Smithson
Investment Trust

Annual Report

for the year ended 31 December 2022

Smithson Investment Trust plc

Small &
Mid Cap
Investments
That
Have
Superior
Operating
Numbers

Fundsmith
Buy good companies
Don't overpay
Do nothing

Smithson Investment Trust plc Annual Report for the year ended 31 December 2022

Smithson Investment Trust

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Investment Objective

Smithson Investment Trust plc (the "Company") aims to provide shareholders with long term growth in value through exposure to a diversified portfolio of shares issued by listed or traded companies.

The Company's investment policy is to invest in shares issued by small and mid ("SMID") sized companies with a market capitalisation (at the time of initial investment) of between £500 million and £15 billion on a long-term, global basis. The Company's approach is to be a long-term investor in its chosen stocks. It will not adopt short-term trading strategies. Accordingly, it will pursue its investment policy by investing in approximately 25 to 40 companies.

Investment Approach

1. Buy Good Companies

The Investment Manager focuses on investing in those companies it believes can compound in value over many years. It seeks to achieve this by selecting companies that have an established track record of success, such as having already established a dominant market share in their niche product or service or having brands or patents which others would find difficult, if not impossible, to replicate. The Investment Manager believes such SMID sized companies tend to out-perform large companies and that there is also an investment opportunity to take advantage of greater discrepancies between the share price and valuation of SMID sized companies, in part due to lighter research coverage and less information being available on them. SMID sized companies tend to have higher expected returns but also higher expected risk, defined as price volatility (a measure of how much its price moves over time), when compared to larger companies. However, adding a small and mid cap portfolio to a large cap portfolio can raise expected returns without increasing risk, due to the different risk and return characteristics that SMID sized companies provide.

2. Don't overpay

The Investment Manager seeks to invest in SMID sized companies that exhibit strong profitability that is sustainable over time and generate substantial cash flow that can be reinvested back into the business. Its strategy is not to overpay when buying the shares of such companies and then do as little dealing as possible in order to minimise the expenses of the Company, allowing the investee companies' returns to compound for shareholders with minimum interference.

3. Do nothing

The Investment Manager looks to avoid companies that are heavily leveraged or forced to rely upon debt in order to provide an adequate return, as well as sectors and industries that innovate very quickly and are rapidly changing. It instead focuses on companies that have exhibited an ability to continue outperforming competitors and will look for companies that rely heavily on intangible assets in industries such as information technology, health care and consumer goods. The Company's investments will be long-term and the Investment Manager will not be forced to act when market prices are unattractive.

Company Policies

- **Long term capital growth**

The Company is focused on long term capital growth and overall return rather than seeking any particular level of dividend. The Company will only declare dividends to the extent required to maintain the Company's tax status as an investment trust.

- **No hedging**

The Company will not use derivatives for currency hedging or for any other purpose.

- **No gearing**

The Company will not employ leverage save that it is permitted to use short term banking facilities to raise funds for liquidity purposes or for discount management purposes including the purchase of its own shares. Any such borrowing will be limited to 15 per cent. of the Company's net asset value.

	At 31 December 2022	At 31 December 2021
Net assets	**£2,417,967,000**	**£3,367,070,000**
Net asset value (“NAV”) per ordinary share (“share”)	**1,410.7p**	**1,961.0p**
Share price	**1,308.0p**	**2,020.0p**
Share price (discount)/premium to NAV[1]	**(7.3)%**	**3.0%**

	For the year ended 31 December 2022 **% change[2]**	For the year ended 31 December 2021 **% change[2]**	For the period from Company’s listing on 19 October 2018 to 31 December 2022 **% change[2]**
NAV total return per share[1]	**-28.1%**	**+18.9%**	**41.1%**
Share price total return[1]	**-35.2%**	**+18.1%**	**30.8%**
Benchmark total return[3]	**-8.7%**	**+17.8%**	**34.9%**
Ongoing charges ratio[1]	**0.9%**	**1.0%**	**–**

Source: Bloomberg

This report contains terminology that may be unfamiliar to some readers. The Glossary in the Annual Report gives definitions for frequently used terms.

4 Year Record

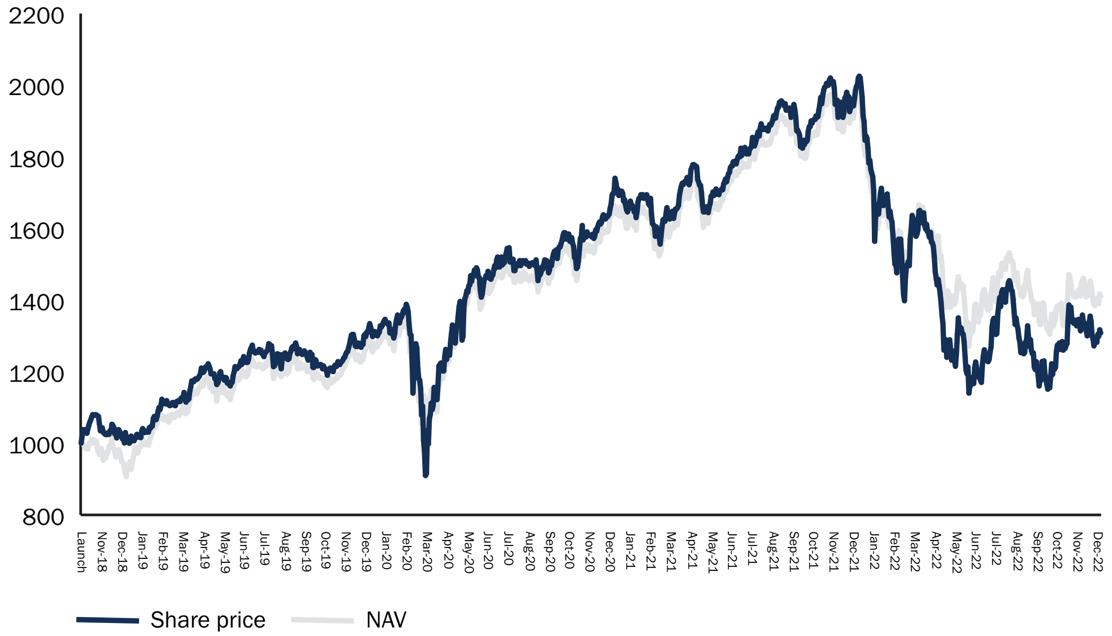
At 31 December	2022	2021	2020	2019
Net assets	**£2,417,967,000**	**£3,367,070,000**	**£2,331,950,000**	**£1,437,305,000**
NAV per ordinary share	**1,410.7p**	**1,961.0p**	**1,648.9p**	**1,255.2p**
Share price	**1,308.0p**	**2,020.0p**	**1,710.0p**	**1,298.0p**
Share price (discount)/ premium to NAV[1]	**(7.3)%**	**3.0%**	**3.7%**	**3.4%**
Year ended 31 December				
NAV total return per share[1]	**-28.1%**	**+18.9%**	**+31.4%**	**+33.2%**
Share price total return[1]	**-35.2%**	**+18.1%**	**+31.7%**	**+29.8%**
Benchmark total return[3]	**-8.7%**	**+17.8%**	**+12.2%**	**+21.9%**
Ongoing charges ratio[1]	**0.9%**	**1.0%**	**1.0%**	**1.0%**

1 These are Alternative Performance Measures (“APMs”). Definitions of these, together with how these measures have been calculated, are disclosed on pages 78 to 79 where it is made clear how these APMs relate to figures disclosed and calculated under IFRS.

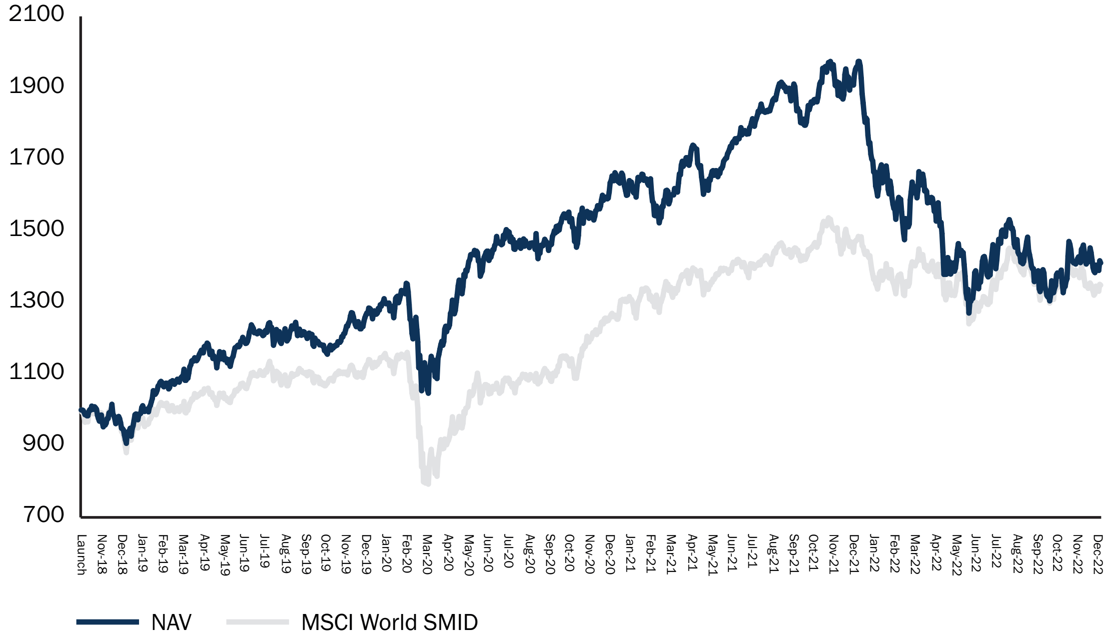
2 Total returns are stated in GBP sterling.

3 MSCI World SMID Cap Index, £Net Source: www.msci.com.

Total return performance against NAV for the period from the Company's listing on 19 October 2018 to 31 December 2022[1]



Net Asset Value total return performance against MSCI World SMID Cap Index for the period from the Company's listing on 19 October 2018 to 31 December 2022[2]



1 Source: Bloomberg

2 Figures rebased to 1000 as at date of Company's listing

Introduction

I am pleased to present the Annual Report of Smithson Investment Trust plc (the "Company") for the year to 31 December 2022. This is our fourth Annual Report, and the first year in which the Company's net asset value has fallen. Whilst this decline is disappointing, it comes against the backdrop of a steep decline in markets across the world. The Company's net asset value per share has, however, fallen by more than the MSCI World SMID comparator index in 2022, the first year this has occurred, and the Company's shares have traded at a discount to net asset value through most of the year.

There are two points which are worth emphasising, both of which are covered in greater detail in the Investment Manager's Review. Firstly, our portfolio companies grew their businesses in 2022 despite the difficult market conditions and their financial key performance indicators were all materially better than those of the comparator index, demonstrating their characteristics as high quality companies. Unfortunately, the progress made by the portfolio companies was not sufficient to offset the impact on growth company valuations of the hike in interest rates. Secondly, only two segments of the comparator index actually registered positive returns in 2022 (Energy and Utilities); those two segments are therefore largely responsible for the index' comparatively better performance. The Company does not invest in either of these segments as they do not meet the Investment Manager's criteria for potential long term shareholder returns. Whilst it is disappointing to report on periods when asset values fall, the focus remains on long term value creation.

The Company's performance and the Board's actions in response to the discount are summarised below, and the Investment Manager's Review discusses the portfolio's performance in greater detail.

Performance

The decline in the Company's net asset value (NAV) per share for the year was 28.1%[1], underperforming the MSCI World SMID Index by 19.4 percentage points. At the interim stage, the fall in net asset value which the Company reported was 31.7%, so the outturn for the year is after recording a small improvement in the second half. Despite this significant underperformance, the Company's annualised NAV per share total return since inception is +8.5%[1], 1.1% higher than the annualised return from the index with dividends reinvested.

As noted in the Investment Manager's Review, the decrease in portfolio company valuations during the year was such that at the year end, they were trading on free cash flow ratings comparable to those at the time of the Company's launch in 2018. This means that the growth in the Company's net asset value per share since IPO, which exceeds that of the comparator index, can largely be attributed to the underlying trading performance of the portfolio companies.

The Company's shares, which traded at a premium to NAV for the vast majority of the period from launch in 2018 through to the end of 2021, have traded at a discount for almost all of 2022, and have continued to do so in the first part of 2023. The discount at the end of the year was 7.3%[1], narrower than the 11.5% at the end of the first half of the year, but representing a very significant shift down from the 3.0% premium at the end of 2021. Combined with the negative total return on the NAV, to move from a modest premium to a discount has resulted in the share price total return for the year of negative 35.2%[1]. This has reduced the annualised share price return total return since inception to 6.6%[1], 1.9 percentage points lower than the annualised increase in NAV per share.

The Company is a member of the FTSE 250 Index with a market capitalisation at the end of 2022 of £2.24 billion.

1 These are APMs Definitions of these and other APMs used in the Annual Report, together with how these measures have been calculated, are disclosed on pages 78 to 79.

Capital

The Company was floated on the premium list of the London Stock Exchange ("LSE") on 19 October 2018, breaking the record for the largest IPO of an investment trust in the history of the LSE with funds raised exceeding £822 million. For much of the period from inception through to March 2022 high demand resulted in the Company's shares trading at a premium to net asset value. During this time, the Board oversaw the issue of new shares to meet demand and to manage the premium.

When the Company's shares started trading at a discount in the first half of last year, the Board, in consultation with its advisers and the Investment Manager, sought to address the situation through the use of share buy backs.

During 2022 the Company issued 5.4 million new ordinary shares to raise £92.5 million net of costs and bought back 5.7 million ordinary shares at a cost, after dealing charges, of £74.0 million. The share allotments and buybacks each represented over 3% of the Company's issued share capital at the start of the year. All share allotments and buybacks were accretive to the Company's net asset value per share. The average premium to net asset value at which new shares were allotted was 2.6% and the average discount to net asset value at which shares were bought back was 8.7%. The buybacks accounted for over 10% of the Company's shares being traded on the LSE in the period since the buybacks started.

The buyback programme is continuing and since the year end up until 22 February, being the latest practicable date before the printing of this report, a further 1,050,000 shares have been bought back at a cost of £15.0 million after dealing costs, with an average discount to net asset value of 7.5%.

As a matter of law, the Company is only permitted to fund purchases of its own shares out of its distributable reserves or the proceeds of a fresh issue of shares; and while the ordinary shares are trading at a price less than the latest published net asset value per share, the Company is not able to issue new shares.

As at 31 December 2022, the Company's distributable reserves available to fund share buybacks were £196.7 million. The Board concluded that it was prudent to create further distributable reserves to ensure there is no technical impediment to prevent the Board from being able to continue to undertake share buybacks when it feels they are appropriate. The Board therefore called a General Meeting on 6 February 2023 at which shareholders passed a special resolution to reduce the Company's share premium account and create £500 million additional distributable reserves. An application has been made to the High Court to sanction the capital reduction.

The Board intends to continue with its current programme of regular market purchases while the shares trade at a material discount. All shares purchased are held in Treasury and will only be reissued at a premium to net asset value, net of all costs. Resolutions to replace the existing authorities granted by shareholders to the Board to allot new shares and buy back shares will be proposed at the forthcoming Annual General Meeting.

Results and Dividends

The Company's total loss after tax for the year was £967.6 million, comprising a capital loss of £972.0 million and a revenue profit after tax of £4.4 million (see page 58).

The revenue profit after tax arises because the Company's dividend income in the year was higher than its operating expenditure. All the Company's operating expenditure is charged to revenue, rather than a percentage being allocated to the capital reserve. This reflects the Company's objective of focusing on capital growth which means that its accounting policy is not designed to facilitate maximisation of revenue reserves and dividend payments.

The Company's cumulative revenue reserves were negative at 31 December 2022, and therefore a dividend is not proposed by the Board.

The Company has never paid a dividend. It should not be expected that the Company will pay a significant annual dividend and it is likely that no interim dividends will be declared. The Board intends to declare such annual dividends as are necessary to maintain the Company's UK investment trust status.

Investment Approach

In common with all funds managed by Fundsmith, the Company has a simple, focused strategy of investing in high-quality, listed company shares, seeking not to overpay for those shares and then holding them as long-term investments; the Company does not use derivatives and has no borrowings.

As a closed-end investment vehicle focusing on capital growth, the Company is free to focus its energies on pursuing its strategy without having the limiting factors of funding client redemptions, dividend payments (other than a minimum to maintain investment trust status) or gearing concerns. The Company has a strong balance sheet of highly liquid investments.

The Company expects to hold between 25 and 40 investments; at the year-end it held 31. The composition of the portfolio at 31 December 2022 is shown on page 17, and the Investment Manager's Review explains the investment approach, and the performance and evolution of the portfolio in detail.

Investment Policy

At the Company's AGM in April the shareholders approved a revision to the investment policy, which clarified that the investment restriction as to market capitalisation range applies at the time of initial investment in a company and removed the expectation of the average market capitalisation of investee companies. This change, which came into effect on 3 May 2022, has had no effect, in any way, on how the Company's investments are managed.

Governance

I took over as Chairman of the Board at the end of February 2022 and Lord St John of Bletso replaced me as Chairman of the Audit Committee. Jeremy Attard-Manche joined the Board on 1 March and is Chairman of the Management Engagement Committee. As part of our succession planning and to broaden the experience of the Board, Denise Hadgill was appointed as a Director of the Company with effect from 1 June 2022. We will all stand for election or re-election at the AGM, and details on our background and experience are given on page 32.

ESG and Stewardship

During the year I have been asked quite a few questions by shareholders about the Company's approach to ESG and the stewardship of its portfolio companies. This is explained in greater detail in the document on the Company's website entitled ESG Integration, which has also been uploaded to the Association of Investment Companies website. The Board has delegated responsibility for all stewardship responsibilities to the Investment Manager and is updated at each Board meeting on any significant developments or interactions with investee companies. One of the benefits of holding a comparatively concentrated portfolio of shares is that the Investment Manager has more time to spend following developments at each portfolio company and has good and regular access to the top management in portfolio companies. The Investment Manager, furthermore, does not delegate voting to any outside agency, regarding this as an important shareholder responsibility which needs to be undertaken, thoughtfully, in-house.

Fundsmith is a signatory to the FRC's 'UK Stewardship Code 2020'. Fundsmith's Stewardship Report 2021, together with the aforementioned ESG Integration document, are available on the Company's website at www.smithson.co.uk. A few examples of the engagement with investee company management are given in the Investment Manager's Review and a report on voting activity is included in the Strategic Report.

Annual General Meeting ("AGM") and Shareholder Engagement

The Company will hold its AGM on 27 April 2023. My fellow directors and I are keen to meet with shareholders, and we encourage shareholders to come to the meeting. May I remind shareholders, whether or not they are able to attend the AGM in person, that you are welcome, at any time, to submit any questions you may have for the Board at smithsonchairman@fundsmith.co.uk. Please submit proxy votes in respect of the resolutions to be proposed at the AGM, irrespective of whether you intend to attend the AGM.

Simon Barnard, the Company's portfolio manager, will give a presentation at the AGM which will be recorded and made available on the Company's website after the meeting. Simon and members of his team will also be able to answer questions from shareholders at the AGM.

We encourage shareholders to visit the Company's website where more information is available on the Company.

Outlook

The improvement in the Company's net asset value which commenced in the second half of 2022 has continued, to date, in 2023. However, uncertainty around future interest rate rises, high levels of inflation and fears of a recession are likely to continue in the coming year. Whether the opening of the Chinese market post the lifting of COVID-19 restrictions will have a positive impact by generating economic growth or unleash further inflation or both is also uncertain. Political uncertainty has increased and there seems no end in sight to the Ukraine conflict. These are not easy conditions for a portfolio manager to navigate.

The Investment Manager's Review provides an overview of how our portfolio companies might be expected to respond to the continuing economic uncertainties and why we believe they are high quality companies with robust business models which will continue to demonstrate resilience during periods of challenging market conditions.

The Board is pleased that our portfolio manager and his team remain focused on the things they can control and remain resolute in maintaining their investment approach. The strategy of identifying and owning high quality companies that are capable of sustainable growth and that can compound in value over many years, has been shown to work well over the long term through different economic conditions.

The Board continues to have confidence that the Company's Investment Manager can execute the strategy successfully, and the Board believes that as the Company offers investors exposure to some of the best companies available in the small and mid-cap sector, the long term investor will be well rewarded.

Diana Dyer Bartlett
Chairman

27 February 2023

The Investment Manager's Review was first published as a letter to shareholders on 30 January 2023 and is incorporated as published within the Company's Strategic Report as it continues to be an accurate assessment of the Company's investment performance during the year to 31 December 2022.

Dear Fellow Shareholder,

The performance of Smithson Investment Trust ('Smithson'), along with comparators, is laid out below. In 2022 the Net Asset Value per share (NAV) of the Company decreased by 28.1% and the share price declined by 35.2%. Over the same period, the MSCI World Small and Mid Cap Index ('MSCI World SMID'), our reference index, declined by 8.7%. We also provide the performance of UK bonds and cash for comparison.

	Total Return[5] 1 January 2022 to 31 December 2022 %	Launch to 31 December 2022 Cumulative %	Launch to 31 December 2022 Annualised %
Smithson NAV[1]	-28.1	+41.1	+8.5
Smithson Share Price	-35.2	+30.8	+6.6
Small and Midcap Equities[2]	-8.7	+34.9	+7.4
UK Bonds[3]	-15.0	-9.9	-2.5
Cash[4]	+1.4	+2.8	+0.6

[1] Source: Bloomberg, starting NAV 1000.

[2] MSCI World SMID Cap Index, £ Net source: www.msci.com.

[3] Bloomberg/Barclays Bond Indices UK Govt 5-10 yr, source: Bloomberg.

[4] Month £ Interest Rate source: Bloomberg.

[5] Alternative Performance Measure (see pages 78 to 79).

In the first paragraph of last year's letter we suggested that it would not be possible to outperform every year and that there would be some periods of underperformance. Despite knowing that no strategy, if followed with discipline, can outperform in all periods, it is always unpleasant when a year of underperformance arrives, and the extent of the poor performance this year was particularly painful.

There was clearly one dominant factor at play contributing to this outcome, and it impacted the portfolio consistently throughout the year: the rising market expectation for interest rates.

As we now know, inflation started accelerating in 2021 and did not turn out to be 'transitory' as several of those in charge of central banks believed it to be at the time. In fact, it quickly became entrenched, and was exacerbated by the war in Ukraine, which further propelled energy and food prices.

This caused a sharp volte-face by central banks, which began raising interest rates in March 2022 by increasing increments until 75 basis point moves, a major increase by historical standards, became the norm. The effect this had on the market's expectations for future interest rates was profound. At the beginning of 2022, bond markets were indicating that the upper bound of the Fed's policy rate would be 1% by 2023. In December 2022, the Fed rate was already 4.5% and market expectations were for a 2023 peak of over 5%.

