

**Smithson**  
Investment Trust

**Fundsmith**

IPO Roadshow September/October 2018



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# Agenda



**Smithson**  
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- 1. Why Small & Mid Cap**
  - i. Secular Outperformer
  - ii. Active Management Opportunity
  - iii. Improves Risk:Reward
- 2. Smithson Investment Trust Strategy**
  - i. Buy Good Companies
  - ii. Don't Overpay
  - iii. Do Nothing
- 3. Smithson Investment Trust Process**
- 4. Fund Details**
- 5. Appendices**



## 1. Why Small & Mid Cap – Starting Point

- Companies that have outperformed FundsSmith Equity Fund since inception
- Common ingredient was small and mid cap companies
- Hired Simon Barnard & Will Morgan from Goldman Sachs
- Conclusion: Create a closed end fund to manage liquidity, cap fund size & maximise returns
- Team: CIO – Terry Smith
  - Portfolio Manager – Simon Barnard
  - Asst. Portfolio Manager – Will Morgan
  - Analyst – Jonathan Imlah

# Why Small & Mid Cap – Ideal Equity Asset Allocation



## Ideal Equity Asset Allocation\*

### Small Cap Developed World Equity

#### Smithson Investment Trust

Global Small & Mid Cap Equity  
Launch October 2018  
Investable Universe: 83  
Market Cap Range £0.5bn-15bn  
Average Mkt Cap: £7bn  
Benchmark: MSCI World SMID  
Target Fund Size: £250m

### Large Cap Developed World Equity

#### Fundsmith Equity Fund

Unconstrained Global Equity  
Launched November 2010  
Investable Universe: 72  
Market Cap Range £3bn-620bn  
Average Mkt Cap: £67bn  
Benchmark: MSCI World  
Fund Size: £17bn

### Emerging Markets Equity

#### Fundsmith Emerging Equities Trust

Emerging & Frontier Markets Equity  
Launched June 2014  
Investable Universe: 87  
Market Cap Range £0.1bn-62bn  
Average Mkt Cap: £6bn  
Benchmark: MSCI Emerging & Frontier  
Fund Size: £320m

\* Source: MSCI Research, *The New Classic Equity Allocation*, Oct 2010.  
Data as at 31<sup>st</sup> July 2018

## Why Small & Mid Cap – Secular Outperformer



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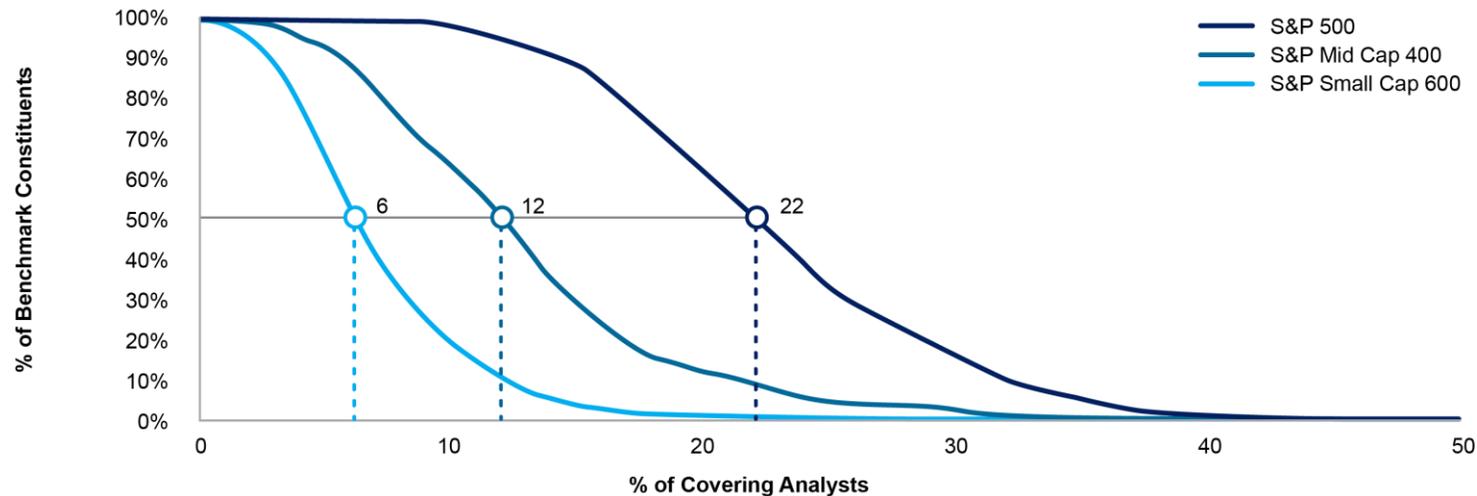
As at 31 <sup>st</sup> July	Average Market Cap.	Constituents	1 Year	3 Years	5 Years	10 Years
MSCI World Small Cap	£1bn	4,377	+14.2	+61.6	+90.1	+268.6
MSCI World Mid Cap	£6bn	898	+11.4	+53.1	+81.1	+216.5
MSCI World Large Cap	£35bn	745	+12.6	+54.1	+82.1	+188.2

