

## 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

19<sup>th</sup> October 2018

### FUND FACTSHEET

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

### MANAGEMENT

#### Manager Name

Simon Bernard

#### Start Date

19<sup>th</sup> October 2018

### RATIO DATA (3-years)

Alpha	Beta	Max Gain	Max Loss	Negative Periods	Positive Periods	Tracking Error
-9.64	1.38	17.34	-22.96	70	83	13.58

### OTHER DATA

Benchmark	MSCI ACWI SMID
Fund Size	£2.44 billion
Fees	0.91%

### 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 investing in this part of the market; the flagship strategy is a large-cap fund.
- Performance has been weak recently.

# Smithson Investment Trust – September 2023

## FUND PERFORMANCE

Performance from 19<sup>th</sup> October 2018 – 31<sup>st</sup> August 2023

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

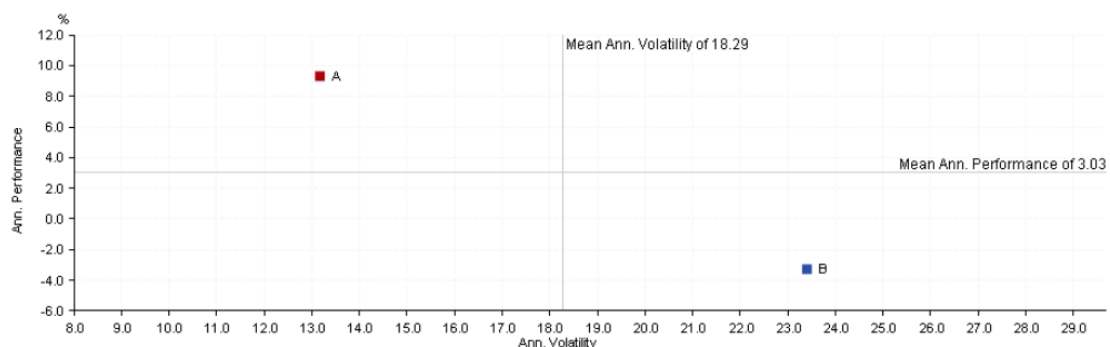


18/10/2018 - 31/08/2023 Data from FE fundinfo 2023

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

## VOLATILITY

Pricing Spread: Bid-Bid • Currency: Pounds Sterling



31/08/2020 - 31/08/2023 @FE fundinfo 2023















Key	Name	Annualised Performance	Annualised Volatility
■ A	MSCI ACWI SMID Cap GTR in GB	9.31	13.17
■ B	Fundsmith - Smithson Investment Trust ORD 1P in GB	-3.26	23.40

# Smithson Investment Trust – September 2023

## MARKET CAP

Category: Global Small/Mid-Cap Equity		
<b>Morningstar Style Box®</b>  <b>Equity Style</b> 	<b>Size</b>	<b>Mkt Cap %</b> 31/01/2023
		<b>Fund</b> <b>Cat</b>
	Share Class Size (mil) (-)	Giant 0.00 0.32
	Fund Size (mil) (-)	Large 19.59 2.91
		Medium 63.71 38.68
		Small 16.69 54.82
		Micro 0.00 3.27

## SECTOR WEIGHTING

<b>Stock Sector Weightings %</b>		31/01/2023
	<b>Fund</b>	<b>Category</b>
 <b>Cyclical</b>	23.24	37.64
 Basic Materials	-	6.15
 Consumer Cyclical	20.02	13.75
 Financial Services	3.22	11.84
 Real Estate	-	5.89
 <b>Sensitive</b>	57.39	43.45
 Communication Services	3.58	2.96
 Energy	-	4.52
 Industrials	23.64	21.45
 Technology	30.17	14.52
 <b>Defensive</b>	19.37	18.91
 Consumer Defensive	3.63	5.04
 Healthcare	15.74	12.13
 Utilities	-	1.75

