

# Annual Report

for the year ended 31 December 2020

Smithson Investment Trust plc



**Small &  
Mid Cap  
Investments  
That  
Have  
Superior  
Operating  
Numbers**

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	At 31 December 2020	At 31 December 2019
<b>Net assets</b>	<b>£2,331,950,000</b>	<b>£1,437,305,000</b>
<b>Net asset value (“NAV”) per ordinary share (“share”)</b>	<b>1,648.9p</b>	<b>1,255.2p</b>
<b>Share price</b>	<b>1,710.0p</b>	<b>1,298.0p</b>
<b>Share price premium to NAV<sup>1</sup></b>	<b>3.7%</b>	<b>3.4%</b>

	For the year ended 31 December 2020	For the year ended 31 December 2019	For the period from Company’s listing on 19 October 2018 to 31 December 2020
		% change <sup>2</sup>	% change <sup>2</sup>
<b>NAV total return per share<sup>1</sup></b>	<b>+31.4%</b>	<b>+33.2%</b>	<b>+64.9%</b>
<b>Share price total return<sup>1</sup></b>	<b>+31.7%</b>	<b>+29.8%</b>	<b>+71.0%</b>
<b>Benchmark total return</b>	<b>+12.2%</b>	<b>+21.9%</b>	<b>+25.4%</b>
<b>Ongoing charges ratio<sup>1</sup></b>	<b>1.0%</b>	<b>1.0%</b>	<b>1.0%</b>

Source: Bloomberg

This report contains terminology that may be unfamiliar to some readers. The Glossary on pages 77 to 79 gives definitions for frequently used terms.

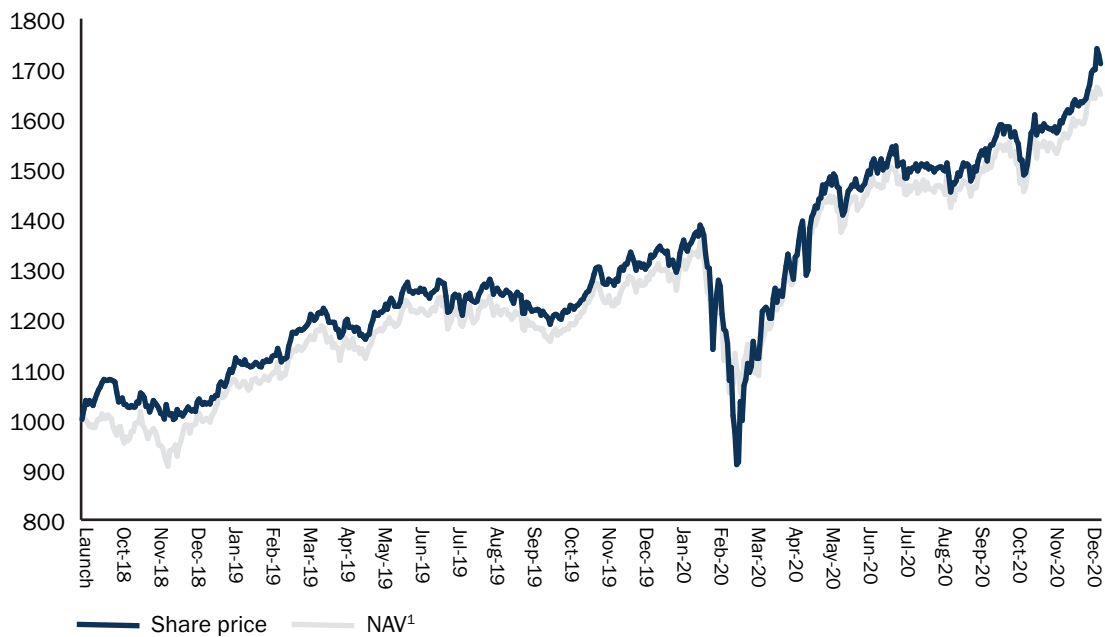
<sup>1</sup> These are Alternative Performance Measures (“APMs”). Definitions of these and other APMs used in this Annual Report, together with how these measures have been calculated, are disclosed on pages 75 and 76.

<sup>2</sup> Total returns are stated in GBP sterling.

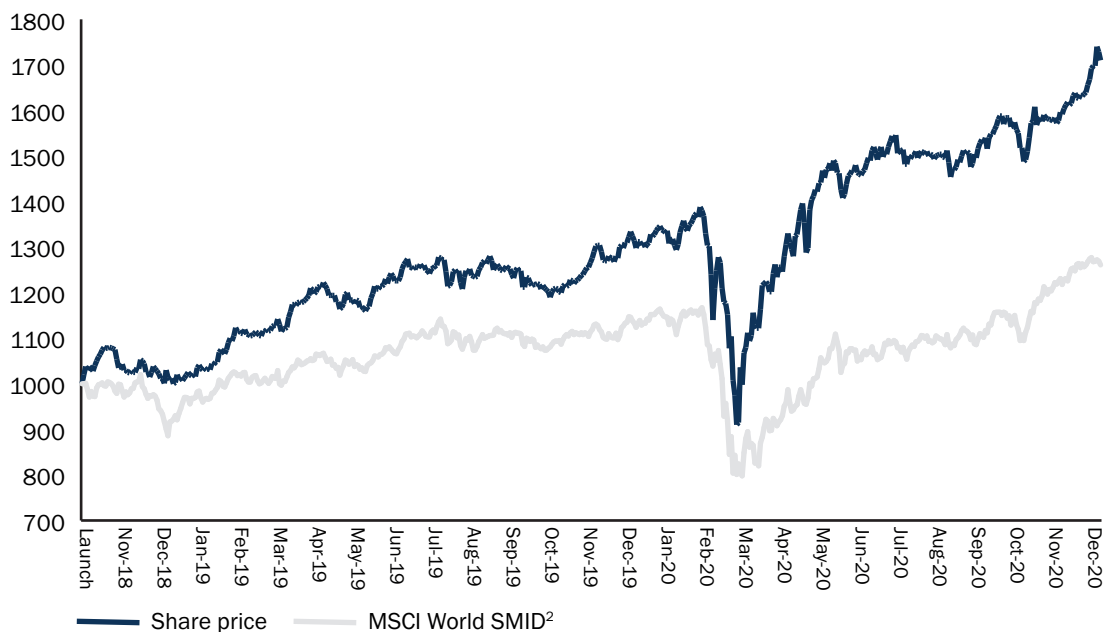
## Financial Highlights

### Strategic Report

**Total return performance against NAV for the period from the Company's listing on 19 October 2018 to 31 December 2020**



**Total return performance against MSCI World SMID Index for the period from the Company's listing on 19 October 2018 to 31 December 2020**



<sup>1</sup> Source: Bloomberg

<sup>2</sup> Figures rebased to 1000 as at date of Company's listing

## Introduction

I am pleased to present the Annual Report of Smithson Investment Trust plc (the "Company") for the year to 31 December 2020. This is our second Annual Report, and I am delighted to note the Company's continued growth and very strong performance in 2020 both in absolute terms and relative to its reference index, particularly in light of the challenges presented to global markets by the COVID-19 pandemic, Brexit and the US elections.

The Company was floated on the premium list of the London Stock Exchange ("LSE") on 19 October 2018, breaking the record for the largest IPO of an investment trust in the history of the LSE with funds raised exceeding £822 million. Since that time the Company has raised a further £925 million net of costs in the secondary market, making the Company the most successful investment trust in terms of secondary share issuance in each of 2019 and 2020. It now has a market capitalisation of approximately £2.4 billion and is a member of the FTSE 250 index.

In common with all funds managed by Fundsmith, the Company has a simple and focused strategy of investing in high-quality, listed company shares, seeking not to overpay for those shares and then holding them as long term investments; the Company does not use derivatives and has no borrowings. As a closed-end investment vehicle focusing on capital growth, the Company is free to focus its energies on pursuing its strategy without having the limiting factors of funding client redemptions, dividend payments (other than a minimum to maintain investment trust status) or gearing concerns. The Company has a strong balance sheet of highly liquid investments which have performed well both in 2020 and since the IPO, despite all the challenges encountered in 2020, as can be seen below and in the Investment Manager's Review.



## Performance

In the year to 31 December 2020, the net asset value ("NAV") per share total return was 31.4%, more than double our reference index, the MSCI World SMID Index, which returned 12.2%. The share price rose from £12.98 at the start of the year to £17.10 at 31 December 2020, representing a total return for the year of 31.7%. Since the IPO in October 2018, the Company has recorded a NAV per share total return of 64.9% compared with the MSCI World SMID Index return of 25.4% over the same period.

The Company holds 31 investments. During the year, 3 new investments were made with 1 outright divestment, although there were some changes in the weightings of the investment holdings which resulted in some partial divestments. This accords with the Company's stated investment approach of being a long term investor in its chosen shares. One of the acquisitions, Fortinet, and the outright divestment of Check Point were made in the second half of the year. Simon Barnard, the portfolio manager, has reported on the performance in detail in the Investment Manager's Review.

In our Interim Report, we noted that the Company's dividend income was lower than its operating expenditure resulting in a revenue loss, which was netted against the capital gains reported in the total returns. This has continued in the second half such that there is a deficit on the revenue reserve for the year. The revenue loss arose because 100% of the Company's management fees and other indirect operating expenses are charged to revenue, rather than a percentage being allocated to the capital reserve. This accords with the Company's objective of focusing on capital growth which means that its accounting policy is not designed to facilitate maximisation of revenue reserves and dividend payments. There is no current intention to change this policy, even if losses continue to be reported in revenue reserves.

**Strategic Report**

**Share issuance and premium to NAV**

With the exception of a few days when financial markets were in turmoil from the initial impact of the COVID-19 pandemic, the Company has continued to trade at a premium to NAV and closed the year at a 3.7% premium with an average premium over the year of 1.9%. The Board monitors the level of premium to NAV at which the Company's shares trade and has a regular share issuance programme to manage the premium.

During the year, and in response to continuing strong demand for the Company's shares (as evidenced by the share price premium to NAV), the Company raised £398 million net of costs through the issue of 26.9 million new ordinary shares, more than any other investment trust issued in the secondary market over the same period. Shares are only issued at a premium to net asset value which creates additional value for shareholders net of all issue costs. The average premium to the prevailing net asset value at which new shares were issued during the year was 2.9% and the net premium on share issues amounted to approximately £5.4 million.

As explained in greater detail in the Investment Manager's Review, the new share proceeds have been predominantly invested in the same securities as were held at the start of the year.