Source: Bloomberg, MSCI.  
Net total return indices in GBP.  
All periods up to 31/07/2018.



## Why Small & Mid Cap – Active Management Opportunity

- The median US mid-cap stock has 45% fewer analysts covering it than the median large cap
- The percentage of analysts focusing on mid-cap has been declining since 2010



Sources: Factset, Goldman Sachs Asset Management.

## Why Small & Mid Cap – Active Management Opportunity



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As at 31 <sup>st</sup> July, % Total Return	1 Year	3 Years	5 Years
FE Broad Composite of Global Smaller Companies Funds	+13.7	+59.9	+93.8
MSCI SMID Index (£, Net)	+12.7	+57.1	+85.3

Sources: Financial Express, MSCI.

FE Broad Composite is an equally weighted portfolio of 156 US, Europe & Japan Smaller Company Funds.

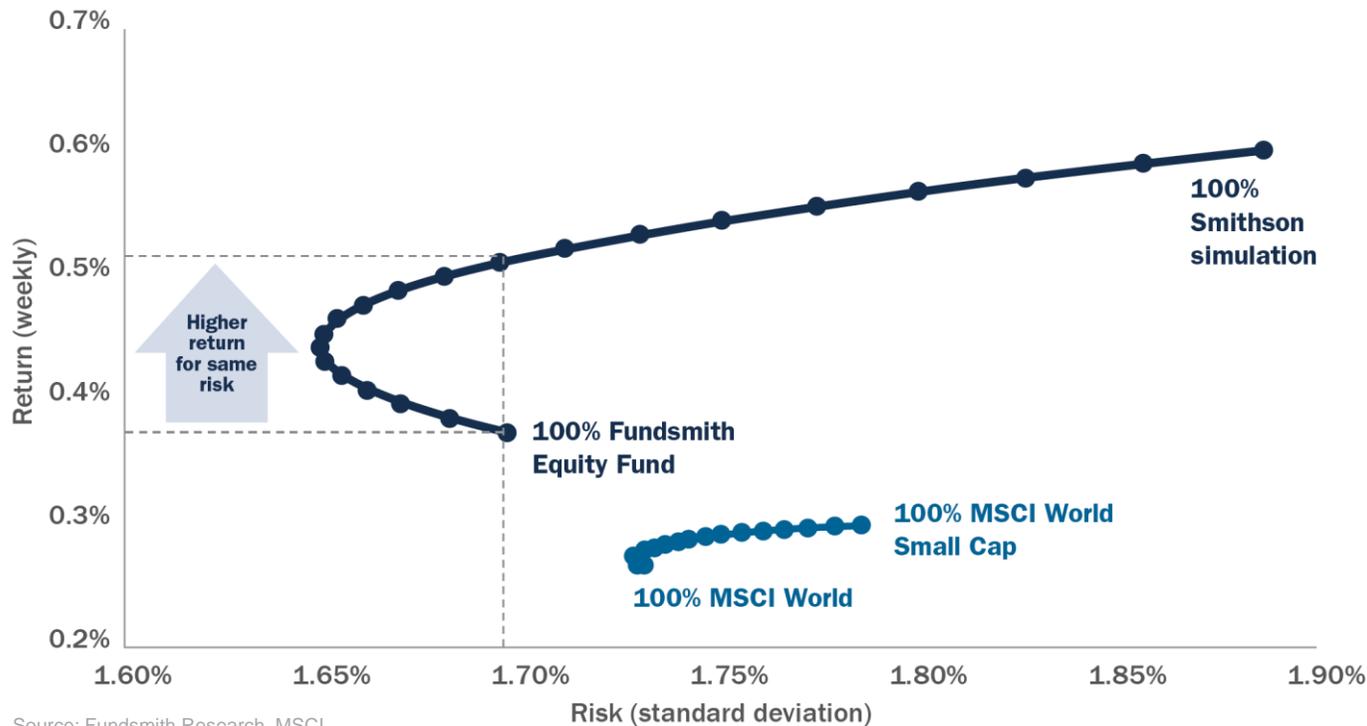
# Why Small & Mid Cap – Can We Do It?



