

**LWM FUND SPOTLIGHT
SMITHSON INVESTMENT TRUST**

INVESTMENT OBJECTIVE

The aim is to provide investors with a similar investment experience to the Fundsmith Equity Fund, being a superior risk-adjusted return over the long term, but by investing in a group of global small and mid-capitalisation listed companies with a market cap of £500m to £15bn, which they believe can compound in value over many years, if not decades, hence the name, Smithson

INCEPTION DATE

19th October 2018

FUND FACTSHEET

<https://www.smithson.co.uk/>

MANAGEMENT

Manager Name

Simon Bernard

Start Date

19th October 2018

RATIO DATA (3-years)

| Alpha | Beta | Max Drawdown | Max Gain | Max Loss | Negative Periods | Positive Periods | Tracking Error |
|-------|------|--------------|----------|----------|------------------|------------------|----------------|
| -6.09 | 1.36 | -42.82 | 17.34 | -22.96 | 67 | 86 | 14.45 |

OTHER DATA

| | |
|------------------|----------------|
| Benchmark | MSCI ACWI SMID |
| Fund Size | £2.3 billion |
| Fees | 0.90% |

BULL POINTS (PRO)

- Steady management.
- Good reputation with flagship strategy.
- Focus on high quality companies.
- Tested investment process with flagship strategy.

BEAR POINTS (CONS)

- Fund size is relatively large for a small / mid-cap strategy.
- No experience in investing in this part of the market; flagship strategy is a large cap fund.
- Performance has been weak recently.

Smithson Investment Trust – April 2023

FUND PERFORMANCE

Performance from 19th October 2018 – 31st March 2023

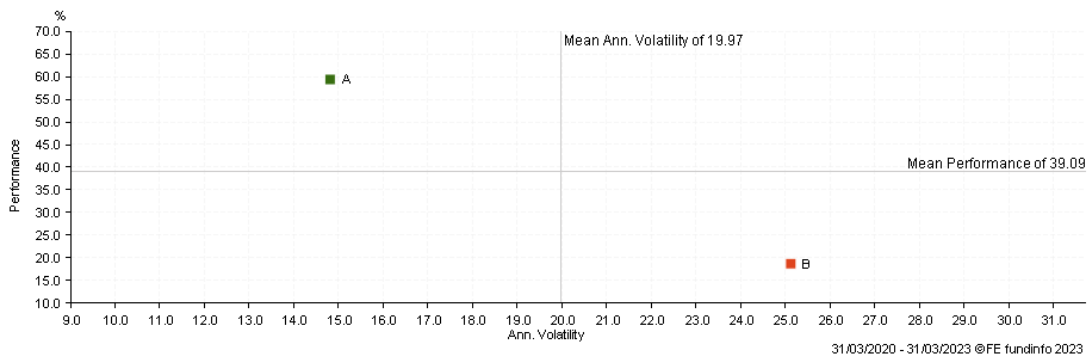
Pricing Spread: Bid-Bid • Data Frequency: Daily • Currency: Pounds Sterling



Please note that past performance is not a reliable indicator of future returns, and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

VOLATILITY / RISK SCORE

Pricing Spread: Bid-Bid • Currency: Pounds Sterling



| Key | Name | Performance | Annualised Volatility |
|-----|--|-------------|-----------------------|
| ■ A | MSCI ACWI SMID Cap TR in GB | 59.41 | 14.81 |
| ■ B | Fundsmith - Smithson Investment Trust ORD 1P in GB | 18.77 | 25.12 |

Smithson Investment Trust – April 2023

MARKET CAP

Category: Global Small/Mid-Cap Equity

Morningstar Style Box®

Equity Style



Style

| Size | | Mkt Cap % | | 31/10/2022 |
|------------------------|-----|-----------|-------|------------|
| | | Fund | Cat | |
| Share Class Size (mil) | (-) | 0.00 | 0.33 | |
| Fund Size (mil) | (-) | 13.57 | 3.67 | |
| | | 69.47 | 42.95 | |
| | | 16.96 | 47.42 | |
| | | 0.00 | 5.63 | |

SECTOR WEIGHTING

Stock Sector Weightings %

| | Fund | Category |
|------------------------|-------|----------|
| Cyclical | 21.99 | 37.48 |
| Basic Materials | - | 5.81 |
| Consumer Cyclical | 18.57 | 13.85 |
| Financial Services | 3.41 | 12.24 |
| Real Estate | - | 5.58 |
| Sensitive | 58.78 | 43.66 |
| Communication Services | 3.59 | 3.33 |
| Energy | - | 4.20 |
| Industrials | 21.79 | 20.91 |
| Technology | 33.39 | 15.22 |
| Defensive | 19.24 | 18.86 |
| Consumer Defensive | 4.13 | 4.88 |
| Healthcare | 15.11 | 12.33 |
| Utilities | - | 1.66 |


Smithson Investment Trust – April 2023

GEOGRAPHIC WEIGHTING

| World Regions % | 31/10/2022 | |
|-----------------------|--------------|--------------|
| | Fund | Category |
| Greater Europe | 48.08 | 24.65 |
| United Kingdom | 18.51 | 7.22 |
| Eurozone | 15.44 | 10.97 |
| Europe - ex Euro | 14.12 | 5.78 |
| Europe - Emerging | 0.00 | 0.12 |
| Africa | 0.00 | 0.04 |
| Middle East | 0.00 | 0.51 |
| Americas | 42.25 | 60.31 |
| United States | 42.25 | 56.71 |
| Canada | 0.00 | 3.12 |
| Latin America | 0.00 | 0.48 |
| Greater Asia | 9.67 | 15.04 |
| Japan | 0.00 | 9.39 |
| Australasia | 9.67 | 3.20 |
| Asia - Developed | 0.00 | 1.74 |
| Asia - Emerging | 0.00 | 0.71 |