Since the year end and up to 12 March 2021, a further 9,132,000 ordinary shares have been issued, raising £150.6 million net of costs. This brings the total net funds raised since the Company's IPO in October 2018 to £925 million. Shareholders should note that value created from the secondary share issuance programme since IPO to 12 March 2021 is estimated at £16.5 million. Shareholders will recall that the £822 million raised at the time of the Company's IPO was a record for a UK investment trust. The trust's continuing popularity and success in raising new funds are a testament to the excellent performance of our Investment Manager.

In view of the continuing strong demand for the Company's shares, shareholders will be asked, at the forthcoming Annual General Meeting, to grant the Company authorities to issue up to a further 20% of the issued share capital as at the latest practicable date before publication of the Annual Report. This will enable the Directors to continue to create further shareholder value and help manage the level of any share price premium. Any such issues will be on a non pre-emptive basis.

**Results and dividends**

The Company's total return after tax for the year was £496.5 million (2019: £238.1 million), equivalent to 396.99p per share (2019: 242.49p) comprising a capital return of £499.4 million (2019: £237.9 million), equivalent to 399.28p per share (2019: 242.23p) and revenue loss of £2.9 million (2019: return of £0.26 million) equivalent to a loss of 2.29p per share (2019: gain of 0.26p). As reported previously, the Company's principal objective is to provide shareholder returns through long-term capital appreciation rather than income. In accordance with the Company's policy, a dividend is not proposed by the Board.

This position will be kept under review. It should not be expected that the Company will pay a significant annual dividend and it is likely that no interim dividends will be declared, but the Board intends to declare such annual dividends as are necessary to maintain the Company's UK investment trust status.

**Operations**

As we reported at the interim stage, as part of the Board's response to the potential operational risks presented by the COVID-19 pandemic, our key outsourced service providers were asked to provide reports on their actions and responses, all of which were entirely satisfactory. The situation since the first lockdown has continued to be monitored and I am pleased to report that there has been no noticeable change in any of the services provided to the Company during the year or since the year end, a testament to our suppliers' operational resilience.

**Environmental, social and governance ("ESG") matters**

In response to the increased interest in reporting on ESG matters, the Investment Manager's Review includes an overview of how the Investment Manager considers ESG and other sustainability issues when implementing its investment strategy. It also provides an overview of how the Company has discharged its governance duties in respect of investee companies. Commentary on the Company's engagement with investee companies as well as its voting at investee company shareholder meetings is set out in the Investment Manager's Review and on page 27.

### Strategic Report

Furthermore, the Association of Investment Companies ("AIC") is proposing to introduce a database of investment company policies with regard to ESG matters and the Company intends to submit its policy in this regard to the database when this facility is introduced, currently scheduled for the second quarter of 2021. A copy of the Company's policy will also be available on the Company's website at [www.smithson.co.uk](http://www.smithson.co.uk).

### Board performance evaluation

As the Company approached its second anniversary, the Board decided that it was an appropriate time to commission an independent evaluation of the Board's performance, effectiveness, processes and governance compared to best practice as well as a review of the Directors' remuneration. Periodic use of external advisers to undertake these exercises is one of the recommendations of the Financial Reporting Council. Details of the evaluations, how they were conducted, and their conclusions are given on pages 35 and 44.

### Annual General Meeting ("AGM")

As shareholders will recall, the first lockdown came into force after we had convened the 2020 AGM but before the meeting had taken place and as a result we wrote to shareholders asking them not to attend the meeting. The Board had hoped that an additional ad-hoc meeting with shareholders could be held later in the year but this was again not possible due to the ongoing COVID-19 restrictions on gatherings and movement of people. At the date of this report, there continues to be uncertainty as to what social distancing rules might apply at the date of the Company's AGM on 28 April 2021 and as such the Board has taken the decision to restrict shareholder attendance at the meeting. The Notice of Meeting accompanies this Annual Report and shareholders are asked to appoint the Chairman of the meeting as their proxy to ensure their votes are counted. Shareholders will further note that one of the resolutions to be put to the AGM is to amend the Company's articles of association to enable hybrid meetings using virtual technology to be employed for future meetings as the Directors may deem appropriate.

Although we are restricting attendance at the AGM this year, a presentation by Simon Barnard, our Investment Manager, on the performance of the Company's investments will be available on the Company's website at [www.smithson.co.uk](http://www.smithson.co.uk).

### Shareholder engagement

My fellow Directors and I remain keen to meet with shareholders once it becomes safe and practical to do so. In the meantime, I would like to remind shareholders that they are welcome, at any time, to submit any questions they may have either to the Board at [smithsonchairman@fundsmith.co.uk](mailto:smithsonchairman@fundsmith.co.uk) or to the Investment Manager at [smithson@fundsmith.co.uk](mailto:smithson@fundsmith.co.uk). In addition, we would encourage shareholders to visit our website at [www.smithson.co.uk](http://www.smithson.co.uk) where more information is available and which is regularly updated.

### Outlook

Despite the ongoing impact of the COVID-19 pandemic on the global economy and continuing efforts to contain it, the Board is very pleased with the Company's performance to date and remains positive on the outlook for global small and mid-cap equities in the medium to long term.

The Board intends to continue to issue new shares so as to generate additional value for shareholders net of all issue costs and to enable the Investment Manager to continue to seek attractive investment opportunities for any further capital raised. The increase in scale of the Company since the IPO has allowed the Board to negotiate some lower percentage charges for services provided and these cost reductions will benefit the Company in the next financial year and beyond.

I would also like to thank all of our advisers and service providers who have supported the Company admirably during the last year. I am pleased to report that, despite the difficulties presented by the COVID-19 pandemic, there was no noticeable change in any of the services provided to the Company, and the Board has confidence that our suppliers' operational resilience will ensure this continues to be the case until normal operations are restored.

Finally, I wish all of our shareholders good health and prosperity as we gradually move beyond the current phase of the pandemic.

**Mark Pacitti**  
Chairman

15 March 2021

**Strategic Report**

This Strategic Report on pages 2 to 27 has been prepared in accordance with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 to provide information to shareholders to assess how the Directors have performed their duty to promote the success of the Company.

The Strategic Report contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

**Purpose, strategy and business model**

The Company is registered in England and Wales and is an externally managed investment trust; its shares are premium listed on the Official List and traded on the main market of the London Stock Exchange. It was established by its Investment Manager, Fundsmith LLP and listed on 19 October 2018.

The purpose of the Company is to provide a vehicle for investors to gain exposure to a portfolio of small and mid-sized listed or traded companies globally, through a single investment.

The Company's strategy is to create value for shareholders by addressing its investment objective, which is to provide shareholders with long-term growth in value through exposure to a diversified portfolio of shares issued by listed or traded companies.

The Company is an alternative investment fund ("AIF") under the European Union's alternative investment fund managers' directive ("AIFMD") and has appointed Fundsmith LLP as its alternative investment fund manager ("AIFM").

As an externally managed investment trust the Company has delegated its operational activities to specialised third party service providers who are overseen by the Board of non-executive Directors. Details regarding the Company's key third party service providers are included in the Management Engagement Committee Report. The Company has no executive directors, employees or internal operations.

**Investment Objective and Policy**

**Investment objective**

The Company's investment objective is to provide shareholders with long term growth in value through exposure to a diversified portfolio of shares issued by listed or traded companies.

**Investment policy**

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

**Strategic Report**

- (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 drawdown of such borrowings. The Company may not otherwise employ leverage.

**Investment Methodology and Management Process**

The Investment Manager seeks to apply the investment methodology and management process summarised below (to the extent appropriate given the nature of a relevant investment opportunity):

**Seeking high-quality businesses with specific characteristics and intangible assets**

In the Investment Manager's view, a high-quality business is one which can sustain a high return on operating capital employed and which generates substantial cash flow, as opposed to only creating accounting earnings. If it also reinvests some of this cash back into the business at its high returns on capital, the Investment Manager believes the cash flow will then compound over time, along with the value of the Company's investment.

The Investment Manager will not just look for a current high rate of return, but will seek a sustainable high rate of return. Fundamentally, such companies need to demonstrate the ability to continue competing against all other companies which are trying to take a share of their profits. This can come in many forms, but the Investment Manager will look for companies that rely on intangible assets such as one or more of the following: brand names; patents; customer relationships; distribution networks; installed bases of equipment or software which provide a captive market for services, spares and upgrades; or dominant market shares.

The Investment Manager will generally seek to avoid companies that rely on tangible assets such as buildings or manufacturing plants, as it believes well-financed competitors can easily replicate and compete with such businesses. In many instances, such competitors are able to become better than the original simply by installing the latest technology in their new factory. Banks are quite keen to lend against the collateral of tangible assets, and such companies tend to be more heavily leveraged as a result. The Investment Manager believes that intangible assets are much more difficult for competitors to replicate, and companies reliant on intangible assets require more equity and are less reliant on debt as banks are less willing to lend against such assets.

The Investment Manager believes such companies will resist the rule of mean reversion that states returns will revert to the average over time as new capital is attracted to business activities which earn above average returns. They can do this because their most important assets are intangible and difficult for a competitor to replicate. Since stock markets typically value companies on the assumption that their returns will regress to the mean, businesses whose returns do not do so can become undervalued. This presents an opportunity for the Company.

The Investment Manager will seek businesses which have growth potential. The Investment Manager views growth potential as the ability of a company to be able to reinvest at least a portion of its excess cash flow back into the business to grow, whilst generating a high return on the cash thus reinvested. Over time, this should compound their shareholders' wealth by generating more than a pound of stock-market value for each pound reinvested.

**Strategic Report**

The Investment Manager is interested in growth that is driven through either increases in volume or increases in price and will prefer a mixture of both. The ability to increase product prices above the rate of inflation is the most profitable way to grow and demonstrates that the company has a healthy competitive position selling products or services which are strongly desired by their customers. However, growth through price alone can build a shelter under which competitors can flourish, eventually resulting in cheaper competition gaining significant market share. On the other hand, growth through additional unit volumes almost always requires more cost, in both manufacturing capacity and materials used to produce the products, as well as transportation to get them to customers. Increasing scale in this way will eventually make a company's market position more difficult to compete against, however, unlike growing through price alone, with the further benefit that volume growth can sometimes continue indefinitely.

The Company will only invest in companies that earn a high return on their capital on an unleveraged basis and do not require borrowed money to function. The Investment Manager will avoid sectors such as banks and real estate which require significant levels of debt in order to generate a reasonable shareholder return given their returns on unlevered equity investment are low.

While the Investment Manager favours companies that are able and willing to spend cash on the research and development of their products to create important intangible assets such as patents and manufacturing efficiency, it will avoid industries that innovate very quickly and are subject to rapid technological change. Innovation is often sought by investors, but does not always produce lasting value for them and can have high capital costs.