Sectors we like	Fundsmith Equity Fund		Smithson Investment Trust		
Technology					
Healthcare					
Industrials					
Food & Drinks					
Consumer					



## Why Small & Mid Cap – Potential to Improve Risk:Reward



Source: Fundsmith Research, MSCI.  
Data: 5 years ending June 2018.

## 2. Smithson Investment Strategy – Same as Fundsmith



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**1 Buy good companies**

**2 Don't overpay**

**3 Do nothing**

# Buy Good Companies – Sources of High Returns



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<b>Brand</b> 	<b>Network Effect</b> 	<b>Franchising</b> 
<b>Installed Base</b> 	<b>Distribution</b> 	<b>Regulations</b> 
<b>Intellectual Property</b> 	<b>Innovation</b> 	<b>Professional Advocacy</b> 

## Buy Good Companies – Sources of Growth



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Digitisation	Market Share Gains	Premiumisation
		
Ageing Population	Factory Automation	Regulation
		
Market Consolidation	Health Awareness	Innovation
		

## Buy Good Companies – Smithson IU Look-through



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LTM figures	Smithson IU	MSCI SMID	Fundsmith Equity Fund Portfolio
FCF Growth	22%*	10%	13%
ROCE	28%#	9%	28%
Gross Margin	59%	33%	63%
Operating Profit Margin	25%	8%	26%
Cash Conversion	112%	85%	102%
Leverage	2%	40%	37%

Data for the MSCI World SMID Cap Index is shown ex-financials, with weightings as at 31st July 2018.

Data for Smithson IU is on a mean average basis.

Data for MSCI World SMID Cap Index is on a weighted average basis.

Data for FEF portfolio is on a weighted average basis, ex-cash.

Leverage (net debt ÷ equity) data for Smithson and FEF is done on a median average basis.

FCF growth data is done on a per share basis.

FEF is last reported as at 31.12.17.

\* LTM FCF growth for Smithson IU excludes Swedish Match, whose growth was >1000%;

# LTM ROCE for Smithson IU excludes Rightmove, which had a return of >1000%.

## Don't Overpay



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	Historic Neutral FCF Yield
Smithson Investment Trust IU	3.5%
MSCI World SMID Index	3.5%

- In 2017, FCF growth in the Smithson Investable Universe was 22%
- Over the last 5 years, Smithson Investable Universe FCF growth has averaged 15% p.a.

Source: Fundsmith research, Bloomberg.

Data as at 20th August 2018.

FCF growth on a per share basis.