# Smithson Investment Trust – September 2023

## GEOGRAPHIC WEIGHTING

### World Regions %

31/01/2023


	Fund	Category
<b>Greater Europe</b>	<b>51.74</b>	<b>22.96</b>
United Kingdom	17.73	6.60
Eurozone	16.56	10.20
Europe - ex Euro	17.46	5.31
Europe - Emerging	0.00	0.14
Africa	0.00	0.05
Middle East	0.00	0.67
<b>Americas</b>	<b>39.24</b>	<b>61.41</b>
United States	39.24	57.51
Canada	0.00	3.27
Latin America	0.00	0.63
<b>Greater Asia</b>	<b>9.02</b>	<b>15.64</b>
Japan	0.00	10.37
Australasia	9.02	2.75
Asia - Developed	0.00	1.71
Asia - Emerging	0.00	0.81




## HOLDINGS

### Top 10 Holdings

31/01/2023

Assets in Top 10 Holdings %	42.32
Total Number of Equity Holdings	31
Total Number of Bond Holdings	0

Name	Sector	Country	Percentage
Moncler SpA		Italy	6.07
Recordati SpA Az nom Post raggruppamento		Italy	4.56
Sabre Corp		United States	4.49
VeriSign Inc		United States	4.31
Ambu A/S Class B		Denmark	4.09
 SimCorp A/S		Denmark	3.91
Domino's Pizza Enterprises Ltd		Australia	3.90
Masimo Corp		United States	3.84
Fevertree Drinks PLC		United Kingdom	3.57
Geberit AG		Switzerland	3.56

 Increase    Decrease    New since last portfolio

# Smithson Investment Trust – September 2023

## VALUATIONS AND GROWTH RATES

Valuations and Growth Rates		31/01/2023
	Fund	Category
Price / Earnings	30.06	14.33
Price/Book	6.55	1.75
Price/Sales	4.06	0.96
Price/Cash Flow	22.37	8.25
Dividend-Yield Factor	1.19	2.23
Long-Term Projected Earnings Growth	11.02	12.13
Historical Earnings Growth	9.50	15.99
Sales Growth	8.30	9.61
Cash-Flow Growth	-4.71	-1.98
Book-Value Growth	10.10	4.47

## PREMIUM / DISCOUNT MOVEMENT

### Premium / Discount Movement

1Y 3Y 5Y

Premium/discount movement represents the disparity between the value of an investment company's underlying assets and the price of its shares over the selected time period.



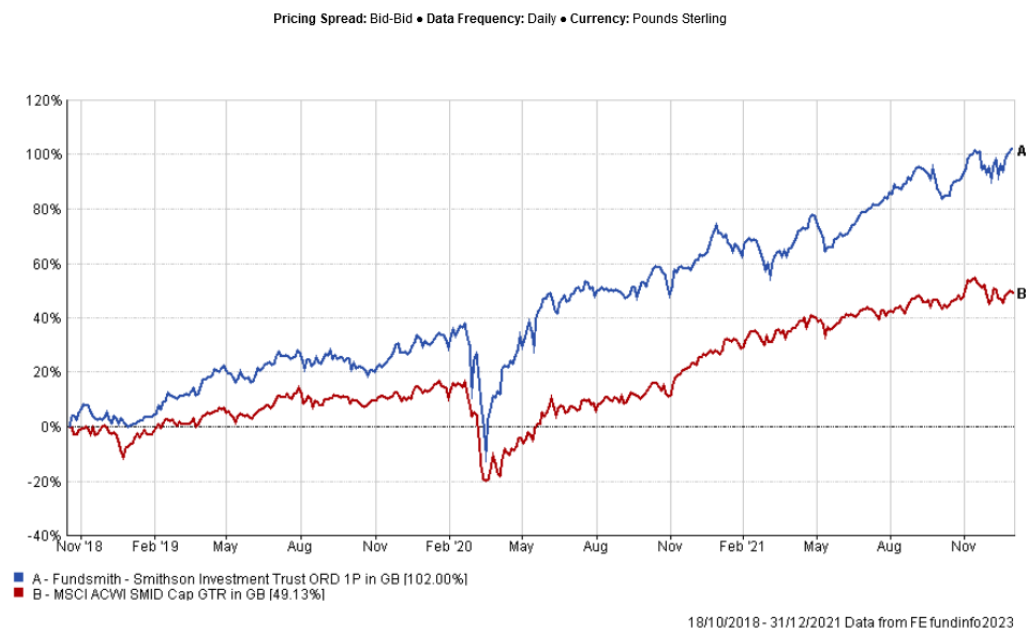
# Smithson Investment Trust – September 2023