**Avoiding overpaying for shares**

The Company will only invest in shares where the Investment Manager believes the valuation is attractive. The Investment Manager will estimate the free cash flow of every company after tax and interest, but before dividends and other distributions, and after adding back any discretionary capital expenditure which is not needed to maintain the business. The Investment Manager aims to invest only when free cash flow per share as a percentage of a company's share price (the "free cash flow yield") reflects value relative to long-term interest rates and when compared with the free cash flow yields of other investment candidates both within and outside the Company's portfolio. The Investment Manager will buy securities that it believes will grow and compound in value, which

bonds cannot, at yields that are similar to or better than the Company would get from a bond.

**Buying and holding**

The Company will seek to be a long-term, buy-and-hold investor. The Investment Manager believes this will facilitate the compounding of the Company's investments over time as the investee companies continue to reinvest their cash flows. The Investment Manager, however, will continually test its original views against new information it may discover while regularly reviewing the news and results concerning the investee companies. The resulting low level of dealing activity also minimises the frictional costs of trading, a cost which is often overlooked by investors as it is not normally disclosed as part of the costs of running funds.

**Not attempting market timing**

The Investment Manager will not attempt to manage the percentage invested in equities in the Company's portfolio to reflect any view of market levels, timing or developments. The Investment Manager's unwillingness to make investment decisions on the basis of market timing is one factor that will prevent the Company from investing in sectors that are highly cyclical.

**Key Performance Indicators ("KPI")**

The Company's Board of Directors meets regularly and reviews performance against a number of key measures, as follows:

- Net asset value total return against the MSCI World SMID Index measured on a net sterling adjusted basis;
- Share price total return;
- Premium/discount of share price to net asset value per share; and
- Ongoing charges ratio.

The KPI measures are Alternative Performance Measures. Please refer to the APM section and Glossary on pages 75 to 79 for definitions of these terms and an explanation of how they are calculated.

**Strategic Report**

**Net asset value total return against the benchmark**

The Directors regard the Company's net asset value total return as being the overall measure of value delivered to shareholders over the long term. The Investment Manager's investment style is such that performance is likely to deviate from that of the benchmark index.

The Company's net asset value per share at 31 December 2020 was £16.49. The net asset value total return for the year to 31 December 2020 was 31.4% and the annualised net asset return for the period from listing on 19 October 2018 to 31 December 2020 was 25.5%. The Board considers the MSCI World SMID Index measured on a net, sterling-adjusted basis, to be the most appropriate comparator to the Company's performance. The returns generated by the MSCI World SMID Index over the same periods were 12.2% and 10.8% respectively, thus the Company outperformed the benchmark by 19.2 percentage points for the year ended 31 December 2020 and 14.7 percentage points annualised for the period from the Company's listing to the period end.

A full description of performance during the period under review is contained in the Investment Manager's Review.

**Share price total return**

The Directors also regard the Company's share price total return to be a key indicator of performance.

The share price total return for the year to 31 December 2020 was 31.7% and the annualised share price total return for the period from listing on 19 October 2018 to 31 December 2020 was 27.6%, outperforming the MSCI World SMID Index reference benchmark by 19.5 percentage points and 16.8 percentage points respectively.

**Premium/discount of share price to net asset value per share**

The Board undertakes a regular review of the level of premium/discount. During the year, with the exception of a few days when markets were in turmoil from the initial impact of the COVID-19 pandemic, the Company's shares have consistently traded at a premium to net asset value. The Board seeks to generate value for shareholders through the issuance of shares at a premium to net asset value. To this end, during the year to 31 December 2020 the Company issued 26.9 million new ordinary shares generating a premium to net asset value of approximately £5.4 million net of costs. The making and timing of any share issuance and/or buy-back is at the discretion of the Board.

As at 31 December 2020, the premium of the Company's share price to the net asset value per share was 3.7% and the average premium to net asset value for the year to 31 December 2020 was 1.9%.

The Directors intend to seek renewal at each Annual General Meeting of their authority to allot shares or to buy back shares with a view to managing the premium/discount as well as creating further shareholder value. Shares will only be issued at a premium to net asset value and bought back at a discount to net asset value.

If, after the end of the fourth financial year of the Company's existence (being 31 December 2022) or any subsequent year, the Company's shares have traded, on average, at a discount in excess of 10 per cent. of net asset value per share in any such year, the Directors will consider proposing a special resolution at the Company's next Annual General Meeting that the Company ceases to continue in its present form. If such a vote is proposed and passed, the Board will be required to formulate proposals to be put to shareholders within four months to wind up or otherwise reconstruct the Company, having regard to the liquidity of the Company's underlying assets. Any such proposals may incorporate arrangements which enable investors who wish to continue to be exposed to the Company's investment portfolio to maintain some or all of their existing exposure.

**Ongoing charges ratio**

The Directors monitor the Company's expenditure at each board meeting and review the ongoing charges ratio disclosed in the Interim and Annual Reports. The Directors regard the ongoing charges ratio as a measure of the regular recurring costs of running an investment company. Expressed as a percentage of average net asset value, the annualised ongoing charges ratio for the year was 1.0% (2019: 1.0%). The Board seeks to manage and where possible to improve the ongoing charges ratio and to this end the Management Engagement Committee, through its review of service provider fee rates, has secured cost savings which will benefit the ongoing charges ratio in the 2021 financial year and beyond.

**Strategic Report**
**Investments held as at 31 December 2020**

Security	Country of incorporation	Fair value £'000	% of investments
Fevertree Drinks	UK	129,839	5.7
Sabre	USA	115,486	5.1
Rightmove	UK	109,198	4.8
IPG Photonics	USA	98,694	4.3
Domino's Pizza Enterprises	Australia	92,017	4.0
ANSYS	USA	91,436	4.0
Equifax	USA	91,400	4.0
Cognex	USA	90,753	4.0
Verisk Analytics	USA	88,865	3.9
Domino's Pizza Group	UK	82,316	3.6
<b>Top 10 Investments</b>		<b>990,004</b>	<b>43.4</b>
Recordati	Italy	81,745	3.6
Temenos	Switzerland	81,744	3.6
Masimo	USA	81,137	3.6
Rational	Germany	80,762	3.5
Qualys	USA	80,218	3.5
Fortinet	USA	77,865	3.4
Verisign	USA	75,915	3.3
Simcorp	Denmark	72,703	3.2
Halma	UK	69,838	3.1
Paycom Software	USA	68,507	3.0
<b>Top 20 Investments</b>		<b>1,760,438</b>	<b>77.2</b>
MSCI	USA	65,330	2.9
Technology One	Australia	63,919	2.8
Geberit	Switzerland	61,292	2.7
AO Smith	USA	57,512	2.5
Nemetschek	Germany	50,615	2.2
Diploma	UK	44,498	2.0
Spirax-Sarco Engineering	UK	43,076	1.9
Fisher & Paykel Healthcare	New Zealand	42,145	1.8
Ambu	Denmark	41,701	1.8
Abcam	UK	25,551	1.2
Chr. Hansen Holding	Denmark	23,861	1.0
<b>Total Investments</b>		<b>2,279,938</b>	<b>100.0</b>

Strategic Report



Dear Fellow Shareholder,

The performance of Smithson, along with comparators, is laid out below. In 2020 the Net Asset Value per share (NAV) of the Company increased by 31.4% and the share price increased by 31.7%. Over the same period, the MSCI World Small and Mid Cap Index ('Index'), our reference index, increased by 12.2%, leading to an outperformance for the fund share price of 19.5%. To our minds this is a very large outperformance relative to the market, clearly driven by highly unusual events and so it is not something we would expect to occur very often. We also provide below the performance of UK bonds and cash for comparison.

	<b>Total Return 01.01.20 to 31.12.20</b>	<b>Launch to 31.12.20 Cumulative</b>	<b>Annualised</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Smithson NAV <sup>1</sup>	+31.4	+64.9	+25.5
Smithson Share Price	+31.7	+71.0	+27.6
Small and Midcap Equities <sup>2</sup>	+12.2	+25.4	+10.8
UK Bonds <sup>3</sup>	+4.6	+10.9	+4.8
Cash <sup>4</sup>	+0.3	+1.3	+0.6

<sup>1</sup> Source: Bloomberg, starting NAV 1000.

<sup>2</sup> MSCI World SMID Index, £ Net source: www.msci.com.

<sup>3</sup> Bloomberg/Barclays Bond Indices UK Govt 5-10 yr, source: Bloomberg.

<sup>4</sup> Month £ LIBOR Interest Rate source: Bloomberg.

Smithson shares traded at an average premium of 1.9% during the period and briefly traded at a discount for the first time since inception, reaching a maximum discount of 19.6% on the 18 March. During the year, a total of 26.9 million new shares in the Company were issued, for proceeds of £398 million, which were invested both in existing holdings and the new positions discussed below. New shares were only issued at a premium to NAV, and at an average premium of 2.9%, so that the process remained accretive to existing shareholders on a per share basis.

The Ongoing Charge Figure was 1.0% (including the annual Management Fee of 0.9%). All dealing, voluntary trading costs and taxes amounted to 0.03% (3 basis points) of NAV in the period so that the Total Cost of Investment (TCI) incurred by shareholders was 1.03%.

Despite the market volatility caused by COVID-19 during the year, we continued with the strategy of only buying good companies, not overpaying for those companies, and then trying our best to do nothing. In fact, the tumultuous events of the year created opportunities to add to existing positions as well as buy new ones, which means we were able to do even more of the first two points, although clearly to the detriment of the third. We discuss later how well we did against each of these aspects in 2020.

It is also worth noting the great benefit that the investment trust structure brought to our activity during the market volatility, and the subsequent performance of the fund. The closed-end nature of Smithson Investment Trust plc meant that when presented with the opportunity to deploy capital into companies with severely depressed share prices, we were free to do so, without having to worry about raising or maintaining a cash balance to service investor redemptions. We believe being able to take advantage of such volatility was partly the reason for the exceptional returns this year – another factor as to why we see it as very unlikely we will be able to replicate this level of performance year after year.

The initial decline of the market induced by the pandemic in late February 2020 appeared indiscriminate, which it often is during a market panic. During this period we used our available cash to buy more of those companies whose share prices were suffering, but which we felt had the strongest long-term outlook. This included industrial businesses such as Cognex, a manufacturer of automated vision systems used with factory and warehouse robots, as well as technology companies such as Verisign, which manages and protects the '.com' domain of the internet.

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### Strategic Report

As the market turmoil continued into March, the share prices of those companies likely to be significantly negatively impacted by the crisis, such as travel and leisure, accelerated their decline, while those that stood to benefit from the pandemic started to increase in price. We therefore found ourselves with increasingly large positions in several healthcare names including Ambu, Masimo and Fisher & Paykel Healthcare, with valuations far less attractive after their sharp price appreciation. It was at this time, around the middle of March, that we started trimming our positions in healthcare, which released capital to allow us to acquire more shares in our existing travel, leisure and industrial names, as well as to start three new positions.