2017 FCF growth excludes Swedish Match, whose growth was >1,000%.

## Don't Overpay

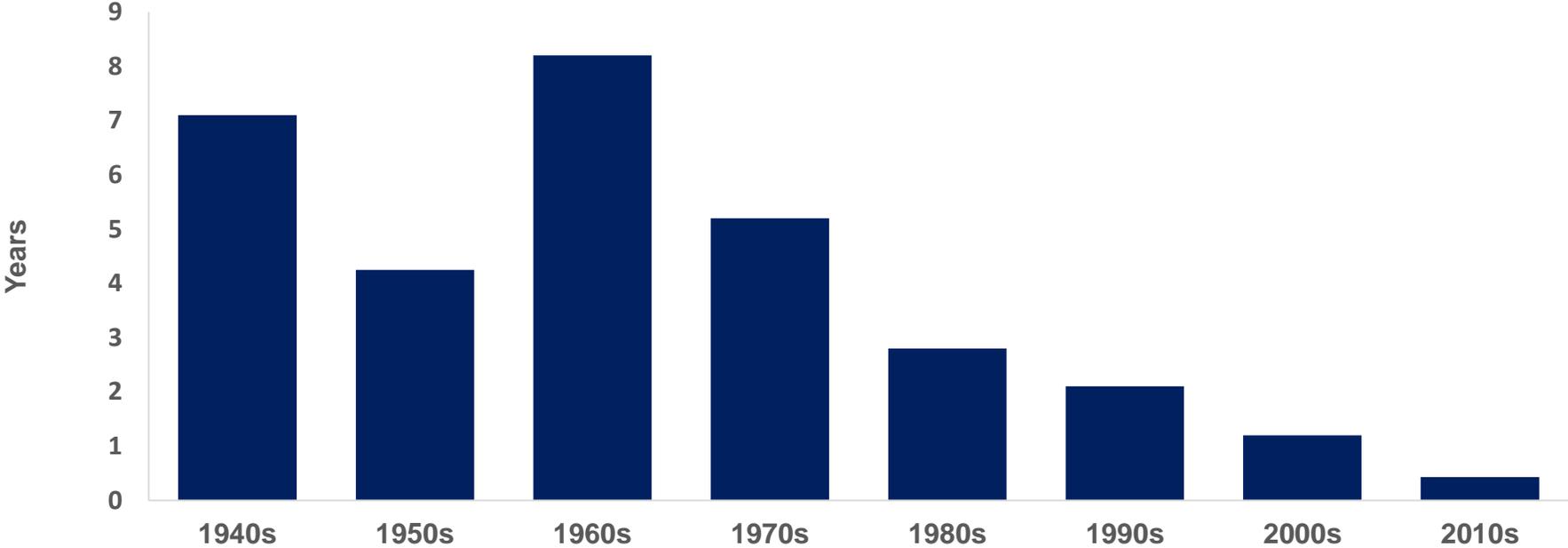


We compare free cash flow yields now to what we think they will be in 4-5 years' time. We then select the best combination of current value and future growth, allowing for potential risks that the business may face.

We compare the stocks with:

- Each other
- The market
- Bonds

# Do Nothing – Average Holding Periods

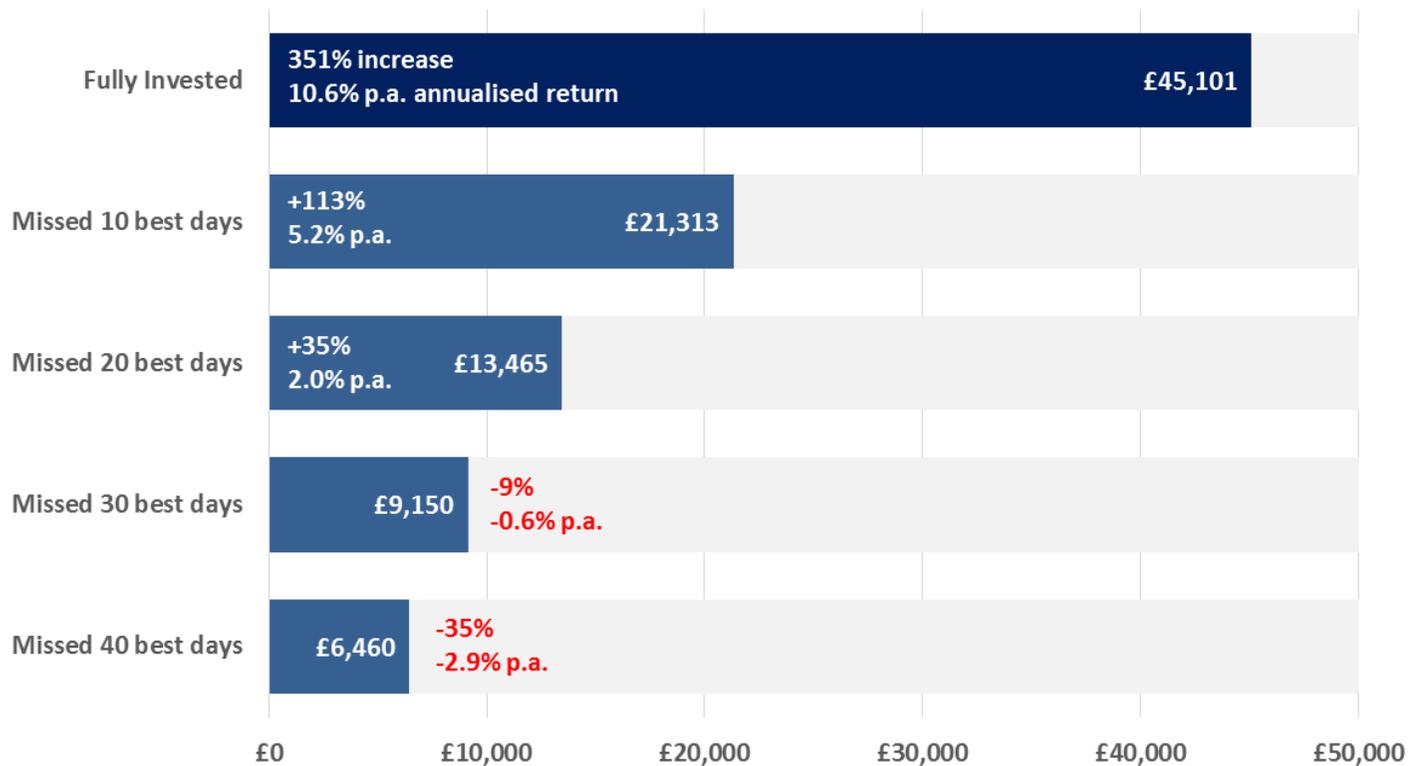


Source: NYSE.

# Do Nothing



£10,000 invested in the S&P 500 (with dividends reinvested) for 15 years (31-Dec-02 to 31-Dec-17)



Being fully invested for 15 years would give you over twice the money (or an extra £23,788) than someone missing the 10 best days in the market.



## Do Nothing – Sell Discipline

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

### 3. Investment Process



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**MSCI SMID Index 5,275**

Screening and Detailed Research

23 Countries

**Investable Universe: 83 companies**

Select

**Fund: 25-40 companies**

## Smithson IU Exposure Breakdown



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Sector weightings			Country weightings			Sales exposure by region	
Sector	Smithson	MSCI W SMID	Country of incorporation	Smithson	MSCI W SMID	Region	Smithson
Information Technology	30%	14%	USA	49%	52%	North America	47%
Health Care	21%	9%	UK	14%	7%	Europe	28%
Industrials	21%	18%	Japan	7%	11%	Asia Pacific	20%
Consumer Discretionary	12%	15%	Switzerland	6%	3%	Eurasia, Middle East, Africa	2%
Consumer Staples	13%	4%	France	4%	3%	Latin America	2%
Financials	2%	14%	Australia	4%	3%		
Materials	1%	9%	Denmark	4%	1%		
Real Estate		9%	Germany	4%	3%		
Energy		4%	Italy	4%	1%		
Utilities		4%	Canada	1%	4%		
Telecomm. Services		1%	New Zealand	1%	0%		
			Sweden	1%	2%		
			Other	0%	9%		

Data for MSCI World SMID as at 31-Jul-18, market cap weighted.