## LWM FUND ANALYSIS

Terry Smith set up the Fundsmith Fund in 2010. He was asked whether there were any companies he wished he had invested in during this period. The only companies he could identify were those that were outside of the investment universe for the fund. So, the Smithson strategy was born. The aim was to invest in smaller companies. Simon Barnard had worked at Goldman Sachs for 14 years and came on board to set up and run this strategy.

Before launching, they spent a year seeing if the opportunities existed, and they identified 83 companies and felt this was enough to establish the investment trust.

Up to the end of December 2021, the trust produced excellent performance.



Since then, it has been a different story.

# Smithson Investment Trust – September 2023

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



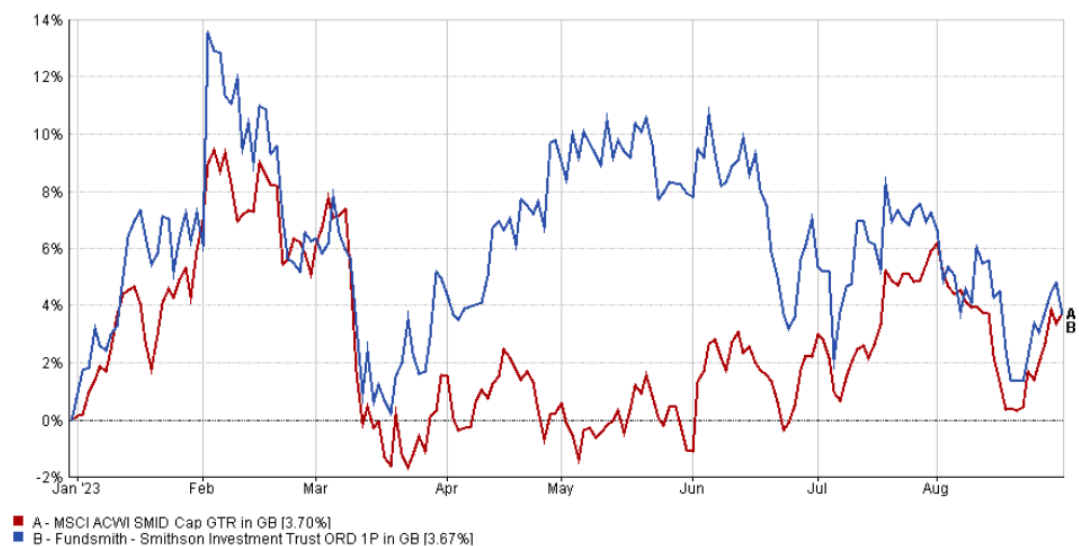
31/12/2021 - 31/08/2023 Data from FE fundinfo 2023

One of our concerns was that although they had run a successful large-cap strategy, they had no experience within this area.

The team have reflected on this period and made changes to the strategy. They recognised that they had held onto some stocks for too long. So the sell discipline has improved. They have made more changes over the last 12 months than they have done since the strategy's launch.

Up to the end of 2021, they had sold five companies and added six. In 2022 and 2023, they have removed four companies and added seven. It is early days to see whether these changes will generate a turnaround in performance.

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



30/12/2022 - 31/08/2023 Data from FE fundinfo 2023

## Smithson Investment Trust – September 2023

It is worth noting that the investment trust sector is suffering, and the discounts across the industry are at the widest point since the financial crisis. A lack of buyers has meant that the trust has been buying back stock to pick up sellers as they arise.

