

Smithson Investment Trust plc

Investor Disclosure Document



Investor Disclosure Document

This document is issued by Fundsmith LLP in order to make certain particular information available to investors in Smithson Investment Trust plc before they invest, in accordance with the requirements of the FCA Rules implementing the EU Alternative Investment Fund Managers Directive (Directive 2011/61/EU) in the United Kingdom. It is made available to investors in the Company by being made available at www.smithson.co.uk.

Potential investors in the Company's shares should consult their stockbroker, bank manager, solicitor, accountant or other financial adviser before investing in the Company.

Capitalised terms used in this document are defined in the Schedule at the end of this document.

Important information

Name of Alternative Investment Fund ('AIF'):	Smithson Investment Trust plc
Name of Alternative Investment Fund Manager ('AIFM'):	Fundsmith LLP
Name of Investment Manager:	Fundsmith LLP
Depository:	Northern Trust Global Services SE
Name of Auditor:	Deloitte LLP
Date of Disclosure:	31 January 2020
Latest share price & net asset value per share of the AIF:	The document is available on Smithson's website www.smithson.co.uk

Regulatory and legal status of the Company

Smithson Investment Trust plc is an 'alternative investment fund' ("AIF") for the purposes of the AIFM Directive which has appointed Fundsmith as its Alternative Investment Fund Manager ("AIFM"). Fundsmith is authorised and regulated by the FCA as a "full scope UK AIFM" for the purposes of the AIFM Directive.

The Company is incorporated as a public limited company in England and Wales and intends, at all times, to conduct its so as to qualify as an investment trust for the purposes of section 1158 of the Corporation Tax Act 2010. The Company has applied for its shares to be listed on the premium segment of the Official List of the UK Listing Authority and are admitted to trading on the Main Market of the London Stock Exchange. The operation of the Company is subject to its Articles of Association, the FCA Listing Rules, the FCA Disclosure Guidance and Transparency Rules, the AIC Corporate Governance Code approved by the Financial Reporting Council and the Companies Act 2006.

The provisions of the Company's Articles of Association, which are binding on the Company and all of its shareholders, set out the respective rights and restrictions attaching to the Company's shares. All shareholders are entitled to the benefit of, and are bound by and are deemed to have notice of, the Company's Articles of Association.

Limited purpose of this document

This document, which is made available to investors in the Company by being made available at www.smithson.co.uk, is not a prospectus. It is issued for the purpose of making certain regulatory disclosures to investors in accordance with the requirements of the AIFM Directive. The Company, its Directors and Fundsmith as its AIFM will not be responsible to persons other than the Company's shareholders for their use of this document, nor will they be responsible to any person (including the Company's shareholders) for any use which they may make of this document other than to inform a decision to invest in shares in the Company.

This document does not constitute, and may not be used for the purposes of, an offer or solicitation to buy or sell, or otherwise undertake investment activity in relation to, the Company's shares.

This document is not a prospectus and it is not intended to be an invitation or inducement to any person to engage in any investment activity. This document may not include (and it is not intended to include) all the information which investors and their professional advisers may require for the purpose of making an informed decision in relation to an investment in or disposal of the Company's shares.

No advice

None of the Company, its Directors or Fundsmith (as the Company's AIFM) are advising any person in relation to any investment or other transaction involving shares in the Company. Recipients must not treat the contents of this document or any subsequent communications from the Company, the AIFM or any of their respective affiliates, officers, directors, partners or employees or agents, as advice relating to financial, investment, taxation, accounting, legal, regulatory or any other matters. Prospective investors must rely on their own professional advisers, including their own legal advisers and accountants, as to legal, tax, accounting, regulatory, investment and any other related matters concerning the Company and an investment in the Company's shares.

Potential investors in the Company's shares should consult their stockbroker, bank manager, solicitor, accountant or other financial adviser before investing in the Company.

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Important information continued

Overseas investors

The distribution of this document in certain jurisdictions will be restricted and accordingly any persons into whose possession this document comes are required to inform themselves about and to observe such restrictions. In particular, the shares have not been, and will not be, registered under the securities laws or with any securities regulatory authority of any province or territory of any member state of the EEA (other than the Republic of Ireland (and may not be registered in the Republic of Ireland following the expiry of the Implementation Period for the UK's withdrawal from the European Union) Canada, Australia, the Republic of South Africa or Japan. Subject to certain exceptions, the Ordinary Shares may not, directly or indirectly, be offered, sold, taken up or delivered in, into or from any member state of the EEA (other than the Republic of Ireland, Canada, Australia, the Republic of South Africa or Japan or to or for the account or benefit prior to the expiry of the Implementation Period of any national, resident or citizen or any person resident in any member state of the EEA (other than the Republic of Ireland), Australia, Canada, the Republic of South Africa or Japan.

Prospective investors must inform themselves as to (a) the legal requirements within their own countries for the purchase, holding, transfer and other disposal of shares; (b) any foreign exchange restrictions applicable to the purchase, holding, transfer or other disposal of shares which they might encounter; and (c) the income and other tax consequences which may apply in their own countries as a result of the purchase, holding, transfer or other disposal of shares.

The Company

Investment objective and policy

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

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 investment) of between £500 million to £15 billion (although the Company expects that the average market capitalisation of the companies in which it invests to be approximately £7 billion).

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 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. In applying this limit all uninvested cash (except cash representing distributable income or credited to a distribution account that the Depositary holds) should be included;
- (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 2 companies which are members of the same group (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) overall;
- (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 in 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 this investment policy, certificates representing certain shares (for example, depositary interests) will be deemed to be shares.



The Company continued

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 the purposes of currency hedging or for any other reason.

Investment restrictions

The Company will comply with the investment restrictions set out below and will continue to do so for so long as they remain requirements of the FCA:

- (a) neither the Company nor any of its subsidiaries will conduct any trading activity which is significant in the context of the group as a whole;
- (b) the Company must, at all times, invest and manage its assets in a way which is consistent with its object of spreading investment risk and in accordance with the published investment policy; and
- (c) not more than 10 per cent. of the Gross Assets at the time an investment is made will be invested in other closed-ended investment funds which are listed on the Official List.

Leverage

Borrowing policy and restrictions on use of leverage

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 draw down of such borrowings.