Smithson Investable Universe splits are given as an equally weighted average.

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

The Smithson portfolio may vary from the data above as it will only comprise 25-40 companies, compared to 83 for the IU.

## Smithson Investable Universe Back Test



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As at 31 <sup>st</sup> July % Total Return	1 Year	3 Years	5 Years
Smithson Investable Universe Back Test	+28.3	+122.0	+251.8
S&P 500 Index	+16.1	+66.4	+107.7
FE Broad Composite of Global Smaller Companies Funds	+13.7	+59.9	+93.8
MSCI World SMID Index	+12.7	+57.1	+85.3
MSCI World Index	+12.4	+53.9	+81.9
FTSE 100 Index	+9.4	+30.4	+41.5

Sources: Bloomberg, Financial Express, MSCI.

Returns on the Company's Investable Universe back test are presented net of the Management Fee payable to the Investment Manager and other ongoing costs of the Company. However, trading fees and costs are not reflected in the returns presented in the table. Accordingly, any return on an investment by the Company in the Investable Universe may be lower to take account of such fees.

FE Broad Composite is an equally weighted portfolio of 156 US, Europe & Japan Smaller Company Funds.

## Portfolio Management Details



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### Smithson Portfolio Characteristics

Typical No. Holdings	25-40
NAV	Published daily in FT, Telegraph & at <a href="http://www.smithson.co.uk">www.smithson.co.uk</a>
Reporting	Interim & Annual
Annual Shareholder Meeting	Yes
Est. First Year OCF	1.1%
AMC	0.9%
Performance Fee	No
Portfolio Turnover	Low
Benchmark	MSCI World SMID Cap Index

### Risk Management

Currency Hedging	No
Derivatives	No
Gearing	Up to 15% short term
Portfolio Concentration	Max 10% in one company
Counterparty Concentration	No more than 20%
Continuation Policy	At board discretion if discount >10% >1 year after 4 <sup>th</sup> year
Dealing	Northern Trust

## Fund Vehicle Details



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### Smithson IPO Details

Legal Structure	PLC
Market	LSE Main Market
Base Currency	GBP
Issue Price	£10
Target Size	£250m
Retail/Intermediaries Offer Close	Friday, 12 <sup>th</sup> Oct 2018
Placing Close	Tuesday, 16 <sup>th</sup> Oct 2018
First Day of Dealings	Friday, 19 <sup>th</sup> Oct 2018
Discount Management Policy	Yes
Borrowing Limit	Up to 15% short-term
ISA	Yes, not our own
Monthly Savings	Yes, not our own

### Directors & Advisers

Board	Mark Pacitti – Chairman Diana Dyer Bartlett Lord St. John of Bletso
Sponsor & Broker	Investec Bank
Legal Adviser	Travers Smith LLP
Auditor	Deloitte LLP
Administrator	Northern Trust
Registrar	Link Asset Services
Depositary	Northern Trust
Co. Secretary	Praxis IFM
AIC Member	Yes, Global Sector
Manager Commitment	£25m Terry Smith, £5m employees and other partners