<u>What we do:</u>	2019	2020	2021	2022	YTD 2023 <sup>2</sup>
<b>New Companies Bought</b>	Fevertree Drinks	Rational Qualys Fortinet	Rollins Wingstop	Moncler Addtech IDEX	Graco Exponent Oddity Undisclosed
<b>Companies Sold</b>	CDK Global	Check Point	Abcam CHR Hansen	AO Smith Wingstop Ansys	Domino's Pizza Group
<b>Voluntary Turnover</b>	6%	22%	10%	48%	13%
<b>OCF<sup>1</sup></b>	1.05%	0.97%	0.96%	0.90%	0.90%
<b>Dealing costs<sup>1</sup></b>	0.04%	0.03%	0.02%	0.03%	0.01%
<b>New shares issued</b>	32.3 million	26.9 million	30.3 million	5.4 million	-
<b>Proceeds from new issuance (net of costs)</b>	£377 million	£398 million	£534 million	£93 million	-
<b>Average premium to NAV</b>	2.9%	2.9%	2.0%	1.2%	-
<b>Shares bought back</b>	-	-	-	5.7 million	7.5 million
<b>Spend on buybacks</b>	-	-	-	£74 million	£104 million
<b>Average discount to NAV</b>	-	-	-	8.7%	9.7%

Although they have looked to improve strategy elements, the fundamentals of the companies they like remain the same.

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

They are bullish about their holdings and potential for future returns.



## Smithson Investment Trust – September 2023

LTM figures	Smithson Investment Trust	MSCI SMID
ROIC	43% <sup>#</sup>	11%
Gross Margin	65%	34%
Operating Profit Margin	25%	9%
Cash Conversion	101%	66%
Interest Cover	34x	7x

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

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

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

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

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

It is important to note that excluding Rightmove and Verisign, the return on invested capital is 23%, which is still double that of the index.

Ultimately, they aim to deliver a return of 10% p.a.; this sets a high hurdle rate for the returns for the companies they invest in.

The turnover has been higher to reflect the changes they have made. However, they wouldn't expect this level of turnover going forward. They want to be long-term shareholders. We discussed two examples of this.

The strategy was always seen as an incubator fund for the central large-cap fund. Some of the companies may move into the investable universe for Fundsmith. Fundsmith is likely to make its first investment in one of these companies.



The second example is a new holding Oddity. This company was set up eight years ago. It is an online cosmetic company that identifies different data points for clients. They then design products for the target market based on their database. It is the only IPO that they have invested in. The company came up through a previous work colleague, which exposed them to management. On launch, the shares went up 50%; this

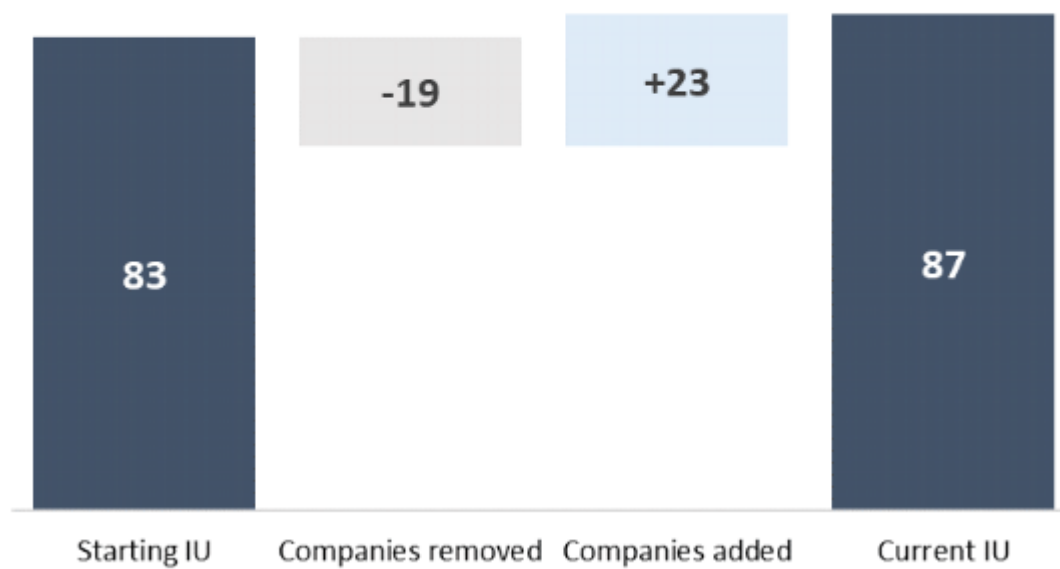
has since come back. They have not sold out because they believe in the long-term story. The only concern they have is that the CEO wants to run this as a large public company, which may create future tensions.