While not at the 19% level it took to shock the US economy into submission in 1980, it is difficult to overstate the impact this move had on asset prices. By which, of course, I am not just talking about stocks, bonds and crypto currencies, where price movements are observed most immediately, but also real estate, art, classic cars and anything else that was a recipient of the world's recent savings glut. We always restrict ourselves to a maximum of one quote from Warren Buffett per letter and it is probably best used here, to cement the importance of the relationship in our minds: "Interest rates are to asset prices like gravity is to the apple".

The reason for this is because the value of any asset, companies included, is the total of the future cash flows you can expect to receive, discounted back to today's monetary value using the prevailing interest rate. As rates rise, today's value of the future cash flows decreases, and thus the value of the asset declines.

While this increase in interest rate expectations affected the whole stock market, unfortunately the shares owned in the portfolio were affected more than most. This is because our high quality companies are growing faster than the market average and generating more cash flows in the future. In practical terms, their faster growth meant the valuations of our companies at the end of 2021 were higher than the average in the market, and therefore fell further than the market as rate expectations moved.

Another way of explaining the relative underperformance is by looking at the sector performance of the MSCI World Small and Midcap Index alongside the sector weightings of the portfolio.

Twelve months to 31 December 2022 Sector Performance

Sectors	MSCI W SMID (%)	SMITHSON WEIGHT (%)
Energy	+64%	–
Utilities	+12%	–
Consumer Staples	0%	4%
Financials	-2%	3%
Materials	-3%	–
Industrials	-8%	23%
Health Care	-15%	15%
Real Estate	-16%	–
Consumer Discretionary	-18%	13%
Information Technology	-20%	38%
Communication Services	-23%	3%

It becomes immediately apparent that the worst performing sectors of the index were also those to which Smithson is most exposed and, just as unfortunately, the positively performing sectors were commodity driven and therefore contain companies which we will never own.

Other factors weighing on share prices are the potential effects of cost inflation, and a likely recession brought about by the tightening of monetary policy. In fact, it was expected by the International Monetary Fund at the end of 2022 that a third of the global economy could enter recession over the next 12 months, although more recent commentary has indicated a reduction in this threat.

While recession holds some trepidation for us, the quality of the companies held in the portfolio, including their lower level of cyclicality and generally strong balance sheets, should enable them to weather the storm better than other companies in the market. However, they will still be susceptible to share price falls should the recession turn out to be worse than currently expected by market participants.

It is perhaps worth stating again that we are not particularly concerned about the effects of inflation on our portfolio companies, especially compared to other companies in our reference index. The reason for this is that our companies tend to have high gross margins and low capital requirements, which mean that they are less susceptible to cost increases than other companies. They are also in strong competitive positions, which typically allows them to increase prices to offset higher costs, should they choose to do so.

So what next? While we would like to say that all the poor performance is behind us, there is no guaranteed way to tell what is ahead. The best we can do is to follow the advice of veteran bond investor Howard Marks by attempting to understand where we are at this given moment. We observe market expectations for future interest rates to move back to historical averages, regional inflation rates decelerating, commodity prices declining, supply chain bottlenecks easing and employment growth moderating helping to temper wage inflation.

We also observe signs of significant bearishness in the market. The December 2022 Bank of America Fund Manager Survey indicated that more fund managers are now overweight bonds (a sign of seeking safety) than at any time since 2009. Another interesting gauge is to observe the reaction of the stock market to major news events and data releases. Typically, there are both positive and negative elements to most news items, for example, a strong employment number means the economy is likely to keep growing, but on the flipside, central banks might also keep raising interest rates. The market reaction will indicate overall investor sentiment, and it feels to us that for most of the year, the stock market was reacting negatively to such news.

We therefore suspect that we are potentially close to the end of stock market declines for reasons of inflation and interest rates, although possibly not yet through the worst in terms of recessionary fears, given these have yet to be realised (or disproved). This last point might be helped in the near future by the recent reopening of China from Covid restrictions, which, given the sheer size of its manufacturing sector and consumer demand, will provide a noticeable boost for the global economy. To illustrate the powerful effects that both the Federal Reserve and the Chinese economy have on global stock markets, we can borrow from investor Michael Howell, who said, "the stock market's price-earnings multiple is determined in Washington and its earnings Beijing".

Unfortunately, not all of the underperformance against the market was inflicted upon us by macroeconomic factors; we made some mistakes too. Principal among these was not selling certain companies which were overvalued at the end of 2021. These included Domino's Pizza Enterprises and Fortinet, two positions that we reduced in size due to our concerns over valuation, but on reflection, could have trimmed more aggressively or perhaps even exited. We remain holders as the falling share prices quickly returned the valuations to more comfortable levels.

There is some good news. Save for a couple of positions, we are very confident in the fundamentals of the businesses held in the portfolio. While a recession may continue to hold back cash flow growth for a while, none of these companies will suffer meaningfully, and certainly not to a degree which would keep us awake at night.

As the below list of largest detractors of performance shows, there are a couple of exceptions to this; companies whose poor share price performance was exacerbated by deteriorating fundamentals.

	Country	Contribution %
Fevertree Drinks	United Kingdom	-3.2%
Temenos	Switzerland	-2.6%
Nemetschek	Germany	-2.1%
Rightmove	United Kingdom	-1.7%
Domino's Pizza Group	United Kingdom	-1.3%

Fevertree suffered very strong cost inflation in logistics (until recently much of their product was shipped around the world from bottling plants in the UK and Europe) and packaging including glass and tin, compressing the gross margin from over 50% in 2019 to under 40% by the end of the year. This decline in margin has taken place because management decided not to put up prices, as they wanted to maintain the strong sales momentum that they are enjoying in large markets such as the US. We remain holders for now as we believe that over time the company can improve the margin, with our confidence boosted by the likelihood that margins in more mature markets such as the UK, which are not disclosed separately, are still very favourable. If this is combined with continued growth in revenue, the potential for future cash generation is substantial.

Temenos has been going through a transition from selling its banking software as a perpetual licence, to selling it as a subscription or a service, otherwise known as 'SaaS'. This should make little difference to the business structure over the long term, although some argue it could be a positive due to higher potential revenue from individual customers over time, but in the interim it causes a decline in profits and cash flow as the high up-front payments for licences are substituted for smaller annual or monthly subscription payments. On top of this, there appears to have been a slowdown in the number of new contract signings for the company, as its bank clients are hesitating to spend more on their IT systems ahead of a potential recession. Having spent some time with the CEO and Chairman to understand what was going on behind the scenes, we were growing concerned that these issues weren't being managed as well as they could be, and so were not upset by the recent announcement of the CEO stepping down and a previous CEO taking over in the interim.

Nemetschek is a company selling design software to the construction and media industries and suffered from a combination of a high valuation owing to its fast growth, and market concerns regarding a future recession in the construction industry.

Rightmove, the UK online property portal, fell due to concerns over the UK housing market in an environment of rising mortgage rates, a cost of living crises and a potential recession. It is worth remembering that Rightmove's revenue, being generated by subscriptions from estate agents, has no direct link to house prices or sales volumes, and has actually continued to increase. However, should some estate agents go out of business, which tends to happen when the housing market declines, then they will lose subscribers and Rightmove's sales will fall. The positive to this is that a new estate agent only needs a laptop, phone and contact list, which means that the number of estate agents tends to rebound quickly after any market correction.

Domino's Pizza Group declined due to market worries about a UK recession, although we are a little more sanguine. While a reduction in disposable income will put some sales at risk, we believe that those in the food industry most likely to suffer are casual dining outlets, while 'better value' takeaway options might prove more insulated from such pressure as people continue to treat themselves to 'affordable luxuries' when times are tough. We also suspect the men's football World Cup will have provided a tailwind to sales into the end of the year.

Top five contributors to performance are shown below.

	Country	Contribution %
Rollins	United States	0.4%
Technology One	Australia	0.2%
Moncler	Italy	0.2%
IDEX	United States	0.1%
Qualys	United States	-0.1%

It may come as a surprise that there were some companies in our quality growth portfolio that rose during the year.

Rollins, a US pest control company, was the best performer. This is a business with highly repeatable earnings given that in some parts of the US where it operates it is necessary to have frequent visits from pest control to keep buildings habitable. This leads to much of its revenue being paid on subscription and thus fairly dependable, which is almost certainly why the shares performed well in a period of concerns regarding inflation and recession.

TechnologyOne is perhaps the most surprising performance contributor, given that it is a fast growing software company. However, the shares reacted well as sales and earnings continued growing strongly throughout the year, more than offsetting the downward pressure on market valuations. The institutions it sells to include governments, universities and the military, which are yet to be affected by the macroeconomic environment.

While Moncler's share price declined during the year, we were fortunate to acquire the position at a relatively low point, which meant that it was a positive contributor to the fund by the end of the period. This was also the case for IDEX.

Qualys, the US cyber security company, did better than average as its revenue growth continued accelerating throughout the year. While we do expect a recession to weigh on companies' information technology budgets, and therefore cyber security sales, it should still be more robust than other categories given the constant and increasing threat of cyber crime.

As ever, we continue to follow the same simple strategy:

- Buy good companies
- Don't overpay
- Do nothing

To demonstrate that we do indeed buy good companies, we include the table below, which is the weighted average operating metrics of our owned companies over the last 12 months compared to the reference Index.

LTM Figures	Smithson Investment Trust	MSCI WSMID
ROCE	43%#	11%
Gross Margin	65%	34%
Operating Profit Margin	25%	9%
Cash Conversion	101%	66%
Interest Cover	34x	7x

Data for the MSCI World SMID Cap Index is shown ex-financials, with weightings as at 31.12.2022.

Data for MSCI World SMID Cap Index is on a weighted average basis, using last available reported financial year figures as at 31.12.22.

Data for Smithson is on a weighted average basis, ex-cash, using last available reported financial year figures as at 31.12.22.

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

ROCE for Smithson includes Rightmove (206% ROIC) and Verisign (330% ROIC). Excluding Rightmove, the ROIC is 38%; excluding Verisign it is 30%; and excluding both, it is 23%.

The table shows that our portfolio companies remain superior to those in the Index on every metric, with return on capital employed, gross margin and operating margin being of significant importance in the current environment and particularly in excess of that observed for the Index.

The next step, of not overpaying for these companies, can be assessed by looking at the average free cash flow yield (the free cash flow divided by the market capitalisation) of the portfolio. Valuations are now more attractive than they were a year ago. The free cash flow yield of the portfolio is 3.3%, having been at 2.0% at the start of 2022. By coincidence, the current level is roughly where the portfolio was trading when we launched the Trust at the end of 2018, although it is worth bearing in mind that this figure includes Sabre and Ambu, two companies which did not produce any free cash flow in 2022, but did in 2018. They also contributed to the fact that the free cash flow generated by the portfolio was actually 7% lower than in 2021. Much of this was also due to companies in the portfolio spending more cash on re-building their inventories from a low point in 2021 as supply chains eased, but at higher component prices, due to inflation. This dynamic is confirmed by looking at the average growth of earnings per share, which excludes working capital expenses, and which was +7% in the period. It is perhaps worth mentioning that if recession starts to bite in 2023, we may have to wait some time for these figures to improve meaningfully. But we are confident that they will.

Regarding the final step, do nothing, it must be noted that as share prices were volatile throughout the year, trading activity increased significantly as we set out to take advantage of buying new positions or increasing existing ones at lower valuations. This meant that discretionary portfolio turnover, excluding any buybacks and the investment of proceeds from new shares issued, was 42.8% compared to just 9.5% in 2021. While this sounds like a high level, it is worth noting that according to Morningstar, the average turnover for actively managed equity funds tends to be above 60% and in 2020, the last year of such volatile markets, it was 86%.

Costs of dealing, including taxes, amounted to 0.03% (3 basis points) of NAV in the period, slightly higher than the 0.02% incurred in 2021. This may seem odd given there was much more discretionary turnover this year, but the reason is that the overall turnover of the fund, including the investment of the proceeds from share issuance, which was very limited in 2022, was not that much higher than last year. The Ongoing Charges Figure[1] was 0.9% of NAV compared to 1.0% in 2021. This includes the Management Fee of 0.9%, applied to the market capitalisation of the Trust, which was lower than the NAV for most of the year. Combined, this means the Total Cost of Investment in the Trust was 0.93%.[1]

Part of the turnover was generated by buying three companies during the year after the decline in share prices resulted in attractive valuations. Moncler, the Italian clothing company which designs and produces high-end branded apparel, traces its roots back to 1952 and the invention of down-filled mountaineering coats, but fell on hard times in the 1990s before being rejuvenated in the 2000s. It now produces luxury items across several categories in clothing and accessories. The company has until recently been expanding by opening new Moncler branded stores, but this growth has been boosted by acquiring the Stone Island brand in 2020. Stone Island is another Italian luxury clothing company which has a similar profile to Moncler's in 2000, which is why management believe they can greatly improve and grow the Stone Island brand, much as they have done over the last 20 years with Moncler.

Since the inception of the fund, we have experienced success in owning decentralised industrial conglomerates such as Halma and Diploma. While the organic growth of these businesses is acceptable, around the mid-single digit percent level, it is the consistent, disciplined acquisition of high quality 'bolt-on' companies that allow the groups to create substantial shareholder value over time. In fact, we believe that in an era of higher interest rates and lower asset prices, companies such as these, making frequent small acquisitions – without significant additional debt - should stand to benefit greatly. We acquired Addtech as it is another high quality example of this type of company, with a very small head office directing the allocation of the cash flow that is generated by its independently managed businesses. Addtech, based in Sweden, has 140 subsidiaries and 3,000 employees grouped into five industrial business areas including Industrial Process, Energy, Automation, Components and Power Solutions. Its origins date back to 1906 and it has had the same business concept for over 100 years. We can therefore be confident in its strategy over the next decade at least.

Finally, we bought a position in IDEX, an industrial company based in the US. IDEX is another decentralised industrial conglomerate which grows through small acquisitions, but this time in areas such as pumps, meters and systems for high-value materials, high-precision instrumentation for health and science industries, and tools, valves and controls for the fire and rescue industry and other applications, including clamping devices used on the Mars rover.

We also sold three companies in the period. The first was a US-based boiler and heater manufacturer, AO Smith. While the company has a very attractive US business operating in a tight oligopoly, its future growth opportunities lie in areas with much more aggressive competition, such as water heaters in China and water purification in the US. For this reason, we became less optimistic on its ability to sustain profitable growth and sold, fortunately before fears of recession caused a significant decline in its share price.

The second company we sold was Wingstop. After the shares troughed in the summer, the share price more than doubled into the autumn, at which point they were trading at levels we no longer felt comfortable with given the decline in cash flow the company was experiencing post its pandemic boost. In addition, we were concerned about the long-term CEO deciding to leave for 'another challenge', a potential capital intensive investment into chicken farming and an increasingly levered balance sheet.

[1] These are APMs Definitions of these and other APMs used in the Annual Report, together with how these measures have been calculated, are disclosed on pages 78 to 79.

Towards the end of the year, we also sold Ansys, a US company producing simulation software. While we still appreciate the dominant position it occupies in its software niche, maintained by the most advanced and accurate physics simulation engines, we have growing concerns about its frequent acquisition of companies that are clearly producing little or no profit. In the three years prior to our original investment in 2018, the company spent $29m per year on acquisitions on average. In the three years since our investment, the company has spent an average of $623m per year. As a result, invested capital has increased 112% since 2018 while operating profit is up only 12%, depressing return on capital employed to below 10%. This indicates to us that the cost to sustain its competitive position is perhaps greater than it first appeared.

The result of this activity is shown below, with a breakdown of the portfolio in terms of sector and geography at the end of the period. The median year of foundation of the companies in the portfolio at the year end was 1973.

Sector	31 December 2022 (%)	31 December 2021 (%)
Information Technology	38%	44%
Industrials	23%	22%
Healthcare	15%	11%
Consumer Discretionary	13%	9%
Consumer Staples	4%	5%
Communication Services	3%	5%
Financials	3%	3%
Cash – Uninvested	1%	1%

Source: Fundsmith

Information Technology now has a lower weighting, mostly due to the sale of Ansys. As we say every year, while the Information Technology weighting appears large, we do not think of ourselves as running a 'tech fund', because this is an MSCI defined sector which includes a number of diverse businesses and end markets. To illustrate this more clearly, we list below the companies that fall into the sector definition, along with a more detailed business description and country of listing.

	Country of Listing	Business Description
Cognex	United States	Logistics Electrical Equipment
Fortinet	United States	Cyber Security
Halma	United Kingdom	Safety and Environmental Electrical Equipment
IPG Photonics	United States	High Powered Lasers
Nemetschek	Germany	Software - Construction and Media
Paycom Software	United States	Software - Human Resources
Qualys	United States	Cyber Security
Sabre	United States	Travel and Leisure
Simcorp	Denmark	Software - Asset Management
Technology One	Australia	Software - Government Institutions
Temenos	Switzerland	Software - Banks
Verisign	United States	Internet Domain Management

Hopefully from this list it is possible to see that the companies have a diverse range of end markets, and even the collection of software companies provide software products to very different industries. This serves to highlight the fact that we would not expect the revenue trends of these companies to move in lock step through economic cycles, as perhaps the single sector weighting might suggest.

While the size of the Industrials weight was little changed, Health Care increased due to adding to existing positions, while Consumer Discretionary increased from the addition of Moncler to the portfolio.

Country of Listing	31 December 2022 (%)	31 December 2021 (%)
USA	40%	47%
UK	17%	21%
Italy	10%	4%
Denmark	8%	5%
Australia	7%	7%
Switzerland	6%	7%
Germany	6%	6%
New Zealand	3%	2%
Sweden	2%	–
Cash	1%	1%

Source: Fundsmith

The USA is the largest country by weighting but has decreased by 7 percentage points from the end of last year due to all three of the companies sold from the portfolio being listed in the country. After a decline in the UK weighting and an increase in Italy (again, due to Moncler), the European weighting now appears more balanced than it has done historically.

The geographical weighting that we pay most attention to though, is the economic exposure of our companies, measured by the origin of revenue. This year, Europe increased slightly to become the largest, with a decrease in US exposure now making North America number two on the list. The other entries are broadly unchanged from last year. While Smithson only invests in developed markets, some of those companies generate revenue in emerging markets, shown by the EMEA and Latin America lines below.

Source of Revenue	31 December 2022 (%)	31 December 2021 (%)
Europe	39%	38%
North America	36%	38%
Asia Pacific	19%	19%
Eurasia, Middle East, Africa	4%	3%
Latin America	2%	2%

Given the importance of Environmental, Social and Governance (ESG) issues in investing, we outlined our ESG approach in last year's report. Instead of repeating what was written there, it might be more interesting for you to read about some of our engagements with portfolio companies regarding ESG issues during the course of the year. One of the most challenging situations experienced by our companies this year was when Russia invaded Ukraine. IPG Photonics was particularly affected because a third of their employees were based in Russia, producing much of the semi-finished goods being shipped to other countries for final assembly. We were, of course, greatly concerned by this and approached the company to discuss the matter. We were reassured by the fact that the management team had swiftly determined and begun executing a plan that would transfer all manufacturing out of Russia within 12 months. We have since been tracking the progress of this plan and are pleased to report that they have made significant headway.

Another situation which immediately attracted our focus was the announcement that the recently hired CEO of Domino's Pizza Group was leaving to re-join his previous employer, Whitbread, to become CEO of that company. Our first call was to the Chairman of Domino's Pizza Group to express our frustration at this outcome. What had driven him away - colleagues or company culture? Undue pressures from the Supervisory Board? We were also eager to understand whether the remuneration structure was motivating enough to keep the right person in the job.

Once you find the managerial talent that you believe will create value for shareholders, you want to be able to compensate them to a level and in a method that keeps them in that role and working as effectively as possible to increase the value of the company. Through several further interactions with the company, including meetings with the CEO, Financial Director and Investor Relations executive, we came to the conclusion that neither the culture, Board or incentive structure had pushed out the CEO, but he was simply driven by his desire to manage a larger company, one where he had already spent several years of his career, and already knew many of the people that he would now be leading. There is therefore a simple one-word explanation for the departure – ego – which probably means that we need not worry about the company itself. The search for a new CEO is ongoing and we will remain shareholders in the interim.

Finally, we would like to once again thank all shareholders for their support of Smithson Investment Trust. We acknowledge that this is by far the worst period of ownership for most and as such will not have been easy or comfortable. Perhaps a simple analogy for what we are currently experiencing is to imagine the relationship between our performance and the market as like a car being towed by an erratic driver. There may be brief periods of smooth acceleration, but for the rest of the time you will be subjected to periods of drift when the rope goes slack, before being jolted forwards again when the car reaches the end of the tether. The current period is clearly one of the car drifting backwards, but to end up at the final destination of superior long-term returns, it makes sense to still be in the car when the rope snaps back.

While we hope that market conditions are more favourable in 2023, we continue undiscouraged with our strategy of buying high quality, growing companies. Although style drift – the act of becoming less disciplined in the execution of your original strategy in an attempt to make money in all periods – may sound attractive after a year like 2022, it's only a short while before your North Star becomes so clouded by opportunism that you end up far away from a cohesive strategy and no longer know what type of investments you are looking for. Be assured, this will never happen at Smithson. As Mike Tyson famously said, "Everyone has a plan 'till they get punched in the mouth", but while we took plenty of punches this year, the plan has survived. We will continue to strive to allocate your capital as effectively as possible using the same long-term strategy, whatever the environment.

Simon Barnard
Fundsmith LLP
Investment Manager

27 February 2023

Investments held as at 31 December 2022

Security	Country of incorporation	Fair value £'000	% of investments
Moncler	Italy	136,953	5.7
Recordati	Italy	112,061	4.7
Sabre	USA	110,275	4.6
Verisign	USA	109,101	4.6
Simcorp	Denmark	102,126	4.3
Ambu	Denmark	100,536	4.2
Fortinet	USA	88,998	3.7
Masimo	USA	88,998	3.7
Domino's Pizza Enterprises	Australia	86,970	3.6
Fevertree Drinks	UK	86,966	3.6
Top 10 Investments		**1,022,984**	**42.7**
Domino's Pizza Group	UK	81,076	3.4
Rightmove	UK	79,113	3.3
Geberit	Switzerland	78,880	3.3
MSCI	USA	77,423	3.2
Cognex	USA	76,311	3.2
Equifax	USA	75,777	3.2
Diploma	UK	74,341	3.1
Nemetschek	Germany	73,883	3.1
Verisk Analytics	USA	73,539	3.1
Technology One	Australia	70,703	3.0
Top 20 Investments		**1,784,030**	**74.6**
Temenos	Switzerland	70,194	2.9
Fisher & Paykel Healthcare	New Zealand	68,459	2.9
Rational	Germany	64,203	2.7
IPG Photonics	USA	63,626	2.7
Qualys	USA	58,113	2.4
Addtech	Sweden	51,686	2.2
Spirax-Sarco Engineering	UK	51,381	2.1
Rollins	USA	49,631	2.1
IDEX	USA	47,396	2.0
Halma	UK	45,817	1.9
Paycom Software	USA	39,312	1.5
Total Investments		**2,393,848**	**100.0**

Investment Objective

The Company's investment objective is to provide shareholders with long term growth in value through exposure to a diversified portfolio of shares issued by listed or traded companies.