These included a position in Rational, a producer of automated professional ovens for restaurants and mass catering venues. Based in Germany, Rational is the market leader in professional combi-steam ovens, which use both convection and steam to optimise cooking. One of its main products, the 'SelfCookingCenter', allows significant automation of the cooking process as the software in the oven recognises the size, shape and consistency of the food and can control the cooking process to achieve the desired result programmed by the chef; it then self-cleans. This allows significant cost savings in the kitchen, as fewer chefs are required. Rational now has 54% market share of a product that has only 30% market penetration. While there are a number of competitors, they are much more diverse in their product offering; Rational's specialisation means it focuses on just two types of ovens, and only on professional kitchens, which other, typically larger companies, may not see as worthwhile to focus on.

Due to the impact of social distancing measures on the restaurant and catering trade, the shares of the company declined 44% between the start of the year and when we began buying. However, given its competitive advantage of having the best technology and most focused research and development capabilities, with the resulting high returns on capital and strong cash flow, as well as plenty of cash available on its balance sheet, we believe the company will be able to exit the crisis in a good position. Indeed, the share price eventually ended the year above the prior peak achieved just before the pandemic.

We also bought two companies within the cybersecurity industry. Qualys was founded in 1999 and sells to more than 15,000 customers in over 130 countries, from small companies up to multinational enterprises such as Microsoft. Qualys is one of a small

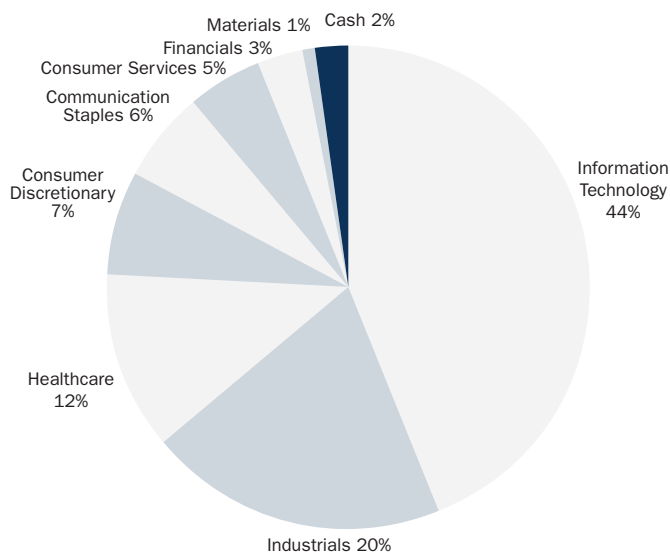
number of companies to provide identification, security and vulnerability management across remote devices attached to a corporate network. This was already gaining in importance before the pandemic but with the combination of the proliferation of networked devices, the growing adoption of the cloud and the seemingly inexorable increase in sophistication of cybersecurity attacks, demand for its security services are likely to continue to expand at a healthy rate. The company grew its free cash flow by 30% in 2019, and will stand to benefit strongly from any permanent shift towards remote working brought on by the pandemic. With the subscription nature of its business promoting strong cash generation, we were able to invest at a free cash flow yield which is better than the portfolio average despite the attractive growth prospects.

Although within the same subsector as Qualys, Fortinet focuses on slightly different aspects of cybersecurity. Founded in 2000, it sells security appliances such as firewalls to corporate and home users, as well as security software. Fortinet is actually in exactly the same business as another of our holdings, Check Point Software Technologies. We were originally attracted to Check Point because of the size of its established client base (like many types of software, once security software and systems are in place within an organisation it becomes very expensive and disruptive to change) and its industry-leading operating margin of almost 50%. However, we had become increasingly concerned that the growth of the company, previously a very acceptable high single-digit rate, had recently slowed to around 4%. This is somewhat below the rate we expect from our companies. Not even a higher sales and marketing expense, leading to a depletion of that aforementioned margin, was having a positive effect on growth. At the same time, Fortinet was experiencing quite the opposite dynamic, with annual revenue growth of over 20% during the last five years and a steadily improving operating margin. It was becoming increasingly clear that, likely due to better value products, Fortinet (among others) was consistently taking market share from Check Point, a scenario that, given enough time, wasn't going to end well for Check Point. We therefore decided that we would switch allegiances and Check Point was sold to fund the position in Fortinet.

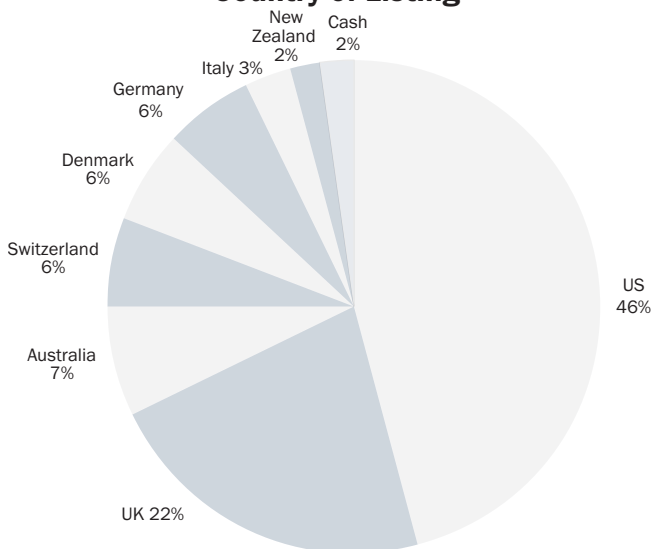
The result of these trading actions is shown below, with a breakdown of the portfolio in terms of sector and geography at the end of the period. The median year of foundation of the companies in the portfolio at the year end was 1973, while the average is 1960, skewed by some particularly early starters.

Strategic Report

**Sector**



**Country of Listing**



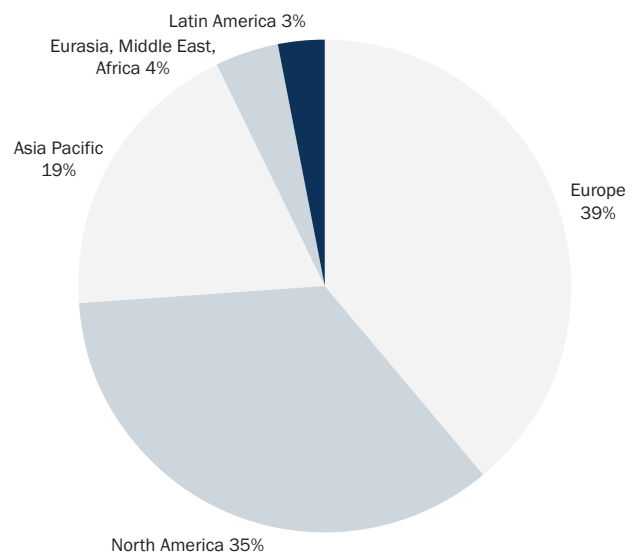
Over the course of the year the weighting in Information Technology increased by 5% on account of adding the new cybersecurity companies as well as increasing the position size of several software companies that had underperformed during the second half of the year. The reason for the apparently large allocation to Information Technology remains the same as outlined in previous reports, simply

that this broad MSCI-designated sector actually encompasses a large number of diverse businesses and end markets. We certainly don't think of ourselves as running a 'tech' fund.

The Industrials weight is similar to last year, the net result of adding Rational to the portfolio while other industrial positions have become smaller in size as they lagged the performance of the overall portfolio. The Healthcare weight has declined from over 16% as we reduced position sizes at the peak of the first COVID-19 wave, as described earlier.

The US remains the largest country weighting by listing. However, throughout the year the portfolio also had a sizeable weight of 22% in the UK and we have fielded many questions on our outlook for the UK following Brexit because of this. The answer, of course, is that we don't know. What we discovered, though, is that there were several very high-quality businesses which happen to be listed in the UK, and which, perhaps due to the generally depressed valuations in the UK market, still appear to be reasonably valued. Take Rightmove as a good example (and another favourite target for questions from investors) which currently trades on an historical free cash flow yield of 3.3%. REA Group, a very similar business based in Australia which we don't own, trades on a yield of 2.1% on the same basis, making it 57% more highly rated.

**Source of Revenue**



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### Strategic Report

But what we believe matters most in terms of regional exposure is where the revenue our companies generate actually comes from. This appears much more evenly distributed, with Europe actually the largest exposure and with North America close behind. There is also meaningful exposure to Asia Pacific and, although we only invest in companies listed in developed markets, they do, of course, still generate some revenue in emerging markets, as can be seen in the chart above.

The top five contributors to fund performance were:

	Country	Contribution %
Ambu	Denmark	3.4
Masimo	United States	2.9
Fevertree Drinks	United Kingdom	2.6
Domino's Pizza Enterprises	Australia	2.6
IPG Photonics	United States	2.0

The first two names are both healthcare companies and this will come as no surprise given the sudden surge in demand for healthcare products during the pandemic. Fevertree Drinks is perhaps more surprising, given the sharp share price decline at the start of the crisis due to the expectation that the closure of bars and restaurants would lead to a sudden reduction in revenue, as these venues account for around 50% of sales. However, we increased the position meaningfully in March, which proved to be fortunate, as revenue didn't turn out to be nearly as bad as commentators were expecting, given supermarket sales of Fevertree almost doubled in the period. With the shares now trading above the point at which they entered the crisis, we find ourselves with a large, and welcome, position in the company.

Domino's Pizza Enterprises, based in Australia, was a beneficiary of the COVID-19 lockdowns given its home delivery service, while restaurants were closed. IPG Photonics was another surprise given it sells high-powered lasers to manufacturers and material processors which makes it quite exposed to economic activity. However, it actually hadn't performed too well in the slowing global economy of 2019 and recently increasing orders from Asia are perhaps a sign of a potential economic recovery once this crisis is over.

The five worst detractors to performance were:

	Country	Contribution %
Sabre	United States	-1.7
Temenos	Switzerland	-0.3
Rightmove	United Kingdom	-0.1
Domino's Pizza Group	United Kingdom	0.1
Diploma	United Kingdom	0.1

Sabre was by far the largest detractor in the first half and was the only company that gave us any real concern during the COVID-19 crisis. This is because the company provides software which connects travel suppliers, such as airlines and hotels, to travel buyers such as travel agents and travel websites. Its revenue is directly linked to the number of passengers travelling, so as these fell 90% in the worst hit weeks, so did its revenue. Combined with this, the company has a level of debt which, although reasonable under normal circumstances, was subject to covenants that were unlikely to be met during the crisis. However, management were able to rapidly cut costs, temporarily suspend the debt covenants and raise additional debt to give them enough cash to meet liabilities for almost two years assuming a 90% reduction in revenue. Our necessary decision therefore progressed from having to calculate the probability of survival during the first three months of the crisis, something we were not comfortable with, to deciding whether the crisis would last more than two years, an outcome with a probability low enough for us to feel more confident in maintaining our holding. We reached this decision on 23 March and started buying more shares in the company that day, which has turned out to be – so far – fortuitous timing, with the shares up 263% from that point to the end of December. However, with infections ongoing, we are clearly not out of the woods yet.

