Smithson Investment Trust

Interim Financial Report

for the period from incorporation to 31 December 2018

Smithson Investment Trust plc

Small &
Mid Cap
Investments
That
Have
Superior
Operating
Numbers

Fundsmith
Buy good companies
Don't overpay
Do nothing

Contents

Financial Calendar

Half Year End	30 June 2019
Half Year End Results Announced	July/August 2019
Financial Year End	31 December 2019
Final Results Announced	February 2020
Annual General Meeting	March 2020

Financial Highlights

Performance Summary

	As at 31 December 2018
NAV per share	**942.2p**
Share price	**1,000.2p**
Premium	**+6.2%**
Ongoing Charges	**1.1%**

	Period ended 31 December 2018
NAV per share (total return)	**-5.8%**
Share price (total return)	**0.0%**
Small and Mid Cap Market Equities (total return)†	**-8.3%**

† MSCI World SMID Index, measured on a net sterling adjusted basis

This report contains terminology that may be unfamiliar to some readers. The Glossary on page 22 gives definitions for frequently used terms.

Introduction

I am pleased to present the first Interim Financial report of Smithson Investment Trust Plc ("the Company") following the successful launch of the Company. The Company raised a total of £822.5 million through its initial public offering, which was the largest amount that has been raised by any investment trust IPO. This gave us a very strong base upon which to build. The Company's shares commenced trading on the Main Market of the London Stock Exchange on 19 October 2018 and the Company entered the FTSE 250 Index in December.

This report covers the period from the date of the Company's incorporation on 14 August 2018 to 31 December 2018 and is the first report for our extended first financial year which will end on 31 December 2019.

As Chairman of the Company, I would like to extend a warm welcome to all our shareholders at the time of this first report.

Performance

In the period since launch to 31 December 2018, the Company's share price and net asset value ("NAV") recorded total returns in sterling terms of 0.0% and -5.8% respectively. The Company's shares traded at a premium to NAV (cum income) of 6.2% at the end of the period under review and at an average premium over the period of 6.4%.

As explained in more detail in the Manager's Review, the period from launch to 31 December 2018 saw rather volatile global markets. However, it is notable that the Smithson NAV total return and share price both beat the Company's reference index, the MSCI World SMID Index ('SMID Index'), albeit this was a very short period. The performance of the Company since the period end was much stronger. As at 28 February 2019, the NAV had increased to 1,063.2p, whilst the share price had risen to 1,105.0p representing a premium of 3.9%.

Share issuance

Demand for the Company's shares has continued and the Board has utilised the placing programme (as described in the prospectus) to issue further shares. During the period from the initial listing of the Company's shares up until 31 December 2018, a net amount of £16.5 million was raised through the issuance of 1.65 million shares, with a further 5.2 million shares issued since the period end (raising net proceeds of £54.7 million). The new shares issued in the period, were issued at an average premium to NAV of 3.4%. As at the date of this report the Company's market capitalisation is in excess of £980 million.

Revenue and Dividends

The Company's principal objective is to provide shareholder returns through long-term capital appreciation rather than income. A net revenue profit of £557,000 was made in the period, but, in accordance with the Company's policy, an interim dividend has not been declared by the Board.

The position will be kept under review. It should not be expected that the Company will pay a significant annual dividend, but the Company will declare such annual dividends as are necessary to maintain UK investment trust status.

Outlook

Since the start of 2019, global equity markets have shown a degree of recovery, despite ongoing global political and macro-economic uncertainties. It is pleasing to note that both our NAV and share price have grown strongly since the period end, with both measures having now comfortably outperformed the SMID Index since launch. The Investment Manager continues to seek attractive investment opportunities for any further capital raised through share issuance.

Mark Pacitti
Chairman
1 March 2019

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 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 draw down of such borrowings. The Company may not otherwise employ leverage.

Dear Fellow Shareholders,

We have so far been rather fortunate in the timing of the launch of your Company. Until August, global stock markets had continued their climb unabated, further boosted in 2018 by tax cuts for US companies and economic growth in other regions. However, several issues started to impact asset prices in the early Autumn, including an escalating trade war between the US and China, a deceleration in global economic growth, an increasingly disorderly Brexit and rising global interest rates, all of which caused market participants to grow more cautious. We could take this opportunity to opine at length on these issues but unfortunately it wouldn't be worth much to you, because although we have our opinions, we don't know what will actually happen in the future regarding these matters. In fact, just giving our opinions would likely cause you a disservice, because there is a chance you might actually believe what we say.