Investment Policy

The Company's investment policy is to invest in shares issued by small and mid-sized listed or traded companies globally with a market capitalisation (at the time of initial investment) of between £500 million and £15 billion. The Company's approach is to be a long-term investor in its chosen shares. It will not adopt short-term trading strategies. Accordingly, it will pursue its investment policy by investing in approximately 25 to 40 companies as follows:

(a) the Company can invest up to 10 per cent. in value of its gross assets (as at the time of investment) in shares issued by any single body;

(b) not more than 20 per cent. in value of its gross assets (as at the time of investment) can be in deposits held with a single body. This limit will apply to all uninvested cash (except cash representing distributable income or credited to a distribution account that the depositary holds);

(c) not more than 20 per cent. in value of its gross assets (as at the time of investment) can consist of shares issued by the same group. When applying the limit set out in (a) this provision would allow the Company to invest up to 10 per cent. in the shares of two group member companies (as at the time of investment);

(d) the Company's holdings in any combination of shares or deposits issued by a single body must not exceed 20 per cent. in value of its gross assets (as at the time of investment);

(e) the Company must not acquire shares issued by a body corporate and carrying rights to vote at a general meeting of that body corporate if the Company has the power to influence significantly the conduct of business of that body corporate (or would be able to do so after the acquisition of the shares). The Company is to be taken to have power to influence significantly if it exercises or controls the exercise of 20 per cent. or more of the voting rights of that body corporate; and

(f) the Company must not acquire shares which do not carry a right to vote on any matter at a general meeting of the body corporate that issued them and represent more than 10 per cent. of the shares issued by that body corporate.

The Company may also invest cash held for working capital purposes and awaiting investment in cash deposits and money market funds.

For the purposes of the investment policy, certificates representing certain shares (for example, depositary interests) will be deemed to be shares.

Hedging Policy

The Company will not use portfolio management techniques such as interest rate hedging and credit default swaps.

The Company will not use derivatives for purposes of currency hedging or for any other purpose.

Borrowing Policy

The Company has the power to borrow using short-term banking facilities to raise funds for short-term liquidity purposes or for discount management purposes including the purchase of its own shares, provided that the maximum gearing represented by such borrowings shall be limited to 15 per cent. of the net asset value at the time of drawdown of such borrowings. The Company may not otherwise employ leverage.

Investment Methodology and Management Process

The Investment Manager seeks to apply the investment methodology and management process summarised below (to the extent appropriate given the nature of a relevant investment opportunity):

Not attempting market timing

The Investment Manager will not attempt to manage the percentage invested in equities in the Company's portfolio to reflect any view of market levels, timing or developments. The Investment Manager's unwillingness to make investment decisions on the basis of market timing is one factor that will prevent the Company from investing in sectors that are highly cyclical.

Seeking high-quality businesses with specific characteristics and intangible assets

In the Investment Manager's view, a high-quality business is one which can sustain a high return on operating capital employed and which generates substantial cash flow, as opposed to only creating accounting earnings. If it also reinvests some of this cash back into the business at its high returns on capital, the Investment Manager believes the cash flow will then compound over time, along with the value of the Company's investment.

The Investment Manager will not just look for a current high rate of return, but will seek a sustainable high rate of return. Fundamentally, such companies need to demonstrate the ability to continue competing against all other companies which are trying to take a share of their profits. This can come in many forms, but the Investment Manager will look for companies that rely on intangible assets such as one or more of the following: brand names; patents; customer relationships; distribution networks; installed bases of equipment or software which provide a captive market for services, spares and upgrades; or dominant market shares.

The Investment Manager will generally seek to avoid companies that rely on tangible assets such as buildings or manufacturing plants, as it believes well-financed competitors can easily replicate and compete with such businesses. In many instances, such competitors are able to become better than the original simply by installing the latest technology in their new factory. Banks are quite keen to lend against the collateral of tangible assets, and such companies tend to be more heavily leveraged as a result. The Investment Manager believes that intangible assets are much more difficult for competitors to replicate, and companies reliant on intangible assets require more equity and are less reliant on debt as banks are less willing to lend against such assets.

The Investment Manager believes such companies will resist the rule of mean reversion that states returns will revert to the average over time as new capital is attracted to business activities which earn above average returns. They can do this because their most important assets are intangible and difficult for a competitor to replicate. Since stock markets typically value companies on the assumption that their returns will regress to the mean, businesses whose returns do not do so can become undervalued. This presents an opportunity for the Company.

The Investment Manager will seek businesses which have growth potential. The Investment Manager views growth potential as the ability of a company to be able to reinvest at least a portion of its excess cash flow back into the business to grow, whilst generating a high return on the cash thus reinvested. Over time, this should compound their shareholders' wealth by generating more than a pound of stock-market value for each pound reinvested.

The Investment Manager is interested in growth that is driven through either increases in volume or increases in price and will prefer a mixture of both. The ability to increase product prices above the rate of inflation is the most profitable way to grow and demonstrates that the company has a healthy competitive position selling products or services which are strongly desired by their customers. However, growth through price alone can build a shelter under which competitors can flourish, eventually resulting in cheaper competition gaining significant market share. On the other hand, growth through additional unit volumes almost always requires more cost, in both manufacturing capacity and materials used to produce the products, as well as transportation to get them to customers. Increasing scale in this way will eventually make a company's market position more difficult to compete against, however, unlike growing through price alone, with the further benefit that volume growth can sometimes continue indefinitely.

The Company will only invest in companies that earn a high return on their capital on an unleveraged basis and do not require borrowed money to function. The Investment Manager will avoid sectors such as banks and real estate which require significant levels of debt in order to generate a reasonable shareholder return given their returns on unlevered equity investment are low.

While the Investment Manager favours companies that are able and willing to spend cash on the research and development of their products to create important intangible assets such as patents and manufacturing efficiency, it will avoid industries that innovate very quickly and are subject to rapid technological change. Innovation is often sought by investors, but does not always produce lasting value for them and can have high capital costs.

Avoiding overpaying for shares

The Company will only invest in shares where the Investment Manager believes the valuation is attractive. The Investment Manager will estimate the free cash flow of every company after tax and interest, but before dividends and other distributions, and after adding back any discretionary capital expenditure which is not needed to maintain the business. The Investment Manager aims to invest only when free cash flow per share as a percentage of a company's share price (the "free cash flow yield") reflects value relative to long-term interest rates and when compared with the free cash flow yields of other investment candidates both within and outside the Company's portfolio. The Investment Manager will buy securities that it believes will grow and compound in value, which bonds cannot, at yields that are similar to or better than the Company would get from a bond.

Buying and holding

The Company will seek to be a long-term, buy-and-hold investor. The Investment Manager believes this will facilitate the compounding of the Company's investments over time as the investee companies continue to reinvest their cash flows. The Investment Manager, however, will continually test its original views against new information it may discover while regularly reviewing the news and results concerning the investee companies. The resulting low level of dealing activity also minimises the frictional costs of trading, a cost which is often overlooked by investors as it is not normally disclosed as part of the costs of running funds.

The Strategic Report on pages 2 to 31 has been prepared in accordance with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 to provide information to shareholders to assess how the Directors have performed their duty to promote the success of the Company.

The Strategic Report contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

Purpose, Strategy and Business Model

The Company is registered in England and Wales and is an externally managed investment trust; its shares are premium listed on the Official List and traded on the main market of the London Stock Exchange. It was established by its Investment Manager, Fundsmith LLP and listed on 19 October 2018.

The purpose of the Company is to provide a vehicle for investors to gain exposure to a portfolio of small and mid-sized listed or traded companies globally, through a single investment.

The Company's strategy is to create value for shareholders by addressing its investment objective. Please see page 2 for the investment objective and approach.

The Company is an alternative investment fund ("AIF") under the alternative investment fund managers' directive ("AIFMD") and has appointed Fundsmith LLP as its alternative investment fund manager ("AIFM").

As an externally managed investment trust the Company has delegated its operational activities to specialised third party service providers who are overseen by the Board of non-executive Directors. Details regarding the Company's key third party service providers are included in the Management Engagement Committee Report. The Company has no executive directors, employees or internal operations.

Key Performance Indicators ("KPI")

The Company's Board of Directors meets regularly and reviews performance against a number of key measures, as follows:

- Net asset value total return against the MSCI World SMID Cap Index measured on a net sterling adjusted basis;
- Share price total return;
- Premium/discount of share price to net asset value per share; and
- Ongoing charges ratio.

The KPI measures are Alternative Performance Measures ("APMs"). Please refer to the APM section and Glossary for definitions of these terms and an explanation of how they are calculated.

Net asset value total return against the benchmark

The Directors regard the Company's net asset value total return as being the overall measure of value delivered to shareholders over the long term. The Investment Manager's investment style is such that performance is likely to deviate from that of the benchmark index.

The Company's net asset value per share at 31 December 2022 was 1,410.7p and it reported a total loss after tax for the year of £967.7 million (2021: £503.7 million profit), comprising a capital loss of £972.0 million (2021: £512.1 million profit) and a revenue profit of £4.4 million (2021: revenue loss of £8.4 million) (see financial statements on pages 58 to 61). The net asset value total return for the year to 31 December 2022 was -28.1%[1] and the annualised net asset return for the period from listing on 19 October 2018 to 31 December 2022 was 8.5%[1]. The Board considers the MSCI World SMID Cap Index measured on a net, sterling-adjusted basis, to be the most appropriate comparator to the Company's performance. The returns generated by the MSCI World SMID Cap Index over the same periods were -8.7% and +7.4% respectively, thus the Company underperformed the benchmark by 19.4 percentage points for the year ended 31 December 2022 but has outperformed the Index by 1.1 percentage points, annualised for the period from the Company's listing to the year end.

A full description of performance during the period under review is contained in the Investment Manager's Review.

1 These are APMs Definitions of these and other APMs used in the Annual Report, together with how these measures have been calculated, are disclosed on pages 78 to 79.

Share price total return
The Directors also regard the Company’s share price total return to be a key indicator of performance.

The share price total return for the year to 31 December 2022 was -35.2%[1] and the annualised share price total return for the period from listing on 19 October 2018 to 31 December 2022 was +6.6%[1], underperforming the MSCI World SMID Cap Index reference benchmark by 26.5 percentage points and 0.8 percentage points respectively. The Company's share price moved from a premium to net asset value at the start of the year to a discount to net asset value. Further detail is given in the following section.

Premium/discount of share price to net asset value per share
The Board undertakes a regular review of the level of premium/discount and the average discount to net asset value for the year to 31 December 2022 was 6.1%. From 1 January until late February 2022, the Company’s shares had consistently traded at a premium to the net asset value, before predominantly trading at a discount to net asset value for the remainder of the year. The Board seeks to manage the premium/discount and generate value for shareholders through the issue of shares at a premium to net asset value or repurchase of shares at a discount to net asset value. To this end, during the period the Company’s shares traded at a premium to net asset value, the Company issued 5.4 million new ordinary shares at an average premium to the prevailing net asset value of 2.6%, raising net proceeds of £92.5 million. During the period the Company’s shares traded at a discount to the net asset value, the Company repurchased 5.7 million ordinary shares at an average discount to the prevailing net asset value of 8.7%, for a cost of £74.0 million (see page 60). Together, the share issues and repurchases generated a benefit to net asset value per share of approximately £7.4 million net of costs. The decision and timing of any share issuance and/or buy-back is at the discretion of the Board.

As at 31 December 2022, the discount of the Company’s share price to the net asset value per share was 7.3%[1].

The Directors intend to seek renewal at each Annual General Meeting of their authority to allot shares or to buy back shares with a view to managing the premium/discount as well as creating further shareholder value. Shares will only be issued at a premium to net asset value and bought back at a discount to net asset value.

If, after the end of the fourth financial year of the Company’s existence (being 31 December 2022) or any subsequent year, the Company’s shares have traded, on average, at a discount in excess of 10 per cent. of net asset value per share in any such year, the Directors will consider proposing a special resolution at the Company’s next Annual General Meeting that the Company ceases to continue in its present form. If such a vote is proposed and passed, the Board will be required to formulate proposals to be put to shareholders within four months to wind up or otherwise reconstruct the Company, having regard to the liquidity of the Company’s underlying assets. Any such proposals may incorporate arrangements which enable investors who wish to continue to be exposed to the Company’s investment portfolio to maintain some or all of their existing exposure.

Ongoing charges ratio
The Directors monitor the Company’s expenditure at each board meeting and review the ongoing charges ratio disclosed in the Interim and Annual Reports. The Directors regard the ongoing charges ratio as a measure of the regular recurring costs of running an investment company. Expressed as a percentage of average net asset value, the annualised ongoing charges ratio for the year was 0.9% (2021: 1.0%)[1]. The primary contribution to this fall in the Company's ongoing charges ratio was that the Investment Manager's fees were based upon the Company's market capitalisation which fell by a greater degree than the Company's net asset value. The Board seeks to manage and where possible to improve the ongoing charges ratio and to this end the Management Engagement Committee regularly reviews its service provider fee rates.

1 These are APMs. Definitions of these and other APMs used in the Annual Report, together with how these measures have been calculated, are disclosed on pages 78 to 79.

Risk Management

The Board is responsible for the ongoing identification, evaluation and management of emerging and principal risks faced by the Company and the Board has established a process for the regular review of these risks and their mitigation. This process accords with the UK Corporate Governance Code, the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting and the AIC Code of Corporate Governance and a description follows below.

- The Board maintains and regularly reviews a matrix of risks faced by the Company and controls in place to mitigate those risks. The impact and probability of those risks occurring after controls are performed are charted on a risk heat map and reviewed by the Board along with a risk appetite statement that reflects the Board's relative level of risk tolerance and establishes key triggers necessitating Board management. An annual formal review of the risk procedures and controls in place at the Investment Manager and other key service providers is performed. Emerging risks are actively discussed as part of this process and this should ensure that emerging (as well as known) risks are adequately identified and, so far as practicable, mitigated.

  The market and economic impacts of the war in Ukraine and the secondary impacts from the COVID pandemic continue to be monitored by the Board. The Investment manager and other key service providers gave updates throughout the year on operational resilience and portfolio exposure and impact from the Ukraine conflict.

- Each Director brings external knowledge of the investment company sector (and financial services generally), trends, threats as well as strategic insight;
- The Investment Manager advises the Board at quarterly Board meetings on industry trends, providing insight on future challenges in the markets in which the Company operates/invests. The Company's broker regularly reports to the Board on markets, the investment company sector and the Company's peer group;
- The Board receives quarterly reports from the Investment Manager's Compliance officer and the Depositary on any matters of regulatory concern and developments;
- The company secretary briefs the Board on forthcoming legislation/regulatory change that might impact on the Company. The auditor also provides updates which are relevant to the Company; and
- The Company is a member of the AIC, which provides regular technical updates as well as drawing members' attention to forthcoming industry/regulatory issues and advising on compliance obligations.

Principal Risks

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

1. Investment objective and policy risks

The Company may not achieve its investment objective.

The Company is dependent upon the Investment Manager's successful implementation of the Company's investment policy and ultimately on its ability to create an investment portfolio capable of generating attractive returns.

The Company is not constrained on weightings in any sector or geography. This may lead to the Company having significant exposure to portfolio companies from certain business sectors or based in certain geographies. Greater concentrations of investments in any one sector or geography may lead to greater volatility in the Company's investments and may adversely affect performance. This may be exacerbated by the small number of investments held at any time.

Mitigation

The Investment Manager has a proven and extensive track record, and the Board undertakes a review of the performance of the Company and its transactions at each quarterly Board meeting. The Investment Manager spreads the investment risk over a portfolio of investments in accordance with the Company's investment policy, and at the year end the Company held investments in 31 companies with details of the geographic and sector weightings given in the Investment Manager's Review.

2. Market risks

Price movements and stock market conditions may have a negative impact on the Company's portfolio and its ability to identify and execute suitable investments that might generate acceptable returns. Market conditions may also restrict the supply of suitable investments at a price the Investment Manager considers may generate acceptable returns.

If conditions (such as those experienced as a consequence of the COVID-19 pandemic or the current conflict in Ukraine) affecting the investment market negatively impact the price at which the Company is able to buy or dispose of its assets, this may have a material adverse effect on the Company's business and results of operations.

Interest rate movements may affect the level of income receivable on cash deposits and the interest payable both by the Company and by investee companies on their borrowings. In addition, where the Company invests in high growth investee companies, any increase in interest rates may compress the growth of such companies and therefore affect their valuations. As such, interest rate fluctuations may reduce the Company's returns.

The Company's ordinary shares are denominated in pounds sterling while the majority of the Company's investments are denominated in a currency other than pounds sterling. The Company does not hedge its currency exposures and changes in exchange rates may lead to depreciation in the Company's net asset value.

Mitigation

The Company's investment policy and the fact that it will not use hedging instruments to mitigate interest rate or foreign currency risk is clearly explained in the Owner's Manual (which can be found on the Company's website at www.smithson.co.uk). The Investment Manager has a proven and extensive track record and reports regularly to the Board on market developments. The Investment Manager's policy is to hold investments for the long term and not look at market timing issues.

Further details on Market and Financial Instrument risk are disclosed in note 15 to the financial statements.

3. Outsourcing risks

The Company has outsourced all its operations to third party service providers. Failure by any service provider to carry out its obligations in accordance with the terms of its appointment could result in negative implications for the Company. Such failures could include cyber breaches or other IT failures, fraud (including unauthorised payments by the administrator), poor record keeping and loss of assets and failure to collect all the Company's dividend income. Cyber incidents are becoming increasingly common and may cause disruption and impact business operations, potentially resulting in financial losses, theft, interference with the ability to calculate the Net Asset Value or additional operating costs. If the Investment Manager fails to identify risks or liabilities associated with investee companies adequately, this could give rise to an investee company not fitting the Company's investment policy or unexpected losses and adverse performance. The rapid spread of infectious disease such as the COVID-19 pandemic, and measures introduced to combat its spread, could cause disruption to the operations of the Company and its key service providers.

Mitigation

The Company has appointed experienced service providers, each of whom has a service agreement, and the performance of the key service providers is reviewed annually by the Management Engagement Committee. Cyber risk management questions were incorporated in this review to confirm the existence and application of cyber security controls and procedures. The Company's key service providers report periodically to the Board on their business continuity plans and procedures. The Board monitors the adequacy of controls in place at the key service providers and their planned response to an extended period of disruption, to ensure that the impact to the Company is limited. Each key service provider was asked to present reports on their actions and responses, all of which were entirely satisfactory, and there was no noticeable change in any of the key services provided.

The procedures of the AIFM, depositary and custodian are reviewed and tested by their external auditors and such reports on the service providers control environment are made available to clients. These reports are also reviewed by the Management Engagement Committee and where any control failures are identified, the key service provider is required to explain and provide assurance to the Company on any impact or potential risk to the Company and its mitigation.

4. Key individuals risk

Fundsmith LLP is responsible for managing the Company's investments. The Investment Manager relies on key individuals to identify and select investment opportunities and to manage the day-to-day affairs of the Company. There can be no assurance as to the continued service of these key individuals at the Investment Manager, and the departure of any of these from the Investment Manager without adequate replacement may have a material adverse effect on the Company's business prospects and results of operations.

Mitigation

The Investment Manager has a remuneration policy in place seeking to incentivise key individuals to take a long-term view. Additionally, the Company's key individuals are significantly invested in the Company (see note 17 to the financial statements), therefore their interests and the Company's shareholders are more aligned. Finally, the Investment Manager has plans in place to ensure continuity in the event of the departure of key individuals.

5. Regulatory risks

The Company benefits from the current exemption for investment trusts from UK tax on chargeable gains. Any change to HMRC's rules or the taxation of investee companies could affect the Company's ability to provide returns to shareholders.

Mitigation

The Investment Manager and the company secretary monitor proposed changes to tax rules and report to the Board thereon.

Viability Statement

In accordance with the UK Corporate Governance Code and the Listing Rules, the Directors have assessed the prospects of the Company over a longer period than the 12 months required by the "Going Concern" provision. The Company's investment policy is to buy good companies, not overpay and then do nothing. The Smithson Owner's Manual, a copy of which can be found on the Company's website at www.smithson.co.uk states "We will only invest in the equity of companies which we believe can compound in value over many years, if not decades, where we can remain a happy owner, safe in the knowledge that in 5 to 10 years' time our investment is likely to be worth significantly more than what we paid for it". When selecting or reviewing investments, the Investment Manager evaluates the prospects and risks which could affect investee companies over at least a 5 to 10 year period with a view to them being good long-term investments capable of generating the Company's required returns. The Board therefore believes that 10 years is the most appropriate time horizon to adopt for the Viability Statement.

In reviewing the Company's viability, the Board considered the Company's business model, the principal risks and uncertainties, including the economic and market conditions, higher inflation and interest rates arising from the continuing war in Ukraine, and its present and expected financial position. The Company is a closed-end fund which invests in listed or traded global securities which are inherently liquid. It does not intend to borrow (except in short term circumstances to manage a discount) nor will it use derivatives in any hedging operation. It receives dividend income from its investment portfolio with which it settles its operating expenses. Any shortfall in income available to settle expenses could be met by the Company's cash balances or by realising investments. The Board receives regular reports from the Investment Manager to confirm the average time to liquidate any investment position. At 31 December 2022 the Company had net assets of £2,418 million of which £2,394 million was held in listed investments and £24 million in cash (see page 59). At 31 December 2022, 91.5% of the Company's portfolio could be liquidated within 30 days. The Board therefore has substantial options to manage the Company's ongoing solvency.

The Board will consider putting a continuation vote to shareholders if in any year the Company's share price trades at an average discount of 10% or more to net asset value. During 2022, the average discount to NAV was 6.1%, the first period of a sustained discount since the launch of the Trust. The Board seeks to address the level of discount through the use of share buybacks and the Company intends to continue with its current programme of regular market purchases whilst the shares trade at a material discount to net asset value.

The Company benefits from certain tax benefits relating to its status as an investment trust. Any change to such taxation arrangements would inevitably affect the attractiveness of an investment in the Company and consequently its viability as an effective investment vehicle. At the time of consideration, no such changes in taxation arrangements are planned.

The Directors have assumed that:

- the Board will not change the Company's investment objective of providing shareholders with long-term growth in value;
- the premium/discount management programme described above will continue to operate in such way, that the Board will not elect to put a continuation vote to shareholders;
- the performance of the Company will continue to be satisfactory such that the shareholders will want the Company to continue in existence; and
- the Board will continue to manage the Company's business to ensure it retains its status as an investment trust.

Based on the results of this review, the Directors have formed a reasonable expectation that the Company will continue in its operations and meet its expenses and liabilities as they fall due over the next 10 years.

