Gov't 5-10yr, source: Bloomberg. <sup>4</sup>Month £ LIBOR Interest Rate source: Bloomberg. \*From 19.10.18



Source: Bloomberg

Day before launch (18<sup>th</sup> October 2018) rebased to 100.

Past performance is not a reliable indicator of future results. The value of your investment may go up as well as down and you may not get back the amount of your original investment.

## Smithson Investment Trust Update – Top holdings and contributors



### Top 10 Holdings as at 31-Mar-22

- Sabre (US)
- Rightmove (UK)
- Recordati (IT)
- Fortinet (US)
- Temenos (SW)
- Fevertree Drinks (UK)
- Verisk Analytics (US)
- Ansys (US)
- Cognex (US)
- Technology One (AUS)

### Top contributors & detractors in 2021

#### Top 5 Contributors

Security	Country	Sector	Contribution %
Fortinet	United States	Information Technology	4.1
Nemetschek	Germany	Information Technology	1.9
Equifax	United States	Industrials	1.8
Domino's Pizza Group	United Kingdom	Consumer Discretionary	1.7
AO Smith	United States	Industrials	1.6

#### Top 5 Detractors

Security	Country	Sector	Contribution %
Sabre	United States	Information Technology	-1.5
Ambu	Denmark	Health Care	-0.9
IPG Photonics	United States	Information Technology	-0.9
Simcorp	Denmark	Information Technology	-0.9
Paycom Software	United States	Information Technology	-0.2

## Smithson Exposure Breakdown



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Sector weightings: 31-Mar-22			Country weightings: 31-Mar-22			Sales exposure by region: 31-Dec-21	
Sector	Smithson	MSCI W SMID	Country of listing	Smithson	MSCI W SMID	Region	Smithson
Information Technology	46%	13%	USA	46%	60%	North America	38%
Industrials	19%	17%	UK	19%	6%	Europe	38%
Consumer Discretionary	12%	11%	Italy	7%	1%	Asia Pacific	18%
Health Care	12%	10%	Australia	7%	4%	Eurasia, Middle East, Africa	3%
Communication Services	4%	4%	Switzerland	6%	2%	Latin America	2%
Consumer Staples	4%	4%	Germany	6%	2%		
Financials	3%	13%	Denmark	5%	1%		
Real Estate		9%	New Zealand	3%	0%		
Materials		9%	Sweden	2%	2%		
Utilities		4%	Other	0%	22%		
Energy		5%	Cash	0%	0%		
Cash	0%						

Data for MSCI World SMID is market cap weighted.

Smithson Portfolio exposure based on weighted position sizes. For sales exposure by region, percentage splits are shown ex-cash, based on most recently-available full year data and portfolio weights as at 31-Dec-21.

Data may add up to more or less than 100% due to rounding.



Key issues currently affecting stock market:

- Inflation
- Rising interest rate expectations
- Fears of recession

1Q22 Performance	
Smithson NAV	-16.9%
MSCI World SMID	-4.0%
MSCI World Large Cap	-2.0%

1Q22 Sector Performance (%)		
Sectors	MSCI W SMID	Smithson weight (%)
Energy	+42%	-
Utilities	+7%	-
Materials	+5%	-
Real Estate	-2%	-
Financials	-2%	3%
Communication Services	-2%	4%
Consumer Staples	-3%	4%
Industrials	-7%	19%
Health Care	-10%	12%
Information Technology	-11%	46%
Consumer Discretionary	-14%	12%

Smithson contributors & detractors 1Q22	
Top Contributors	%
Sabre	1.6%
Addtech	0.2%
Qualys	0.2%
Cognex	0.2%
Rollins	0.1%
Top Detractors	%
Fevertree Drinks	-1.6%
Masimo	-1.4%
Temenos	-1.2%
IPG Photonics	-1.1%
Rightmove	-1.1%



**1 Buy good companies**

**2 Don't overpay**

**3 Do nothing**

## Buy Good Companies – Smithson Portfolio Look-through



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LTM figures	Smithson Investment Trust	MSCI SMID
ROCE	33%#	8%
Gross Margin	67%	34%
Operating Profit Margin	24%	1%
Cash Conversion	112%	88%
Interest Cover	35x	5x

Data for the MSCI World SMID Cap Index is shown ex-financials, with weightings as at 31.12.2021.