As a consequence of the market concerns, the MSCI World Small and Mid Cap (SMID) Index, our reference benchmark, fell by 8.3% from the high on 28 August to our launch on 19 October. This was around half of the 16.6% total decline we observed from that August high point to the end of the year. Although our Net Asset Value per share ("NAV") is down 5.8% since the launch, it has outperformed the SMID which is down 8.3%. We should bear in mind though, that two and a half months, the period from launch to year end, is really too short a time to judge this performance.

The Company's shares were trading slightly above the IPO price at year end. The shares traded at a premium to NAV for the whole period since launch, and ended the year at a premium of 6.2%. We have laid out the performance of the Company below and included a comparison with equities, bonds and cash.

	Total Return 19.10.18 to 31.12.18 %
Smithson NAV[1]	-5.8
Smithson Share Price	0.0
Equities[2]	-8.3
UK Bonds[3]	+2.1
Cash[4]	+0.2

[1] Source: Bloomberg, starting NAV 1000p

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

[3] Bloomberg/Barclays Bond Indices UK Govt 5-10 year (source: Bloomberg)

[4] Month £ LIBOR Interest Rate (source: Bloomberg)

Upon launch, we set about deploying the Company's funds into 29 of the small and mid cap companies which we have been researching and monitoring. It took us 24 days to deploy £805 million, or 97.8% of the £822.5 million IPO proceeds, leaving a small cash balance. This was helped by the falling stock markets, and compared favourably to our estimate of the 22 days required to deploy a potential £600 million of proceeds, as described in the updated prospectus.

Our dealing costs to deploy the fund amounted to £1,021,480 or 0.13% of the IPO proceeds. The annualised Ongoing Charges Figure (OCF) for the period was 1.05%, while our own definition of cost, the Total Cost of Investment (TCI), which includes dealing costs, was 1.18% on an annualised basis. As we expect ongoing portfolio turnover to be low, it is very likely that this TCI figure will be lower for 2019.

While I won't recount the entire investment philosophy and methodology behind the Company here (this is covered in detail in the 'Owner's Manual', available on the Smithson Investment Trust website, or in hard copy if you contact our offices), this is a good opportunity to speak about our expectations for the Company.

First, we have selected our investments with a long term holding period in mind – at least 10 years but preferably longer. This is because we try to calculate the rate at which the companies we invest in should grow on average over a long period which, when combined with what we have to pay for the shares today, provides us with an estimate of the rate at which the share price of each company should compound over time. As this is a rough, long-term average number (we already know we won't be able to predict the future with any accuracy, and so, unlike others, we won't waste our time trying), it will likely take time to come to fruition. But as long as our expected share price return for a company is substantially above the long term average return for the equity market as a whole (which is around 7-9% depending on the region), we are happy holders and have no reason to trade.

Second, our aim with the Company is of course to make you much wealthier than you are today. Given what has been said above however, if you are not willing to get rich slowly, this may not be the Company for you. Interestingly, so much of human nature, and therefore our culture, is dominated by a desire for quick fixes and instant gratification. But if we think logically, with happiness as our end goal (and if it isn't, again, we may struggle to help you), getting rich at a moderate pace should always be one's preference. Academic studies in 1978[1] and 2008[2] showed that the ultimate in get-rich-quick beneficiaries - lottery winners – actually returned to their previous levels of happiness in a remarkably short time, often within six months of their windfall. This is startling, and has been attributed to 'hedonic adaption': the fact that we quickly adapt to any new situation (good or bad). Therefore, if we were able to constantly improve our circumstances, even if only a little, then we should actually be happier for longer. Perhaps then, getting richer (or fitter, or wiser) slowly is good for us. But not too slowly. In this case, it is still our expectation that we will beat the performance of the equity market over time.

The reason we have confidence in this expectation is laid out below, where we have provided the average of the financial metrics for companies in our portfolio against those in the SMID. In essence, the companies we own are higher quality than those in the SMID, grow considerably faster, yet currently trade at a similar valuation.