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

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

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

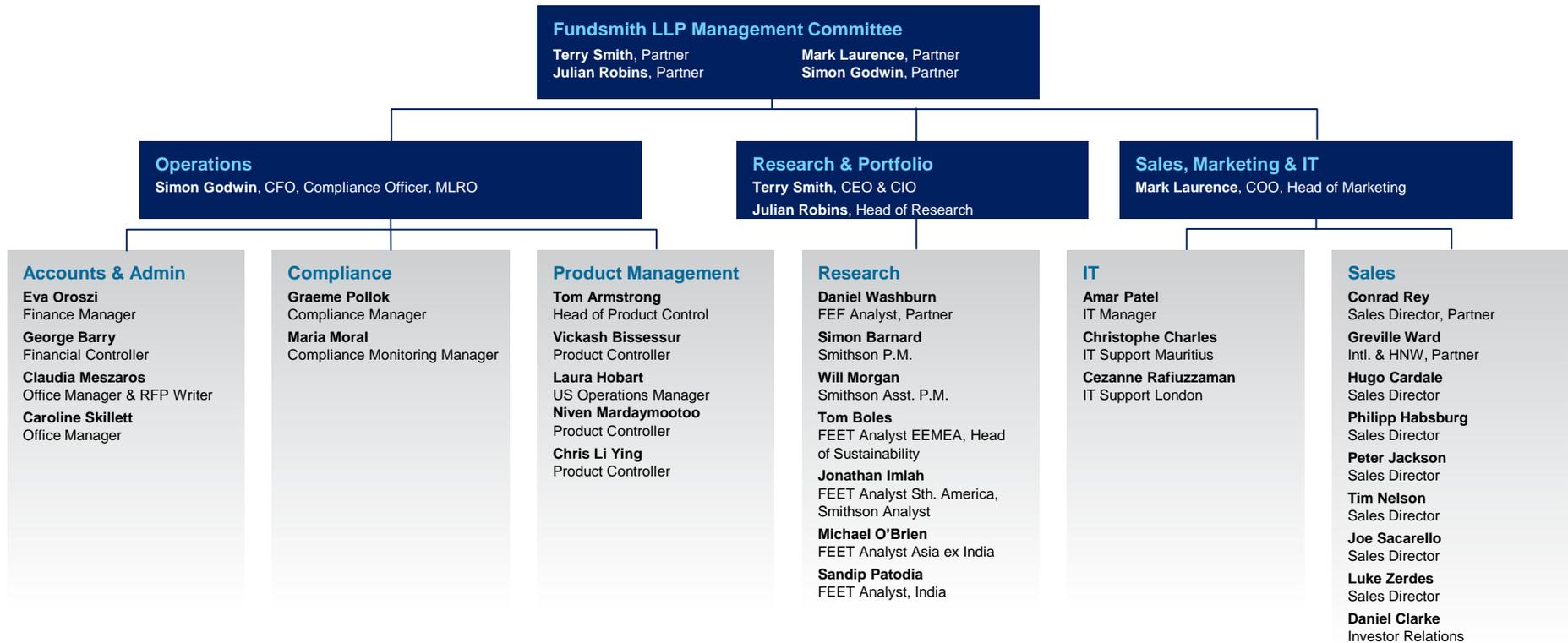
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Will Morgan joined Fundsmith in July 2017. He previously spent 17 years at Goldman Sachs. He began his career there in 2000, initially in the asset management division, before moving to equity sales in 2002. In 2003 he joined the Global Investment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

**Jonathan Imlah**  
**ANALYST**

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



## What's In The MSCI World SMID Cap Index?



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MSCI World SMID Country Weights	%	MSCI World SMID Top 10	%	MSCI World SMID Sector Weights	%
US	53.9	Align Technology (US)	0.20	Industrials	17.6
Japan	11.4	Centene (US)	0.19	Consumer Discr.	14.7
UK	7.4	Vonovia (Germany)	0.17	Financials	13.7
Canada	3.9	Lonza (Switzerland)	0.17	Information Tech	13.7
Germany	3.1	Wirecard (Germany)	0.16	Health Care	9.4
Other	20.3	Andeavour (US)	0.16	Real Estate	8.8
		Microchip Technology (US)	0.16	Materials	8.7
		Givaudan (Switzerland)	0.16	Energy	4.5
		Twitter (US)	0.16	Consumer Staples	4.3
		Link REIT (HK)	0.16	Utilities	3.7
				Telecom. Services	1.0

Source: [www.msci.com](http://www.msci.com)  
Data as at 31st July 2018.