Temenos sells software to banks to help run core banking operations more efficiently and to enable them to offer digital banking products and services. More recently it has become a favourite of start-up online-only banks. The company is likely to see around an 8% decline in revenue for 2020 – which is not a disaster – as banks have focused internally on their operations and loan losses during the crisis rather than upgrading software. Further, those that have, chose to take the software on a subscription basis (or software as a service), rather than a perpetual licence, which also held back revenue in the near term, but is ultimately a benefit to Temenos in the long term. We expect things to get back on track once the economy returns to growth.

**Strategic Report**

Rightmove shares began to suffer when the UK government announced its recommendation that housing transactions and physical viewings of properties be suspended during the first UK lockdown. This action led to concerns that estate agents would not be able to generate enough cash to survive the crisis and would therefore stop paying subscriptions to Rightmove. By the end of the year, it transpired that only around 2% of estate agents had left the market and UK housing activity was allowed to continue throughout subsequent lockdowns. Rightmove will still suffer around a 30% decline in revenue for 2020 as management decided, due to a degree of estate agent pressure, to provide a 75% discount on subscriptions, initially for four months, and then for a further two months.

Domino's Pizza Group owns the Domino's Pizza master franchises for the UK, Ireland and four other European countries. The company saw mixed results; the UK, its largest market, remained open for delivery and performed relatively well, but its other markets suffered as consumers reduced their spending or stores were closed during the crisis, offsetting the positive UK results. We are very optimistic regarding the new management team which was installed during the year.

Diploma is a UK based industrial conglomerate that owns companies manufacturing or distributing everything from hydraulic seals for heavy machinery to laboratory equipment. The shares were likely held back because of the decline in economic activity caused by the pandemic although it did still contribute a positive performance to the fund, albeit far below the average.

Back to the fund strategy, and to demonstrate that we only buy good businesses, we include a table below which shows the average operating metrics of the companies in the portfolio compared to those in the reference index.

LTM Figures	Smithson Investment Trust	MSCI SMID
ROCE	31% <sup>#</sup>	6%
Gross Margin	65%	34%
Operating Profit Margin	28%	2%
Cash Conversion	126%	80%
Interest Cover	31x	5x

Data for the MSCI World SMID Cap Index is shown ex-financials, with weightings as at 31.12.2020.

Data for MSCI World SMID Cap Index is on a weighted average basis, using last available reported financial year figures as at 31.12.20.

Data for Smithson is on a weighted average basis, ex-cash, using last available reported financial year figures as at 31.12.20.

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

<sup>#</sup> LTM ROCE for Smithson excludes Rightmove, which had a return of >700%. Including Rightmove, the weighted average ROCE would be 66%.

As you can see, the return on capital employed, our best shorthand measure of quality, is significantly higher than the reference index at 31% vs 6%. It is a similar story as you progress down the table, with a gross margin twice as high and significantly better operating margin. I would caution that the 2% operating margin for the benchmark looks a little low to us, and might prove to be higher once all 2020 data is available, but nonetheless it will be far inferior to that of the companies in our portfolio. Our companies also have much better free cash flow conversion, the amount of cash relative to profits that the companies produce. You may well ask how it is possible for companies to produce more than 100% of their profits in cash. This is because several of our companies are able to get their customers to pay up before suppliers have to be paid, creating a pool of cash on the balance sheet that doesn't technically belong to the company, but it is able to use whilst it sits there. As the company grows, so too does this cash balance, because even more customers are now paying before suppliers are paid. It is this combined dynamic (cash flow timing plus growth) that allows the company to produce more cash than profits. Free cash flow conversion is then boosted further in our portfolio by several companies, mostly in the technology industry, paying their employees with stock options rather than cash. This is not actually something we are particularly fond of because it can lead to dilution of our holding through new equity issuance, while the company employees in question stand to make outsized gains depending on future share price performance. It therefore generally proves to be an expensive exercise from a shareholder perspective.

We provide net interest cover to demonstrate the strength of the balance sheets of the companies because a leverage measure would prove meaningless, given the companies on average have a surplus of cash and no debt. We hope this table helps to demonstrate how much higher quality the companies owned in the portfolio are compared to the Index.

The second part of our strategy is to buy these great companies at reasonable valuations. Focusing on our preferred valuation metric of free cash flow yield (the cash flow generated by the companies after paying for everything except dividends and growth capital, divided by their market value), we can see that the portfolio trades on a yield of

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### Strategic Report

2.9% using the last reported company results, compared to a yield of 3.2% at this time last year. This means the companies in the portfolio became more highly rated over the course of the year, which contributed to the performance of the fund. Of course, this is not the best source of share price performance, as the re-rating of companies can only ever be limited and is always reversible. More sustainable is the performance which comes from the underlying growth in free cash flow generated by the companies, the average of which amounted to 10% (with a median of 10.7%) in 2020, a figure we are more than satisfied with given what a difficult operating environment it turned out to be for so many.

The sharp-eyed amongst you may notice that a 10% re-rating of the companies plus a 10% growth in free cash flow does not tally with the 31.4% performance of the fund. While we would ordinarily expect there to be a close correlation between these figures, 2020 was no ordinary year, and our purchases, which took advantage of the short-term extreme moves in share prices, were a significant additional factor to performance.

In terms of doing nothing, discretionary portfolio turnover, excluding the investment of proceeds from new shares issued, was 21.6% for the year. This is clearly not much more than the turnover of 20% reported at the half-year, and indicates the concentration of trading activity that occurred during the market lows of March and April, with very little occurring subsequently. While this feels like a frenzy of activity to us, certainly in comparison to the 6.1% turnover of 2019, it is perhaps worth remembering that the average for the asset management industry is above 80%.

There were a few actions that we took during the year with regards to Environmental, Social and Governance (ESG) considerations. In general, such issues are taken into account during our initial research process, and as such, our focus on sustainable growth and returns on capital employed mean that the fund will never contain any companies that do significant harm to the environment or to society.

However, the companies we own are not perfect, especially in terms of corporate governance. We engaged with several companies over remuneration policies, as well as voting against 36% of compensation proposals, and Board composition in 2020. To provide a couple of examples, early in the year we held a number of discussions with Board members of Domino's Pizza Group regarding the succession of both the Chairman and the executive management team, and are

pleased that this was resolved to our satisfaction by the late spring. Having spoken at length with the new Chairman, Chief Executive Officer and Chief Financial Officer we are optimistic that they will be able to successfully address certain issues within the business, including franchisee disagreements and the long-term growth strategy.

In May, we backed a shareholder proposal for a report to be prepared on management team diversity at IPG Photonics. We shared concerns that there was a lack of diversity represented on both the Executive and Supervisory Boards of the company and, although the vote did not pass at the Annual General Meeting, it was close to doing so, and we suspect it therefore prompted the appointment of the two female directors to the Supervisory Board in January 2021. Although not entirely satisfactory, it was a step in the right direction.

There has been intensifying discussion lately (I say intensifying, because the discussion itself has now been ongoing for some years) regarding the relative performance and valuation between 'growth' companies and 'value' companies and the potential for the market to 'rotate' from growth into value investments. For the purpose of this discussion, I refer to value investments as those companies trading on a low price to earnings or price to book value multiple (although not necessarily 'cheap' because of it) but I won't lament here the potential flaws in value investing as Terry Smith, in his annual letters to Fundsmith Equity Fund investors, has already done so far more eloquently than I could. What I would like to discuss instead are two further aspects to this debate which, to my mind, should provide further comfort to owners of high-quality growth companies, such as those held by Smithson Investment Trust plc, despite the clamouring by many that they now appear 'expensive'.

The first of these is known as the McNamara fallacy. This is named after Robert McNamara (it never bodes well when you have a 'fallacy' named after you), the US Secretary of Defense from 1961 to 1968, who believed in reducing the Vietnam war effort to a mathematical model. After developing a list of metrics to measure the progress of the war, he decided that enemy body counts were to be taken as a primary measure of success, rather than considering any of the many qualitative factors, such as morale, which he apparently claimed were difficult to measure and so must not be important. We all know how that worked out.

### Strategic Report

Today, this problem of an over-reliance on quantifiable metrics to solve complex problems can be identified in many areas of decision making, from the selection of university students to even choosing where to live. But the reason I bring it to your attention here, is because an almost exclusive focus on the valuation of companies, to the detriment of difficult to quantify factors such as brand value, distribution reach, R&D innovation, intellectual property, market dominance or network effects, will cause you to miss out on many wonderful investments over the course of your lifetime. Further, the irony is that the quantifiable company valuation metrics that are so easy to calculate and compare could be completely misleading, based as they often are on unknowable earnings forecasts, whereas it is with much greater confidence that one can determine a company as being of a high quality once you know it well (or as the philosopher Carveth Read said, "it is better to be vaguely right than exactly wrong"). So, let commentators continue to warn about relative valuations. They may even be proved right for a time, but we are happy for them to win one battle while we focus on winning the war.

The second aspect of the debate that I wanted to bring to your attention is that of time. The length of holding period has a much greater impact on the expected risk and return of an investment than most people realise. Let me give you an example. If you were to hold an index fund tracking the S&P 500 for 1 day, you'd only have slightly more than a 50/50 chance of making money because of the daily volatility. On the other hand, if you were to hold it for 15 years, you'd be extremely likely to make money. This is based on the fact that, since the inception of the S&P 500 in 1957, there has been no 15-year period when you would have lost money.

Using the S&P Composite Index we can extend the period back further to encompass the Great Depression. Even then, we find that there were only 3% of days\* when you could have bought the Composite and it traded at a lower price 15 years later, with none since 1931. So, by changing only one element, the holding period, the probability of making money in the same investment has improved from around 50% to 97%.

Of course, the US-focused S&P Composite Index has done better over time than many other regional indices. But that simply serves to highlight the second important part of the argument: this only works if you invest in assets that tend to increase in value over time. This again promotes the benefit of buying high-quality companies which sustain strong margins and returns and grow free cash flow over the long term, even at a seemingly high price, compared with low-quality 'value' companies which don't. It is ultimately why quality companies suit a buy and hold strategy, which by the way is a very good strategy, if you observe how some of the wealthiest families and individuals in the world have made their money.