Section 172 of Companies Act 2006 Statement

The Board sets the Company's strategy and objectives, taking into account the interests of all its stakeholders. It is ultimately responsible for the direction, management, performance and long-term sustainable success of the Company. A good understanding of the Company's stakeholders enables the Board to consider the potential impact of strategic decisions on each stakeholder group during the decision-making process. By considering the Company's purpose, vision and values, together with its strategic priorities, the Board aims for its decisions to be fair and take account of the interests of the key stakeholder groups, together with the impact of its operations on the environment.

During the period under review, the Board believes that it has acted in good faith and discharged its duty per section 172 of the Companies Act 2006 ("s172"), to promote the success of the Company for the benefit of its members as a whole and having regard to the interests of stakeholders and the factors set out in s172. The Board performed its role as outlined in the schedule of matters reserved for the Board and taking into account the interests of the key stakeholders.

Company Culture and Values

Culture

The culture of the Company is set by the Board and is based on the values of the Company summarised below. The Board seeks to apply these values in all its dealings with its stakeholders and encourages the same values to be adopted by its key service providers.

Values

High Standards

The Directors want to ensure the success of the Company and generate long term value for its shareholders. To this end the Board will seek to adopt high standards of corporate governance and encourage best practice in all its activities. This approach extends to the Company's dealings with its stakeholders including shareholders, the Investment Manager and other service providers.

Honesty and Integrity

The Board seeks to comply with all relevant laws and regulations which apply to investment companies and has zero tolerance to bribery and corruption or any other fraudulent behaviour. The Board further expects the same standards to be applied by its service providers. As part of its service provider annual review, the Board seeks assurance of high standards from its service providers in relation to their policies with regard to governance including whistleblowing, tax evasion, human rights, modern slavery and bribery.

Transparency and accountability

The Board encourages clarity and transparency in its Board discussions and in communications with its stakeholders. The Board seeks to work with all service providers in a collaborative manner while at the same time recognising that the Board's role involves exercising oversight and challenge. The Board further recognises that it is accountable to shareholders and will endeavour to give a fair, balanced and understandable overview of the Company's performance to this end.

Company Sustainability and Stakeholders

As part of its work to evaluate its principal risks, the Board identified its key stakeholders, as applicable for the investment company, which can be summarised as follows:

- Investors;
- Investment Manager;
- Other key service providers; and
- Investee companies.

Examples below provide an overview of how the Board considered the factors set out in s172, including how its engagement with the Company's key stakeholders helps the Board in its decision-making.

Stakeholder Management

To understand the views of the Company's key stakeholders, the Board aims to ensure there is a regular and sustained engagement, which is to be taken into consideration in its decision-making and discussions.

Investors

Communications are key to establishing a meaningful relationship with our shareholders. The Company publishes monthly fact sheets and reports on its financial performance at the half year and year end, all of which are available on the Company's website. An Owners' Manual can be downloaded from the website which provides an understanding of the Investment Manager's goals and how they are to be achieved.

The Company raised £822 million in its initial public offering ("IPO") in October 2018, which was the largest amount that had been raised by any investment trust Initial Public Offering ('IPO') on the London Stock Exchange to that date.

From inception until April 2022 the Company continuously issued new shares at a premium to NAV (net of all costs). The Company's shares began the year trading at a 3% premium to NAV but in late February the shares began trading at a discount, ending the year at a discount of (7.3)%[1]. The average discount across the year was (6.1)%, the first period of a sustained discount since the launch of the Trust. In response to the emergence of the discount, the Board, in consultation with its advisers and the investment manager, has sought to address the situation through the use of share buybacks. The Company started to buy back shares at the end of April, and by the end of December 2022 had acquired 3.2% of the total shares in issue. A further 0.6% has since been bought back and at 22 February 2023, the discount was 8.6%. The Company intends to continue with its current programme of regular market purchases whilst the shares trade at a material discount. As a matter of law, the Company is only permitted to fund purchases of its own shares out of its distributable reserves or the proceeds of a fresh issue of shares. To ensure that a lack of distributable reserves does not prevent the Board in the future from continuing share buybacks when they feel they are appropriate, the Board at a General Meeting held 6 February 2023, obtained the approval of shareholder to apply to the High Court to reduce the Company's share premium by £500 million. The reduction, if approved by the High Court, will result in a corresponding increase in the Company's distributable reserves to facilitate future buybacks. All shares purchased are held in Treasury and will only be reissued at a premium, net of all costs. An application has been made to the High Court to sanction the capital reduction.

The Board is seeking to renew its authorities to issue and buyback shares at the Company's AGM (for further details, please see pages 35 to 36) with a view to managing the premium/discount and to continue to create value for shareholders. The Board is mindful that there should be an active, liquid market in the Company's shares. As a closed-ended fund listed on the Premium segment of the main market, shareholders should always be able to exit through the stock market. The Board recognises the importance of shareholders being able to sell at a price not disadvantageous to them and the premium/discount to net asset value at which the Company's shares trade is monitored at all times.

The Board encourages communications with its Investment Manager and key service providers to be open and transparent, with all parties working together in a collaborative manner at the same time as the Board exercising oversight and challenge (further information can be found in the Business Review section, describing the Key Performance Indicators). The Board believes that effective risk management contributes to the safeguarding of shareholder value and successful operation of the Company and therefore assesses and manages, where possible or appropriate, the risks faced by the Company.

During the year the Board took the decision to increase the size of the Board to four non-executive Directors, with Denise Hadgill being appointed effective 1 June 2022. This decision was taken as part of the Board's succession planning and to broaden the experience and diversity of the Board for the benefit of the Company and its shareholders as a whole.

The Company and Investment Manager are seeking to promote an investor base that is interested in a long-term holding in the Company. The Board, through the Company's broker and the Investment Manager, maintains regular contact with shareholders and welcomed shareholders in May 2022 to the first in person AGM since the IPO and the lifting of COVID-19 restrictions. It is the intention that the full Board will attend the forthcoming AGM and the Chairman will chair the meeting. Shareholders have the opportunity to attend the AGM where they can question the Board and representatives of the Investment Manager. The Chairs of the Board's committees will also

[1] These are APMs Definitions of these and other APMs used in the Annual Report, together with how these measures have been calculated, are disclosed on pages 78 to 79.

normally attend the AGM, to engage with shareholders on significant matters related to their areas of responsibility.

The Directors welcome the views of all shareholders and place considerable importance on maintaining open dialogue with them. Shareholders wishing to contact the Chairman, or any other member of the Board, may do so at any time by writing to the company secretary. Alternatively, the Chairman can be emailed at the following address: smithsonchairman@fundsmith.co.uk.

Directors take into account the proxy voting agencies guidelines to assess the voting recommendations published to shareholders ahead of AGM. This is a helpful tool to understand the investors' views on certain resolutions.

Shareholder feedback is discussed in Board meetings with the broker and Investment Manager, whether received directly to the Board or through the Investment Manager and broker's shareholder meetings and the Board is pleased that the feedback received remained positive throughout the period. The Board also received a number of questions on the Company's performance and strategy ahead of and during a question and answer session at the AGM which were either addressed in the manager's presentation or responded to directly. The Company's shareholder engagement strategy and details of shareholder communications can be found on page 40.

In addition to this, the Investment Manager engages with shareholders at regular webinars, where questions are received and answered. The majority of the questions are around the fundamentals of the investee companies and whether they continue to be congruent with the Company's investment philosophy. In all cases it is noted that this is the case, with specific attention paid towards regular meetings with the investees' executive management and ensuring that investment criteria are being met in all areas.

Investment Manager
As explained above, the Company's business model is such that it has no employees and relies on services provided by third party service providers to manage the Company's operations. The Investment Manager is the most significant service provider of the Company, and a description of its role can be found in the Report of the Directors on page 33.

The Board receives regular reports from the Investment Manager, discusses the portfolio at each Board meeting as well as maintaining a constructive dialogue between meetings. Additionally, the Board held a strategy session in November 2022 at which the Board and Investment Manager discussed in detail the performance of the Company's portfolio of investments and the investible universe for the Company. The Board and Investment Manager along with the broker also discussed at the strategy session the investment trust market and the Company's position within it, the Company's portfolio structure as well as ESG considerations (including diversity) and shareholder engagement strategies. A representative of the Investment Manager also attends each quarterly Board meeting and most ad hoc meetings.

The Investment Manager's remuneration is based on the market capitalisation of the Company which aligns the manager's interests with those of shareholders. Furthermore, partners and employees of the Investment Manager are significantly invested in the Company as disclosed in note 17 of the financial statements; further aligning the Investment Manager's interests with those of the shareholders. The Investment Manager paid costs of £5.1 million in respect of the Company's IPO and the Placing Programme prospectus issued in 2020. This means that shareholders' investment was not discounted by the cost of the IPO and that the Company only gains from its ordinary share issues, as prospectus costs were met. This is unusual for investment trusts and is a testament to the relationship which the Company enjoys with its Investment Manager.

The Management Engagement Committee reviews the performance of the Investment Manager, its remuneration and the discharge of its contractual obligations at least annually. Further detail on the Committee's activities and recommendations can be found in the Management Engagement Committee Report on pages 45 to 46.

Other key service providers
In ensuring the smooth operation of the Company, the Board also monitors the performance of other key service providers such as the fund administrator, depositary and custodian (please see the Management Engagement Committee Report) and maintains regular contact through direct reports at Board meetings or through the company secretary to ensure there is open dialogue and good relationship management at the Board level. Additionally, in view of the operational challenges and restrictions caused by the COVID-19 pandemic, the Board continues to receive regular updates and

1 These are APMs Definitions of these and other APMs used in the Annual Report, together with how these measures have been calculated, are disclosed on pages 78 to 79.

assurance on the operational effectiveness of its key service providers, taking this feedback into consideration when assessing the Company's risks. The Board was pleased to note its service providers continued to operate effectively.

In maintaining the Company's reputation and high standards of business conduct, the Board is provided with regular reports from the Company's broker and company secretary who alert the Board to recent and proposed changes in regulation and market practice, as well as any likely reputational threats which, in turn, influence the Board's decision-making process. The Company's corporate values, established to manage its business relationship with its stakeholders, are stated above and the Company's approach on anti-bribery and prevention of tax evasion can be found below and on the Company's website at www.smithson.co.uk. The Board also seeks assurance of high standards from its service providers as regards governance including whistleblowing, tax evasion, and bribery as part of its service provider annual review. The Board also periodically reviews the market rates for services provided, to ensure that the Company continues to receive high quality service at a competitive cost.

Investee companies

As an investment trust with no trading activity and an outsourced business model, the Company has no direct social, community or environment responsibilities. However, the Company does have such responsibilities through its investment portfolio. The Company is a long-term investor (please see Owner's Manual at the Company's website at www.smithson.co.uk) and the Investment Manager's Review sets out how the Investment Manager considers ESG matters and explains and summarises their approach and engagement with investee companies. Fundsmith are signatories of the United Nations Principles for Responsible Investment and their ESG approach is overseen by the Fundsmith Stewardship and Sustainability Committee, on which the Company's manager, Simon Barnard, sits. The Board is satisfied that the Investment Manager is actively managing ESG risks and is diligent in its stewardship responsibilities.

The Company recognises the increased interest in reporting on ESG matters and supports the Association of Investment Companies ("AIC") initiative to provide information on investment companies' ESG practices in a centralised database and accordingly has submitted its own commentary in that regard and shareholders can access the statement on the Company's information page of the AIC website (www.theaic.co.uk) and on the Company's website at www.smithson.co.uk.

ESG initiatives of the investee companies are included in the Investment Manager's Review on page 15.

Dividend Policy

The Company's intention is to look for overall return rather than seeking any particular level of dividend. The Company will comply with the investment trust rules regarding distributable income which states that 85% of recognised income be distributed to shareholders.

Any dividends and distributions will be at the discretion of the Board. Subject to the Companies Act, the Company may, by ordinary resolution, declare a final dividend to be paid to members of the Company according to their rights and interests in the profits of the Company available for distribution, but no dividend shall be declared in excess of the amount recommended by the Board. The Company does not intend to pay any interim dividends.

Were the Company to be in a position to pay a dividend, then it may, subject to complying with all relevant criteria and with the approval of the shareholders by ordinary resolution, choose to offer shareholders a scrip dividend alternative or may establish a scrip dividend scheme that would allow shareholders to receive ordinary shares instead of a cash dividend.

Environmental Matters

As mentioned earlier, the Company is an investment company. As such, it does not have any physical assets, property, employees or operations of its own. The Company does not provide goods or services in the normal course of its business and nor does it have customers. In consequence, the Company has no greenhouse gas emissions to report from its operations. As the Company has no material operations and therefore has little to no energy use, it falls below 40,000kWh of energy use and is therefore exempt from the disclosures under the Companies (Directors' Report) and Limited Liability Partnership (Energy and Carbon Report) Regulations 2018 or Streamlined Energy and Carbon Reporting criteria. The Investment Manager evaluates environmental matters concerning investee companies as summarised in the Investment Manager's Review.

Due to an outsourced business model, the Company has no direct environmental responsibilities, but it does have such through its investment portfolio.

ESG Integration

The Company aims to be a long-term, buy-and-hold investor, building a portfolio of high-quality companies that will generate superior, risk-adjusted returns over the long term. As a long-term investor, developing a detailed understanding of the business, its industry, and the variety of risks and opportunities that may influence the performance of the companies we invest in is essential. Assessment of the risks associated with the business environmental and social performance, as well as the quality of corporate governance, known as ESG factors, is a fully integrated component of our pre-investment research; poor ESG performance can generate significant, negative impacts on the financial performance of the company as well as increase its risk profile, particularly over the long term. The Company builds an investable universe of, as we define them, “good companies”. Good companies are those that can generate a sustainable high return on invested capital over the full business cycle and have the ability to reinvest these returns to generate consistent growth.

Please see ESG Integration document and Owner’s Manual at the Company’s website at www.smithson.co.uk and the Investment Manager’s Review to read more on how the Investment Manager considers environmental matters.

Exercise of Voting Powers and Stewardship Code

The Company and the Investment Manager support the UK Stewardship Code issued by the Financial Reporting Council. Voting on investee company shareholder resolutions is undertaken by the Investment Manager. A copy of Fundsmith’s Responsible Investment Policy and a report on its voting at investee shareholder meetings in 2021 and the first half of 2022 can be found on the Investment Manager's website at www.fundsmith.co.uk. During the year to 31 December 2022, 403 votes were cast by the Investment Manager of which 97.8% were voted in favour of the resolution and 2.2% against. Of the 403 votes cast, 47 related to management remuneration and the Investment Manager voted against the company management on 17% of these.

Modern Slavery Disclosure

Due to the nature of the Company’s business, being a company that does not offer goods or services to customers, the Board considers there are no relevant disclosures with regard to the Modern Slavery Act 2015 in relation to the Company’s own operations. The Board considers the Company’s supply chains, dealing predominately with professional advisers and service providers in the financial services industry, to be low risk in this regard.

Anti-bribery and Corruption

The Company takes a zero-tolerance approach to bribery and corruption and is committed to acting professionally, fairly and with integrity in all its business dealings and relationships wherever it operates. The Company’s policy and the procedures that implement it are designed to support that commitment. A summary of the Company’s anti-bribery and corruption policy can be found on the Company’s website at www.smithson.co.uk.

Prevention of the Facilitation of Tax Evasion

In response to the Criminal Finances Act 2017, the Board has adopted a zero-tolerance approach to the criminal facilitation of tax evasion. A summary of the Company’s policy can be found on the Company’s website at www.smithson.co.uk.

Employees, Human Rights and Community Issues

The Board recognises the requirement to provide information about employees, human rights and community issues. As the Company has no employees, all its Directors are non-executive and all its functions are outsourced, there are no disclosures to be made in respect of employees, human rights and community issues. As at the date of this report the Company had four Directors, of whom two are male and two are female. The Board’s policy on diversity is contained in the Corporate Governance Report of the Annual Report.

Conclusion

The Board is mindful of the directors’ duties as described by s172 in considering the interests of stakeholders when deliberating all important decisions. Work of the Board and its Committees is described in the Governance Report on pages 37 to 40.

Strategic Report

The Strategic Report set out in the Annual Report was approved by the Board of Directors on the 27 February 2023.

On behalf of the Board

Diana Dyer Bartlett
Chairman

27 February 2023

Board of Directors

The directors who held office at the date of this report are:

Diana Dyer Bartlett
(Chairman)

Appointed 14 September 2018

Diana Dyer Bartlett was Chairman of the Audit Committee from the Company's IPO in 2018 until 1 March 2022 when she was appointed Chairman of the Board. After qualifying as a chartered accountant with Deloitte Haskins & Sells, Diana spent five years in investment banking with Hill Samuel Bank. Since then, she has held a number of roles as finance director of various venture capital and private equity backed businesses and listed companies involved in software, financial services, renewable energy and coal mining. She was also company secretary of Tullett Prebon plc and Collins Stewart Tullett plc. Diana is currently a non-executive director and Chairman of the Audit Committee of Mid Wynd International Investment Trust plc and Schroder British Opportunities Trust plc.

Lord St John of Bletso
(Audit Committee Chairman)

Appointed 14 September 2018

Lord St John has been an active Member of the House of Lords since 1978. He serves as non-executive Chairman of Strand Hanson Ltd, Integrated Diagnostics Holdings Plc and Yellow Cake plc. He also serves as a non-executive director of Gulf Marine Services plc. He has advisory roles with GeoBear Engineering, Bell Technologies, Betway and Wet Holdings. He worked for almost 20 years in the City with Natwest Securities, Smith New Court and Merrill Lynch. He qualified and practised as a lawyer in South Africa after graduating with BA, BsocSc, Bproc and LLM degrees.

Jeremy Attard-Manche
(Management Engagement Committee Chairman)

Appointed 1 March 2022

Mr Attard-Manche was a partner at Tell Investments, which he jointly founded in 2002, and managed three Cayman-registered hedge funds, with total assets under management of c. EUR 1 billion. Prior to this, he worked at James Capel and then held a number of roles with Merrill Lynch including Managing Director responsible for all hedge fund distribution in Europe (including cash, equity-linked and prime brokerage products) and as head of the London-based team of Pan European specialist and generalist research salesmen. He is a non-executive Director of RQ Ratings Ltd, Evan Evans Group Ltd and a Managing Trustee of the Plan with Grace Trust.

Denise Hadgill

Appointed 1 June 2022

Mrs Hadgill was formerly a Managing Director at BlackRock and Head of the UK Product Specialist Group and prior to this, a UK Equity Fund Manager at Schroder Investment Management Limited. She is a non-executive director and Chair of the Investment Committee of PG Mutual, a non-executive director of Henderson Diversified Income Trust plc, and a non-executive director of Chelverton UK Dividend Trust plc and its wholly owned subsidiary, SDV 2025 ZDP plc.

All of the directors are members of the Audit Committee and the Management Engagement Committee.

The Directors present their report on the affairs of the Company, together with the audited financial statements and the Independent Auditor's Report for the year to 31 December 2022. The Corporate Governance Report on pages 37 to 40 forms part of this report. Disclosures relating to performance, future developments and viability and risk management can be found in the Strategic Report on pages 2 to 31 and are incorporated in this report by reference.

Legal and Taxation Status

The Company is registered as a public limited company in England and Wales (Registered Number 11517636) and is an investment company within the terms of Section 833 of the Companies Act 2006 (the "Act"). Its shares are listed on the premium segment of the Official List and traded on the main market of the London Stock Exchange. The Company is an approved investment trust under sections 1158 and 1159 of the Corporation Tax Act 2010 and Part 2 Chapter 1 of Statutory Instrument 2011/2999. The Directors are of the opinion that the Company has conducted its affairs so as to be able to retain such approval.

Investment Management

The Company's investments are managed by Fundsmith LLP. Simon Barnard and Will Morgan are the day-to-day fund managers and Terry Smith oversees their activities as Chief Investment Officer. Fundsmith's services are provided pursuant to an agreement entered into on 17 September 2018 and include, amongst other things, advising on how monies are invested or divested, how rights conferred by the investments should be exercised, how income should be collected and on market trends etc. The Investment Manager fulfils the regulatory role of AIFM.

The Investment Manager is entitled to receive a fee from the Company which is an amount equal to 1/365 multiplied by 0.9% of the market capitalisation of the Company accruing daily, but payable monthly in arrears. The Investment Management Agreement may be terminated by either party on twelve months' notice.

The Management Engagement Committee has reviewed the continuing appointment of the Investment Manager. Further details of the review and conclusions are provided at the Management Engagement Committee Report.

Fund Administration, Depositary and Custody

Responsibility for the Company's fund administration, cash monitoring and processing transactions of the Company's investments is with Northern Trust Global Services and safeguarding the Company's assets was the responsibility of Northern Trust Global Services SE both of whom were appointed on 17 September 2018. As a result of UK regulatory changes brought about by the UK's decision to leave the EU, depositary services were transferred from Northern Trust Global Services SE on 1 September 2021 to Northern Trust Investor Services Limited, a UK incorporated entity established by the Northern Trust Company to provide depositary services to UK companies. The Depositary provides the following services:

- safekeeping and custody of the Company's custodial investments and cash;
- processing of transactions and foreign exchange services;
- taking reasonable care to ensure that the Company is managed in accordance with the AIFMD, the FUND sourcebook and the Company's articles of association in relation to the net asset value per share and the application of income of the Company; and
- monitoring the Company's compliance with investment restrictions and leverage limits set in its offering documents.

Results and Dividends

The Company reported (see page 58) a total loss after tax for the year of £967.7 million (2021: £503.7 million profit), comprising a capital loss of £972.0 million (2021: £512.1 million profit) and a revenue profit of £4.4 million (2021: revenue loss of £8.4 million). The Company had prior year revenue losses of £11.0 million and therefore at 31 December 2022 the Company's Revenue Reserve was a loss of £6.6 million. The Directors did not pay an interim dividend and are not proposing a final dividend for the period ended 31 December 2022.

This is consistent with the Company's policy of focusing on long-term capital growth and only declaring dividends to the extent required to maintain the Company's tax status as an investment trust.

Going Concern

The Directors have adopted the going concern basis in preparing the financial statements. The following is a summary of the Directors' assessment of the going concern status of the Company, which included consideration of the risks and impact of the macroeconomic backdrop such as uncertainty over inflation and higher interest rates along with secondary effects of the COVID-19 pandemic and the continuing war in Ukraine, and which should be read in conjunction with the Viability Statement.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least twelve months from the date of this document. In reaching this conclusion, the Directors have considered the liquidity of the Company's portfolio of investments as well as its cash position, income and expense flows. The Company's net assets at 31 December 2022 were £2,418 million (2021: £3,367 million). As reported on pages 58 to 61, at 31 December 2022, the Company held £2,394 million in listed investments (2021: £3,339 million) and had cash of £24.6 million (2021: £32.1 million). The Company has no borrowings. The Company had dividend income net of withholding taxes of £27.6 million in the year to 31 December 2022 (2021: £19.1 million). The total revenue operating expenses for the year ended 31 December 2022 were £23.5 million (2021: £27.5 million) and the Company had a revenue profit of £4.4 million (2021: loss of £8.4 million). Therefore, at the date of approval of this document, based on the aggregate of investments and cash held, the Company has substantial operating expenses cover.