Year ended	Smithson 2018	World SMID Index 2018
Growth of Cash Flow	16%	10%
ROCE	39%	10%
Gross Margin	64%	34%
Operating Margin	31%	9%
Cash Conversion	110%	82%
Interest Cover	30x	6x
FCF Yield	4.2%	4.2%

All figures are a weighted average except Interest Cover which is a median

Smithson ROCE figure excludes Rightmove which has a ROCE >1000%

World SMID Index excludes financial companies

We consider a number of measures when deciding on the quality of the companies we invest in. This includes growth of free cash flow, return on capital employed (ROCE), gross margin (a reflection of the price mark-up a company achieves on its products), operating margin, cash conversion (how much of the reported profit actually appears in cash) and interest cover (how many times larger the profits are compared to the interest obligations on any debt). When viewing our portfolio alongside the benchmark, our focus on high quality companies becomes quite apparent, with all metrics meaningfully better for our portfolio companies compared to the average company in the benchmark. Of particular note, the growth of cash flow and return on capital employed, two of the most important metrics, are significantly higher. When we compare valuations on the other hand, they are actually identical, with both our portfolio and the benchmark trading at an average 4.2% free cash flow yield (the free cash flow generated by the companies divided by their market value, and our preferred valuation metric). Buying superior companies at a market average valuation strikes us as a very good way to do better than the market over time. Further, in response to those market commentators who remark that equities are "expensive", we can only say that we feel very content owning high quality companies which have a 4.2% free cash flow yield and grow at 16% a year.

A further expectation for the Company is that it is likely to be more volatile than the overall equity market (as measured by our benchmark). This is owing to the reality that the SMID consists of over 5000 companies, while our portfolio currently contains only 29, and will never consist of many more. As discussed in the Owner's Manual, volatility is not a particularly bad thing, as it can give the opportunity to buy or sell at attractive prices, but nonetheless it is a characteristic of the portfolio worth noting. Admittedly, this hasn't appeared to be the case so far during the months since launch, as the portfolio has actually fallen less than the market, but again, this is really too short a time period to judge.

Still, there have been examples of high price volatility within the portfolio even during this brief period. The share price of Ambu, one of our fastest growing companies, is already up over 30% since we finished purchasing its shares, and is the largest contributor to performance so far. Ambu is a Danish company with an 80 year history of creating low-cost medical devices, and was the first company to launch an endoscope cheap enough to use only once. This gives their products a significant advantage over re-usable endoscopes, which can carry a meaningful risk of infection for patients, and can cost almost as much to clean after each use as the price of one Ambu single-use endoscope. Ambu has almost a 100% share of the single-use endoscope market, which is growing extremely quickly, and which the management of the company believes can become as much as 20 times the current size in the future. Only time will tell.

We also own shares which fell considerably in price during the period. CDK Global Inc. is a US company which produces software to help car dealers run their business and advertise their vehicles. The shares fell almost 14% over five days when it was announced that the CEO had been fired to be replaced by Brain Krzanich, who had famously just been ousted as CEO of Intel for "fraternization", or entering into a consensual relationship with another employee. Although Mr Krzanich had his share of detractors in the media, overall things didn't go too badly during his 5 year reign at Intel, as the 160% share price appreciation over that time will attest. So although the market has already decided that his appointment will be bad for the future of CDK Global, we await further evidence before reaching our own conclusion. Specifically, while large, expensive acquisitions, such as those made during Mr Krzanich's tenure at Intel would not be welcomed by us, any value creating methods of accelerating the growth of the company which he implements could prove to be more interesting.

The tables below complete the picture of the top 5 contributing and detracting shares:

Top 5 Contributors			
Security	**Country**	**Sector**	**Contribution %**
Ambu A/S	Denmark	Healthcare	0.4
Technology One	Australia	Information Technology	0.3
Verisign	United States	Information Technology	0.2
Recordati	Italy	Healthcare	0.2
Halma	United Kingdom	Information Technology	0.2

As mentioned, Ambu was the largest contributor to performance. The second largest was Technology One, an Australian software company specialising in software for education, healthcare and government organisations, which reported good full year results during the period. Verisign, a US company which manages the ".com" and ".net" internet domains, performed well after it reached a new agreement with the US Department of Commerce which allowed it greater flexibility to increase prices for its services. Performance of Recordati, the diversified Italian healthcare company, was helped by ongoing positive developments in its rare disease drugs business. Finally Halma, which manufactures health and safety sensor technologies, disclosed strong growth in its interim results released during the period.