The Company may not otherwise employ leverage, but there are no restrictions on the type or source of leverage that the Company is permitted to incur.

Although the Company has not formally implemented any collateral or asset reuse arrangements, the Depositary is permitted under the terms of the Depositary Agreement to reuse the Company's Investments in circumstances where they are held by the Depositary in an omnibus account.

Risks associated with the use of leverage

A description of the risks associated with the use of leverage is set out below under the heading "Risk factors and risk management".

Investment techniques

Investment strategy

The Investment Manager has stringent investment criteria which it will strictly adhere to in selecting securities for the Company's investment portfolio. These criteria aim to ensure that the Company invests in high quality businesses:

- (a) that can sustain a high return on operating capital employed;
- (b) that generate strong cashflows;
- (c) that have a clearly identifiable source of secular growth to enable retained cash to be invested at a high rate of return;
- (d) whose advantages are difficult to replicate;
- (e) which do not require significant leverage to generate returns;
- (f) that are resilient to change, particularly technological innovation;
- (g) whose market capitalisation at the time of investment is between £500m and £15 billion; and
- (h) whose valuation is considered by the Company to be attractive.

The application of these investment criteria significantly limits the number of potential investments which the Investment Manager will consider to be appropriate investments for the Company's portfolio. Accordingly, the investment portfolio of the Company will be concentrated, generally comprising between 25 and 40 stocks.

Investment process

The Company will be invested using the following methodology:

1. 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 outcompeting all other companies which are trying to take a share of their profits.

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The Company continued

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 earning 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 too 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.

2. 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 what the Company would get from a bond.

3. 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.

4. 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.

Changes to the Company's investment policy

Any material change to the investment policy of the Company will be made only with the approval of Shareholders by ordinary resolution in accordance with the provisions of the Listing Rules which apply to the Company. Any change to the investment policy or investment restrictions which does not amount to a material change to the investment policy may be made by the Company without the approval of Shareholders.



The Company continued

Dividend policy

It is the Company's policy to pursue overall return for Shareholders and to only pay dividends to the extent required to maintain investment trust status.

The Company looks for overall return rather than seeking any particular level of dividend. The Company will comply with the investment trust rules regarding distributable income but does not expect significant income from the shares in which it invests.

Any dividends and distributions will be at the discretion of the Board. Subject to the Companies Act, the Company may, by ordinary resolution, declare dividends 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.

Subject to the Companies Act, the Board may from time to time pay to the shareholders of the Company such interim dividends as appear to the Board to be justified by the profits available for distribution and the position of the Company, on such dates and in respect of such periods as it thinks fit.

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.

Administration and management of the Company

The Alternative Investment Fund Manager (AIFM) and Investment Manager – Fundsmith LLP

Fundsmith LLP acts as both the Company's AIFM and its Investment Manager. It provides discretionary investment management services to the Company within the strategic guidelines set out in the Company's investment policy and subject to the oversight of the Board.

As Investment Manager, Fundsmith has sole responsibility for managing the assets of the Company and advising the Company on a day to day basis, in each case in accordance with the Company's investment policy.

Conflicts of interest

In addition, Fundsmith and its officers and employees may from time to time act for other clients or manage other funds, which may have similar investment objectives and policies to that of the Company. Circumstances may arise where investment opportunities will be available to the Company which are also suitable for one or more of such clients of the Investment Manager or such other funds. The Directors have satisfied themselves that the Investment Manager has procedures in place to address potential conflicts of interest and that, where a conflict arises, the Investment Manager will allocate the opportunity on a fair basis, in accordance with its allocation policy.

The Investment Manager has a conflicts of interest policy which contains the details of identified conflicts or potential conflicts of interest and the procedures it follows in order to avoid, minimise and manage such conflicts or potential conflicts.

Professional indemnity liability

The AIFM maintains professional indemnity insurance at the level required under the AIFM Rules in order to cover potential liability risks arising from professional negligence.

Fees

Fundsmith is entitled to receive a fee from the Company which is an amount equal to 1/365 multiplied by 0.9 per cent of the market capitalisation of the Company accruing daily but payable monthly in arrears. The Investment Manager shall also be entitled to reimbursement of all out of pocket costs, expenses and charges reasonably and properly incurred.

The Depositary – Northern Trust Global Services SE

The services provided by Northern Trust Global Services plc as depositary for the Company include:

- (a) safe-keeping of the assets of the Company that can be held in custody (including book entry securities);
- (b) record-keeping of assets that cannot be held in custody in which case the Depositary must verify their ownership;
- (c) ensuring that the Company's cash flows are properly monitored, and in particular, ensuring that all payments made by or on behalf of investors upon subscription for shares in the Company have been received and that all cash of the Company has been booked in cash accounts in the name of the Company or in the name of the Depositary such that the Depositary can monitor and reconcile them;
- (d) ensuring that any sale, issue, buy-back, redemption or cancellation of the Company's shares carried out in accordance with English law and the Articles of Association;
- (e) ensuring that the value of the Shares of the Company is calculated in accordance with English law, the Articles of Association and the valuation procedures;

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Administration and management of the Company continued

- (f) carrying out the instructions of the AIFM and the Board of the Company, unless they conflict with English law;
- (g) ensuring that in transactions involving a Company's assets any consideration is remitted to the Company within the usual time limits; and
- (h) ensuring that the Company's income is applied in accordance with English law and the Articles of Association.

In relation to the duties of the Depositary regarding custody as referred to at paragraph (a) above, in respect of assets which can be held in custody, (except to the extent that the Depositary has contractually transferred liability to a delegate in accordance with AIFMD) the Depositary is liable to the Company or the Shareholders for any loss of such assets held by the Depositary or any delegate.

In relation to all the other duties of the Depositary as referred to at paragraphs (b) - (h), the Depositary is liable to the Company or the shareholders for all other losses suffered by it or them as a result of negligent, fraudulent or intentional failure to properly fulfil such obligations.

The Depositary currently has no arrangements in place to contractually transfer its liability to a delegate or to otherwise discharge itself of its liability under the AIFMD.

Fees

The Depositary is entitled to receive an annual fee calculated by reference to the services performed (in respect of custody services) as well as a fee equal to 1.5 basis points of the Net Asset Value of the Company (in respect of depositary services). A minimum fee of £25,000 per annum (plus VAT) in respect of depositary services shall apply. The Depositary will, in addition, be entitled to recover reasonable third party expenses and disbursements.