Leverage

For the purposes of the Alternative Investment Fund Managers (AIFM) Directive, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. The Company did not employ any leverage during the year ended 31 December 2022.

Financial Instruments

The Company's financial instruments comprise its investment portfolio, cash balances and debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. The financial risk management objectives and policies arising from its financial instruments and the exposure of the Company to risk are disclosed in note 15 to the financial statements and the Company's hedging policy on page 18.

Directors' Indemnities and Directors' and Officers' Liability Insurance

The Directors and officers of the Company are entitled to be indemnified against all losses and liabilities which they may sustain in the execution of the duties of their office, except to the extent that such an indemnity is not permitted by sections 232 or 234 of the Companies Act. Subject to sections 205(2) to (4) of the Companies Act, the Company may provide a Director with funds to meet their expenditure in defending any civil or criminal proceedings brought or threatened against them in relation to the Company. The Company may also provide a Director with funds to meet expenditure incurred in connection with proceedings brought by a regulatory authority.

The Company's Directors are covered by Directors' and Officers' Liability insurance.

Investment Manager's Interests

As at 31 December 2022, Terry Smith and other founder partners and key employees of the Investment Manager directly or indirectly and in aggregate, held 1.7% (2021: 1.7%) of the issued share capital of the Company.

Significant Interests

As at the year end and at the date of this report, the following investors had declared a notifiable interest in the Company's voting rights:

	31 December 2022		22 February 2023	
	No of shares	% of issued share capital	No of shares	% of issued share capital
Brewin Dolphin Limited	7,041,512	4.10%	7,041,512	4.13%
Rathbones*	5,739,467	3.35%	5,739,467	3.37%

* Rathbone Investment Management Ltd and Rathbone Investment Management International Ltd

Share Capital and Voting Rights

As at 22 February 2023 (the latest practical date before publication of the Annual Report) the Company's issued share capital consisted of 177,107,958 Ordinary Shares. There are 6,750,000 treasury shares in issue. Therefore, the total voting rights in the Company as at 22 February 2023 were 170,357,958.

The holders of the ordinary shares are entitled to receive, and to participate in, any dividends declared in relation to the ordinary shares. On a winding-up or a return of capital by the Company, the holders of ordinary shares are entitled to all of the Company's remaining net assets after satisfaction of the Company's liabilities.

The ordinary shares carry the right to receive notice of, attend and vote at general meetings of the Company. The consent of the holders of ordinary shares is required for the variation of any rights attached to the ordinary shares. Holders of ordinary shares have one vote per share held.

There are no restrictions concerning the transfer of securities in the Company, no special rights with regard to control attached to securities, no restrictions on voting rights, and no agreements between holders of securities regarding their transfer which are known to the Company.

The Board is not aware of any significant agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid, nor any agreements with the Company and its Directors for compensation for loss of office that occurs because of a takeover bid.

During the year, the Company issued 5.4 million ordinary shares at an average price of £17.21, raising net proceeds of £92.5 million. The average premium to the prevailing net asset value at which these new shares were issued was 2.62%. Also, during the year the Company bought back to hold in Treasury 5.7 million ordinary shares at a total cost of £74.0 million. The average discount to the prevailing net asset value at which these new shares were purchased was 8.66%. The share issues and buybacks represented 3.1% and 3.3% of the Company's issued share capital at the start of the year. For more details, please see the Statement of Changes in Equity in the financial statements.

In the period from 31 December 2022 to 22 February 2023, (the latest practicable date before publication of the Annual Report), a further 1,050,000 ordinary shares have been bought back at an aggregate net cost of raising aggregate net proceeds of £15.0 million. The average price at which these new shares were purchased was £14.18.

Charitable and Political Donations

There were no charitable or political donations made during the year to 31 December 2022 (2021: nil).

Board Appointments, Re-election and Removal

All appointments to the Board and re-elections of Directors and removal of Board members are carried out in accordance with the Companies Act and the Company's Articles of Association. In accordance with best practice and developing Corporate Governance, Directors stand for re-election on an annual basis.

Annual General Meeting

The Company's Annual General Meeting ("AGM") will be held at 1.00 pm on 27 April 2023 at the Max Rayne Auditorium, The Royal Society of Medicine, 1 Wimpole Street, Westminster, London W1G 0AE. The Notice of AGM will be sent to all shareholders entitled to receive such notice.

The Board supports the principle that the AGM be used to communicate with private investors. It is the intention that the full Board will attend the AGM and the Chairman will chair the meeting. Shareholders can attend the AGM where they will have opportunity to question the Chairman, the Board and representatives of the Investment Manager.

Only members on the register of members of the Company as at close of business on 25 April 2023 (or two days before any adjourned meeting, excluding non-business days) will be entitled to vote at the AGM. Any proxy must be lodged with the Company's registrars or submitted to CREST by 25 April 2023 at 1.00 p.m. or at least 48 hours, excluding non-business days, before any adjourned meeting.

Shareholders will hear a presentation by the Investment Manager Simon Barnard, which will also be made available on the Company's website at www.smithson.co.uk after the meeting.

Special resolutions dealing with the disapplication of pre-emption rights on the allotment of shares, the repurchase of shares, and to convene general meetings other than annual general meetings on no less than 14 days' notice will be put to the AGM.

Authority to issue shares

At the Annual General Meeting held on 3 May 2022, the Board was granted authority to issue a total of up to 35,386,590 ordinary shares (being 20% of the ordinary shares in issue as at 10 March 2022, the latest practicable date before publication of the Notice of AGM), without pre-emption rights. Since the 2022 AGM, no ordinary shares have been issued under the authorities granted. The authorities expire at the 2023 AGM. The Board intends to seek authority to issue without pre-emption rights, up to a further 20% of its issued share capital as at 22 February 2023 (the latest practicable date before publication of the Notice of AGM) at the forthcoming Annual General Meeting. Shares will only be issued at a premium to the then prevailing net asset value.

Authority to Buy back shares

The Board was granted authority at the 2022 Annual General Meeting, to buy back up to 26,522,250 ordinary shares, representing 14.99% of the ordinary shares in issue as at 10 March 2022, the latest practicable date before publication of the Notice of AGM. 5.7 million ordinary shares were bought back during the year to 31 December 2022 and 1,050,000 since the year end up to the date of this report. The Board recommends that a new authority to purchase up to 25,536,657 ordinary shares which represents 14.99% of the ordinary shares in issue at 22 February 2023 (the latest practicable date before publication of the Notice of AGM) be granted and a resolution to that effect will be put to the AGM. Any ordinary shares purchased will either be cancelled or, if the Directors so determine, held in treasury. Shares will only be bought back at a discount to the then prevailing net asset value.

Convening General meetings

The Board seeks shareholder approval for the Company to hold General Meetings (other than the Annual General Meeting) at 14 clear days' notice. The Company will only use this shorter notice period where it is merited by the purpose of the meeting.

The Board considers that all the resolutions put forward at the AGM are in the best interests of the shareholders as a whole. Accordingly, the Board unanimously recommends to the shareholders that they vote in favour of the resolutions to be proposed at the forthcoming AGM as the Directors intend to do in respect of their own beneficial holdings. The explanatory notes to the Notice of AGM describe each resolution and explain the reasons for the Board's recommendation.

Information to be disclosed in accordance with Listing Rule 9.8.4

Listing Rule ("LR") 9.8.4 requires the Company to include certain information in a single identifiable section of the Annual Report or a cross reference table indicating where the information is set out. The Directors confirm that there are no disclosures to be made in this regard, other than in accordance with LR 9.8.4(7) relating to details of the allotment of shares for cash, the information of which is detailed on page 70 under Share Capital.

Events after the Reporting Period

Since 31 December 2022 and up to 22 February 2023, (the latest practicable date before publication of the Annual Report), the Company has bought back 1,050,000 ordinary shares for a net cost of £15.0 million.

On 6 February 2023, shareholder approval was obtained to apply to the High Court to reduce the Company's share premium by £500 million. The reduction, if approved by the High Court, will result in a corresponding increase in the Company's distributable reserves to facilitate future buybacks.

Auditor Information

Each of the Directors at the date of the approval of this report confirms that:

(i) so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and

(ii) the Director has taken all steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

In accordance with Section 489 of the Companies Act 2006, a resolution to re-appoint Deloitte LLP as the Company's auditor will be put forward at the forthcoming Annual General Meeting.

On behalf of the Board

Diana Dyer Bartlett
Chairman

27 February 2023

The Corporate Governance Report forms part of the Report of the Directors.

The Listing Rules and the Disclosure Guidance and Transparency Rules of the UK Listing Authority require listed companies to disclose how they have applied the principles and complied with the provisions of the UK Corporate Governance Code, as issued by the Financial Reporting Council ("FRC") in 2018 ("UK Code"). The UK Code can be viewed on the FRC's website (www.frc.org.uk).

The Board has also considered the Principles and Provisions of the Association of Investment Companies Code of Corporate Governance, as issued in 2019 ("the AIC Code"). The AIC Code is available on the AIC website (www.theaic.co.uk). It includes an explanation of how the AIC Code adapts the Principles and Provisions set out in the UK Code to make it relevant for investment companies.

The Financial Reporting Council which issues the UK Code, has confirmed that, by following the AIC Code, boards of investment companies will be meeting their obligations under LR 9.8.6 of the Listing Rules. The Board therefore considers that as an investment company, reporting against the Principles and Provisions of the AIC Code provides more relevant information to shareholders and meets its obligations under the UK Code and associated disclosure requirements under LR 9.8.6 of the Listing Rules.

The Board considers that the Company has complied with the recommendations of the AIC Code except for the provisions relating to the appointment of a senior independent director and the need for Remuneration and Nomination committees.

As the Board is small in number, having just four Board members, the Board does not consider that it is necessary to appoint a senior independent director as the role can be performed by the Board as a whole. Shareholders are invited to contact any of the Directors, if they have any concerns which they wish to raise. The Audit Committee Chairman is responsible for leading the performance review of the Chairman instead of a senior independent director and the Board as a whole is responsible for agreeing the succession plan for the Chairman. The Board as a whole fulfils the function of the Nomination Committee and the Remuneration Committee and therefore has not reported further in respect of these provisions.

The UK Code additionally includes provisions relating to the role of the chief executive, executive directors' remuneration and the need for an internal audit function. The Company has no chief executive or other executive directors and therefore has no need to consider the remuneration of executive directors.

In addition, the Company does not have any internal operations and therefore does not maintain an internal audit function. However, the Audit Committee considers the need for such a function at least annually (see page 43 for further information).

The Chair of the Board should not be a member of the Audit Committee per the UK Code. However, the AIC Code permits the Chair to be a member of, but not chair the Audit Committee if they were independent on appointment. The Chairman was independent on appointment, and in view of the size of the Board, the Directors feel it is appropriate for the Chairman to be a member of the Audit Committee.

The Board

The Board has overall responsibility for the effective stewardship for the Company's affairs. Its primary responsibility is to promote the long-term sustainable success of the Company, generate value for shareholders and have regard to stakeholder interests. It also establishes the Company's purpose, values and strategy, and satisfies itself that these and its culture are aligned. It has a number of matters formally reserved for its approval including strategy, investment policy, gearing, treasury matters, dividend and corporate governance policy. The Board approves the financial statements, revenue budgets and reviews the performance of the Company. A copy of the matters reserved to the Board is available from the company secretary or on the Company's website at www.smithson.co.uk. Full and timely information is provided to the Board to enable the Board to function effectively and to allow Directors to discharge their responsibilities.

The Board considers the balance of skills, knowledge, diversity (including gender and ethnicity) and experience, amongst other factors when reviewing its composition and appointing new Directors and encourages applications from candidates from a broad range of background and experience and will seek to appoint the most suitable candidate. The Board has considered the recommendations of the McGregor-Smith and the Hampton-

Alexander reviews as well as the Parker review, but does not consider it appropriate to establish targets or quotas in these regards. The Board has considered the new FCA Listing Rule 9.8.6R (9)(a) requirements which apply to accounting periods commencing on or after 1 April 2022 and will report in detail on diversity targets for the year ending 31 December 2023. However, it should be noted that the Board currently comprises four non-executive Directors of whom 50 per cent. are female, the Chairman is female and all Directors are classified as White British or Other White.

On 15 February, two board changes were announced which took effect at the end of the month. Mark Pacitti retired from the Board and as Chairman on 28 February 2022 and Diana Dyer Bartlett (who was previously Chairman of the Audit Committee) assumed the role of Chairman of the Company; Lord St John of Bletso (who was Chairman of the Management Engagement Committee) became Chairman of the Audit Committee.

The Board conducted a recruitment process, sourcing suitable candidates provided by independent recruitment consultants, Fletcher Jones, along with candidates suggested by the Investment Manager.

The Board selected and interviewed a short list of candidates to assess their suitability and skills. Following the conclusion of this process, the Board determined to appoint Jeremy Attard-Manche as a non-executive director, effective from 1 March 2022. Mr Attard-Manche brings to the Board extensive experience of running investment businesses and has been appointed as Chairman of the Management Engagement Committee.

Furthermore, as part of the Boards succession planning and to broaden the experience and diversity of the Board, Denise Hadgill was appointed as a Director of the Company with effect from 1 June 2022. Mrs Hadgill brings to the Board a wealth of investment management and investment trust company experience.

All of the Directors will offer themselves for election or re-election at each Annual General Meeting and explanations for why their appointment or continued appointment is appropriate is included in the explanatory notes to the Notice of Annual General Meeting. Summary biographical details of the Directors are set out on page 32.

All Directors have access to the advice of the company secretary, who is responsible for advising the Board on all governance matters. Both the appointment and removal of the company secretary is a matter for the whole board.

Meeting Attendance

The number of ordinary course scheduled Board and Committee meetings held during the year to 31 December 2022, and each Director's attendance, is shown below:

Total number of meetings during the tenure/attendance

	Board	Audit Committee	Management Engagement Committee
Number of ordinary course meetings held	4/4	3/3	2/2
Diana Dyer Bartlett	4/4	3/3	2/2
Lord St John of Bletso	4/4	3/3	2/2
Jeremy Attard-Manche*	4/4	3/3	2/2
Denise Hadgill*	2/2	2/2	1/1

In addition, Board and Committee ad-hoc meetings were held to deal with administrative matters and the formal approval of documents.

* Jeremy Attard- Manche and Denise Hadgill were appointed as a Non-Executive Directors 1 March 2022 and 1 June 2022 respectively and attended all the meetings after they were appointed.

Directors' Tenure and Performance Appraisal

It is the Board's policy that all Directors, including the Chairman, will normally have their tenure limited to nine years from their first appointment to the Board, except when the Board may determine otherwise if it is considered that the continued participation on the Board of an individual Director, or the Chairman, is in the best interests of the Company and its shareholders. This is also subject to the Director's re-election by shareholders at each Annual General Meeting.

The Board has formulated a succession plan to promote regular refreshment and diversity, whilst maintaining stability and continuity of skills and knowledge on the Board.

Upon joining the Board, all Directors receive an induction and relevant training is available to Directors on an ongoing basis.

A formal annual performance appraisal process is carried out on the Board, the Committees, the individual Directors and the Company's main service providers. Led by the Chairman, the evaluation was conducted through a programme of both open and closed-ended questions answered by each of the Directors. The results of the evaluation were reviewed by the Chairman and discussed with the Board.

Based upon the conclusions of the appraisal on Directors' performance and effectiveness, the Board recommends that Mrs Dyer Bartlett, Lord St John of Bletso and Mr Attard-Manche should be re-elected as Directors at the forthcoming AGM. Mrs Hadgill has been appointed since the last AGM and accordingly stands for election. She brings extensive investment management and investment trust governance experience and the Board recommends that she be elected as a Director at the forthcoming AGM. The Board is satisfied, having considered each Director's experience and the nature of, and anticipated demands on their time by their other business commitments including other investment trusts, that each Director is able to commit the time required to fulfil their responsibilities as a Director of the Company.

Directors' Independence

The Board consists of four non-executive Directors, each of whom is independent of the Investment Manager. No member of the Board is a Director of another investment company managed by the Investment Manager. Accordingly, the Board considers that all the Directors are independent and there are no relationships or circumstances which are likely to affect or could appear to affect their judgement. The Board has additionally adopted a conflicts of interest policy. Any new external appointments are approved by the Chairman or the Board before they are accepted, having regard to potential conflicts of interest and the time commitment involved.

Role of the Chair

The Chair's main role is to lead the Board. In doing so, the Chair promotes high standards of governance, ensures the Directors are provided with sufficient and timely information so that they are able to discharge their duties, allows each Board member's views to be considered and ensures appropriate action is taken. Additionally, the Chair's role includes ensuring that each Committee has the support required to fulfil its duties, overseeing the Board's effectiveness reviews and the induction and development of Directors. The Chair is required to remain independent of the Investment Manager, whilst providing effective support, challenge and advice to the Investment Manager. Through direct contact or through the Company's broker and Investment Manager, the Chair receives the views of shareholders and also ensures that the Board as a whole has a clear understanding of these.

Role of Committees

Audit Committee

The Board has established an Audit Committee which was chaired during the year by Lord St John of Bletso. The Committee consists of all the Directors. Mrs Dyer Bartlett was appointed Chairman of the Company on 1 March 2022 and was independent on appointment, and therefore entitled to be a member of the Audit Committee under the AIC Code. A report of the Audit Committee is included in this Annual Report and sets out the role and responsibilities of the Audit Committee. The Board considers that the members of the Audit Committee have the requisite skills and experience to fulfil the responsibilities of the Audit Committee.

Management Engagement Committee

The Board has established a Management Engagement Committee which was chaired during the year by Mr Attard-Manche. The Committee consists of all the Directors. A report of the Management Engagement Committee is included in this Annual Report and sets out the role and responsibilities of the Management Engagement Committee.

Nomination Committee and Remuneration Committee

The Board as a whole fulfils the function of the Nomination Committee and the Remuneration Committee. The Board considers its size to be such that it would be unnecessarily burdensome to establish a separate Nomination Committee. As there are no executive directors, there is no need for a Remuneration Committee.

The terms of reference of each committee can be found on the Company's website at www.smithson.co.uk.

Shareholder Relations

Representatives of the Investment Manager regularly meet with institutional shareholders and private client wealth managers to present the Company's financial reports and understand shareholders' views. Reports from the Company's broker are submitted to the Board on shareholder feedback and industry issues. An analysis of the shareholder register of the Company is also provided to the Directors at each Board meeting. Further details of the Board's engagement with stakeholders is given in the Stakeholder Management report on pages 27 to 30.

The Board sees the AGM as an ideal opportunity to communicate with private investors and the full Board will attend the AGM; the meeting will be chaired by the Chairman. Simon Barnard, our Investment Manager, will additionally be present. Shareholders are also reminded that they are welcome, at any time, to submit any questions they may have either to the Board at smithsonchairman@fundsmith.co.uk or to the Investment Manager at smithson@fundsmith.co.uk. At the AGM, shareholders will hear a presentation by Simon Barnard which will also be made available on the Company's website at www.smithson.co.uk after the meeting. Shareholders attending the AGM will have an opportunity to put questions to the Board or Investment Manager at the meeting. In addition, we would encourage shareholders to visit our website at www.smithson.co.uk where more information is available and which is regularly updated.

Nominee Share Code

Where shares are held in a nominee company name, the Company undertakes:

- to provide the nominee company with multiple copies of shareholder communications upon request; and
- to allow investors holding shares through a nominee company to attend general meetings, provided the correct authority from the nominee company is available.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and 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 international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements, International Accounting Standard 1 require that the Directors have:

- selected suitable accounting policies and then applied them consistently;
- made judgements and accounting estimates that are reasonable and prudent;
- presented information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provided additional disclosures when compliance with the specific requirements in IFRS were insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- prepared the financial statements on a going concern basis.

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 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.

The financial statements are published on the Company's website at www.smithson.co.uk. The Investment Manager has delegated authority for the maintenance and integrity of the website on behalf of the Company. The work carried out by the auditor does not involve consideration of the maintenance and integrity of the website and, accordingly, the auditor accepts no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Each of the Directors confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and net return of the Company for the year ended 31 December 2022; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board

Diana Dyer Bartlett
Chairman

27 February 2023

Statement from the Chairman

I am pleased to present the Audit Committee Report for the year ended 31 December 2022. The Committee met three times during this year and all members attended each meeting. The Committee also met on 21 February 2023 to consider this report. The Company's external auditor attended the meetings to agree the audit plan and to consider this Annual Report. The Investment Manager attends meetings by invitation of the Audit Committee, but the Audit Committee also met the external auditor without the Investment Manager at meetings held to approve the annual financial statements.

Composition

The Audit Committee comprises all the Directors whose biographies are set out on page 32. Diana Dyer Bartlett was Chairman of the Audit Committee until Lord St John of Bletso took over on 1 March 2022 when Mrs Dyer Bartlett was appointed Chairman of the Board. Both Mr Pacitti, who was Chairman of the Company until 28 February 2022 and Mrs Dyer Bartlett who became Chairman on 1 March 2022 were independent on appointment, and therefore entitled to be members of the Audit Committee under the AIC Code. The Board is satisfied that the Committee as a whole has competence relevant to the sector in which the Company operates and the Committee considers that it has recent and relevant financial experience. Lord St John of Bletso has chaired a number of audit committees including that of a VCT and Mrs Dyer Bartlett is a chartered accountant and audit committee chairman of two other investment trusts.

Responsibilities

The Committee's main responsibilities under its terms of reference are:

1. To review the Company's Interim and Annual Reports. In particular, the Committee considers whether the financial statements are fair, balanced and understandable, allowing shareholders to assess the Company's investment policy, position and performance, business model and strategy;

2. To review the risk management and internal control processes of the Company;

3. To recommend the re-appointment of Deloitte LLP as external auditor and agree the scope of its work and its remuneration, reviewing its independence and the effectiveness of the audit process;

4. To consider any non-audit work to be carried out by the auditor. The Audit Committee reviews the need for non-audit services to be performed by the auditor in accordance with the Company's non-audit services policy, and authorise such on a case by case basis having given consideration to the cost effectiveness of the services and the objectivity of the auditor;

5. To consider the need for an internal audit function; and

6. To review and challenge the assumptions and qualifications in respect of the Company's going concern and viability statements.

Meetings and Business

The Committee met three times during the year under review. The following matters were dealt with at those meetings:

Financial statements

The Committee has confirmed that, in its opinion, the Board can make the required statement that this Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. In making this assessment, the Committee had regard to guidance published by the Financial Reporting Council. The Committee assessed and agreed that transactions had been fairly disclosed, performance measures had been prepared on a consistent basis and were reflective of the business, there was adequate commentary on the Company's strengths and weaknesses and that this Annual Report, taken as a whole, is consistent with the Board's view of the operation of the Company. The Committee has given this confirmation on the basis of its review of the whole document, underpinned by involvement in the planning for its preparation and review of the processes to assure the accuracy of factual content.