Top 5 Detractors			
Security	**Country**	**Sector**	**Contribution %**
Domino's Pizza Enterprises	Australia	Consumer Discretionary	-0.7
CDK Global Inc	United States	Information Technology	-0.7
Equifax	United States	Industrials	-0.7
Domino's Pizza Group	United Kingdom	Consumer Discretionary	-0.5
Sabre Corp	United States	Information Technology	-0.5

In addition to CDK Global, covered earlier, both of the Domino's Pizza businesses we own were among the biggest detractors from performance, the Australian business being the largest detractor and the UK business the fourth largest. Both have suffered from press reports regarding fractious relations with certain franchisees, something that is not uncommon in businesses like this from time to time. Equifax, one of the "big 3" global providers of consumer credit scores, suffered after releasing a disappointing set of quarterly results in which it revised down expected growth for 2018. We believe the long term position of the company remains attractive despite the data breach it suffered last year. Finally Sabre, the travel industry software business, having withstood the October equity market sell-off just before we launched, finally succumbed in December, and became the fifth detractor on our list.

Moving on to the general structure of the portfolio, the tables below show a breakdown of the portfolio in terms of sector and geography at the end of the year.

Sector	
Information Technology	44%
Industrials	21%
Healthcare	17%
Consumer Discretionary	6%
Communication Services	5%
Financials	2%
Materials	2%
Cash	3%

Country of Listing	
USA	50%
UK	19%
Denmark	8%
Australia	6%
Switzerland	5%
Italy	4%
New Zealand	3%
Germany	2%
Cash	3%

Three things are worth noting. First, the shape of the portfolio in terms of sector and geography is very much an outcome of our individual stock selection, not a desire to have a certain amount of the portfolio in any particular sector or region.

Second, it would appear at first glance that we have a very large proportion of the portfolio in Information Technology. We would point out that this is slightly misleading, because there are several companies classed as being within the Information Technology sector which one could argue are more closely aligned to other sectors. Cognex is a good example, as it produces vision systems for automated factories and logistics warehouses, which might be described as being subject to industrial demand (and could therefore be classed as an industrial). A further point on this subject is that we own several businesses which produce software, all classified in the same Information Technology segment, although each one of these serve very different industries, from asset managers through to universities. Again, it would be misleading to believe that all of these are subject to the same trends or market forces. It is true, however, that the portfolio is concentrated in only a few sectors. These are the sectors which we believe create the most shareholder value over the long term. We will always avoid sectors which create little or no shareholder value over time, such as those which are capital intensive, highly cyclical or rely on a commodity such as oil or metals.

Third, as is customary, the geographic split shown above is based on where the companies are listed, whereas the only geographic exposure which matters to a company is where their revenue actually comes from. This split for the portfolio is slightly different to the geography of listing, as can be seen below. The exposures here are shown by region, as companies rarely disclose their revenue by country.

Source of Revenue	
North America	39%
Europe including UK	36%
Asia Pacific	18%
Eurasia, Middle East, Africa	2%
Latin America	2%
Cash	3%

Overall, we have a significant exposure to the US, primarily because that is where we are able to find the most exciting high quality companies at a size and valuation which interests us. Many may be surprised to see such a high allocation to companies listed in the UK during the current period of uncertainty caused by Brexit. However, it is actually because of this uncertainty that such great companies in the UK are trading at attractive valuations, especially considering that the businesses we have chosen will potentially be little affected by the outcome of Brexit, particularly when taking a long term view.

While considering other potentially misunderstood aspects of the companies we own, it strikes us that many might believe our companies, being small or mid cap, will be relatively young and with little trading history. It may therefore be reassuring for you to know that the companies in our portfolio have now been around for an average of 47 years.

In conclusion, while the immediate future performance of the equity markets and your Company are unknown, we are confident that we have been able to purchase high quality small and mid cap companies at reasonable prices, and therefore feel optimistic regarding the long term outlook of the Smithson Investment Trust.

On a personal note, we enjoyed meeting many of our shareholders during the recent IPO roadshow and we look forward to meeting many more of you when we hold our first annual general meeting next year.