Data for MSCI World SMID Cap Index is on a weighted average basis, using last available reported financial year figures as at 31.12.21

Data for Smithson portfolio is on a weighted average basis, ex-cash, using last available reported financial year figures as at 31.12.21

Interest cover (EBIT ÷ net interest) data for Smithson and MSCI SMID is done on a median average basis.

# LTM ROCE for Smithson excludes Rightmove, which had a return of >180%. **Including Rightmove, the weighted average ROCE would be 41%.**



## Don't Overpay



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We compare free cash flow yields now to what we think they will be in 4-5 years' time. We then select the best combination of current value and future growth, allowing for potential risks that the business may face.

We compare the stocks with:

- Each other
- The market
- Bonds

	Historical Neutral FCF Yield			
	31-Dec-18	31-Dec-19	31-Dec-20	31-Dec-21
Smithson Investment Trust	3.9%	3.2%	2.9%	2.0%
MSCI World SMID Index (ex-financials)	4.2%	3.5%	3.2%	2.5%

In the 12 months to the last reported quarter (or half) for our portfolio companies, weighted average neutral free cash flow per share growth for Smithson was 21%.

Source: Fundsmith research, Bloomberg.

Neutral FCF yield is operating cash flow less maintenance capex.

For both Smithson and the MSCI World SMID Index, Neutral FCF yield is measured on a weighted average basis (note Smithson weights are grossed up to an ex-cash basis), based on the latest available full year data as at the stated date.

Note that the Smithson Neutral FCF Yields at 31-Dec-18 and 31-Dec-19 were restated last year to reflect the above calculation methodology. Previously disclosed yields (4.2% and 3.4% respectively) were based on trailing 12 month free cash flows to the stated date, which involved some use of estimated cash flows due to lags in reporting.

## Do Nothing – Theory vs. Practice



### What we say:

- Ideal holding period is forever
- Voluntarily exit a position only if:
  - Management makes bad capital allocation decisions
  - Fundamental reappraisal of investment case
  - Valuation becomes too expensive
  - Superior investment opportunity identified
- Some portfolio turnover will be involuntary, e.g. in the event of a takeover

### What we do:

	2019	2020	2021	1Q 2022
<b>New Companies Bought</b>	Fevertree Drinks	Rational Qualys Fortinet	Rollins Wingstop	Moncler Addtech
<b>Companies Sold</b>	CDK Global	Check Point	Abcam CHR Hansen	AO Smith
<b>Voluntary Turnover</b>	6.1%	21.6%	9.5%	-
<b>OCF</b>	1.05%	0.97%	0.96%	-
<b>Dealing costs*</b>	0.04%	0.03%	0.02%	-
<b>New shares issued</b>	32.3 million	26.9 million	30.3 million	5.4 million
<b>Proceeds from new issuance (net of costs)</b>	£377 million	£398 million	£534 million	£93 million
<b>Average premium to NAV</b>	2.9%	2.9%	2.0%	1.2%

\* Voluntary dealing costs (excluding new share issuance)  
2022 data is for the year to the end of March



## Portfolio Management Details



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### Smithson Portfolio Characteristics

Fund Ticker	SSON
Typical No. of Holdings	25-40
Current No. of Holdings (31.03.22)	32
Median company founded	1971
Median market cap (at 31.03.22)	£6.8bn
NAV	Published daily in FT, Telegraph & at <a href="http://www.smithson.co.uk">www.smithson.co.uk</a>
Reporting	Interim & Annual
Annual Shareholder Meeting	Yes
OCF and TCI to 31.12.21	0.96% and 0.98%
AMC	0.90%
Est. Portfolio Yield	0.5%
Performance Fee	No
Portfolio Turnover	Low
Reference Index	MSCI World SMID Cap Index, £
AIC Sector	Global Smaller Companies