Other changes that we have seen with the strategy are an increase in the investment universe since it was launched.

# Smithson Investment Trust – September 2023

## Investable Universe

Finding more good companies



There has been a change in sectors, with a broader split. The IT element has come down.

Sector weightings: 31-Aug-23			Country weightings: 31-Aug-23			Sales exposure by region: 31-Dec-22	
Sector	Smithson	MSCI W SMID	Country of listing	Smithson	MSCI W SMID	Region	Smithson
Industrials	34%	20%	USA	45%	60%	Europe	39%
Information Technology	29%	12%	UK	17%	5%	North America	36%
Health Care	13%	9%	Italy	10%	1%	Asia Pacific	19%
Consumer Discretionary	11%	12%	Switzerland	7%	2%	Eurasia, Middle East, Africa	4%
Consumer Staples	5%	5%	Germany	6%	2%	Latin America	2%
Communication Services	3%	4%	Denmark	5%	1%		
Financials	3%	14%	Australia	5%	4%		
Materials	1%	8%	New Zealand	2%	0%		
Real Estate		8%	Sweden	2%	2%		
Utilities		5%	Other	0%	23%		
Energy		5%	Cash	0%	0%		
Cash	0%						

Data for MSCI World SMID is market cap weighted.







Smithson Portfolio exposure based on weighted position sizes. For sales exposure by region, percentage splits are shown ex-cash, based on most recently-available full year data and portfolio weights as at 31-Dec-22.

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

The team do engage with companies, as can be seen below.

# Smithson Investment Trust – September 2023

- ESG considerations are essential for ensuring longevity of high returns, which is what we seek.

	Our focus	Statistics	Companies helping	Engagement
Environmental	Our approach naturally avoids high polluting industries.	Average greenhouse gas (GHG) emissions for Smithson = 27 thousand tons vs. MSCI World at 4.5 million tons. Per £1mn of FCF, Smithson GHG emissions = 99t vs. MSCI World 365t		
Social	Successful companies have happy employees and avoid societal harm.	Women make up 29% of portfolio company boards (up from 21% in 2018) vs. 28% for the MSCI World		
Governance	Appropriate governance structures and incentives. "Show me the incentive, and I'll show you the outcome" – Charlie Munger.	We voted against remuneration at 24% of AGMs in the last 12 months.		

- Smithson is represented on the Fundsmith Stewardship & Sustainability Committee
- Fundsmith is a signatory to the UN PRI and UK Stewardship Code 2020

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Data based on Smithson portfolio as at 31-Mar-23 and latest company filings as at that date

They have sold Domino's Pizza. Ambu is an exciting company. Formed in 1937, they are probably best known for disposable resuscitators. They have developed single-use endoscopy solutions which could be transformational. However, there are issues around the materials they use and waste, which they are actively engaging.

In terms of the opportunities. The following charts are helpful. The first shows that from the index peak on 20 June 2018, it has underperformed the large-cap index by 34%.