In terms of the future progress of the market, it is, as always, impossible for us or anyone else to know. We can at least identify two factors though which are likely to have an effect on equity prices over the coming months (and there will be many others that no one can yet see). First is the effect of policy shifts from central banks and governments. As we have commented several times previously, market prices have been significantly impacted by the ultra-loose monetary policy that has been experienced over the last few years, and especially in 2020. It is probably no coincidence that markets started to recover on the same day that the Fed announced it was "committed to using its full range of tools" to support the market and economy, and so any change in this policy will be a primary factor in asset price movements. It also appears that at time of writing, governments continue to expand fiscal stimulus measures, a good example being that of the US government stimulus package currently being debated. This could also have an effect on the stock market, although of a second order nature, if the stimulus leads to faster economic recovery than is currently expected.

Second, and linked to the last point, is the progression of COVID-19 vaccination programmes across the globe. This will be another second order effect if it allows for the relaxation of population movement restrictions and recovery in economic activity. However, any signs that vaccination is going slower than people hoped, which is quite possible given the logistical and social challenges of vaccination on such a scale, will have an immediate effect on market sentiment.

\*Since the inception of the daily S&P Composite in 1927 there have been 733 days out of a total 23,353 days where the S&P Composite was lower 15 years later.

**Strategic Report**

As an aside, it is interesting to note, especially for those who fear that this COVID-19 vaccine development and approval may have taken short cuts, and suggest it will therefore not be fully safe or efficacious, that the 11 months it took to develop the vaccines is not completely unheard of. In fact, vaccines for three pandemics during the last 100 years (Asian Flu, Hong Kong Flu and Swine Flu) were developed within 6 months of the outbreak. We can therefore conclude that a short development time for a safe COVID-19 vaccine is very fortunate, but not impossible, and therefore we may well have a credible solution to the pandemic at hand.

Finally, we wanted to end with a thought on investing through these uncertain events and volatile markets: we suggest that your ambition as an investor at all times should not be profit maximisation but rather regret minimisation. Bear with us.

There are three simple reasons for this:

- 1) Profit maximisation (by timing the market perfectly) is impossible;
- 2) Regret minimisation is possible and is also a very profitable long term strategy; and
- 3) Getting market timing wrong can bring both a substantial loss in profit and enormous regret.

So how do you put a regret minimisation strategy into practice? One way is to automatically buy the same amount of your investment every week or month, whether it looks cheap or expensive, uncertain or rosy. The automated nature of the strategy means you can never feel regret, because the timing is never in your hands. It also means that your consistent participation in the market will allow you to benefit from the compounding nature of equity returns without the self-inflicted damage of poor timing (the worst of which is selling and never getting back in). And finally, you will be happier, because you will achieve good returns over time and never feel bad about making a wrong decision. After all, if we don't feel content with wealth and investments, what's the point in them?

This has not been an easy year for anyone, but we hope that you and your families are safe and well. Despite the challenges, Smithson has had a successful year and we thank you for your continued support.

**Simon Barnard**  
Fundsmith LLP  
Investment Manager

15 March 2021

## Risk Management

The Board is responsible for the ongoing identification, evaluation and management of emerging and principal risks faced by the Company and the Board has established a process for the regular review of these risks and their mitigation. This process accords with the UK Corporate Governance Code, the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting and the AIC Code of Corporate Governance and a description follows below.

- The Board maintains and regularly reviews a matrix of risks faced by the Company and controls in place to mitigate those risks. The impact and probability of those risks occurring after controls are performed are charted on a risk heat map and reviewed by the Board along with a risk appetite statement that reflects the Board's relative level of risk tolerance and establishes key triggers necessitating Board management. An annual formal review of the risk procedures and controls in place at the Investment Manager and other key service providers is performed. Emerging risks are actively discussed as part of this process and this should ensure that emerging (as well as known) risks are adequately identified and, so far as practicable, mitigated.

During the year, the COVID-19 pandemic emerged as a new risk to the Company, which was evaluated by the Board as soon as it was identified. The market and outsourcing risks associated with the COVID-19 pandemic, and the ongoing economic impact of measures introduced to combat its spread were discussed and continue to be monitored by the Board. The Investment Manager and other key service providers gave updates throughout the year on operational resilience and the Board was satisfied that they have the ability to operate effectively in a remote working environment.

The impact of general market risks such as the US election result and the UK's withdrawal from the European Union were monitored by the Board throughout the year with no significant impact observed. The Company's portfolio is invested in global equities and the effect of the UK's exit is therefore expected to be relatively limited. However, the Board continues to monitor developments as negotiations continue on the details of the EU-UK Trade and Cooperation Agreement.

- Each Director brings external knowledge of the investment company sector (and financial services generally), trends, threats as well as strategic insight;
- The Investment Manager advises the Board at quarterly Board meetings on industry trends, providing insight on future challenges in the markets in which the Company operates/ invests. The Company's broker regularly reports to the Board on markets, the investment company sector and the Company's peer group;
- The company secretary briefs the Board on forthcoming legislation/regulatory change that might impact on the Company. The auditor also provides updates which are relevant to the Company; and
- The Company is a member of the AIC, which provides regular technical updates as well as drawing members' attention to forthcoming industry/regulatory issues and advising on compliance obligations.

## Principal Risks

The Directors have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity.

### 1. Investment objective and policy risks

The Company may not achieve its investment objective.

The Company is dependent upon the Investment Manager's successful implementation of the Company's investment policy and ultimately on its ability to create an investment portfolio capable of generating attractive returns.

The Company is not constrained on weightings in any sector or geography. This may lead to the Company having significant exposure to portfolio companies from certain business sectors or based in certain geographies. Greater concentrations of investments in any one sector or geography may lead to greater volatility in the Company's investments and may adversely affect performance. This may be exacerbated by the small number of investments held at any time.

**Strategic Report**

*Mitigation*

The Investment Manager has a proven and extensive track record, and the Board undertakes a review of the performance of the Company and its transactions at each quarterly Board meeting. The Investment Manager spreads the investment risk over a portfolio of investments in accordance with the Company's investment policy, and at the year end the Company held investments in 31 companies with details of the geographic and sector weightings given on page 14.

**2. Market risks**

Price movements and stock market conditions may have a negative impact on the Company's portfolio and its ability to identify and execute suitable investments that might generate acceptable returns. Market conditions may also restrict the supply of suitable investments at a price the Investment Manager considers may generate acceptable returns.

If conditions (such as those experienced as a consequence of the COVID-19 pandemic) affecting the investment market negatively impact the price at which the Company is able to buy or dispose of its assets, this may have a material adverse effect on the Company's business and results of operations.

Interest rate movements may affect the level of income receivable on cash deposits and the interest payable both by the Company and by investee companies on their borrowings. In addition, where the Company invests in high growth investee companies, any increase in interest rates may compress the growth of such companies and therefore affect their valuations. As such, interest rate fluctuations may reduce returns to investors.

The Company's ordinary shares are denominated in pounds sterling while the majority of the Company's investments are denominated in a currency other than pounds sterling. The Company does not hedge its currency exposures and changes in exchange rates may lead to depreciation in the Company's net asset value.

*Mitigation*

The Company's investment policy and the fact that it will not use hedging instruments to mitigate interest rate or foreign currency risk is clearly explained in the Owner's Manual (which can be found on the Company's website at [www.smithson.co.uk](http://www.smithson.co.uk)). The Investment Manager has a proven and extensive track record and reports regularly to the Board on market developments. The Investment Manager's policy is to hold investments for the long term and not look at market timing issues.

In respect of Brexit, as the portfolio is invested in global equities, the effect of the UK having agreed a trade deal with the European Union will have a relatively limited impact for the portfolio as a whole.

Further details on Market and Financial Instrument risk are disclosed in note 15 to the financial statements on pages 67 to 70.

**3. Outsourcing risks**

The Company has outsourced all its operations to third party service providers. Failure by any service provider to carry out its obligations in accordance with the terms of its appointment could result in negative implications for the Company. Such failures could include cyber breaches or other IT failures, fraud (including unauthorised payments by the administrator), poor record keeping and loss of assets and failure to collect all the Company's dividend income. Cyber incidents are becoming increasingly common and may cause disruption and impact business operations, potentially resulting in financial losses, theft, interference with the ability to calculate the Net Asset Value or additional operating costs. The rapid spread of infectious disease such as the COVID-19 pandemic, and measures introduced to combat its spread, could cause disruption to the operations of the Company and its key service providers.

*Mitigation*

The Company has appointed experienced service providers, each of whom has a service agreement, and the performance of the key service providers is reviewed annually by the Management Engagement Committee. Cyber risk management questions were incorporated in this review. The Company's key service providers report periodically to the Board on their business continuity plans and procedures. The Board monitors the adequacy of controls in place at the key service providers and their planned response to an extended period of disruption, to ensure that the impact to the Company is limited. Each key service provider was asked to present reports on their actions and responses, all of which were entirely satisfactory, and there was no noticeable change in any of the key services provided. The Board continues to monitor the Company's key service providers to ensure there is no negative impact on the Company from the ongoing COVID-19 pandemic control measures.

**Strategic Report**

The procedures of the AIFM, depositary and custodian are reviewed by their external auditors and such reports made available to clients. These reports are also reviewed by the Management Engagement Committee.

**4. Inadequate investment analysis risk**

If the Investment Manager fails to identify risks or liabilities associated with investee companies adequately, this could give rise to an investee company not fitting the Company's investment policy or unexpected losses and adverse performance. Such risks include cyber risk management by investee companies.

*Mitigation*

The Investment Manager employs qualified and experienced employees who perform the investment analysis and obtain information from quality sources.

**5. Key individuals risk**

The Investment Manager relies on key individuals to identify and select investment opportunities and to manage the day-to-day affairs of the Company. There can be no assurance as to the continued service of these key individuals at the Investment Manager, and the departure of any of these from the Investment Manager without adequate replacement may have a material adverse effect on the Company's business prospects and results of operations.

*Mitigation*

The Investment Manager has a remuneration policy in place seeking to incentivise key individuals to take a long term view. Additionally, the Company's key individuals are significantly invested in the Company, therefore their interests and the Company's shareholders are more aligned. Finally, the Investment Manager has plans in place to ensure continuity in the event of the departure of key individuals.

**6. Regulatory risks**

A failure to maintain HMRC approval as an investment trust could result in the Company not being able to benefit from the current exemption for investment trusts from UK tax on chargeable gains and could affect the Company's ability to provide returns to shareholders.

*Mitigation*

The Investment Manager and the company secretary monitor adherence to section 1158 of the Corporation Tax Act 2010 and report to the Board thereon.