Significant reporting matters
The Committee considered key accounting issues, matters and judgements in relation to the Company's financial statements and disclosures relating to:

Valuation and ownership of the Company's investments
The Committee is responsible for reviewing procedures to confirm the valuation and existence of investments. Controls are in place to ensure that valuations are appropriate, and existence is verified through reconciliations undertaken by the Depositary. The Committee confirmed that the external auditor had reviewed the valuation assumptions in accordance with the new auditing standard with regard to material estimates.

Recognition of revenue from investments
The Committee took steps to gain an understanding of the processes in place to record investment income and transactions. The Committee sought confirmation that processes were in place to ensure that all dividend income and recovery of overseas tax is captured correctly reflected in the Company's Financial Statements.

Accounting policies
The current accounting policies, as set out on pages 62 to 65, have been applied consistently throughout the period.

Going concern and viability statements
Having reviewed the Company's financial position, liabilities, principal risks and prospects, the Committee recommended to the Board that it was appropriate for the Board to prepare the financial statements on the going concern basis. Further detail is provided on page 34. It further formulated the Viability Statement set out on page 26 including the appropriate assessment period.

Risk management and internal controls
The Board has overall responsibility for the Company's risk management and systems of internal controls and for reviewing their effectiveness. In common with the majority of investment trusts, investment management, accounting, company secretarial and custodial services have been delegated to third parties.

The Board has delegated responsibility to the Audit Committee to advise on the assessment and management of principal risks as well as identification of emerging risks. The principal risks, risk mitigation and procedures to identify emerging risks are summarised in the Strategic Report. The Committee reviewed the Company's schedule of key risks twice during the period and reviewed a risk appetite statement summarising the Board's attitude to its principal risks and to identify when active Board engagement might be required outside the normal cycle of Board meetings. No significant control failings or weaknesses were identified in the Committee's most recent risk review and no modifications to the risk mitigation programme were recommended.

A review of the Company's anti-bribery and corruption policy and its policy for the prevention of the facilitation of tax evasion was carried out and it was determined they continued to be appropriate and reflective of best practice. It also confirmed that appropriate whistleblowing policies were in place at the Investment Manager and the other key service providers. The Board has adopted best practice of the AIC Code and responsibility for overseeing whistleblowing procedures has been elevated to the Board level as well.

Internal audit
The Audit Committee has considered the need for an internal audit function and considers that this is not appropriate given the nature and circumstances of the Company. Separately, the Audit Committee considered whether there was merit in appointing a firm of accountants to undertake any internal audit reviews into the Company's policies and procedures. It concluded that this would not add any value on the basis that all the Company's operations had been outsourced to third parties and reports were received from key third parties regarding their processes and procedures. In relation to the Investment Manager, fund administrator and depositary, external audit reports were also received which confirmed that no issues had been identified with such third parties' procedures and internal controls. The Audit Committee keeps the need for an internal function under periodic review.

External Auditor

During the year, the nature and scope of the external audit together with Deloitte LLP's audit plan were considered by the Committee. Subsequent to the year end, the Committee also met with Deloitte LLP to review the outcome of the audit and the draft 2022 Annual Report.

In order to fulfil the Committee's responsibility regarding the independence of the auditor, the Committee considered:

- the senior audit personnel;
- the auditor's arrangements concerning any potential conflicts of interest;

- the extent of any non-audit services undertaken by the auditor on behalf of the Company; and
- the statement by the auditor that they remain independent within the meaning of the regulations and their professional standards.

In its review of the effectiveness of the audit process, the Committee considered:

- the auditor's fulfilment of the agreed audit plan;
- the level and effectiveness of challenge provided by the auditor;
- the audit quality control arrangements, including the stages of review of the Annual Report, the time spent by the audit partner and whether any issues identified during the audit had been dealt with on a timely basis;
- the auditor's report on the FRC's Audit Quality Review issued in July 2022 (and confirmation that there were no significant developments since that time);
- the auditor's audit approach taking into account the requirements in respect of material assumptions;
- the report arising from the audit itself; and
- feedback from the company secretary, the Investment Manager and the fund administrator on the conduct of the audit.

The Committee was satisfied with the auditor's independence and the effectiveness of the audit process, together with the degree of diligence and professional scepticism brought to bear and that the auditor provided effective independent challenge in carrying out its responsibilities.

The Committee confirms that the Company is in compliance with the requirements of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014. This order relates to the frequency and governance of tenders for the appointment of the external auditor and the setting of the policy on the provision of non-audit services.

Non-audit services
The Company's policy for the provision of non-audit services by the auditor is aligned with the Revised Ethical Standards 2019 (the "Auditing Standards"). The Company's policy is that the provision of non-audit services by the auditor is permissible where no conflicts of interest arise, where the independence of the auditor is not likely to be impinged by undertaking the work and the quality and the objectivity of both the non-audit work and audit work will not be compromised. There were no non-audit services undertaken by the Company's auditor during the year under review.

Details of the fees paid to the external auditor for audit services are set out in note 5 to the financial statements. The Audit Committee received representations from the external auditor concerning their independence and considered the external auditor to be independent.

Auditor re-appointment
The auditor to the Company is Deloitte LLP who were engaged on 24 July 2019. The audit partner, Chris Hunter, has held the role since that date.

The Committee conducted a review of the performance of the auditor during the year and concluded that performance was satisfactory and that there were no grounds for change. It also reviewed the audit fee.

Deloitte LLP have indicated their willingness to continue to act as auditor to the Company for the forthcoming year and a resolution for their re-appointment will be proposed at the Annual General Meeting as well as a resolution to approve the auditor's remuneration.

Audit Committee Effectiveness

During the year the Audit Committee reviewed its effectiveness and concluded that it had discharged all its obligations as set out in the Audit Committee's terms of reference in an efficient and effective manner. The Audit Committee concluded that there were no changes required to its procedures.

Lord St John of Bletso
Chairman of the Audit Committee

27 February 2023

Statement from the Chairman

I am pleased to present the Management Engagement Committee Report for the year ended 31 December 2022. Lord St John of Bletso chaired the Management Engagement until my appointment on 1 March 2022.

The Management Engagement Committee met twice during the year and the attendance by each Director is shown in the table on page 38. The Committee also met on 21 February 2023 to consider this Report.

Composition

The Committee comprises all the Directors whose biographies are set out on page 32.

Responsibilities

The Committee's main responsibilities during the period were:

- to undertake an annual review of the compliance by the Investment Manager with the Company's investment policy as established by the Board and with the Investment Management Agreement entered into between the Company and the AIFM and the Investment Manager; and

- to undertake an annual review of the performance of the Investment Manager and any other key service providers to the Company other than the external auditor.

Investment Manager

The Company has appointed Fundsmith LLP as the Company's AIFM and Investment Manager.

Before the publication of this report, the Management Engagement Committee reviewed the performance of the Investment Manager and whether it had fulfilled the terms of the Investment Management Agreement and complied with the Company's investment policy. It also received a report and presentation from the Investment Manager's Compliance Officer regarding the Investment Manager's compliance processes.

The Committee agreed that the Investment Manager has the required skills and depth of experience to manage the Company's investments. The Committee also concluded that the performance of the Investment Manager was satisfactory, and that the continuing appointment of the Investment Manager was in the best interests of shareholders. The Committee agreed that the existing fee arrangements and other contractual terms remained appropriate and further aligned the Investment Manager's interests with those of the Company's shareholders.

Other Key Service Providers

The Company's other key service providers are:

- Depositary and administrator (Northern Trust Investor Services Limited)

- Custodian (Northern Trust Company)

- Company secretary (Apex Listed Companies Services (UK) Limited (formerly Sanne Fund Services (UK) Limited))

- Registrar (Link Group) and

- Broker (Investec Bank plc)

The Committee received feedback on the performance of these service providers by the Investment Manager and company secretary and the level of fees is monitored. The fee rates charged by the depositary and administrator were reduced from the start of 2022.

The Committee also asked all its key service providers to complete questionnaires concerning their operations, internal controls, business continuity plans, policies and procedures and these questionnaires were reviewed by the Committee.

Following the Committee's review and analysis, the Committee concluded that the performance of all the Company's current key service providers was satisfactory and that each be retained until the next review.

Management Engagement Committee Effectiveness

During the year the Management Engagement Committee reviewed its effectiveness and concluded that it had discharged all its obligations as set out in the Management Engagement Committee's terms of reference in an efficient and effective manner. The Management Engagement Committee concluded that there were no changes required to its procedures.

Jeremy Attard-Manche
Chairman of the Management Engagement Committee

27 February 2023

Statement from the Chairman

I am pleased to present the Directors' Remuneration Report to shareholders. The law requires the Company's auditor to audit certain disclosures provided in this report. Where disclosures have been audited, they are indicated as such and the auditor's opinion is included in its report to shareholders within this Annual Report.

All Directors are non-executive and do not have service contracts with the Company but are engaged under letters of appointment. The Directors' letters of appointment, and the terms and conditions within, are available for inspection on request at the Company's registered office.

The Board considers the framework for the remuneration of the Directors on an annual basis. It reviews the ongoing appropriateness of the Company's Remuneration Policy and the individual remuneration of Directors by reference to the activities of the Company and comparison with other companies of a similar structure and size.

During the year, Directors' remuneration was set at £30,000 for Board members, with an additional fee payable per annum of £15,000 to the Chair of the Board; £10,000 to the Chair of the Audit Committee; and £5,000 to the Chair of the Management Engagement Committee.

The Board undertook an evaluation of its remuneration taking into consideration the latest inflation rates and peer group comparisons by sector and market capitalisation. The Board notes that the Directors' remuneration was below the median remuneration of the Company's peer group and that an increase would be appropriate. However, in recognition of the Company's performance over the year to 31 December 2022 and shareholders returns, the Board resolved not to increase the Directors' remuneration.

The total fees paid to the Directors for the year to 31 December 2022 are set out in the table below.

Directors' Remuneration Policy

Set out below is the Directors' Remuneration Policy which will be put to shareholders for approval at the 2023 AGM. This Policy is unchanged from that approved by shareholders at the 2020 AGM.

The Company's Remuneration Policy provides that fees payable to the Directors should reflect the value of the time spent by the Board on the Company's affairs and the responsibilities borne by the Directors and should be sufficient to enable candidates of high calibre to be recruited. Directors are remunerated in the form of fees payable monthly in arrears, paid to the Director personally. There are no long-term incentive schemes, share option schemes or pension arrangements and the fees are not specifically related to the Directors' performance, either individually or collectively. Directors' remuneration comprises solely Directors' fees. Additionally, there are no benefits in kind, however, Directors are authorised to claim reasonable expenses from the Company in relation to the performance of their duties such as expenses incurred in the course of travel to attend meetings and duties undertaken. Directors may also earn a pro rata day rate in connection with extraordinary corporate events or transactions requiring them to commit significant extra time to the Company. No additional day rates were charged in 2022 (2021: nil). The Company does not have any employees.

Whilst the articles allow the Company to establish pension schemes and similar benefits for the Directors, no such scheme has been established and there are no plans to establish one.

In accordance with statute, the Remuneration Policy will be considered by shareholders at the Annual General Meeting at least once every three years. The Remuneration Policy was approved by shareholders at the AGM held on 30 March 2020. Accordingly, an ordinary resolution for the approval of the Remuneration Policy will be considered by shareholders at the forthcoming Annual General Meeting. The provisions set out in the Remuneration Policy apply until they are next submitted for shareholder approval. In the event of any proposed material variation to the Remuneration Policy, shareholder approval will be sought for the proposed new policy prior to its implementation. The Remuneration Policy sets out the principles the Company follows in remunerating Directors and the result of the shareholder vote on the Remuneration Policy is binding on the Company.

Current and Future Policy

Component	Director	Purpose of reward	Operation
Annual director's fee	All Directors	For services as non-executive Directors of a plc	Determined by the Board
Additional fee	Chair of the Board and Chair of each committee	For additional responsibility and time commitment	Determined by the Board
Expenses	All Directors	Reimbursement of expenses incurred in the performance of duties	Submission of appropriate supporting documentation

Directors' Remuneration Policy Implementation Report

The way in which the Board implemented the Company's Remuneration Policy in the year ended 31 December 2022 is set out below.

	(Audited) Fee for the year to 31 December 2022 (£)	(Audited) Fee for the year to 31 December 2021 (£)
Diana Dyer Bartlett	44,167	40,000
Lord St John of Bletso	39,167	35,000
Jeremy Attard-Manche*	29,167	–
Denise Hadgill*	17,500	–
Mark Pacitti*	7,500	45,000
Total	**137,501**	**120,000**

* Mr Pacitti retired 28 February 2022. Jeremy Attard- Manche and Denise Hadgill were appointed as a Non-Executive Directors 1 March 2022 and 1 June 2022 respectively.

Annual Percentage Change in Directors' Remuneration (unaudited)

In accordance with The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, the table below sets out the annual percentage change in Directors' fees in respect of each Director.

	Year ended 31 December 2022 %	Year ended 31 December 2021 %	Year ended 31 December 2020 %
Diana Dyer Bartlett	–	48.1	–
Lord St John of Bletso	–	29.6	–
Jeremy Attard-Manche*	–	–	–
Denise Hadgill*	–	–	–
Mark Pacitti*	–	50.0	–

* Mr Pacitti retired 28 February 2022. Jeremy Attard- Manche and Denise Hadgill were appointed as a Non-Executive Directors 1 March 2022 and 1 June 2022 respectively.

No communications have been received from shareholders regarding Directors' remuneration. The remuneration for the non-executive Directors is within the limits set out in the Company's Articles of Association. The present limit is £250,000 in aggregate per annum.

Directors' Fees and Expenses

The Directors, as at the date of this report, received the fees listed above. These exclude any employers' national insurance contributions. No other forms of remuneration were received by the Directors and so fees represent the total remuneration of each Director.

Sums Paid to Third Parties (audited information)

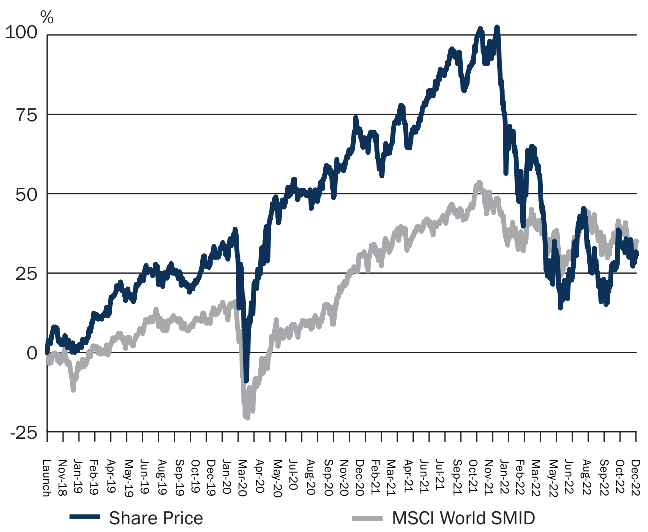
None of the fees referred to in the above table were paid to any third party in respect of the services provided by any of the Directors.

Loss of Office

The Directors' letters of appointment specifically exclude any entitlement to compensation upon leaving office for whatever reason. Appointment as Director may, at the discretion of either party, be terminated upon three months' notice.

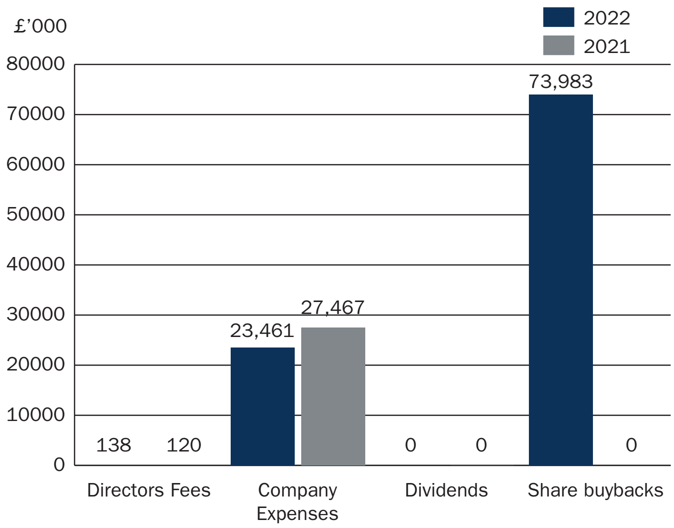
Share Price Total Return

A performance comparison is required to be presented in this report. The performance comparison is shown for the period since launch to 31 December 2022. The MSCI World SMID Cap Index, on a net sterling adjusted basis, has been adopted by the Board as reference index against which the Company's performance has been measured for the period.



Relative Cost of Directors' Remuneration

The bar chart below shows the comparative cost of Directors' fees compared with Company expenses for the year ended 31 December 2022 and comparative for the year to 31 December 2021. During the year no dividends were paid (2021: same) and the Company repurchased 5.7 million ordinary shares at a cost of £74.0 million (2021: nil).



Directors' Interests in the Company's Shares as at 31 December 2022 (audited)

The beneficial interests of the Directors of the Company (and their connected parties) at the year end and at the date of this report are set out below:

	No of ordinary shares	
Director	31 December 2022	31 December 2021
Diana Dyer Bartlett	8,886	5,000
Lord St John of Bletso	10,000	10,000
Jeremy Attard-Manche	–	–
Denise Hadgill	1,111	–
Mark Pacitti*	–	20,000

No changes have been notified at the date of this report. Mr Attard-Manche and Mrs Hadgill were appointed as a non-executive Directors 1 March 2022 and 1 June 2022 respectively.

Mr Pacitti retired as a non-executive Director on 28 February 2022.

Shareholder Approval

An ordinary resolution for the approval of the Directors' Remuneration Report will be put to shareholders annually at the Company's Annual General Meeting. This vote is advisory only and not binding on the Company, nor does it affect the remuneration payable to any individual Director. However, it does give shareholders the opportunity to inform the Board of their views on Directors' remuneration. As set out on page 47, an ordinary resolution for the approval of the Directors Remuneration Policy will be put to shareholders at the Company's Annual General Meeting on 27 April 2023. The Directors Remuneration Policy sets out the Company's proposed forward-looking policy on Directors remuneration. The vote is binding and the Company is obliged to present a policy on Directors remuneration to shareholders for approval at least every three years.

The following table sets out the votes received at the last Annual General Meeting of shareholders, held on 3 May 2022, in respect of the approval of the Directors' Remuneration Report.

	In Favour/ Discretionary Total Votes	%	Against Total Votes	%	Withheld Total Votes
Directors' Remuneration Report	48,422,869	98.92	530,511	1.08	64,411

Statement

On behalf of the Board and in accordance with Part 2 of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, I confirm that this report summarises, as applicable, for the year to 31 December 2022:

(i) the major decisions on Directors' remuneration;

(ii) any substantial changes relating to Directors' remuneration made during the period; and

(iii) the context in which the changes occurred and decisions have been taken.

This report on Directors' remuneration was approved by the Board on 21 February 2023 and signed on its behalf by the Chairman.

Diana Dyer Bartlett

Chairman

27 February 2023

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Smithson Investment Trust plc (the ‘company’):

- **give a true and fair view of the state of the company’s affairs as at 31 December 2022 and of its loss for the year then ended;**
- **have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and**
- **have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows; and
- the related notes 1 to 18.

The financial reporting framework that has been applied in their preparation is applicable law, United Kingdom adopted international accounting standards and IFRSs as issued by the IASB.

2. 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 are 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 Financial Reporting Council’s (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. We confirm that we have not provided any non-audit services prohibited by the FRC’s Ethical Standard to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: • Valuation and ownership of investments Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used in the current year was £24.2m which was determined on the basis of 1% of net assets as at 31 December 2022.
Scoping	Audit work to respond to the risks of material misstatement are performed directly by the audit engagement team.
Significant changes in our approach	There were no significant changes in our approach in the current year.

4. 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:

- Assessing the controls in place to evaluate the ability of the company to continue to operate as an Investment Trust;
- Challenging the underlying data and key assumptions used to make the assessment, and evaluating their plans for future actions in relation to their going concern assessment;
- Assessing the projected period of time to liquidate the portfolio and expense cover for the subsequent 12 month period from the date of signing the financial statements (from February 2023) for reasonableness;
- Assessing any other market altering factors such as inflation, high energy costs and rising interest rates by looking at the operational impact and business continuity plans; and
- Assessing the appropriateness of the going concern disclosures in the financial statements relating to going concern.

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 twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the company 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.

5. 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. These matters included 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.

5.1. Valuation and ownership of Investments

Key audit matter description	As an investment entity, the Company holds investments of £2,394m as at 31 December 2022 (2021: £3,339m) which have decreased by 28% from the prior year. These represent the most quantitatively significant financial statement line on the statement of financial position. There is a risk that investments may not be valued correctly or may not represent the property of the company. This may result in a material misstatement within the investments held at fair value through profit or loss and we consider that there is a potential area for fraud. Refer to note 1f to the financial statements for the accounting policy on investments and details of the investments are disclosed in note 9 to the financial statements. The valuation and ownership of investments is included in the Audit Committee report as a significant reporting matter on page 43.

How the scope of our audit responded to the key audit matter	We performed the following procedures to address the valuation and ownership of investment key audit matter: ● We obtained an understanding and tested relevant controls over valuation and ownership of investments. ● We independently valued 100% of the investment portfolio to the closing bid prices published by an independent pricing source. ● We confirmed the ownership of 100% of investments at the year-end date by obtaining independent third-party confirmations directly from the depositary. In addition, we performed the following procedures to address whether the investment portfolio was actively traded and designated with the correct fair value hierarchy: ● We assessed the post year-end volume of trade date in order to identify investments that are not actively traded. ● We tested the completeness and accuracy of disclosures in relation to fair value measurements and liquidity risk.
Key observations	Based on the work performed we concluded that the valuation and ownership of investments is appropriate.

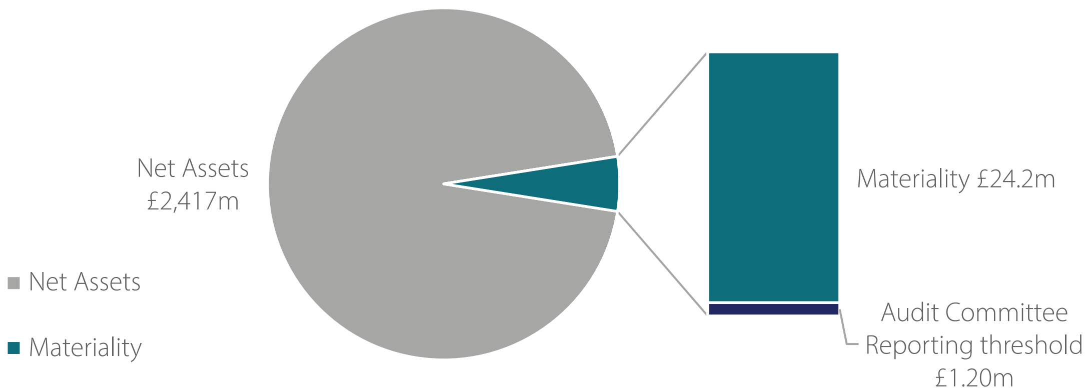
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

Materiality	£24.2m (2021: £33.6m)
Basis for determining materiality	1% (2021: 1%) of net assets
Rationale for the benchmark applied	Net assets has been chosen as a benchmark as it is the most relevant benchmark for investors and is a key driver of shareholder value. The decrease in materiality year on year arose principally from the decrease in the company's net assets.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2022 audit (2021: 65%). In determining performance materiality, we considered the following factors:

a. no significant changes in business structure and operations;

b. our experience from previous audits has indicated a low number of corrected and uncorrected misstatements identified in prior periods; and

c. no significant changes in the company's operating environment caused by the uncertainty and volatility brought about by the inflation, high energy costs and rising interest rates.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.2m (2021: £0.67m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

Our audit was scoped by obtaining an understanding of the Company and its environment, including internal control and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

7.2. Our consideration of the control environment

We assessed the control environment including the use of service organisations. We tested relevant controls in respect to the valuation and ownership of investments and adopted a control reliance strategy. We performed an understanding of relevant business process and relevant controls that address the risk of material misstatement in financial reporting.