The Administrator – Northern Trust Global Services plc

The services provided by Northern Trust Global Services plc as administrator for the Company include, but are not limited to, being responsible for the maintenance of the books and financial accounts of the Company and the calculation, in conjunction with the Investment Manager, of the Net Asset Value of the Company and the Ordinary Shares.

Fees

The Administrator is entitled to an annual fee in respect of the valuation and accounting services it will provide calculated by reference to the Net Asset Value of the Company, being an amount equal to 3 basis points (plus VAT) where the Net Asset Value of the Company is less than or equal to £500 million and 2 basis points (plus VAT) where the Net Asset Value of the Company exceeds £500 million. The Administrator will, in addition, be entitled to recover third party expenses and disbursements.

The Company Secretary – PraxisIFM Fund Services (UK) Limited

The services provided by PraxisIFM as Company Secretary to the Company include being responsible for production of the Company's annual and half yearly reports, regulatory compliance and providing support to the Board's corporate governance process and its continuing obligations under the Listing Rules and the Disclosure Guidance and Transparency Rules. In addition, the Company Secretary is responsible for liaising with the Company, the Investment Manager, the Registrar and the Administrator in relation to the payment of any dividends, as well as general secretarial functions required by the Companies Act (including but not limited to the maintenance of the Company's statutory books).

Fees

The Company Secretary is entitled to an annual fee of £60,000 per annum (plus VAT) in respect of the company secretarial services it will provide, including corporate governance, regulatory compliance and Listing Rule continuing obligations. The Company Secretary will, in addition, be entitled to recover reasonable third party expenses and disbursements.

The Auditor – Deloitte LLP

Deloitte LLP provides audit, audit-related assurance services and taxation compliance services to the Company.

The Auditor has a statutory responsibility to report to the members of the Company as a whole in relation to the truth and fairness of the Company's state of affairs and profit or loss as well as confirming that the Company accounts have been prepared in accordance with the Company's Articles of Association. The Auditor is also required to report by exception if there are certain matters on which they are not satisfied, including if adequate accounting records have not been kept by the Company or it has not received all the information and explanations required in order to carry out the audit.

Fees

The Auditor's fee for the statutory audit of the Company's 2019 financial statements is £35,000 (plus VAT). Fees for any additional services provided by the Auditor will be agreed on a case by case basis.

The Broker – Investec Bank plc

Investec Bank has been appointed as the corporate broker to the Company.

Fees

Investec is entitled to receive an annual fee from the Company of £40,000 (plus VAT). Investec shall also be entitled to reimbursement of all out of pocket costs, expenses and charges reasonably and properly incurred and documented on behalf of the Company.



Administration and management of the Company continued

The Nominee – Link Market Services Trustees Limited

The Nominee provides nominee services to the Company.

Fees

The Nominee is entitled to an annual fee from the Company equal to £7,500 per annum (plus VAT). The Nominee will also be entitled to reimbursement of all out-of-pocket expenses reasonably incurred by it in connection with its duties.

The Registrar – Link Asset Services

The Registrar maintains the Company's register of members.

Fees

The Registrar is entitled to an annual fee from the Company equal to £16,000 per annum (plus VAT). Other registrar activity will be charged for in accordance with the Registrar's normal tariff as published from time to time.

Ongoing fees and expenses payable by the Company

All ongoing operational expenses (in addition to those fees paid to service providers as detailed above) of the Company will be borne by the Company including, without limitation, the incidental costs of making its investments and the implementation of its investment objective and policy; travel, accommodation and printing costs; the cost of directors' and officers' liability insurance and website maintenance; audit and legal fees; and annual listing fees. All out of pocket expenses that are reasonably and properly incurred, of the Investment Manager, the Administrator, the Company Secretary, the Depositary, the Registrar and the Directors relating to the Company will be borne by the Company.

No fees or expenses, including those listed above, will be borne by Shareholders.

Shareholders' rights in respect of the Company's service providers

Without prejudice to any potential right of action in common law that a Shareholder may have to bring a claim against a service provider to the Company, each Shareholder's contractual relationship in respect of its investment in Ordinary Shares in the Company is with the Company only. Therefore, no Shareholder will have any contractual claim against any service provider with respect of such service provider's default pursuant to the terms of the agreement that it has entered into with the Company.

The above is without prejudice to any right a Shareholder may have to bring a claim against an FCA authorised service provider under section 13D of the Financial Services and Markets Act 2000 (which provides that breach of an FCA rule by such service provider is actionable by a private person who suffers loss as a result), or any tortious cause of action. Shareholders who believe they may have a claim under section 13D of the Financial Services and Markets Act 2000, or in tort, against any service provider in connection with their investment in the Company should consult their legal adviser.

Delegation of administration and management of the Company

Delegation by the Investment Manager

The Investment Manager is permitted, with the prior consent of the Company (such consent not to be unreasonably withheld or delayed) to delegate any of its functions under the investment management agreement to a delegate (whether such delegate is an associate of the Investment Manager or otherwise). Accordingly, the Investment Manager has entered into a delegation agreement with Fundsmith Investment Services Limited ("FIS") pursuant to which the Investment Manager has delegated responsibility for dealing operations to FIS. The Investment Manager retains overall responsibility for the actions of FIS pursuant to the terms of the Investment Management Agreement.

All activities engaged in under the provisions of the investment management agreement by the Investment Manager or any of its delegates on behalf of the Company will at all times be subject to the overall policies, supervision and review of the Board.

There are no conflicts of interest relevant to Shareholders which arise as a result of the above delegations.

The Investment Manager also delegates:

- (a) to Northern Trust Global Services plc as administrator, certain fund accounting services in connection with the calculation of the Net Asset Value of the Company and the Ordinary Shares. The Administrator is in turn permitted to sub-delegate these services to certain approved sub-delegates). Given that Northern Trust Global Services plc also acts as Depositary with oversight responsibility in relation to valuation functions, there is the potential for conflicts of interest to arise. Northern Trust Global Services plc maintains a strict functional and hierarchical separation between its functions as Administrator and its functions as Depositary; and
- (b) to Northern Trust Securities LLP, certain dealing desk facilities and the provision of execution analytics. There are no conflicts of interest relevant to Shareholders which arise as a result of these delegations.