**Strategic Report**

**Viability Statement**

In accordance with the UK Corporate Governance Code and the Listing Rules, the Directors have assessed the prospects of the Company over a longer period than the 12 months required by the “Going Concern” provision. The Company’s investment policy is to buy good companies, not overpay and then do nothing. The Smithson Owner’s Manual, a copy of which can be found on the Company’s website at [www.smithson.co.uk](http://www.smithson.co.uk) states “We will only invest in the equity of companies which we believe can compound in value over many years, if not decades, where we can remain a happy owner, safe in the knowledge that in 5 to 10 years’ time our investment is likely to be worth significantly more than what we paid for it”. When selecting or reviewing investments, the Investment Manager evaluates the prospects and risks which could affect investee companies over at least a 5 to 10 year period with a view to them being good long term investments capable of generating the Company’s required returns. The Board therefore believes that 10 years is the most appropriate time horizon to adopt for the Viability Statement.

In reviewing the Company’s viability, the Board considered the Company’s business model, the principal risks and uncertainties, including the issues arising from the COVID-19 pandemic, and its present and expected financial position. The Company is a closed end fund which invests in listed or traded global securities which are inherently liquid. It does not intend to borrow (except in short term circumstances to manage a discount) nor will it use derivatives in any hedging operation. It receives dividend income from its investment portfolio with which it settles its operating expenses. Any shortfall in income available to settle expenses could be met by the Company’s cash balances or by realising investments; the Board receives regular reports from the Investment Manager to confirm the average time to liquidate any investment position. The Board therefore has substantial options to manage the Company’s ongoing solvency.

The Company benefits from certain tax benefits relating to its status as an investment trust. Any change to such taxation arrangements would inevitably affect the attractiveness of an investment in the Company and consequently its viability as an effective investment vehicle.

The Directors have assumed that:

- the Board will not change the Company’s investment objective of providing shareholders with long-term growth in value;
- the performance of the Company will continue to be satisfactory such that the shareholders will want the Company to continue in existence. (The Board will consider putting a continuation vote to shareholders if in any year after 2022 the Company’s share price trades at an average discount of 10% or more to net asset value); and
- the Board will continue to manage the Company’s business to ensure it retains its status as an investment trust.

Based on the results of this review, the Directors have formed a reasonable expectation that the Company will continue in its operations and meet its expenses and liabilities as they fall due over the next 10 years.

**Section 172 of Companies Act 2006 Statement**

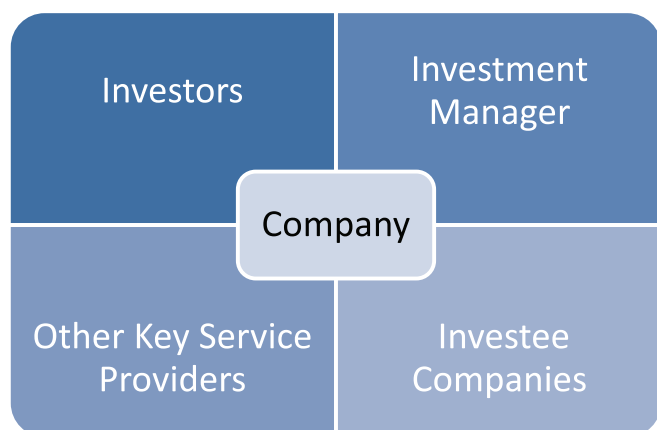
During the period under review, the Board discharged its duty per section 172 of the Companies Act 2006, to promote the success of the Company for the benefit of its members as a whole and having regard to the interests of stakeholders. The Board performed its role as outlined in the schedule of matters reserved for the Board and taking into account the interests of the key stakeholders identified in the map below. This schedule is available for inspection at the registered office of the Company and on the Company’s website at [www.smithson.co.uk](http://www.smithson.co.uk).

**Company values**

The Board has adopted a policy of fostering high standards of corporate governance in all its activities. This principle is the cornerstone of creating and preserving shareholder value. It is the Company’s policy to conduct all of its business in an honest and ethical manner. The Board seeks always to act and communicate in an open and transparent manner.

**Company sustainability and stakeholders**

As part of its work to evaluate its principal risks, the Board identified its key stakeholders which can be summarised as follows:



The Board is cognisant of the need to foster the Company’s business relationships with investors, suppliers and other key stakeholders through its stakeholder management activities as described below.

**Stakeholder Management**

**Investors**

The Company raised £822 million in its initial public offering (“IPO”) in October 2018, which was the largest amount that had been raised by any investment trust Initial Public Offering (‘IPO’) on the London Stock Exchange to that date. Since IPO the Company has raised a further £925 million net proceeds from new ordinary share issues including £398 million in the year to 31 December 2020 and a further £150.6 million since the year end. The net premium above net asset value raised from the ordinary share issues, which is effectively incremental value to the Company and shareholders, was £16.5 million. During the year, the Company’s share price has continued to grow, from £12.98 to £17.10 at 31 December 2020, a share price total return of 31.7%. At the same time the Company’s shares have continued to attract strong investor demand and the share price has predominantly (barring a few days when market values were adversely impacted by the COVID-19 pandemic) traded at a premium to net asset value with an average premium of 1.9% and a premium at the period end of 3.7%. As a result, under the Company’s share issuance programme during the year, the approximate net premium to NAV on share issues was £5.4 million (£16.5 million since IPO). The Board is seeking to renew its authority to issue shares at the Company’s AGM (see page 32) to continue to create value for shareholders. The Board is mindful that there should be an active, liquid market in the Company’s shares. As a closed-ended fund listed on the Premium segment of the main market, shareholders should always be able to exit through the stock market. The Board recognises the importance of shareholders being able to sell at a price not disadvantageous to them and the premium/discount to net asset value at which the Company’s shares trade is monitored at all times.

The Board encourages communications with its Investment Manager and key service providers to be open and transparent, with all parties working together in a collaborative manner at the same time as the Board exercising oversight and challenge (further information can be found on pages 9 and 10 describing the Key Performance Indicators). The Board believes that effective risk management contributes to the safeguarding of shareholder value and successful operation of the Company and therefore assesses and manages, where possible or appropriate, the risks faced by the Company.

The Company and Investment Manager are seeking to promote an investor base that is interested in a long-term holding in the

**Strategic Report**

Company. The Board, through the Company's broker and the Investment Manager, maintains regular contact with shareholders and it would normally encourage shareholders to attend the Annual General Meeting. The Chair of the Board's committees would also normally attend the AGM, to engage with shareholders on significant matters related to their areas of responsibility. However due to the restrictions on public gatherings at the time of the Company's AGM in May 2020, shareholders were not able to attend. Instead, the Board wrote to shareholders directly in March, and again through the Chairman's Statement in the interim report, inviting questions from shareholders directly to the Chairman and Investment Manager. Presentations and press articles with the investment manager were made available through the Company's website.

Unfortunately as Government restrictions due to the COVID-19 pandemic remain in force, shareholders will again not be able to attend in person the forthcoming 2021 AGM. In order for shareholders to participate in future general meetings should physical restrictions be in place, the Board will propose at the forthcoming AGM, a resolution to amend the Company's Articles of Association to allow shareholders to participate and engage with the Board and Investment Manager through virtual technology.

The Investment Manager's presentation will be recorded separately and will be available through the Company's website ([www.smithson.co.uk](http://www.smithson.co.uk)). A dedicated email address ([SmithsonAGM@fundsmith.co.uk](mailto:SmithsonAGM@fundsmith.co.uk)) is available for shareholders to submit any questions they may have been planning to raise at the AGM. To the extent questions are not covered in Simon Barnard's presentation, the Directors or Investment Manager will respond to any enquiries sent to this address.

The Directors welcome the views of all shareholders and place considerable importance on maintaining open dialogue with them. Shareholders wishing to contact the Chairman, or any other member of the Board, may do so at anytime by writing to the company secretary. Alternatively, the Chairman can be emailed at the following address: [smithsonchairman@fundsmith.co.uk](mailto:smithsonchairman@fundsmith.co.uk).

Shareholder feedback is discussed extensively in Board meetings with the broker and Investment Manager and the Board is pleased that the feedback received remained positive throughout the period. The Company's shareholder engagement strategy and details of shareholder communications can be found on pages 36 and 37.

**Investment Manager**

As explained above, the Company's business model is such that it has no employees and relies on services provided by third party service providers to manage the Company's operations. The Investment Manager is the most significant service provider of the Company and a description of its role can be found on page 29.

The Board receives regular reports from the Investment Manager, discusses the portfolio at each Board meeting as well as maintaining a constructive dialogue between meetings. Additionally, the Board held a strategy session in November at which the Board and Investment Manager discussed in detail each constituent of the Company's portfolio of investments along with a review of the portfolio construction and risk mitigation and its economic exposure and duration. The Board and Investment Manager along with the broker also discussed at the strategy session global equity markets and the macro-economic backdrop in the context of the Company. A representative of the Investment Manager also attends each quarterly Board meeting and most ad hoc meetings. The Investment Manager's remuneration is based on the market capitalisation of the Company which aligns the manager's interests with those of shareholders. Furthermore, partners and employees of the Investment Manager are significantly invested in the Company as disclosed on page 71 of the financial statements; further aligning the Investment Manager's interests with those of the shareholders. The Investment Manager has paid costs of £5.1 million in respect of the Company's IPO and the Placing Programme prospectus issued during the year. This means that shareholder's investment was not discounted by the cost of the IPO and that the Company only gains from its ordinary share issues during the year, as prospectus costs were met. This is unusual for investment trusts and is a testament to the relationship which the Company enjoys with its Investment Manager.

The Management Engagement Committee reviews the performance of the Investment Manager, its remuneration and the discharge of its contractual obligations at least annually.

**Other key service providers**

In ensuring the smooth operation of the Company, the Board also monitors the performance of other key service providers such as the fund administrator, depositary and custodian (please see the work of the Management Engagement Committee on pages 42 and 43) and maintains regular contact through direct reports at Board

**Strategic Report**

meetings or through the company secretary and by hosting annual service provider presentations where the Board meets directly with service providers to ensure there is open dialogue and a good relationship management at the board level. This year the Board met directly with the administrator, depositary and registrar. Additionally, in view of the operational challenges and restrictions caused by the COVID-19 pandemic, the Board received (and continues to receive) regular updates and assurance on the operational effectiveness of its key service providers, taking this feedback into consideration when assessing the Company's risks. The Board was pleased to note there was no significant impact to the Company and its service providers continued to operate effectively.

In maintaining the Company's reputation and high standards of business conduct, the Board is provided with regular reports from the Company's broker and company secretary who alert the Board to recent changes in regulation and market practice, as well as any likely reputational threats which, in turn, influence the Board's decision making process. The Company's corporate values, established to manage its business relationship with its stakeholders, can be found on page 24 and the Company's approach on anti-bribery and prevention of tax evasion can be found on page 27 and on the Company's website at [www.smithson.co.uk](http://www.smithson.co.uk). The Board also seeks assurance of high standards from its service providers as regards governance including whistleblowing, tax evasion, and bribery as part of its service provider annual review. The Board also periodically reviews the market rates for services provided, to ensure that the Company continues to receive high quality service at a competitive cost.