Simon Barnard
Fundsmith LLP
Investment Manager
1 March 2019

[1] 1978 Lottery Winners and Accident Victims: Is Happiness Relative? Philip Brickman, Dan Coates, Ronnie Janoff-Bulman

[2] 2008 The Own and Social Effects of an Unexpected Income Shock: Evidence from the Dutch Postcode Lottery. Kuhn, Peter J; Kooreman, Peter; Soetevent, Adriaan; Kapteyn, Arie

The Directors are required to provide an Interim Management Report in accordance with the UK Listing Authority's Disclosure Guidance and Transparency Rules. The Directors consider that the Chairman's Statement and the Investment Manager's Report on pages 3 to 4 and 6 to 10 respectively, the following statement on related party transactions and the Directors' Responsibility Statement below, together constitute the Interim Management Report for the Company for the period from its incorporation to 31 December 2018.

Principal Risks and Uncertainties

The Board considers that the main risks and uncertainties faced by the Company fall into the broad categories of (i) market risks (ii) corporate governance and internal controls risks (iii) regulatory risks and (iv) financial risks (including exchange rate fluctuations).

A review of the period and the outlook can be found in the Chairman's Statement on page 4 and in the Investment Manager's Review on pages 6 to 10. A detailed explanation of risks and uncertainties can be found in the Company's prospectus dated 17 September 2018.

Related party transactions

Details of the amounts paid to the Company's Investment Manager and the Directors during the period are detailed in the notes to the financial statements.

DIRECTORS' STATEMENT OF RESPONSIBILITY FOR THE INTERIM FINANCIAL REPORT

The Directors confirm to the best of their knowledge that:

- the condensed set of financial statements contained within the Interim Financial Report has been prepared in accordance with IAS 34 Interim Financial Reporting.
- the Interim Management Report includes a fair review of the information required by 4.2.7R and 4.2.8R of the UKLA's Disclosure Guidance and Transparency Rules.

On behalf of the Board of Directors

Mark Pacitti
Chairman
1 March 2019

Investment Portfolio

Investments held as at 31 December 2018:

Security	Country of incorporation	Fair value £'000	% of investments
Masimo	USA	40,409	5.3
Rightmove	UK	39,198	5.1
Check Point Software Technologies	Israel	38,612	5.1
Equifax	USA	38,591	5.1
Verisk Analytics	USA	38,561	5.1
Sabre Corp	USA	38,431	5.0
CDK Global Inc	USA	34,699	4.5
Recordati	Italy	34,562	4.5
Halma	UK	33,022	4.3
Verisign	USA	31,778	4.2
Top 10 Investments		**367,863**	**48.2**
Cognex	USA	31,362	4.1
Ansys Inc	USA	30,644	4.0
Technology One	Australia	25,591	3.4
Geberit	Switzerland	25,458	3.3
Simcorp	Denmark	24,027	3.2
Fisher & Paykel Healthcare Corp	New Zealand	23,816	3.1
Spirax-Sarco Engineering	UK	23,741	3.1
AO Smith Corp	USA	23,168	3.0
Domino's Pizza Group	UK	22,857	3.0
Domino's Pizza Enterprises	Australia	21,874	2.9
Top 20 Investments		**620,401**	**81.3**
Ambu A/S	Denmark	21,253	2.8
MSCI Inc	USA	16,698	2.2
Paycom Software Inc	USA	16,451	2.1
Chr. Hansen Holding	Denmark	15,100	2.0
IPG Photonics Corp	USA	15,037	2.0
Abcam	UK	14,982	2.0
Diploma	UK	14,766	1.9
Temenos AG	Switzerland	14,361	1.9
Nemetschek SE	Germany	14,087	1.8
Total Investments		**763,136**	**100.0**

Condensed Income Statement (Unaudited)

For the period from incorporation on 14 August 2018 to 31 December 2018

		(Unaudited) Period ended 31 December 2018		
	Notes	**Revenue £'000**	**Capital £'000**	**Total £'000**
Dividend income	4	2,448	–	2,448
Losses on investments held at fair value through profit and loss	3	–	(49,224)	(49,224)
Gains on foreign exchange transactions		2	1,105	1,107
Management fees		(1,537)	–	(1,537)
Other expenses including dealing costs		(176)	(999)	(1,175)
Profit/(loss) before finance costs and tax		737	(49,118)	(48,381)
Finance costs		–	–	–
Profit/(loss) before tax		737	(49,118)	(48,381)
Tax		(180)	–	(180)
Profit/(loss) for the period	5	557	(49,118)	(48,561)
Return/(loss) per share (basic and diluted) (p)	5	0.67	(59.63)	(58.96)

The "Total" column of this statement is the Income Statement of the Company. The "Revenue" and "Capital" columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies.