Delegation by the Depositary

The Depositary is permitted to delegate the whole or part of the performance of certain of its obligations, including the safe keeping of assets, subject to certain conditions being satisfied. Accordingly, the Depositary has delegated its obligations in respect of the safe-keeping of the Company's investments to The Northern Trust Company (London branch).

There is no conflict of interest relevant to Shareholders which arise as a result of the above delegation.

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Shareholder information

Annual Reports and Accounts

Copies of the Company's Annual and Half Year Reports are available at www.smithson.co.uk or may be requested by writing to the Company Secretary at Mermaid House, 2 Puddle Dock, London, EC4V 3DB. The Company's most recent Interim Financial Report was published on 12 August 2019.

Calculation and publication of net asset value

The Administrator, in conjunction with the Investment Manager, calculates the Net Asset Value and the Net Asset Value per Ordinary Share as at the end of each Business Day and reports such calculation to the Board and the Investment Manager. The Administrator announces the Net Asset Value to Shareholders through an RNS announcement. In the event the Net Asset Value is outside the expected range agreed with the Investment Manager, the Administrator will seek the Investment Manager's approval before announcing the Net Asset Value.

The Net Asset Value of the Company is calculated on the basis of the bid prices of the Company's underlying investments or a lower figure if, in the reasonable opinion of the Investment Manager, the underlying investment is worth less than the bid price. If trading in an underlying investment held by the Company is suspended, the last available bid price of that investment will be used to calculate the Net Asset Value unless the Investment Manager believes another value is a better representation of the fair value of the investment.

These calculations are reported daily to Shareholders through a RNS announcement. The Company may delay public disclosure of the Net Asset Value to avoid prejudice to its legitimate interests, provided that such delay would not be likely to mislead the public and the Company has put in place appropriate measures to ensure confidentiality of that information.

The Board may determine that the Company shall temporarily suspend the determination of the Net Asset Value per Ordinary Share when the prices of any investments owned by the Company cannot be promptly or accurately ascertained; however, in view of the nature of the Company's investments, the Board does not envisage any circumstances in which valuations will be suspended. If the Board suspends the determination of Net Asset Value it will report the suspension to Shareholders through an RNS announcement.

Other periodic disclosures to shareholders

The Investment Manager is required to disclose periodically to Shareholders:

- (a) the percentage of the Company's assets that are subject to special arrangements arising from their illiquid nature;
- (b) any new arrangements for managing the liquidity of the Company; and
- (c) the current risk profile of the Company and the risk management systems employed by the Investment Manager to manage those risks.

This information will be disclosed as part of the Company's periodic reporting to Shareholders, as required as an issuer of listed securities on the Main Market of the London Stock Exchange, or at the same time as the Prospectus and, at a minimum, at the same time as the Company's annual report is made available.

The Investment Manager must also disclose on a regular basis:

- (a) any changes to:
 - (i) the maximum level of leverage that the Investment Manager may employ on behalf of the Company;
 - (ii) any right of reuse of collateral or any guarantee granted under any leveraging arrangement; and
- (b) the total amount of leverage employed by the Company.

Accordingly, information on the total amount of leverage employed by the Company and any relevant information relating to such leverage will be disclosed in the Company's annual report and its unaudited interim reports whenever the Company has borrowed money.

Without limitation to the generality of the foregoing, any of the information specified above may be disclosed:

- (a) in the Company's annual report;
- (b) in the Company's unaudited interim report;
- (c) by the issue of an announcement via a regulatory information service (or equivalent); or
- (d) by the publication of the relevant information on the Company's website.



Relationship between the Company and Shareholders

Nature of shares in the Company

The Company is a public limited company which is registered in England and Wales and is admitted to the Official List of the FCA and to trading on the premium segment of the Main Market of the London Stock Exchange. Accordingly, the Company's shares may be purchased and sold on the Main Market of the London Stock Exchange. The value at which shares trade on the London Stock Exchange may be below (at a "discount" to) or above (at a "premium" to) the net asset value per share of the Company.

The Company's shares are not redeemable. While the Company intends at each Annual General Meeting to request shareholder authority to issue and to buy back shares, shareholders do not have the right to have their shares re-purchased by the Company or to have new shares issued to them.

Liquidity risk management

The AIFM maintains a liquidity management policy to monitor the liquidity risk of the Company. As noted above, however, Shareholders have no right to redeem their Ordinary Shares from the Company but may trade their Ordinary Shares on the secondary market. However, there is no guarantee that there will be a liquid market in the Ordinary Shares.

In addition, if after the end of the fourth financial year of the Company's existence (being 31 December 2022) or any subsequent year, the Ordinary Shares have traded, on average, at a discount in excess of 10 per cent. of Net Asset Value per Ordinary Share in that 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 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.

The discount or premium at which the Ordinary Shares trade on each Business Day in a financial year for the purposes of the continuation vote mechanism will be determined by reference to the closing bid price of the Ordinary Shares on each relevant Business Day and the most recently published Net Asset Value per Ordinary Share.

Liquidity risk is therefore the risk that a position held by the Company cannot be realised at a reasonable value sufficiently quickly to meet the obligations (primarily, debt) of the Company as they fall due. In managing the Company's assets, the Investment Manager will seek to ensure that the Company holds at all times a portfolio of assets (including cash) to enable the Company to discharge its payment obligations. The Company may also maintain a short-term overdraft facility that it may utilise from time to time for short-term liquidity purposes.

Purchases and sales of shares by Shareholders

Shares may be bought or sold on the London Stock Exchange through a bank or stockbroker. There are no restrictions on transfers of shares or compulsory transfer powers for the directors to transfer shares held by Shareholders in the European Union save where a Shareholder has refused, having been asked, to confirm if he holds his shares on behalf of another person.

A shareholder who holds 0.25 per cent. or more of the entire issued ordinary share capital who fails to provide information may be blocked from transferring his shares.

In the case of shares held through CREST, a shareholder may be blocked from transferring his shares if the Uncertificated Securities Regulations 2001 (as amended) so provide or require it.