### Risk Management & Advisors

Currency Hedging	No
Derivatives	No
Gearing	Up to 15% short term
Portfolio Concentration	Max 10% in one company
Counterparty Concentration	No more than 20%
Continuation Policy	At board discretion if discount >10% >1 year after 4 <sup>th</sup> year
Board	Diana Dyer Bartlett - Chairman Lord St. John of Bletso Jeremy Attard-Manche
Sponsor & Broker	Investec Bank
Legal Adviser	Travers Smith LLP
Auditor	Deloitte LLP
Administrator	Northern Trust
Registrar	Link Asset Services
Depository	Northern Trust
Co. Secretary	Praxis IFM



- Our approach to ESG considerations is to take into account from the start of our research process all of the factors that may impact the potential for a business to sustain its returns into the future
- Environmental
  - 59% of portfolio companies report greenhouse gas emissions. Lowest emissions: Rightmove at 300t. Highest emissions: Geberit at 206kt. Average emissions for portfolio companies of 37kt compared to the MSCI World average of 4.6mt, or 14t per £m revenue vs 84kt per £m revenue.
  - Companies committed to significantly reduced or to net zero carbon emission targets include Ambu, MSCI and Verisk, and some, such as Domino's Pizza Group and Equifax, link ESG measures to management pay
- Social
  - Women make up 26% of portfolio company Boards, which compares to the global average of 27%
- Corporate Governance
  - 34% of proxies were voted against management recommendation on remuneration policy
- Smithson is represented on the Fundsmith Stewardship & Sustainability Committee
- Fundsmith is a signatory to the UN PRI and UK Stewardship Code 2020

## The Smithson Team



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### **Simon Barnard CFA** PORTFOLIO MANAGER

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Simon Barnard joined Fundsmith in September 2017. He started his career at Goldman Sachs Asset Management in 2003 as a research analyst on the technology and industrial sectors. He moved to the consumer sector in 2008 and became the Global Lead Portfolio Manager for the consumer discretionary sector in 2012. In 2014 he was named Portfolio Manager of the 'Global Income Builder Fund', a multi-asset strategy. Upon its launch in 2016 he became Portfolio Manager of the 'Global Millennials Fund', a concentrated global equity growth fund. Simon has a First Class degree in Economics from the University of Cambridge and is a CFA charter holder.

### **Will Morgan CFA** ASSISTANT PORTFOLIO MANAGER

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Will Morgan joined Fundsmith in July 2017. He previously spent 17 years at Goldman Sachs. He began his career there in 2000, initially in the asset management division, before moving to equity sales in 2002. In 2003 he joined the Global Investment Research division as an analyst covering the insurance sector, and became head of the team in 2008. In 2011 he moved to lead coverage of the Construction & Building Materials sector, becoming a Managing Director in 2013 and deputy head of the Industrials business unit. He became a sector specialist for Autos and Industrials in 2015. He has a First Class degree in Economics & Politics from the University of Bristol and is a CFA charter holder.

### **Jonathan Imlah** ANALYST

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Jonathan joined Fundsmith in December 2013 from Canaccord Genuity where he was the lead Technology analyst since 2010. He was previously at Altium Securities where he covered technology for 6 years, latterly as Head of Research. Prior to Altium, he worked in the large cap technology team at Dresdner Kleinwort covering pan European IT services. Jonathan was Techmark analyst of the year in 2007 and was number 1 or 2 in his sector in the FT Starmine survey between 2006 and 2010. Prior to taking up a career as an analyst Jonathan was a country investment report writer working in Spain, India, Russia, Hungary, Brazil, Peru, Zimbabwe and Guatemala. Jonathan has an MBA from INSEAD and a degree in French and Philosophy from the University of St Andrews and is a fluent Spanish speaker.