All revenue and capital items in the above statement derive from continuing operations and the net return after taxation is attributable to the owners of the Company.

The Company has no recognised gains and losses other than those shown above and therefore no Statement of Total Comprehensive Income has been presented.

Condensed Statement of Changes in Equity (Unaudited)

For the period from incorporation on 14 August 2018 to 31 December 2018

	Share Capital £'000	Share Premium £'000	Capital* Reserve £'000	Revenue Reserve £'000	Total £'000
Balance at 14 August 2018	–	–	–	–	–
(Loss)/profit for the period	–	–	(49,118)	557	(48,561)
	–	–	(49,118)	557	(48,561)
Issue of Ordinary Share Capital	839	838,250	–	–	839,089
Balance at 31 December 2018	**839**	**838,250**	**(49,118)**	**557**	**790,528**

* Capital Reserve is considered distributable.

Condensed Statement of Financial Position (Unaudited)

As at 31 December 2018

	Notes	(Unaudited) 31 December 2018 £'000
Non-Current Assets		
Investments held at fair value through profit and loss		763,136
		763,136
Current Assets		
Receivables		4,068
Cash and cash equivalents		30,148
		34,216
Total assets		797,352
Current Liabilities		
Trade and other payables		(6,824)
		(6,824)
Total assets less current liabilities		790,528
Equity Attributable to Equity Shareholders		
Ordinary share capital	7	839
Share premium		838,250
Capital reserve		(49,118)
Revenue reserve		557
Total equity		790,528
Net asset value per share (p)	**6**	**942.2**

Condensed Statement of Cash Flows (Unaudited)

For the period from incorporation on 14 August 2018 to 31 December 2018

	(Unaudited) Period ended 31 December 2018 £'000
Cash Flows from Operating Activities	
Loss for the period	(48,561)
Adjustments for:	
Losses on investments	49,224
Purchase of investments	(812,360)
Increase in receivables	(4,068)
Increase in payables	6,824
Net Cash Flow from Operating Activities	**(808,941)**
Cash Flows from Financing Activities	
Proceeds from issue of new shares	839,172
Issue costs relating to new shares	(83)
Net Cash Flow from Financing Activities	**839,089**
Net Increase in Cash and Cash Equivalents	30,148
Cash and Cash Equivalents at start of the period	–
Cash and Cash Equivalents at end of the period	**30,148**

1. General Information

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

The condensed interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and the Disclosure Guidance and Transparency Rules (‘DTRs’) of the UK’s Listing Authority.

Principal Activity

The principal activity of the Company is that of an investment company within the meaning of Section 833 of the Companies Act 2006.

The Company commenced activities on admission to the London Stock Exchange on 19 October 2018.

Going concern

The Directors have adopted the going concern basis in preparing the Condensed Interim Financial Statements for the period ended 31 December 2018. The following is a summary of the Directors’ assessment of the going concern status of the Company.

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 report. 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. At the date of approval of this report, the Company has substantial operating expenses cover.

2. Significant Accounting Policies

The Company’s initial accounting policies are set out below:

(a) Accounting Convention

The financial statements are 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 applicable International Financial Reporting Standards as adopted by the EU (IFRS) and with the Statement of Recommended Practice ‘Financial Statements of Investment Trust Companies and Venture Capital Trusts’ issued by the Association of Investment Companies in November 2014 and updated in February 2018. They are also prepared on the assumption that approval as an investment trust will continue to be granted. 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. In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Statement of estimation uncertainty

In the application of the Company’s accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not always readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods. There have been no significant judgements, estimates or assumptions in respect of the period to 31 December 2018.

(b) Presentation of the Income Statement

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.

(c) 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. Income from underwriting commission is recognised as earned. Interest receivable and payable, management fees, and other expenses are treated on an accruals basis.

(d) Expenses

The management fee is recognised as a revenue item in the Income Statement. All other expenses are charged to revenue except expenditure of a capital nature, which is treated as capital. The Board will, however, keep this under review and an appropriate amendment to this treatment will be made if required.