In addition, if at any time the holding or beneficial ownership of any shares in the Company by any person (whether on its own or taken with other shares), in the opinion of the Directors: (i) would cause the assets of the Company to be treated as "plan assets" of any benefit plan investor under Section 3(42) of ERISA or the Internal Revenue Code; (ii) would or might result in the Company and/or its shares and/or any of its appointed investment managers or investment advisers being required to be registered or qualified under the US Investment Company Act and/or the US Investment Advisers Act of 1940 and/or the US Securities Act and/or the US Exchange Act and/or any similar legislation (in any jurisdiction) that regulates the offering and sale of securities; (iii) may cause the Company not to be considered a "Foreign Private Issuer" under the US Exchange Act; (iv) may cause the Company to be a "controlled foreign corporation" for the purpose of the Internal Revenue Code; or (v) may cause the Company to become subject to any withholding tax or reporting obligation under FATCA or any similar legislation in any territory or jurisdiction, or to be unable to avoid or reduce any such tax or to be unable to comply with any such reporting obligation (including by reason of the failure of the shareholder concerned to provide promptly to the Company such information and documentation as the Company may have requested to enable the Company to avoid or minimise such withholding tax or to comply with such reporting obligation), then the Board may declare the Shareholder in question a "Non-Qualified Holder" and the Board may require that any shares held by such Shareholder ("**Prohibited Shares**") will (unless the Shareholder concerned satisfies the Board that he is not a Non-Qualified Holder) be transferred to another person who is not a Non-Qualified Holder, failing which the Company may itself dispose of such Prohibited Shares at the best price reasonably obtainable and pay the net proceeds to the former holder.

Relationship between the Company and Shareholders continued

Legal relationship between the Company and Shareholders

The terms and conditions of any fundraisings will either be announced by way of RNS announcement or set out in any relevant prospectus.

A Shareholder will have no direct legal or beneficial interest in the assets of the Company and the liability of Shareholders for the debts and other obligations of the Company is limited to the amount unpaid, if any, on the shares held by them.

Under English law, the following types of claim may in certain circumstances be brought against a company by its shareholders: contractual claims under its articles of association; claims in misrepresentation in respect of statements made in its prospectus and other marketing documents; unfair prejudice claims; and derivative actions. In the event that a Shareholder considers that it may have a claim against the Company in connection with its investment in the Company, such Shareholder should consult its own legal advisers.

Until the end of the Implementation Period, Regulation (EC) 593/2008 ("Rome I") must be applied in the UK as well as all member states of the European Union (other than Denmark). Accordingly, where a matter comes before the courts of the relevant member state, the choice of governing law in any given agreement is subject to the provisions of Rome I. Under Rome I, the member state's court may apply any rule of that member state's own law which is mandatory irrespective of the governing law and may refuse to apply a rule of governing law if it is manifestly incompatible with the public policy of that member state. Further, where all other elements relevant to the situation at the time of the choice are located in a country other than the country whose law has been chosen, the choice of the parties will not prejudice the application of provisions of the law of that country which cannot be derogated from by agreement.

The United Kingdom is party to the following instruments which provide for the recognition and enforcement of foreign judgements in England and Wales:

- (a) Regulation (EC) 44/2001 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters (the Brussels Regulation);
- (b) Lugano Convention on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters 2007 (the new Lugano Convention);
- (c) Regulation (EC) 805/2004 creating a European Enforcement Order for uncontested claims (the European Enforcement Order Regulation);
- (d) the Administration of Justice Act 1920; and
- (e) the Foreign Judgements (Reciprocal Enforcement) Act 1933.

Accordingly if a Shareholder were to seek to have an order of a foreign court recognised or enforced in the courts of England and Wales, it is likely that the United Kingdom will have arrangements in place under one of the instruments noted above.

Shareholders should note, however, that there is no instrument in place for the recognition and enforcement of judgements between the United Kingdom and the US and accordingly, if a Shareholder were to seek to have an order of a US court (irrespective of the state in which the order was obtained) recognised or enforced in the courts of England and Wales, the Shareholder would need to rely on the laws of England and Wales and may therefore find it difficult in practice to enforce a judgement obtained in the US in England and Wales.

Fair treatment of Shareholders

The legal and regulatory regime to which the Company and the Directors are subject ensures the fair treatment of Shareholders. In particular, the FCA Listing Rules require that the Company treats all shareholders of the same class of shares equally and each Director has statutory duties under the Companies Act 2006 with which they must comply, including a duty to act in the way he or she considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole.

The AIFM maintains and operates organisational, procedural and administrative arrangements and implements policies and procedures designed to manage actual and potential conflicts of interest. In addition, as its shares are admitted to the Official List, the Company is required to comply with, among other things, the FCA's Listing Rules and Disclosure Guidance and Transparency Rules and the Takeover Code, all of which operate to ensure a fair treatment of Shareholders.



Risk factors and risk management

Risk profile and risk management systems

Details of the risks relating to the Company and its investments are set out below. The AIFM has established risk management systems in order to manage these key risks, as described in the annual report and audited accounts (which are available on the Company's website www.smithson.co.uk).

The AIFM will ensure that the current risk profile of the Company and the risk management systems employed by the AIFM to manage those risks in relation to the Company's portfolio are published in the Company's annual report and audited accounts. These will be available on the Company's website and are expected to be published in March each year.

Key risk factors

Risks relating to the Company's business

There can be no assurance that the Investment Manager will be successful in implementing the Company's investment objectives

The Company will be dependent upon the Investment Manager's successful implementation of the Company's investment policy and investment strategies, and ultimately on its ability to create an investment portfolio capable of generating attractive returns. This implementation in turn will be subject to a number of factors, including market conditions and the timing of investments relative to market cycles, many of which are beyond the control of the Company and difficult to predict. There can be no assurance that the Company will be successful in sourcing suitable investments or that the Company will make any investments at all.

The Company may face competition from other investment funds and strategic investors

The Company may face significant competition from a growing number of funds and other strategic investors targeting similar investment opportunities and many of which have greater financial resources and ability to borrow funds than the Company. Competition for attractive investment opportunities could lead to higher asset prices which could affect the Company's ability to invest on terms which the Investment Manager considers attractive.