# Benchmark



Indices	Average Market Cap.	Benchmarks	Investable Universe Mid Cap Overlap
MSCI Small Cap	£1bn	<b>Smithson I.T.</b> MSCI Small & Mid Cap Index IU: 83  <b>Fundsmith E.F.</b> MSCI World Index IU: 72	<ol style="list-style-type: none"> <li>1. Legrand, £15bn</li> <li>2. Clorox, £13bn</li> <li>3. Waters, £12bn</li> <li>4. Mettler Toledo, £11bn</li> <li>5. McCormick, £11bn</li> <li>6. JM Smucker, £10bn</li> <li>7. Church &amp; Dwight, £10bn</li> <li>8. Campbell Soup, £9bn</li> <li>9. Bureau Veritas, £9bn</li> <li>10. Domino's Pizza Inc., £9bn</li> <li>11. Intercontinental, £9bn</li> <li>12. Intertek, £9bn</li> <li>13. Sonova, £9bn</li> <li>14. Sage, £7bn</li> <li>15. Swedish Match, £7bn</li> <li>16. Davide Campari, £7bn</li> <li>17. Remy Cointreau, £5bn</li> <li>18. Dunkin Brands, £4bn</li> <li>19. Choice Hotels, £3bn</li> </ol>
MSCI Mid Cap	£6bn		
MSCI Large Cap	£35bn		

Source: Fundsmith LLP, www.msci.com  
Data as at 31st July 2018.

## Smithson Investable Universe Performance in Downturn



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<b>% Total Return in GBP</b>	<b>07/12/2007 to 09/03/2009</b>	<b>30/12/1999 to 07/03/2003</b>
<b>Smithson Investable Universe Back Test</b>	<b>-14.7</b>	<b>-1.8</b>
MSCI World SMID Index	-38.5	-31.2
MSCI World Index	-36.3	-45.5

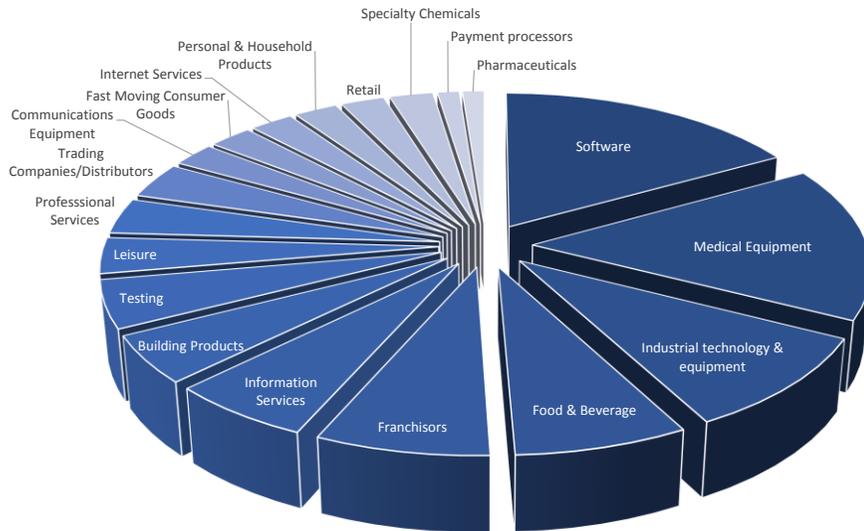
Sources: Bloomberg, MSCI.

Data presented gross of any management charges.

For the 1999-2003 period 26 stocks in the Smithson IU were not yet listed for any part of the date range.

For the 2007-09 period 10 companies were not listed for any part of the date range.

# Investable Universe Sectors



Industry – Fundsmith Definition	Number
Software	14
Medical Equipment	13
Industrial Technology & Equipment	8
Food & Beverage	6
Franchisors	6
Information Services	5
Building Products	4
Testing	4
Leisure	3
Professional Services	3
Trading Companies/Distributors	3
Communications Equipment	2
Fast Moving Consumer Goods	2
Internet Services	2
Personal & Household Products	2
Retail	2
Specialty Chemicals	2
Payment Processors	1
Pharmaceuticals	1
<b>Total</b>	<b>83</b>