HOLDINGS

| Top 10 Holdings | 31/10/2022 |
|---------------------------------|------------|
| Assets in Top 10 Holdings % | 41.60 |
| Total Number of Equity Holdings | 31 |
| Total Number of Bond Holdings | 0 |

| Name | Sector | Country | Percentage |
|--|---|----------------|------------|
| Moncler SpA |  | Italy | 5.42 |
| Recordati SpA Az nom Post raggruppamento |  | Italy | 4.72 |
| VeriSign Inc |  | United States | 4.35 |
| Sabre Corp |  | United States | 4.34 |
| Fevertree Drinks PLC |  | United Kingdom | 4.11 |
| Fortinet Inc |  | United States | 3.95 |
| ⊕ Ambu A/S Class B |  | Denmark | 3.90 |
| SimCorp A/S |  | Denmark | 3.63 |
| Technology One Ltd |  | Australia | 3.60 |
| Rightmove PLC |  | United Kingdom | 3.58 |

⊕ Increase ⊖ Decrease ☆ New since last portfolio

Smithson Investment Trust – April 2023

LWM FUND ANALYSIS

Fundsmith was founded in 2010 by Terry Smith. This investment trust was launched in 2018 with the same mantra as the flagship strategy.

- 1 Buy good companies**
- 2 Don't overpay**
- 3 Do nothing**

The aim is to find high quality companies and then hold them forever. Effectively compounding returns over time.

They are looking for superior companies across return on capital employed, gross margin and operating margin. They also don't want to overpay, so even if a company is great, if it is too expensive they won't look to hold it.

The turnover is low with this strategy as is shown below:

What we do:

| | 2019 | 2020 | 2021 | 2022 |
|-----------------------------|---------------------|--------------------------------|---------------------|-------------------------------|
| New Companies Bought | Fevertree Drinks | Rational Qualys Fortinet | Rollins Wingstop | Moncler Addtech IDEX |
| Companies Sold | CDK Global | Check Point | Abcam CHR Hansen | AO Smith Wingstop Ansys |

The main reason for exiting a position is where the management makes bad capital allocation decisions, there is a fundamental reappraisal of the investment case, valuations become too expensive and / or superior investment opportunity identified.

The strategy performed well in 2019 and 2020 which seemed to favour this style of investing. It then significantly underperformed the index in 2022 and has slightly outperformed in 2023.

Smithson Investment Trust – April 2023

Pricing Spread: Bid-Bid • Currency: Pounds Sterling

| Customise Columns | 2023 ↑↓ | 2022 ↑↓ | 2021 ↑↑ | 2020 ↑↓ | 2019 ↑↓ | 2018 ↑↓ | 2017 ↑↓ | 2016 ↑↓ | 2015 ↑↓ | 2014 ↑↓ | 2013 ↑↓ |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Fundsmith Smithson Investment Trust ORD 1P in GB | 4.13 | -35.25 | 18.13 | 31.74 | 29.77 | | | | | | |
| Index MSCI ACWI SMID Cap TR in GB | 0.94 | -8.48 | 17.31 | 12.10 | 20.53 | -8.45 | 13.43 | 30.33 | 4.37 | 9.59 | 24.02 |

Strategies cannot outperform at all stages of the market, and this was clearly in the wrong place in 2022. The focus on higher quality meant the valuations of some of the companies were high at the end of 2021. As interest and inflation rates rose, these companies were hit the hardest.

Smithson also didn't have exposure to some of the best performing sectors and was positioned more towards the sectors which were hit the hardest.

| 2022 Sector Performance (%) | | |
|-----------------------------|---------------------------------------|-------------------------------------|
| Sectors | MSCI World SMID Cap Performance | Smithson portfolio weight (%) |
| Energy | +64% | - |
| Utilities | +12% | - |
| Consumer Staples | 0% | 4% |
| Financials | -2% | 3% |
| Materials | -3% | - |
| Industrials | -8% | 23% |
| Health Care | -15% | 15% |
| Real Estate | -16% | - |
| Consumer Discretionary | -18% | 13% |
| Information Technology | -20% | 38% |
| Communication Services | -23% | 3% |

The strategy also didn't follow through on some of its principles to sell. Domino's Pizza Enterprises and Fortinet were overvalued and they didn't sell out, so that also contributed to poor performance.

The managers remain cautious about the outlook, as although they are more confident in what they are holding they are aware that when a recession comes this strategy could be hit further. Saying that, the focus on high quality companies with lower levels of debt and strong cash flows should mean this comes out of this stronger when the rebound comes.

From an investor standpoint there are perhaps two ways of looking at this. The first is that the worse has been done. Hopefully they have learnt some of the lessons from 2022 and moving forward this should start to perform as they would expect. The second is move towards caution. Clearly not following some of its principals to sell is a red flag. Perhaps more work needs to be done understanding why and what steps have been taken to avoid this in the future. This may mean watching the performance and gaining information.

Ultimately, the danger with any company is that you have a successful strategy and you assume you can replicate it. Despite the early good performance, the jury may still be out on this strategy. The size of the trust is a worry, as are the mistakes from 2022, but on the flipside if they focus on what drove Fundsmith Equity to be successful then this should follow through into this strategy.

Smithson Investment Trust – April 2023

The source of information in this note has been provided by Fundsmith and is correct as of April 2023. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this, and you should carry out your own research before making a decision. We would also recommend that you receive advice before following up on any decision.

LWM Consultants Ltd is authorised and regulated by the Financial Conduct Authority. FCA Number 728107. Registered in England & Wales under Company Number 07408315.
Registered Office: The Garden Suite, 23 Westfield Park, Redland, Bristol, BS6 6LT