The Company's performance depends on investment market conditions

Market conditions may have a negative impact on the Company's ability to identify and execute investments in suitable assets that might generate acceptable returns and have in the past had a significant impact on investment pricing and liquidity levels. Market conditions may also restrict the supply of suitable assets that may generate acceptable returns. Adverse market conditions and their consequences may have a material adverse effect on the Company's business, results of operations and cash flows.

Adverse market conditions could have a significant impact on the Company and the value of its investment portfolio

The value of the equity securities in the Company's investment portfolio may fluctuate and there is no guarantee that the amounts invested by the Company will be returned in whole or in part. Such investments entail a certain degree of risk and stock markets may periodically experience short-term volatility as a result of adverse macroeconomic conditions and other unpredictable factors. The performance of the Company and the value of its investments could be significantly affected by such factors both globally and in the jurisdictions where the Company invests.

Risk factors and risk management continued

The Company is not constrained to investing in diversified sectors

The Company is not constrained from weighting to any sector, which may lead to the Company having significant exposure to portfolio companies from certain business sectors from time to time. Greater concentration of investments in any one sector may result in greater volatility in the value of the Company's investments and consequently its NAV.

The Company's due diligence may not identify all risks and liabilities in respect of an investment

Prior to investing in a company, the Company will perform due diligence on the proposed investment. In doing so, it would typically rely in part on information from third parties as a part of this due diligence. To the extent that the Company or other third parties underestimate or fail to identify risks and liabilities associated with the investment in question, this may impact on the profitability or valuation of the investment. For example, the Company may acquire an investment with unknown or undiscovered liabilities or investments may be acquired that are not consistent with the Company's strategy and which fail to perform in accordance with projections.

Exchange rates may fluctuate

The Company's Ordinary Shares will be denominated in pounds sterling while parts of its portfolio of investments will be denominated in other currencies, and it is therefore subject to the risk of movements in exchange rates. As a result, the pounds sterling value of the Company's investments that are not denominated in pounds sterling may rise or fall solely on account of exchange rate fluctuations. The Company will not generally hedge its currency exposures, and such movements in exchange rates could have a material adverse effect on the value of the Ordinary Shares.

Interest rates may fluctuate

Interest rate movements may affect the level of income receivable on cash deposits and the interest payable on the Company's variable rate cash borrowings. In the event that interest rate movements lower the level of income receivable on cash deposits or raise the interest required to be paid by the Company, returns to Shareholders will be reduced.

Risks relating to conflicts of interest

The services of the Investment Manager, its respective associates and their respective officers and employees, are not exclusive to the Company. Although the Investment Manager has in place a conflicts of interest policy, in fulfilling its responsibilities to the Company, it may be subject to certain conflicts of interest arising from its relations with third parties to whom it also owes duties or in whom it has an interest.

Uncertainty surrounding the process and terms of the UK's withdrawal from the EU could have a material adverse effect on the value of the Ordinary Shares

The UK formally withdrew from the European Union on 31 January 2020. Although the UK and the European Union have agreed to an Implementation period while the terms and arrangements for the UK's future relationship with the EU are negotiated such terms and arrangements currently remain unclear, which may create an uncertain political and economic environment in the UK and other EU Member States that could potentially last for a number of months or years. It is possible that these terms and arrangements may not be agreed by the UK by the end of the implementation period. The UK may be forced to exit the EU without mutually acceptable terms having been agreed. The terms of any such exit, and the accompanying political and economic uncertainty surrounding the UK's withdrawal from the EU, could result in deteriorating macroeconomic conditions, stock market uncertainty and/or dramatic fluctuations in the pounds sterling to Euro exchange rate, any of which could have a material adverse effect on the Company and the value of the Ordinary Shares.

Risks relating to the Ordinary Shares

The market price of the Ordinary Shares may fluctuate widely in response to different factors and there can be no assurance that the Ordinary Shares of the Company will be repurchased by the Company even if they trade materially below their Net Asset Value

The market price of the Ordinary Shares may not reflect the value of the underlying investments of the Company and may be subject to wide fluctuations in response to many factors, including, amongst other things, additional issuances or future sales of the Company's shares or other securities exchangeable for, or convertible into, its shares in the future, the addition or departure of Board members or key individuals at the Investment Manager, divergence in financial results from stock market expectations, changes in stock market analyst recommendations or investment trust sectors as a whole, the Company or any of its assets, a perception that other market sectors may have higher growth prospects, general economic conditions, prevailing interest rates, legislative changes affecting investment trusts or the Company's investments and other events and factors within or outside the Company's control. Stock markets experience extreme price and volume volatility from time to time, and this, in addition to general economic, political and other conditions, may materially adversely affect the market price for the Ordinary Shares. The market value of the Ordinary Shares may vary considerably from the Company's underlying Net Asset Value. There can be no assurance, express or implied, that Shareholders will receive back the amount of their investment in the Ordinary Shares.



Risk factors and risk management continued

The Company seeks an annual shareholder authority to make market purchases of up to a maximum number of ordinary shares representing, up to 14.99 per cent. of the ordinary shares issued. Ordinary share capital of the Company at the time the authority is sought and subject to the requirements of the Listing Rules, the Companies Act, the Articles and other applicable legislation, the Company may thus purchase Ordinary Shares in the market with the intention of, amongst other things, enhancing the Net Asset Value per Ordinary Share. The Company may decide to make any such purchases (and the timing of such purchases), however, at the absolute discretion of the Directors. There can be no assurance that any purchases will take place or that any purchases will have the effect of narrowing any discount to Net Asset Value at which the Ordinary Shares may trade.

Further, the Directors may, but are not required by the Company's constitutional documents to, call a continuation vote in the event that, after the end of the fourth financial year of the Company's existence the Ordinary Shares have traded at an average discount in excess of 10 per cent. of the Net Asset Value per Ordinary Share in a relevant year. As such, there can be no assurance that a continuation vote will be held in circumstances where the Ordinary Shares have traded at such an average discount following the end of the fourth financial year of the Company.

The market for the Ordinary Shares may cease to be liquid.

There is no guarantee that an active trading market in the Ordinary Shares will be sustained. If an active trading market is not maintained, the liquidity and trading price of the Ordinary Shares may be adversely affected. Even with an active trading market, the market price of the Ordinary Shares may not reflect the value of the underlying investments of the Company.