7.3. Our consideration of climate related risks

In planning our audit, we have considered the potential impact of climate change on the Company's business and its financial statements. The Company continues to develop its assessment of the potential impacts of environmental, social and governance ("ESG") related risks, including climate change, as outlined on page 31. As a part of our audit, we held discussions to understand the process of identifying climate-related risks, the determination of mitigating actions and the impact on the Company's financial statements. We performed our own qualitative risk assessment of the potential impact of climate change on the Company's account balances and classes of transactions. We have read the disclosures in relation to climate change made in the other information within the annual report and ascertain whether the disclosures are materially consistent with the financial statements and our knowledge from our audit.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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.

10. 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.

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

11. Extent to which the audit was considered 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.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team regarding how and where fraud might occur in the financial statements

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the valuation and ownership of investments. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

11.2. Audit response to risks identified

As a result of performing the above, we identified the valuation and ownership of investments as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to the key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management and the audit committee concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and the FCA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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 any material misstatements in the strategic report or the directors' report.

13. 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 and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 33 to 36;
- the directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 26;
- the directors' statement on fair, balanced and understandable set out on page 41;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 23;

- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 43; and
- the section describing the work of the audit committee set out on pages 42 to 44.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board on 24 July 2019 to audit the financial statements for the year ending 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 4 years, covering the years ending 31 December 2019 to 31 December 2022.

15.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

16. 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.

Chris Hunter CA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Edinburgh, United Kingdom
27 February 2023

Statement of Comprehensive Income

Financial Statements

		For the year ended 31 December 2022			For the year ended 31 December 2021		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income from investments held at fair value through profit or loss	2	31,341	–	31,341	21,638	–	21,638
(Losses)/gains on investments held at fair value through profit or loss	9	–	(970,879)	(970,879)	–	513,312	513,312
Foreign exchange gains/(losses)		147	(399)	(252)	(25)	(565)	(590)
Investment management fees	4	(21,998)	–	(21,998)	(25,884)	–	(25,884)
Other expenses and transaction costs	5	(1,463)	(743)	(2,206)	(1,583)	(639)	(2,222)
(Loss)/profit before tax		8,027	(972,021)	(963,994)	(5,854)	512,108	506,254
Tax	6	(3,670)	–	(3,670)	(2,540)	–	(2,540)
(Loss)/profit for the year		4,357	(972,021)	(967,664)	(8,394)	512,108	503,714
(Loss)/return per share (basic and diluted) (p)	**7**	**2.49**	**(555.60)**	**(553.11)**	**(5.27)**	**321.50**	**316.23**

The Company does not have any income or expenses which are not included in the (loss)/return for the year.

All of the (loss)/return and total comprehensive income for the year is attributable to the owners of the Company.

The "Total" column of this statement represents the Company's Income Statement, prepared in accordance with International Financial Reporting Standards (IFRS). The "Revenue" and "Capital" columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies (AIC).

All items in the above statement derive from continuing operations.

The accompanying notes are an integral part of these financial statements.

Statement of Financial Position

	Notes	As at 31 December 2022 £'000	As at 31 December 2021 £'000
Non-current assets			
Investments held at fair value through profit or loss	9	2,393,848	3,339,150
Current assets			
Receivables	10	3,853	1,203
Cash and cash equivalents		24,589	32,081
		28,442	33,284
Total assets		**2,422,290**	**3,372,434**
Current liabilities			
Trade and other payables	11	(4,323)	(5,364)
Total assets less current liabilities		**2,417,967**	**3,367,070**
Equity attributable to equity shareholders			
Share capital	12	1,771	1,717
Share premium	13	2,219,487	2,126,997
Capital reserve		203,358	1,249,362
Revenue reserve		(6,649)	(11,006)
Total equity		**2,417,967**	**3,367,070**
Net asset value per share (p)	**14**	**1,410.7**	**1,961.0**

The financial statements were approved by the Board on 27 February 2023 and were signed on its behalf by:

Lord St John of Bletso
Director

The accompanying notes are an integral part of these financial statements.
Smithson Investment Trust plc – Company Registration Number 11517636 (Registered in England and Wales)

Statement of Changes in Equity

For the year ended 31 December 2022

	Notes	Share Capital £'000	Share Premium £'000	Capital* Reserve £'000	Revenue* Reserve £'000	Total £'000
Balance at 1 January 2022		1,717	2,126,997	1,249,362	(11,006)	3,367,070
Issue of new shares		54	93,050	–	–	93,104
Costs on new share issues		–	(560)	–	–	(560)
Ordinary shares bought back and held in treasury		–	–	(73,604)	–	(73,604)
Costs on buybacks		–	–	(379)	–	(379)
(Loss)/profit for the year		–	–	(972,021)	4,357	(967,664)
Balance at 31 December 2022	**12**	**1,771**	**2,219,487**	**203,358**	**(6,649)**	**2,417,967**

For the year ended 31 December 2021

	Notes	Share Capital £'000	Share Premium £'000	Capital* Reserve £'000	Revenue* Reserve £'000	Total £'000
Balance at 1 January 2021		1,414	1,595,894	737,254	(2,612)	2,331,950
Issue of new shares		303	533,918	–	–	534,221
Costs on new share issues		–	(2,815)	–	–	(2,815)
Profit/(loss) for the year		–	–	512,108	(8,394)	503,714
Balance at 31 December 2021	**12**	**1,717**	**2,126,997**	**1,249,362**	**(11,006)**	**3,367,070**

* Distributable reserve.

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

Financial Statements

	Notes	For the year to 31 December 2022 £'000	For the year to 31 December 2021 £'000
Operating activities			
(Loss)/profit before tax		(963,994)	506,254
Adjustments for:			
Loss/(gain) on investments held at fair value through profit or loss	9	970,879	(513,312)
Decrease in receivables		25	592
(Decrease)/increase in payables		(1,175)	751
Overseas taxation paid	6	(4,584)	(2,705)
Net cash used in operating activities		**1,151**	**(8,420)**
Investing activities			
Purchases of investments	9,11	(651,473)	(673,005)
Sale of investments	9	624,269	127,272
Net cash used in investing activities		**(27,204)**	**(545,733)**
Financing activities			
Proceeds from issue of new shares	12	93,104	539,023
Issue costs relating to new shares	12	(560)	(2,835)
Purchase of shares held in treasury	12	(73,604)	–
Costs relating to buy backs	12	(379)	–
Net cash generated from financing activities		**18,561**	**536,188**
Net decrease in cash and cash equivalents		**(7,492)**	**(17,965)**
Cash and cash equivalents at start of the year		32,081	50,046
Cash and cash equivalents at end of the year	**15**	**24,589**	**32,081**
Comprised of:			
Cash at bank		**24,589**	**32,081**

Dividends and interest received in cash during the year amounted to £31,348,000 and £56,000 (2021: £22,197,000 and £nil), respectively.

The accompanying notes are an integral part of these financial statements.

1. Accounting policies

Smithson Investment Trust plc is a company incorporated on 14 August 2018 in the United Kingdom under the Companies Act 2006.

The financial statements of the Company have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

(a) Accounting convention

The financial statements have been prepared under the historical cost convention (modified to include investments at fair value through profit or loss) on a going concern basis and in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as issued by the International Accounting Standards Board (IASB) and with the Statement of Recommended Practice ("SORP") 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued by the Association of Investment Companies ("AIC") in November 2014 (and updated in July 2022). They have also been prepared on the assumption that approval as an investment trust will continue to be granted. The Directors believe that it is appropriate to continue to adopt the going concern basis for preparing the financial statements for the reasons stated in the Annual Report. The Company is a UK listed company with a predominantly UK shareholder base. The results and the financial position of the Company are expressed in sterling, which is the functional and presentational currency of the Company. The accounting policies have been disclosed consistently and in line with Companies Act 2006.

(b) Critical accounting judgements and sources of estimation uncertainty

The Board confirms that no significant accounting judgements or estimates have been applied to the financial statements and therefore there is not a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(c) Presentation of the Statement of Comprehensive Income

In order to better reflect the activities of an investment trust company, and in accordance with guidance issued by the AIC, supplementary information which analyses the Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Statement of Comprehensive Income. The net revenue is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in section 1158 of the Corporation Tax Act 2010.

(d) Income

Income from investments (other than capital dividends), including taxes deducted at source, is included in revenue by reference to the date on which the investment is quoted ex-dividend, or where no ex-dividend date is quoted, when the Company's right to receive payment is established. Special dividends are credited to capital or revenue, according to the circumstances.

Interest receivable on cash at bank is recognised on an accruals basis.

(e) Expenses

All expenses, other than those of a capital nature, are charged to the revenue account. Expenses of a capital nature are charged to the capital account. Revenue and capital expenses are recognised on an accruals basis.

1. Accounting policies (continued)

(f) Investments

Investments in equity instruments are classified upon initial recognition as financial assets measured at fair value through profit or loss. Investments are recognised and de-recognised at trade date where a purchase or sale is under a contract whose terms require delivery within the time frame established by the market concerned, and are initially measured at fair value. Subsequent to initial recognition, investments are valued at fair value. For listed investments, this is deemed to be bid market price. Gains and losses arising from changes in fair value are included in net profit or loss for the year as a capital item in the Statement of Comprehensive Income and are ultimately recognised in the capital reserve.

Transaction costs incurred on the purchase and disposal of investments are recognised as a capital item in the Statement of Comprehensive Income.

The Company derecognises a financial asset only when the contractual right to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been accumulated in equity is recognised in capital in the Statement of Comprehensive Income.

(g) Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the date of the Statement of Financial Position or at the related forward contract rate. Transactions in foreign currency are converted to sterling at the rate ruling at the date of the transaction. Differences in the sterling equivalent value arising between the transaction date and the settlement or payment date are included as exchange gains or losses in the capital account or the revenue account depending on whether the underlying transaction is of a capital or revenue nature.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash and demand deposits which are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

(i) Equity dividends

Interim dividends are recognised in the period in which they are paid. Final dividends are not recognised until approved by shareholders in the Annual General Meeting.

(j) Other receivables and other payables

Other receivables and other payables do not carry any interest and are short term in nature and are accordingly stated at their amortised cost, which is the same as fair value.

Financial assets held at amortised cost are reviewed for impairment using the expected credit loss model. Given the nature of the Company's short-term receivables, no credit losses have occurred to date and no credit losses are currently expected to occur in the future.

1. Accounting policies (continued)

(k) Nature and purpose of reserves

Share capital

This represents nominal value of the issued share capital.

Share premium account

This account represents share premium that arose on the issue of new shares.

Capital reserve

This reserve reflects any:

- gains or losses on the disposal of investments
- foreign exchange gains and losses of a capital nature;
- the increases and decreases in the fair value of investments which have been recognised in the capital account; and
- expenses which are capital in nature.

The capital reserve may be distributed by way of dividends. However, any gains in the fair value of investments that are not readily convertible to cash are treated as unrealised gains in the capital reserve and are non-distributable.

Revenue reserve

This reserve reflects all income and expenditure recognised in the revenue account and is distributable by way of dividend.

Treasury shares

Treasury shares are recognised at cost as a deduction from equity shareholders' funds. Subsequent consideration received for the sale of such shares is also recognised in equity, with any difference between the sale proceeds and the original cost being taken to share premium account. No gain or loss is recognised in the financial statements on transactions in treasury shares.

(l) Taxation

The charge for taxation is based upon the revenue for the year and is allocated according to the marginal basis between revenue and capital using the Company's effective rate of corporation tax for the accounting year.

Deferred taxation is recognised in respect of all timing differences that have originated, but not reversed, relating to transactions or events that result in an obligation to pay more or a right to pay less tax in future, that have occurred at the Statement of Financial Position date. Deferred tax is measured on an undiscounted basis and based on enacted tax rates. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying temporary differences can be deducted. Timing differences are differences arising between the Company's taxable profits and its results as stated in the financial statements which are capable of reversal in one or more subsequent periods. Due to the Company's status as an investment trust company, and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

1. Accounting policies (continued)

(m) Adoption of new and revised standards

At the date of authorisation of these financial statements the following standards and amendments to standards, which have not been applied in these financial statements, were in issue, but will be effective in the future accounting periods.

- IFRS 17, 'Insurance contracts' (effective for accounting periods beginning on or after 1 January 2023).
- Amendments to IAS1 'Classification of liabilities as current or non-current' (effective for accounting periods beginning on or after 1 January 2023).
- Amendments to IAS 8 'Definition of Accounting Estimates' (effective for accounting periods on or after 1 January 2023).
- Amendments to IAS 1 and IFRS Practice Statement 2 'Disclosure of Accounting Policies' (effective for accounting periods on or after 1 January 2023).
- Amendments to IAS 12 'Deferred Tax related to Assets and Liabilities arising from a Single Transaction' (effective for accounting periods on or after 1 January 2023).

The Company does not believe that there will be a material impact on the financial statements or the amounts reported from the adoption of these standards.

There were no new standards or interpretations effective for the first time for periods beginning on or after 1 January 2022.

2. Dividend income

	2022 £'000	2021 £'000
UK dividends	6,603	7,119
UK dividends - special	3,324	–
Overseas dividends	16,921	14,232
Overseas dividends - special	4,437	287
Bank interest	56	–
Total	**31,341**	**21,638**

3. Segmental reporting

The Directors are of the opinion that the Company is engaged in a single segment of business being the investment business. The Company's objective is to be an investment for investors seeking increasing capital growth and income over the long term. The accounting policies of the operating segment, which operates in the UK, are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on total profit before tax, which is shown in the Statement of Comprehensive Income . A geographical split of the portfolio can be seen in the Strategic Report.

4. Investment management fee

	2022 £'000	2021 £'000
Investment management fee	**21,998**	**25,884**

As at 31 December 2022, an amount of £1,659,000 (2021: £2,576,000) was payable to the Investment Manager. Details of the terms of the Investment Management Agreement are provided on page 33.

5. Other expenses

	2022			2021		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Transaction costs on investments held at fair value through profit or loss	–	743	743	–	639	639
Directors' fees	135	–	135	120	–	120
Employer national insurance contributions	–	–	–	5	–	5
Auditor fees in relation to audit#	47	–	47	36	–	36
Tax compliance fee	(11)	–	(11)	20	–	20
Registrar fees	44	–	44	40	–	40
Broker fees	40	–	40	40	–	40
Company secretarial fees	93	–	93	117	–	117
Custody fees	190	–	190	338	–	338
Depositary fees	244	–	244	233	–	233
Postage and printing	30	–	30	28	–	28
Legal fees	(23)	–	(23)	25	–	25
Fund administration fees	360	–	360	344	–	344
Other expenses*	314	–	314	237	–	237
Total Expenses	**1,463**	**743**	**2,206**	**1,583**	**639**	**2,222**

The Auditor fee for the 2022 audit is £45,000.

* Other expenses include a net charge for unrecoverable VAT of £79,000 (2021: £56,000 net charge), which includes £92,000 recovered in relation to 2022, (2021: £181,000 recovered in relation to 2021).

Transaction costs on investments held at fair value through profit or loss represent such costs incurred on both purchases and sales of those investments. Transaction costs on purchases amounted to £538,000 (2021: £593,000) and on sales amounted to £205,000 (2021: £46,000).

No non-audit fees were paid during the year to Deloitte LLP by the Company (2021: nil).

6. Taxation

(a) Analysis of tax charge in the year

	2022			2021		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Taxation on ordinary activities						
Irrecoverable overseas withholding tax	3,670	–	3,670	2,540	–	2,540
Total tax	**3,670**	**–**	**3,670**	**2,540**	**–**	**2,540**

(b) The tax charge for the year is lower than the standard rate of corporation tax in the UK of 19%. The differences are explained below:

	2022			2021		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Profit/(loss) before tax	**8,027**	**(972,021)**	**(963,994)**	**(5,854)**	**512,108**	**506,254**
Corporation tax at standard rate of 19%	1,525	(184,684)	(183,159)	(1,112)	97,301	96,189
Effects of non taxable items:						
UK dividends	(1,886)	–	(1,886)	(1,353)	–	(1,353)
Overseas dividends	(4,058)	–	(4,058)	(2,759)	–	(2,759)
Interest income	(11)	–	(11)	–	–	–
Net losses/(gains) on investments held at fair value through profit or loss	–	184,467	184,467	–	(97,529)	(97,529)
Expenses and foreign exchange (gains)/losses	(28)	217	189	5	228	233
Deferred tax asset not recognised	4,458	–	4,458	5,219	–	5,219
Total corporation tax	**–**	**–**	**–**	**–**	**–**	**–**
Irrecoverable overseas withholding tax	3,670	–	3,670	2,540	–	2,540
Total tax	**3,670**	**–**	**3,670**	**2,540**	**–**	**2,540**

As at 31 December 2022, the Company had unrecognised tax losses of £82.4 million (2021: £58.9 million) carried forward. Due to the Company's status as an investment trust and the intention to continue to meet the conditions required to obtain approval in the foreseeable future, the Company has not provided deferred tax on capital gains and losses arising on the revaluation or disposal of investments.

7. Return per share

Return per ordinary share is as follows:

	2022 Revenue	2022 Capital	2022 Total	2021 Revenue	2021 Capital	2021 Total
Profit/(loss) for the year (£'000)	4,357	(972,021)	(967,664)	(8,394)	512,108	503,714
Return/(loss) per ordinary share (p)	**2.49**	**(555.60)**	**(553.11)**	**(5.27)**	**321.50**	**316.23**

Return per share is calculated based on returns for the year and the weighted average number of 174,950,862 ordinary shares in issue from 1 January 2022 to 31 December 2022. (2021: 159,284,761)

8. Dividends

There are no dividends proposed, declared or payable for the year (2021: nil).

9. Investments held at fair value through profit or loss

All investments are designated as fair value through profit or loss on initial recognition, therefore all gains and losses arise on investments designated as fair value through profit or loss.

As at 31 December	2022 £'000	2021 £'000
Opening book cost	2,162,638	1,581,420
Opening investment holding gains	1,176,512	698,518
Opening fair value at 1 January	3,339,150	2,279,938
Purchases at cost	651,607	673,172
Sales – proceeds	(626,030)	(127,272)
(Loss)/gain on investments	(970,879)	513,312
Closing fair value at 31 December	2,393,848	3,339,150
Closing book cost at 31 December	2,353,438	2,162,638
Closing unrealised gain at 31 December	40,410	1,176,512
Valuation at 31 December	**2,393,848**	**3,339,150**

The Company received £626,030,000 (2021: £127,272,000) excluding transaction costs from investments sold in the year. The book cost of the investments when they were purchased was £461,550,000 (2021: £92,593,000) excluding transaction costs. These investments have been revalued over time until they were sold and unrealised gains/losses were included in the fair value of the investments.

All investments are listed.

9. Investments held at fair value through profit or loss (continued)

Fair value of financial instruments

Under IFRS 13 'Fair Value Measurement' an entity is required to classify investments using a fair value hierarchy that reflects the significance of the inputs used in making the measurement decision.

The following shows the analysis of financial assets recognised at fair value based on:

- Level 1 – quoted prices in active markets for identical instruments.
- Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayments, credit risk, etc.).
- Level 3 – significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments).

Fair value measurements recognised in the Statement of Financial Position

	2022			
As at 31 December	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Investments held at fair value through profit or loss	2,393,848	–	–	2,393,848
Total	**2,393,848**	**–**	**–**	**2,393,848**

	2021			
	Level 1 £'000	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Investments held at fair value through profit or loss	3,339,150	–	–	3,339,150
Total	**3,339,150**	**–**	**–**	**3,339,150**

10. Receivables

As at 31 December	**2022 £'000**	**2021 £'000**
Accrued income	182	247
Overseas tax recoverable	1,810	896
Securities sold receivable	1,761	–
Other receivables	100	60
	3,853	**1,203**

The above receivables do not carry any interest and are short term in nature. The Directors consider that the carrying values of these receivables approximate their fair value.

11. Payables

As at 31 December	2022 £'000	2021 £'000
Securities purchased payable	2,399	2,265
Investment management fee payable	1,659	2,576
Other payables	265	523
	4,323	**5,364**

12. Share capital

	2022				2021	
As at 31 December	Ordinary Shares Number	Treasury Shares Number	Total Shares Number	Nominal Value £'000	Total Shares Number	Nominal Value £'000
Issued, allotted and fully paid (ordinary)						
Ordinary shares in issue at 1 January	171,697,958	–	171,697,958	1,717	141,420,958	1,414
Ordinary shares issued	5,410,000	–	5,410,000	54	30,277,000	303
Ordinary shares bought back and held in treasury	(5,700,000)	5,700,000	–	–	–	–
	171,407,958	**5,700,000**	**177,107,958**	**1,771**	**171,697,958**	**1,717**

During the year ended 31 December 2022, the Company issued 5,410,000 (2021: 30,277,000) shares of £0.01 each for a net consideration of £92,544,000 (2021: £531,406,000).

During the year ended 31 December 2022, the Company bought back to hold in treasury 5,700,000 shares (31 December 2021: nil) at an aggregate cost of £73,983,000 (31 December 2021: nil). At the year end, the Company held 5,700,000 (31 December 2021: nil) shares in treasury.

Details of the shareholder authorities granted to Directors to issue and buy back shares during the year are provided on pages 35 to 36.

13. Share premium account

As at 31 December	2022 £'000	2021 £'000
Balance at 1 January	2,126,997	1,595,894
Issue of new shares on secondary market	93,050	533,918
Costs on new share issues on secondary market	(560)	(2,815)
	2,219,487	**2,126,997**

14. Net asset value per share

As at 31 December	2022	2021
Net asset value	£2,417,967,000	£3,367,070,000
Shares in issue	171,407,958	171,697,958
Net asset value per ordinary share	1,410.7	1,961.0p

15. Risk management and financial instruments

The Company's investing activities undertaken in pursuit of its investment objective, as set out in the Strategic Report, involve certain inherent risks. The Board monitors the Company's risk as described in the Strategic Report. The main risks arising from the Company's financial instruments are market price risk, interest rate risk, liquidity risk, credit risk and currency risk. The Board reviews and agrees policies for managing each of these risks as summarised below. These policies have remained substantially unchanged during the current year.