(e) Investments

Investments have been designated upon initial recognition at fair value through profit or loss. Investments are recognised and derecognised 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 prices. 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 income statement and are ultimately recognised in the capital reserve. For any unlisted investments, the fair value will be determined by using valuation techniques. These valuations will maximise the use of observable market data where it is available and with minimal reliance on entity specific estimates. For other investments which do not fit within these criteria the fair value will be determined by the Audit Committee with valuations recommended to the Board of the Company. The Audit Committee will consider the appropriateness of the valuations, models and inputs, using the various valuation methods in accordance with the Company's valuations policy.

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

When a purchase or sale is made under a contract, the terms of which require delivery within the timeframe of the relevant market, the investments concerned are recognised or derecognised on the trade date.

All the investments are defined by IFRS as investments held at fair value through profit and loss. All gains and losses are allocated to the capital return within the Statement of Comprehensive Income as "Gains or losses on investments held at fair value through profit and loss".

All investments are designated upon initial recognition as held at fair value through profit and loss, and are measured at subsequent reporting dates at fair value, which is either the bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted.

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 de-recognition 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 as capital in the Statement of Comprehensive Income.

(f) Foreign Currencies

Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the date of the balance sheet 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 or, where forward foreign currency contracts have been taken out, at contractual rates and included as an exchange gain or loss in the capital reserve or the revenue account depending on whether the gain or loss is of a capital or revenue nature.

(g) Cash and Cash Equivalents

Cash at bank and in hand comprises cash and demand deposits which are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

(h) 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.

(i) Capital Reserves

Gains or losses on realisation of investments are transferred to the capital reserve.

Any changes in fair values of investments that are not readily convertible to cash are treated as unrealised gains or losses within the capital reserve.

(j) 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 period.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more or a right to pay less tax in future have occurred at the balance sheet date 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.

3. Gains/(losses) on Investments

	(Unaudited) Period ended 31 December 2018 £'000
Gains/(losses) on investments	
Gain/(loss) on sales of investments	–
Investment holding unrealised loss	(49,224)
	(49,224)

4. Income

	(Unaudited) Period ended 31 December 2018 £'000
UK dividends	478
Overseas dividends	1,970
	2,448

5. Return/(loss) per share

Return/(loss) per share is based on the weighted average number of 82,365,147 Ordinary Shares in issue since the Company's commencement of activities on admission to the London Stock Exchange on 19 October 2018.

		Period to 31 December 2018	
	Revenue	**Capital**	**Total**
Profit/(loss) for the period (£'000)	557	(49,118)	(48,561)
Return/(loss) per Ordinary Share (p)	0.67	(59.63)	(58.96)

6. Net asset value per Ordinary Share

Net asset value per Ordinary Share of 942.2p is based on net assets of £790,528,000 divided by 83,900,958 Ordinary Shares in issue at the period end.

7. Share capital

	31 December 2018 No. of Shares	31 December 2018 Nominal value
Ordinary Shares of 1p each (‘Ordinary Shares’)	83,900,958	£839,009.58
Deferred B Shares of 1p each	1	£0.01

On incorporation, the issued share capital of the Company was comprised of 2 Ordinary Shares of 1p and 50,000 Management Shares of nominal value £1 each, which were subscribed for by the Investment Manager. On 16 October 2018, the Company issued to the Investment Manager one Deferred B Share of 1p and at a share premium equal to the initial launch costs of the Company. That share will carry no rights to vote or to any dividends or other distributions, save for the return of 1p once £100 billion has been returned to holders of Ordinary Shares. Such share may be repurchased and cancelled by the Company. The Management Shares were redeemed in full on 19 October 2018.

On 19 October 2018, 82,250,956 Ordinary Shares were allotted and issued to shareholders as part of the placing and offer for subscription in accordance with the Company’s prospectus dated 17 September 2018. A further 1,650,000 Ordinary Shares have been allotted, issued and fully paid between 20 October 2018 and 31 December 2018.

Since 31 December 2018, a further 5,200,000 Ordinary Shares have been issued raising aggregate net proceeds of £54,691,265.

8. Related party transactions

Fees payable to the Investment Manager are shown in the Statement of Comprehensive Income. As at 31 December 2018, the fee outstanding to the Investment Manager was £1,537,415.

The costs of £4,893,615 associated with the initial launch of the Company were paid by the Investment Manager.

Since their appointment on 14 September 2018 fees have been payable to the Directors at an annual rate of £30,000 to the Chairman, £27,000 to the Chair of the Audit Committee and £27,000 to the Chair of the Management Engagement Committee.