The Company may in the future issue new Ordinary Shares or C Shares, which may dilute shareholders' equity

Further issues of Ordinary Shares or C Shares may, subject to compliance with the relevant provisions of the Companies Act and the Articles, be made on a non-pre-emptive basis. Existing holders of Ordinary Shares may, depending on the level of their participation in the relevant share issue, have the percentage of voting rights they hold in the Company diluted.

Sales of Ordinary Shares by members of the Board or by partners or staff of the Manager or the possibility of such sales, may affect the market price of the Ordinary Shares

Sales of Ordinary Shares or interests in Ordinary Shares by the Board or by partners or staff of the Manager could cause the market price of the Ordinary Shares to decline. Whilst the Directors and the partners and staff of the Manager may sell their Ordinary Shares in the market, a substantial number of Ordinary Shares being sold, or the perception that sales of this type could occur, could cause the market price of the Ordinary Shares to decline. This may make it more difficult for Shareholders to sell the Ordinary Shares at a time and price that they deem appropriate.

The Company's ability to pay dividends will depend upon its ability to generate sufficient earnings and certain legal and regulatory restrictions

The Company's intention is to look for overall return rather than seeking any particular level of dividend. Subject to the requirement to make distributions in order to maintain investment trust status, any dividends and other distributions paid by the Company will be made at the discretion of the Board. The payment of any such dividends or other distributions will in general depend on the Company's ability to generate realised profits, which, in turn, will depend on the Company's ability to acquire investments which pay dividends, its financial condition, its current and anticipated cash needs, its costs and net proceeds on sale of its investments, legal and regulatory restrictions and such other factors as the Board may deem relevant from time to time. As such, investors should have no expectation as to the amount of dividends or distributions that will be paid by the Company or that dividends or distributions will be paid at all.

Risks in connection with leverage

The Company may use gearing in certain circumstances

When an investment trust employs leverage, its net asset value and price performance would be expected to represent an amplification of any upward or downward movement in the investment trust's portfolio as a result of price changes of the investments contained therein. In the event that interest rates rise and the interest required to be paid by the Company increases, returns to Shareholders will be reduced. The Company will only borrow for short-term liquidity purposes or for discount management purposes including purchase of its own shares. The Company's borrowings shall be limited to 15 per cent. of the Net Asset Value at the time of draw down of such borrowings.

Risk factors and risk management continued

Risk relating to regulation and taxation

Investment trust status

The Directors conduct the affairs of the Company so as to satisfy the conditions under section 1158 of the CTA 2010 and the Investment Trust Regulations 2011. In respect of each accounting period for which the Company is an approved investment trust, the Company will be exempt from UK corporation tax on its chargeable gains. There is a risk that the Company may fail to maintain its status as an investment trust. In such circumstances, the Company would be subject to the normal rates of corporation tax on chargeable gains arising on the transfer or disposal of investments and other assets, which could adversely affect the Company's financial performance, its ability to provide returns to its Shareholders or the post-tax returns received by its Shareholders. In addition, it is not possible to guarantee that the Company will remain a non-close company, which is a requirement to maintain investment trust status, as the Ordinary Shares are freely transferable. The Company, in the unlikely event that it becomes aware that it is a close company, or otherwise fails to meet the criteria for maintaining investment trust status, will, as soon as reasonably practicable, notify Shareholders of this fact.

The Company has not and will not register as an investment company under the Investment Company Act

The Company is not, and does not intend to become, registered in the United States as an investment company under the Investment Company Act and related rules and regulations. The Investment Company Act provides certain protections to investors and imposes certain restrictions on companies that are registered as investment companies. As the Company is not so registered and does not plan to register, none of these protections or restrictions is or will be applicable to the Company. In addition, to avoid being required to register as an investment company under the Investment Company Act, the Board may, under the Articles and subject to certain conditions, compulsorily require the transfer of Ordinary Shares held by a person to whom the sale or transfer of Shares may cause the Company to be classified as an investment company under the Investment Company Act. These procedures may materially affect certain Shareholders' ability to transfer their Shares.

The Ordinary Shares are subject to certain provisions that may cause the Board to refuse to register, or require the transfer of, Ordinary Shares

Although the Ordinary Shares are freely transferable, there are certain circumstances in which the Board may, under the Articles and subject to certain conditions, compulsorily require the transfer of the Ordinary Shares. These circumstances include where a transfer of Ordinary Shares would cause, or is likely to cause: (i) the assets of the Company to be considered "plan assets" under the Plan Asset Regulations; (ii) the Company to be required to register under the Investment Company Act, or members of the senior management of the Company to be required to register as "investment advisers" under the US Investment Advisers Act of 1940; (iii) the Company to be required to register under the US Exchange Act or any similar legislation, amongst others; or (iv) the Company to be unable to comply with its obligations under the Foreign Account Tax Compliance Provisions (commonly known as FATCA).

The assets of the Company could be deemed to be "plan assets" that are subject to the requirements of ERISA or Section 4975 of the Internal Revenue Code, which could restrain the Company from making certain investments, and result in excise taxes and liabilities

Under the current Plan Asset Regulations, if interests held by Benefit Plan Investors are deemed to be "significant" within the meaning of the Plan Asset Regulations (broadly, if Benefit Plan Investors hold 25 per cent. or greater of any class of equity interest in the Company) then the assets of the Company may be deemed to be "plan assets" within the meaning of the Plan Asset Regulations. After Initial Admission, the Company may be unable to monitor whether Benefit Plan Investors or investors acquire Ordinary Shares and therefore, there can be no assurance that Benefit Plan Investors will never acquire Ordinary Shares or that, if they do, the ownership of all Benefit Plan Investors will be below the 25 per cent. threshold discussed above or that the Company's assets will not otherwise constitute "plan assets" under Plan Asset Regulations. If the Company's assets were deemed to constitute "plan assets" within the meaning of the Plan Asset Regulations, certain transactions that the Company might enter into in the ordinary course of business and operation might constitute non-exempt prohibited transactions under ERISA or the Internal Revenue Code, resulting in excise taxes or other liabilities under ERISA or the Internal Revenue Code. In addition, any fiduciary of a Benefit Plan Investor or an employee benefit plan subject to Similar Law that is responsible for such plan's investment in the Ordinary Shares could be liable for any ERISA violations or violations of such Similar Law relating to the Company.