Market price risk

Market price risk arises mainly from uncertainty about future prices of financial instruments used in the Company's business. It represents the potential loss the Company might suffer through holding market positions in the face of price movements. The Board meets on four scheduled occasions in each year and at each meeting it receives sufficient financial and statistical information to enable it to monitor adequately the investment performance and status of the business. The Board has also established a series of investment parameters, per the Company's investment policy, designed to manage the risk inherent in managing a portfolio of investments.

Interest rate risk

Interest rate risk is the risk of movements in the value of, or income from, cash balances that arise as a result of fluctuations in interest rates. The Company finances its operations through equity and retained profits including capital profits, with no additional financing.

Liquidity risk

The Company's assets comprise mainly readily realisable securities, which can be sold to meet funding commitments if necessary. Short–term flexibility is achieved through the use of cash balances and short-term bank deposits. All payables are due within three months.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. This is mitigated by the Investment Manager reviewing the credit ratings of broker counterparties and key third party service providers. The risk attached to dividend flows is mitigated by the Investment Manager's research of potential investee companies. The Company's custodian bank is responsible for the collection of income on behalf of the Company. Cash is held with Northern Trust Company which has a Fitch rating of AA–.

The carrying amounts of financial assets best represents the maximum credit risk exposure at the Statement of Financial Position date, and the main exposure to credit risk is via the Company's custodian who is responsible for the safeguarding of the Company's investments and cash balances.

15. Risk management and financial instruments (continued)

At the reporting date, the Company's financial assets exposed to credit risk amounted to the following:

As at 31 December	2022 £'000	2021 £'000
Cash and cash equivalents	24,589	32,081
Receivables	3,853	1,203
	28,442	**33,284**

All the assets of the Company which are traded on a recognised exchange are held by Northern Trust, the Company's custodian. Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed or limited.

Currency risk

The income and capital value of the Company's investments and liabilities can be affected by exchange rate movements as some of the Company's assets and income are denominated in currencies other than sterling which is the Company's functional currency. The key areas where foreign currency risk could have an impact on the Company are:

- movements in rates that would affect the value of investments, assets and liabilities; and
- movements in rates that would affect the income received.

The Company had the following currency exposures, all of which are included in the Statement of Financial Position at fair value based on the exchange rates ruling at the year end.

	31 December 2022					31 December 2021				
	Investments £'000	Cash £'000	Receivables £'000	Payables £'000	Total £'000	Investments £'000	Cash £'000	Receivables £'000	Payables –	Total £'000
Australian Dollar	157,673	–	1,761	(1,761)	157,673	219,406	–	–	–	219,406
Danish Krone	202,662	507	323	(2,399)	201,093	172,599	–	144	–	172,743
Euro	387,099	–	346	–	387,445	342,925	–	167	–	343,092
New Zealand Dollar	68,459	–	–	–	68,459	72,356	–	2,265	(2,265)	72,356
Swedish Krona	51,686	–	156	–	51,842	–	–	–	–	–
Swiss Franc	149,073	–	985	–	150,058	218,311	–	586	–	218,897
US Dollar	958,501	110	–	–	958,611	1,603,229	137	–	–	1,603,366
	1,975,153	**617**	**3,571**	**(4,160)**	**1,975,181**	**2,628,826**	**137**	**3,162**	**(2,265)**	**2,629,860**

The Company mitigates the risk of loss due to exposure to a single currency by way of diversification of the portfolio.

Foreign currency sensitivity

At 31 December 2022, an exchange rate move of +/-5% (2021: +/-5%) against sterling which is a reasonable approximation of possible changes would have increased or decreased total net assets and total return by £98,759,000 (2021: £131,493,000).

15. Risk management and financial instruments (continued)

Interest rate risk

The majority of the Company's financial assets are equity shares and other investments which neither pay interest nor have a maturity date. The Company's cash balance of £24,589,000 (2021: £32,081,000) earns interest, calculated on a tiered basis, depending on the balance held, by reference to the base rate. The level of interest paid fluctuates in line with the base rate. At 31 December 2022 the interest rate was 1.4% (2021: 0%).

From interest earned on the Company's cash balances, an increase or decrease in interest rates of 0.5% would have a positive or negative impact respectively on the profit or loss and net assets of the Company equating to £123,000 (2021: £160,000). The calculations are based on the cash balances at the year end date and are not representative of the year as a whole.

No current liabilities incur interest and all are payable within one year.

Other price risk exposure

If the investment valuation had fallen by 20% (2021: 20%) at 31 December 2022, the impact on profit or loss and net assets would have been negative £478,769,600 (2021: £667,830,000). An increase of 20% (2021: 20%) would have had an equivalent opposite effect. The calculations are based on the portfolio valuations as at the respective year end date and are not representative of the year as a whole, as well as the assumption that all other variables remained constant.

The Company held the following categories of financial instruments, all of which are included in the Statement of Financial Position at fair value.

As at 31 December	2022 £'000	2021 £'000
Assets at fair value through profit or loss	2,393,848	3,339,150
Cash and cash equivalents	24,589	32,081
Investment income receivable	182	247
Securities sold receivable	1,761	–
Other receivables	100	60
Payables	(4,323)	(5,364)
	2,416,157	**3,366,174**
Non-financial assets held at fair value		
Overseas tax recoverable	1,810	896
Net assets	**2,417,967**	**3,367,070**

Liquidity risk exposure

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. All payables are due within three months.

Liquidity risk is not significant as the majority of the Company's assets are investments in quoted securities that are easily and readily realisable. The Company does not have any borrowing facilities and as at 31 December 2022 held £24,589,000 (2021: £32,081,000) in cash.

15. Risk management and financial instruments (continued)

Capital management policies and procedures

The Company's capital management objectives are to ensure that it will be able to continue as a going concern, and to provide long-term growth in revenue and capital.

The Company's capital is its equity share capital and reserves that are shown in the Statement of Financial Position at a total of £2,417,967,000 (2021: £3,367,070,000).

The Board, with the assistance of the AIFM, monitors and reviews the broad structure of the Company's capital on an ongoing basis. This includes a review of the planned level of gearing (if any), the need to repurchase or issue equity shares, and the extent to which any revenue in excess of that which is required to be distributed be retained.

16. Contingent liabilities

As at 31 December 2022 there were no contingent liabilities or capital commitments (2021: nil).

17. Related party transactions

IAS 24 'Related party disclosures' requires the disclosure of the details of material transactions between the Company and any related parties. Accordingly, the disclosures required are set out below:

Directors – The remuneration of the Directors totalling £137,500 (2021: £120,000), is set out in the Directors' Remuneration Report in the Annual Report. There were no contracts subsisting during or at the end of the year in which a Director of the Company is or was interested and which are or were significant in relation to the Company's business. There were no other material transactions during the year with the Directors of the Company. The Company has no employees.

AIFM and Investment Manager – Details of the contract including the remuneration due to the AIFM and Investment Manager are set out in the Annual Report.

Terry Smith and other founder partners and key employees of the AIFM and Investment Manager directly or indirectly and in aggregate, held 2,919,112 (2021: 3,073,866) shares in the Company amounting to 1.7% (2021: 1.7%) of the issued share capital of the Company as at 31 December 2022.

18. Events after the reporting period

Since the year end and up to 22 February 2023 (the latest practical date before publication of the Annual Report), the Company has bought back to hold in treasury 1,050,000 ordinary shares at an aggregate cost of £15.0 million.

On 6 February 2023, shareholder approval was obtained to apply to the High Court to reduce the Company's share premium by £500 million. The capital reduction, if approved by the High Court, will result in a corresponding increase in the Company's distributable reserves.

Financial Calendar

31 December	Financial Year End
February	Final Results Announced
April	Annual General Meeting
30 June	Half Year End
August	Half Year End Results Announced

Annual General Meeting

The Annual General Meeting of Smithson Investment Trust plc will be held on 27 April 2023.

Share Price

The Company's ordinary shares are listed on the London Stock Exchange. The price is given daily in the Financial Times and other newspapers.

Change of Address

Communications with shareholders are mailed to the address held on the share register. In the event of a change of address or other amendment this should be notified to the Company's Registrar, Link Group, under the signature of the registered holder. The Registrar's address is listed on page 85.

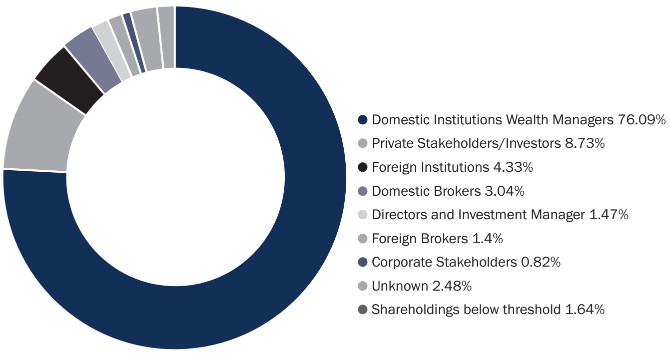
Daily Net Asset Value

The daily net asset value of the Company's shares can be obtained on the Company's website at www.smithson.co.uk and is published daily via the London Stock Exchange.

Profile of the Company's Ownership

% of ordinary shares held at 31 December 2022

31 December 2022



Alternative Investment Fund Managers Directive Disclosures

Periodic Disclosures

As described in the Company's Investor Disclosure Document ("IDD") (which can be found on the Company's website www.smithson.co.uk) Fundsmith LLP ("Fundsmith") and the Company are required to make certain periodic disclosures in accordance with the Alternative Investment Fund Managers Directive ("AIFMD"). For the purposes of the AIFMD:

- None of the Company's assets are subject to special arrangements arising from their illiquid nature.
- The Strategic Report and note 15 to the financial statements set out the risk profile and risk management systems in place. There have been no changes to the risk management systems in place in the period under review and no breaches of any of the risk limits set, with no breach expected.
- There are no new arrangements for managing the liquidity of the Company or any material changes to the liquidity management systems and procedures employed by Fundsmith.
- There have been no changes to the maximum level of leverage that Fundsmith may employ on behalf the Company.
- There have been no changes to Fundsmith's right of re-use of collateral or any guarantee granted under any leveraging arrangement (insofar as there continues to be no right of re-use of collateral or any guarantees granted under the leveraging arrangement).

Leverage

For the purposes of the 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 can be calculated on a Gross and a Commitment method. Under the Gross method, exposure represents the sum of the Company's positions after the deduction of sterling cash balances, without taking into account any hedging and netting arrangements. Under the Commitment method, exposure is calculated without the deduction of sterling cash balances and after certain hedging and netting positions are offset against each other.

The table below sets out the current maximum permitted limit and actual level of leverages for the Company:

	As a percentage of assets	
	Gross method	Commitment method
Maximum level of leverage	115%	115%
Actual level at 31 December 2022	Nil	Nil

Material changes

There have been no material changes to the information set out in the Company's IDD during the period covered by this Annual Report.

Remuneration Disclosure

Fundsmith LLP (Fundsmith), as the AIFM of the Company, is required to make this remuneration disclosure to the Company's investors in accordance with the AIFMD as incorporated into UK law and regulation.

The Company represents approximately 6% of Fundsmith's total funds under management.

The financial period of the Company runs from 1 January to 31 December, whereas the financial year of Fundsmith runs from 1 April to 31 March. The latest financial year of Fundsmith is the year to 31 March 2022, and the figures disclosed below are taken from the financial report and accounts for that period. These figures have been independently audited and filed with Companies House.

During the year ending 31 March 2022, Fundsmith employed an average of 42 staff in the year, with total remuneration, excluding pension contributions, for those staff of £23,856,725 comprising fixed remuneration of £4,894,862 and variable remuneration of £18,961,863.

The profits of the Firm are shared among the Members according to their profit-sharing arrangements. Fundsmith had an average of 9 Members during the year who shared the Firm's profit of £57,483,228.

The Members are the sole owners of Fundsmith, and the firm's capital is derived entirely from the Members contributions. Members are each entitled to a pre-determined, fixed proportion of the business's net profits, in accordance with their ownership of the Firm. Allocations of profits to Members are not discretionary and these amounts are due to the Members because of their investment of capital and their ownership of the business and is regarded as fixed, not variable remuneration.

The information above relates to Fundsmith as a whole, is not broken down by reference to this fund or the other funds managed by Fundsmith and does not show the proportion of remuneration which relates to the income Fundsmith earns from the management of the Company, as this would not reflect the way Fundsmith is organised.

The rules require Fundsmith to disclose both the amount of remuneration paid in total, and the amount paid to Remuneration Code Staff.

The Management Committee of Fundsmith has considered carefully which of its staff fall within the definition of Remuneration Code Staff. The Management Committee has determined that for the AIFM Remuneration Code (SYSC 19B) the Remuneration Code Staff are those individuals undertaking Senior management Functions that require approval by the FCA and any employee who is the lead investment manager of a fund.

For the year to 31 March 2022 the only Remuneration Code Staff who are not Members of the Firm are the two portfolio managers of the investment trusts, and Fundsmith has chosen not to disclose their aggregate remuneration of the basis of confidentiality.

Statement on the Alternative Investment Fund Managers Remuneration Code

The Company is classified as an Alternative Investment Fund (AIF). Fundsmith is duly authorised as an Alternative Investment Fund Manager (AIFM) for the purpose of managing the Company. As an authorised AIFM, Fundsmith must adhere to the AIFM Remuneration Code.

The AIFM Remuneration Code contains a set of principles, which are designed to ensure that AIFMs reward their personnel in a way which promotes sound and effective risk management, which does not encourage risk-taking, which supports the objectives and strategy of any AIFs it manages, and which supports the alignment of interest between the AIFM, its personnel and any AIFs it manages (where this alignment extends to the AIF's investors).

Fundsmith's Remuneration Policy is designed to ensure that it complies with the AIFM Remuneration Code.

A description of how the remuneration and benefits paid to Fundsmith staff and Members is set out in the Remuneration Policy disclosure which is available on Fundsmith's website.

Alternative Performance Measures ("APMs")

APMs are often used to describe the performance of investment companies although they are not specifically defined under IFRS. APM calculations for the Company are shown below. The Board believes that each of the APMs, which are typically used within the investment trust sector, provide additional useful information to shareholders in order to assess the Company's performance between reporting periods and against its peer group.

(Discount)/Premium

The amount, expressed as a percentage, by which the share price is more than/ less than the NAV per ordinary share.

		Page	As at 31 December 2022	As at 31 December 2021
NAV per ordinary share	a	3	1,410.7p	1,961.0p
Share price	b	3	1,308.0p	2,020.0p
(Discount)/Premium	**(b-a)/a**		**(7.3)%**	**3.0%**

Total return

A measure of performance that includes both income and capital returns. In the case of share price total return, this takes into account share price appreciation and dividends paid by the Company. In the case of NAV total return, this takes into account NAV appreciation (net of expenses) and dividends paid by the Company.

Year ended 31 December 2022		Page	Share price	NAV
Opening at 1 January 2022	a	3	2,020.0p	1,961.0p
Closing at 31 December 2022	b	3	1,308.0p	1,410.7p
Total return	**(b/a)-1**		**(35.2)%**	**(28.1)%**

Year ended 31 December 2021		Page	Share price	NAV
Opening at 1 January 2021	a	3	1,710.0p	1,648.9p
Closing at 31 December 2021	b	3	2,020.0p	1,961.0p
Total return	**(b/a)-1**		**18.1%**	**18.9%**

Period from Company's listing on 19 October 2018 to 31 December 2022		Page	Share price	NAV
Opening at 19 October 2018	a	3	1,000.0p	1,000.0p
Closing at 31 December 2022	b	3	1,308.0p	1,410.7p
Total return	**(b/a)-1**		**30.8%**	**41.1%**
Annualised total return			**6.6%**	**8.5%**

Annualised total return

The annualised total return for a period is the average return earned on an investment in the Company's shares for each year in that period, expressed by reference to either share price or NAV.

Ongoing charges ratio and Total Cost of Investment

Ongoing charges ratio is a measure, expressed as a percentage of average NAV of the Company over a year, of the regular, recurring annual costs of running an investment company (see note 4 and note 5 to the financial statements). The Total Cost of Investment measures cost to investors incurred through the Company's portfolio investment transaction costs (see note 5) and the recurring annual costs of running the company.

Ongoing charges ratio		Page	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Average NAV	a	n/a	2,589,777	2,818,546
Annualised expenses	b	n/a	23,461	27,467
Ongoing charges ratio	**(b/a)**		**0.9%**	**1.0%**
Annualised investment transaction costs	c	n/a	743	639
Annualised investment transaction costs ratio	(c/a)		0.03%	0.02%
Total cost of investment			**0.93%**	**1.02%**

AIC

Association of Investment Companies

Alternative Investment Fund or "AIF"

An investment vehicle under AIFMD. Under AIFMD (see below) the Company is classified as an AIF.

Alternative Investment Fund Managers Directive or "AIFMD"

A European Union directive which came into force on 22 July 2013 and has been implemented in the UK.

Annual General Meeting or "AGM"

A meeting held once a year which shareholders can attend and where they can vote on resolutions to be put forward at the meeting and ask directors questions about the company in which they are invested.

Cash Conversion

Ratio of a company's cash flows to its net profit.

Custodian

An entity that is appointed to safeguard a company's assets.

Discount

The amount, expressed as a percentage, by which the share price is less than the net asset value per share.

Depositary

Certain AIFs must appoint depositaries under the requirements of AIFMD. A depositary's duties include, inter alia, safekeeping of the Company's assets and cash monitoring. Under AIFMD the depositary is appointed under a strict liability regime.

Dividend

Income receivable from an investment in shares.

Ex-dividend date

The date from which you are not entitled to receive a dividend which has been declared and is due to be paid to shareholders.

Financial Conduct Authority or "FCA"

The independent body that regulates the financial services industry in the UK.

Gearing

A way to magnify income and capital returns, but which can also magnify losses. A bank loan is a common method of gearing.

Gross assets

The Company's total assets before the deduction of any liabilities.

Gross Margin

The amount of money a company has left after subtracting all direct costs of producing or purchasing the goods or services it sells.

Index

A basket of stocks which is considered to replicate a particular stock market or sector.

Investment company

A company formed to invest in a diversified portfolio of assets.

Investment trust

An investment company which is based in the UK and which meets certain tax conditions which enables it to be exempt from UK corporation tax on its capital gains. The Company is an investment trust.

Leverage

An alternative word for "Gearing".

Under AIFMD, leverage is any method by which the exposure of an AIF is increased through borrowing of cash or securities or leverage embedded in derivative positions.

Under AIFMD, leverage is broadly similar to gearing, but is expressed as a ratio between the assets (excluding borrowings) and the net assets (after taking account of borrowing). Under the gross method, exposure represents the sum of the Company's positions after deduction of cash balances, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash balances and after certain hedging and netting positions are offset against each other.

Liquidity

The extent to which investments can be sold at short notice.

Net assets

An investment company's assets less its liabilities

Net asset value (NAV) per ordinary share

Net assets divided by the number of ordinary shares in issue (excluding any shares held in treasury)

Ongoing charges ratio

A measure, expressed as a percentage of average net assets, of the regular, recurring annual costs of running an investment company.

Operating Profit Margin

The ratio of operating income to net sales. It measures profitability on a per-pound basis, after accounting for the variable costs of production but does not include interest or tax expense.

Ordinary shares

The Company's ordinary shares of 1p each.

Glossary of Terms

ROCE

Return On Capital Employed is a measure of the efficiency of a company at deploying capital to generate profits calculated as Earnings Before Interest and Tax / Capital Employed

Portfolio

A collection of different investments held in order to deliver returns to shareholders and to spread risk.

Premium to NAV

The amount, expressed as a percentage, by which the share price is more than the net asset value per share.

Share buyback

A purchase of a company's own shares. Shares can either be bought back for cancellation or held in treasury.

Share price

The price of a share as determined by a relevant stock market.

Total return

A measure of performance that takes into account both income and capital returns. This may take into account capital gains, dividends, interest and other realised variables over a given period of time.

Treasury shares

A company's own shares which are available to be sold by a company to raise funds.

Volatility

A measure of how much a share moves up and down in price over a period of time.

Investment Platforms

The Company's shares are traded openly on the London Stock Exchange and can be purchased through a stockbroker or other financial intermediary. The shares are available through savings plans (including Investment Dealing Accounts, ISAs, Junior ISAs and SIPPs) which facilitate both regular monthly investments and lump sum investments in the Company's shares. There are a number of investment platforms that offer these facilities. A list of some of them, that is not comprehensive nor constitutes any form of recommendation, can be found below:

- AJ Bell Securities Limited
- Albert E Sharp LLP
- Alliance Trust Savings Limited
- Barclays Bank plc
- Hargreave Hale Ltd
- Hargreaves Lansdown Asset Management Limited
- iDealing.com Limited
- Interactive Investor Services Limited
- Shore Capital Stockbrokers Limited
- SVS Securities plc
- The Share Centre

Link Group – Share Dealing Service

A quick and easy share dealing service is available to existing shareholders through the Company's Registrar, Link Group, to either buy or sell shares. An online and telephone dealing facility provides an easy to access and simple to use service.

There is no need to pre-register and there are no complicated forms to fill in. The online and telephone dealing service allows you to trade 'real time' at a known price which will be given to you at the time you give your instruction.

To deal online or by telephone all you need is your surname, investor code, full postcode and your date of birth. Your investor code can be found on your share certificate. Please have the appropriate documents to hand when you log on or call, as this information will be needed before you can buy or sell shares.

For further information on this service please contact: www.linksharedeal.com (online dealing) or 0371 664 0445† (telephone dealing).

† Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom are charged at the applicable International rate. Lines are open from 8.00 a.m. to 4.30 p.m. Monday to Friday excluding public holidays in England and Wales.

Risk Warnings

- Past performance is no guarantee of future performance.

- The value of your investment and any income from it may go down as well as up and you may not get back the amount invested. This is because the share price is determined, in part, by the changing conditions in the relevant stock markets in which the Company invests and by the supply and demand for the Company's shares.

- As the shares in an investment trust are traded on a stock market, the share price will fluctuate in accordance with supply and demand and may not reflect the underlying net asset value of the shares; where the share price is less than the underlying value of the assets, the difference is known as the 'discount'. For these reasons, investors may not get back the original amount invested.

- Although the Company's financial statements are denominated in sterling, most of the holdings in the portfolio are currently denominated in currencies other than sterling and therefore they may be affected by movements in exchange rates. As a result, the value of your investment may rise or fall with movements in exchange rates.

- Investors should note that tax rates and reliefs may change at any time in the future.

The value of ISA and Junior ISA tax advantages will depend on personal circumstances. The favourable tax treatment of ISAs and Junior ISAs may not be maintained.

Directors

Diana Dyer Bartlett *(Chairman)*
Lord St John of Bletso
Jeremy Attard-Manche
Denise Hadgill

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