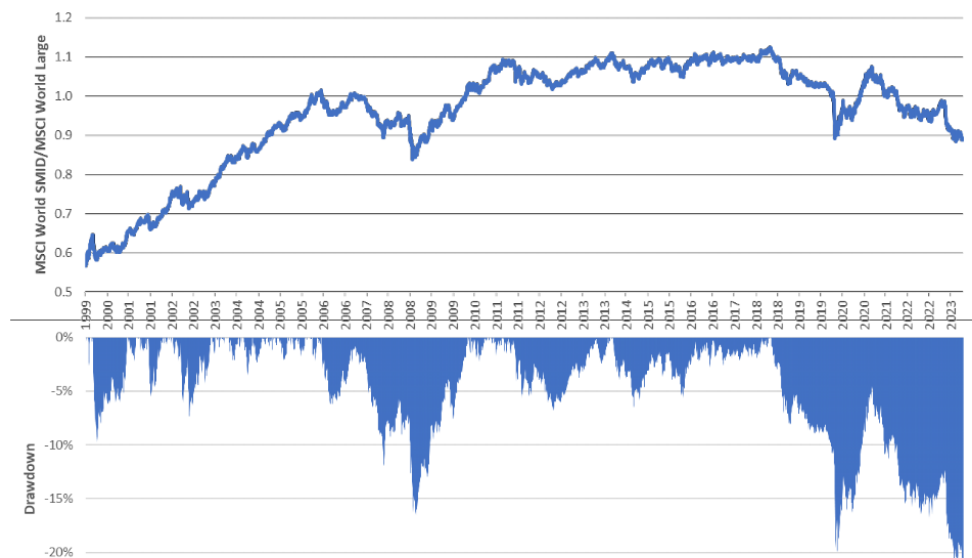


Chart shows the MSCI World SMID Cap net total return index in GBP as a ratio of the MSCI World Large Cap net total return index in GBP. Percentage drawdown is thus not directly comparable to the difference in performance between the two indices in a certain period. From the last peak on 20-Jun-18, The MSCI World SMID has underperformed the MSCI World Large cap by 34%.

Source: MSCI, Bloomberg, Fundsmith. Data to 31<sup>st</sup> August 2023. Past performance is not a reliable guide to future performance

The second chart shows the top-10 holdings. It shows the most significant drawdown and then the fall from the peak.

## Smithson Investment Trust – September 2023

The top 10 performing stocks in the fund over 25 years have all had significant drawdowns

Company	25yr total return	TSR CAGR	Largest drawdown	Dates	Fall from latest peak
Diploma	16,696%	23%	-63%	Aug-99 - Jun-00	-9%
Exponent	12,839%	21%	-46%	Apr-08 - Feb-09	-28%
Ambu	11,596%	21%	-83%	Apr-21 - Sep-22	-77%
Addtech (since 2001)	11,350%	24%	-62%	Jul-07 - Mar-09	-22%
Recordati	9,314%	20%	-62%	Jun-02 - Feb-03	-19%
Fisher & Paykel Healthcare	7,101%	19%	-60%	Jun-06 - Aug-12	-40%
Rollins	5,060%	17%	-38%	Dec-07 to Oct-08	-12%
Technology One (since 1999)	5,000%	18%	-86%	Nov-00 - Dec-02	-8%
Graco	4,950%	17%	-70%	Apr-06 - Mar-09	-10%
Fortinet (since 2009)	4,717%	32%	-51%	Aug-15 - Feb-16	-25%

The critical point is that these are great companies, but they are trading at discounts. The team believes that this will change and that there are significant opportunities in the future.

In summary, one of our concerns is the experience within this market. 2022 was a challenging year for them. They have learnt from this and adopted a more disciplined sales approach. The trust is running on a discount; therefore, correcting this will add to future returns. The challenge for investors is that investment trusts, as are small to medium-cap companies, are unloved. This may deter investors. From our perspective, a lot of energy and resources have gone into this strategy; they have kept to the fundamental principles of what they like but adapted to reflect mistakes. The team should, in theory, be able to turn this around.

**Fundsmith has provided the source of information in this note, 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 conduct your research before making a decision. We would also recommend that you receive advice before following up on any decision.**

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