Overseas taxation

The Company may be subject to tax (including withholding tax) under the tax rules of the jurisdictions in which it invests. Although the Company will endeavour to minimise any such taxes, this may affect the level of returns to Shareholders.



SCHEDULE I

DEFINITIONS

“Administrator”	means Northern Trust Global Services plc;
“AIF”	means an Alternative Investment Fund, as defined in the AIFM Directive;
“AIFM”	means an Alternative Investment Fund Manager, as defined in the AIFM Directive;
“AIFM Directive”	means the EU Directive on Alternative Investment Fund Managers;
“Articles” or “Articles of Association”	means the articles of association of the Company;
“Auditor”	means Deloitte LLP;
“Benefit Plan Investors”	means (i) an employee benefit plan that is subject to the fiduciary responsibility or prohibited transaction provisions of Title I of the ERISA (including, as applicable, assets of an insurance company general account) or a plan that is subject to the prohibited transaction provisions of section 4975 of the Internal Revenue Code (including an individual retirement account), (ii) an entity whose underlying assets include “plan assets” by reason of a plan’s investment in the entity, or (iii) any “benefit plan investor” as otherwise defined in section 3(42) of ERISA or regulations promulgated by the US Department of Labor;
“Board”	means the board of directors of the Company from time to time;
“Broker Agreement”	means the company secretarial agreement between the Company and the Broker;
“Broker”	means Investec Bank plc;
“Business Day”	means a day on which the London Stock Exchange and banks in England and Wales are normally open for business;
“C Shares”	means ordinary shares of ten pence each in the capital of the Company issued as “C Shares” and having the rights and being subject to the restrictions set out in the Articles, which will convert into Ordinary Shares as set out in the Articles;
“Companies Act”	means the Companies Act 2006, as amended from time to time;
“Company”	means Smithson Investment Trust plc;
“Company Secretary”	means PraxisIFM Fund Services (UK) Limited;
“CREST”	means a relevant system (as defined in the Regulations) in respect of which Euroclear is the operator (as defined in the Regulations);
“CTA 2010”	means the Corporation Tax Act 2010;
“Depositary”	means Northern Trust Global Services SE;
“Directors”	means the directors of the Company from time to time and as at the date of this document means each of Mark Pacitti, Diana Dyer Bartlett and Lord Anthony St John of Bletso;
“Disclosure Guidance and Transparency Rules”	means the disclosure guidance and transparency rules made by the FCA under part VI of the FSMA;
“Euroclear”	means Euroclear UK and Ireland Limited, the operator of CREST;
“ERISA”	means the United States Employee Retirement Income Security Act of 1974, as amended from time to time, and the applicable regulations thereunder;
“EU”	means the European Union;
“FATCA”	means the U.S. Foreign Account Tax Compliance Act of 2010;
“FCA”	means the Financial Conduct Authority;
“Financial Services and Markets Act 2000” or “FSMA”	means the Financial Services and Markets Act 2000, as amended from time to time;
“Foreign Private Issuer”	means those individuals who fall within the definition of “Foreign Private Issuer” as set out in the US Exchange Act;

Smithson Investment Trust plc

Investor Disclosure Document

SCHEDULE I

“Gross Assets”	means the aggregate value of the total assets of the Company;
“HMRC”	means HM Revenue and Customs;
“IRS”	means the US Internal Revenue Service;
“Implementation Period”	[See prospectus]
“Initial Admission”	means the admission of Ordinary Shares issued pursuant to the Company’s initial placing, offer for subscription and intermediaries offer to the Official List and to trading on the Main Market of the London Stock Exchange becoming effective in accordance with the Listing Rules and/or the LSE Admission Standards;
“Internal Revenue Code”	means the U.S. Internal Revenue Code of 1986, as amended;
“Investment Management Agreement”	means the investment management agreement between the Company and the Investment Manager;
“Investment Manager” or “Fundsmith”	means Fundsmith LLP;
“Investment Trust Regulations 2011”	means the Investment Trust Regulations 2011, as amended from time to time;
“Listing Rules”	means the Listing Rules made by the FCA under Part VI of the FSMA, as amended from time to time;
“London Stock Exchange”	means the London Stock Exchange plc;
“Net Asset Value” or “NAV”	means the net asset value of the Company calculated in accordance with the valuation policies of the Company from time to time as appropriate;
“Nominee”	means Link Market Services Trustees Limited;
“Non-Qualified Holder”	means any Shareholder declared by the Directors to be a Non-Qualified Holder in accordance with the Articles (and as more fully described under the heading “Purchases and sales of Shares by investors”;
“Official List”	means the Official List of the UK Listing Authority;
“Ordinary Shares”	means ordinary shares (issued and to be issued) of 1 pence each in the share capital of the Company;
“Plan Asset Regulations”	means the US Department of Labor Regulations, 29 C.F.R. 2510.3-101, as and to the extent modified by section 3(42) of ERISA;
“Prohibited Shares”	means any shares in the Company which are held by a Shareholder who is a Non-Qualified Holder;
“RNS announcement”	means an announcement by a regulatory news service;
“Rome I”	means Regulation EC 593/2008, as amended from time to time;
“Shareholders”	means holders of Ordinary Shares in the Company;
“Shares”	means transferable securities;
“Similar Law”	any US federal, state, local or foreign law that is similar to provision 406 of ERISA or section 4975 of the Internal Revenue Code
“Takeover Code”	means the City Code on Takeovers and Mergers;
“UK” or “United Kingdom”	means the United Kingdom of Great Britain and Northern Ireland;
“Uncertificated Securities Regulations 2001”	means the Uncertificated Securities Regulations 2001 as amended from time to time;
“US Exchange Act	means the US Exchange Act as amended from time to time;
“US Investment Advisers Act of 1940”	means the US Investment Advisers Act of 1940 as amended from time to time;
“US Investment Company Act”	means the US Investment Company Act as amended from time to time;
“US Securities Act”	means the US Securities Act as amended from time to time;
“US” or “United States”	means the United States of America (including the District of Columbia) and any of its territories, possessions and other areas subject to its jurisdiction; and
“VAT”	means UK Value Added Tax.

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