The Directors had the following shareholdings in the Company.

Director	As at 31 December 2018
Mark Pacitti	20,000
Lord St. John of Bletso	10,000
Diana Dyer Bartlett	5,000

As at 31 December 2018, Terry Smith and other founder partners and key employees of the Investment Manager directly or indirectly and in aggregate, held 3.6% of the issued share capital of the Company.

9. Post-balance Sheet Events

There were no post-period events other than as disclosed in these interim financial statements.

Alternative Investment Fund Managers Directive (AIFMD)

Agreed by the European Parliament and the Council of the European Union and transposed into UK legislation, the AIFMD classifies certain investment vehicles, including investment companies, as Alternative Investment Funds ("AIFs") and requires them to appoint an Alternative Investment Fund Manager ("AIFM") and depositary to manage and oversee the operations of the investment vehicle. The Board of the Company retains responsibility for strategy, operations and compliance and the Directors retain a fiduciary duty to shareholders.

Premium or Discount

A description of the difference between the share price and the net asset value per share. The size of the discount or premium is calculated by subtracting the net asset value per share from the share price per share and is usually expressed as a percentage (%) of the net asset value per share. If the share price is higher than the net asset value per share the result is a premium. If the share price is lower than the net asset value per share, the shares are trading at a discount.

Gearing

In simple terms gearing is borrowing. An investment trust can borrow money to invest in additional investments for its portfolio. The effect of the borrowing on the shareholders' assets is called 'gearing'. If the Company's assets grow shareholders' assets grow proportionately more because the debt remains the same. But if the value of the Company's assets falls, the situation is reversed. Gearing can therefore enhance performance in rising markets but can adversely impact performance in falling markets.

Gearing represents borrowings at par less cash and cash equivalents expressed as a percentage of shareholders' funds. Potential gearing is the company's borrowings expressed as a percentage of shareholders' funds.

Leverage

The AIFM Directive (the "Directive") has introduced the obligation on the Company and its AIFM in relation to leverage as defined by the Directive. The Directive leverage definition is slightly different to the Association of Investment Companies method of calculating gearing and is as follows: any method by which the AIFM increases the market exposure of an AIF it manages whether through borrowing of cash or securities, or leverage embedded in derivative positions.

There are two methods for calculating leverage under the Directive – the Gross Method and the Commitment Method. The process for calculating exposure under each methodology is largely the same, except where certain conditions are met, the Commitment Method enables instruments to be netted off to reflect 'netting' or 'hedging' arrangements and entity exposure is effectively reduced.

The Board has set the leverage limit for both the Gross basis and the Commitment basis at 115%. These limits are monitored by both the Board and the AIFM.

Net Asset Value (NAV)

The value of the Company's assets, principally investments made in other companies and cash being held, minus any liabilities. The NAV is also described as 'shareholders' funds'. The NAV is often expressed in pence per share after being divided by the number of shares which have been issued. The NAV per share is unlikely to be the same as the share price which is the price at which the Company's shares can be bought or sold by an investor. The share price is determined by the relationship between the demand and supply of the shares.

Premium

The amount, expressed as a percentage, by which the share price is more than the NAV per Ordinary Share.

		Page	As at 31 December 2018
NAV per Ordinary Share	a	2	942.2p
Share price	b	2	1000.2p
Premium	**(b-a)÷a**		**6.2%**

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.

Period ended 31 December 2018		Page	Share price	NAV
Opening at 19 October 2018	a	n/a	1000.0p	1000.0p
Closing at 31 December 2018	b	2	1000.2p	942.2p
Dividend adjustment factor	c	n/a	1.0	1.0
Adjusted closing (d = b x c)	d	n/a	1,000.2p	942.2p
Total return	**(d÷a)-1**		**0.0%**	**-5.8%**

Ongoing charges

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

Period ended 31 December 2018		Page	£'000
Average NAV	a	n/a	803,908
Annualised expenses	b	n/a	8,453
Ongoing charges	**(b÷a)**	**2**	**1.1%**

Company Information

Directors

Mark Pacitti *(Chairman)*
Diana Dyer Bartlett
Lord St. John of Bletso

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Investment Manager

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Sponsor and Broker

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Auditor

Deloitte LLP
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Company Secretary

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Administrator and Depositary

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