**Investee companies**

As an investment trust with no trading activity, the Company has no direct social, community or environment responsibilities. However, the Company does have such responsibilities through its investment portfolio. The Company is a long-term investor (please see Owner's Manual at the Company's website at [www.smithson.co.uk](http://www.smithson.co.uk)) and the Investment Manager approaches Environmental, Social and Governance ('ESG') matters in the widest possible sense, taking into account all of the factors that may impact a business's potential to generate sustainably high returns for the long term. Assessing ESG factors is an integral part of the Investment Manager's investment approach as it is key to identifying whether an investment will generate value in the longer term. The Investment Manager's Review gives examples of the Investment Manager's engagement

with investee companies and consideration of ESG matters, which are discussed with the Board at its quarterly meetings.

The Investment Manager is a signatory of the United Nations Principles for Responsible Investment. In the absence of explicit instructions from the Board, the Investment Manager has the right to exercise discretion in the use of the Company's voting rights. All shareholdings are voted at all listed company meetings worldwide where practicable in accordance with the Investment Manager's own corporate governance policies.

**Conclusion**

The Board is mindful of the directors' duties as described by section 172 of the Companies Act 2006 in considering the interests of stakeholders when deliberating all important decisions.

**Dividend Policy**

The Company's intention is to look for overall return rather than seeking any particular level of dividend. The Company will comply with the investment trust rules regarding distributable income which states that 85% of recognised income be distributed to shareholders, but does not expect significant income from the shares in which it invests.

Any dividends and distributions will be at the discretion of the Board. Subject to the Companies Act, the Company may, by ordinary resolution, declare a final dividend to be paid to members of the Company according to their rights and interests in the profits of the Company available for distribution, but no dividend shall be declared in excess of the amount recommended by the Board. The Company does not intend to pay any interim dividends.

Were the Company to be in a position to pay a dividend, then it may, subject to complying with all relevant criteria and with the approval of the shareholders by ordinary resolution, choose to offer shareholders a scrip dividend alternative or may establish a scrip dividend scheme that would allow shareholders to receive ordinary shares instead of a cash dividend.

**Environmental Matters**

The Company is an investment company. As such, it does not have any physical assets, property, employees or operations of its own. The Company does not provide goods or services in the normal course of its business and nor does it have customers. In consequence, the Company has no greenhouse gas emissions to

**Strategic Report**

report from its operations, nor does it have responsibility for any other sources of emissions under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 or the Companies (Directors' Report) and Limited Liability Partnership (Energy and Carbon Report) Regulations 2018. The Investment Manager evaluates environmental matters concerning investee companies as summarised in the Investment Manager's Review.

**Exercise of Voting Powers and Stewardship Code**

The Company and the Investment Manager support the UK Stewardship Code issued by the Financial Reporting Council. Voting on investee company shareholder resolutions is undertaken by an in-house team of the Investment Manager. A copy of Fundsmith's Stewardship Policy, its Proxy Voting Policy and a report on its voting at investee shareholder meetings in 2019 and the first half of 2020 can be found on the Company's website at [www.smithson.co.uk](http://www.smithson.co.uk).

**Modern Slavery Disclosure**

Due to the nature of the Company's business, being a company that does not offer goods or services to customers, the Board considers there are no relevant disclosures with regard to the Modern Slavery Act 2015 in relation to the Company's own operations. The Board considers the Company's supply chains, dealing predominately with professional advisers and service providers in the financial services industry, to be low risk in this regard.

**Anti-bribery and Corruption**

The Company takes a zero-tolerance approach to bribery and corruption and is committed to acting professionally, fairly and with integrity in all its business dealings and relationships wherever it operates. The Company's policy and the procedures that implement it are designed to support that commitment. A summary of the Company's anti-bribery and corruption policy can be found on the Company's website at [www.smithson.co.uk](http://www.smithson.co.uk).

**Prevention of the Facilitation of Tax Evasion**

In response to the Criminal Finances Act 2017, the Board has adopted a zero-tolerance approach to the criminal facilitation of tax evasion. A summary of the Company's policy can be found on the Company's website at [www.smithson.co.uk](http://www.smithson.co.uk).

**Employees, Human Rights and Community Issues**

The Board recognises the requirement to provide information about employees, human rights and community issues. As the Company

has no employees, all its Directors are non-executive and all its functions are outsourced, there are no disclosures to be made in respect of employees, human rights and community issues. As at 31 December 2020 the Company had three Directors, of whom two are male and one is female. The Board's policy on diversity is contained in the Corporate Governance Report (see pages 34 and 35).

**Strategic Report**

The Strategic Report set out on pages 2 to 27 of this Annual Report was approved by the Board of Directors on 15 March 2021.

On behalf of the Board

**Mark Pacitti**

Chairman

15 March 2021

**Governance Report**

**Board of Directors**

The directors who held office during the period were:

**Mark Pacitti**

(Chairman)

Mark qualified as a chartered accountant in 1986 with Ernst & Young and thereafter undertook a wide range of corporate finance roles, including investment banking and a three-year period in industry. He went on to specialise in corporate finance advisory work and became a partner in Deloitte in 1999. Over the course of his 35-year career, including ten as Deloitte London partner in charge, and five as global leader, both within corporate finance advisory, Mark has advised on more than 150 deals. He has typically helped to guide middle-market transaction and investment strategies for private/private equity backed businesses and major corporates to drive shareholder value. He served as chairman of the ICAEW's corporate finance faculty from 2015 to 2018 and is currently chairman of the board of Arran Aromatics Limited, a portfolio company of Endless LLP, a private equity investor.

**Diana Dyer Bartlett**

(Audit Committee Chairman)

After qualifying as a chartered accountant with Deloitte Haskins & Sells, Diana spent five years in investment banking with Hill Samuel Bank. Since then, she has held a number of roles as finance director of various venture capital and private equity backed businesses and listed companies involved in software, financial services, renewable energy and coal mining. She was also company secretary of Tullett Prebon plc and Collins Stewart Tullett plc. Diana is currently a non-executive director and Chairman of the Audit Committee of SmartSpace Software plc, Mid Wynd International Investment Trust plc and Schroder British Opportunities Trust plc.

**Lord St John of Bletso**

(Management Engagement Committee Chairman)

Lord St John has been an active Member of the House of Lords since 1978. He serves as non-executive Chairman of Strand Hanson Ltd, Integrated Diagnostics Holdings Plc and Yellow Cake plc. He also serves as a non-executive director of Falcon Group and Empati Ltd. He has advisory roles with GeoBear Engineering, Bell Technologies, Betway, 17Arm and Wet Holdings. He worked for almost 20 years in the City with Natwest Securities, Smith New Court and Merrill Lynch. He qualified and practised as a lawyer in South Africa after graduating with BA, BSocSc, BProc and LLM degrees. He serves as extra Lord in Waiting to HRH the Queen.

All of the directors were appointed on 14 September 2018 and are members of the Audit Committee and Management Engagement Committee.

**Governance Report**

The Directors present their report on the affairs of the Company, together with the audited financial statements and the Independent Auditor's Report for the year to 31 December 2020. The Corporate Governance Report on pages 34 to 37 forms part of this report. Disclosures relating to performance, future developments and viability and risk management can be found in the Strategic Report on pages 2 to 27 and are incorporated in this report by reference.

**Legal and Taxation Status**

The Company is registered as a public limited company in England and Wales (Registered Number 11517636) and is an investment company within the terms of Section 833 of the Companies Act 2006 (the "Act"). Its shares are listed on the premium segment of the Official List and traded on the main market of the London Stock Exchange. The Company has applied for and been accepted as an approved investment trust under sections 1158 and 1159 of the Corporation Tax Act 2010 and Part 2 Chapter 1 of Statutory Instrument 2011/2999. The Directors are of the opinion that the Company has conducted its affairs so as to be able to retain such approval.

**Investment Management**

The Company's investments are managed by Fundsmith LLP. Simon Barnard and Will Morgan are the day-to-day fund managers and Terry Smith oversees their activities as Chief Investment Officer. Fundsmith's services are provided pursuant to an agreement entered into on 17 September 2018 and include, amongst other things, advising on how monies are invested or divested, how rights conferred by the investments should be exercised, how income should be collected and on market trends etc. The Investment Manager fulfils the regulatory role of AIFM.

The Investment Manager is entitled to receive a fee from the Company which is an amount equal to 1/365 multiplied by 0.9% of the market capitalisation of the Company accruing daily, but payable monthly in arrears. The Investment Management Agreement has a minimum term of four years and may be terminated by either party on twelve months' notice with such notice not to be served before the date which is three years from the date of the Company's Initial Public Offering.

The Management Engagement Committee has reviewed the continuing appointment of the Investment Manager. Further details

of the review and conclusions are provided at the Management Engagement Committee Report at pages 42 to 43.

**Fund Administration, Depositary and Custody**

Responsibility for the Company's fund administration, cash monitoring and processing transactions of the Company's investments is with Northern Trust Global Services and safeguarding the Company's assets is the responsibility of Northern Trust Global Services SE both of whom were appointed on 17 September 2018. As a result of UK regulatory changes brought about by the UK's decision to leave the EU, depositary services will transfer from Northern Trust Global Services SE by 30 June 2021 to Northern Trust Investor Services Limited, a UK incorporated entity established by the Northern Trust Company to provide depositary services to UK companies. The Depositary provides the following services:

- safekeeping and custody of the Company's custodial investments and cash;
- processing of transactions and foreign exchange services;
- taking reasonable care to ensure that the Company is managed in accordance with the AIFMD, the FUND sourcebook and the Company's articles of association in relation to the net asset value per share and the application of income of the Company; and
- monitoring the Company's compliance with investment restrictions and leverage limits set in its offering documents.

Northern Trust is entitled to receive fees in respect of its services as follows:

Depositary, up to and including the 31 December 2020, an annual fee of the higher of (i) £25,000; or (ii) an amount equivalent to 0.015% of the net assets of the Company. From 1 January 2021, a revision of the annual fee has been agreed, whereby Northern Trust will be entitled to an amount equivalent to 0.008% of the net assets of the Company. The Depositary is entitled to a variable custody fee which depends on the type and location of the custodial assets of the Company. Variable transaction charges are also chargeable. The contract may be terminated by either party on 90 days' notice. Annual fees are subject to VAT at the applicable rate.

**Governance Report**

Administrator, up to and including the 31 December 2020, an annual fee equivalent to 0.03% where the Net Asset Value of the Company is less than or equal to £500 million and 0.02% where the Net Asset Value of the Company exceeds £500 million. From 1 January 2021, a revision of the annual fee has been agreed, whereby Northern Trust will be entitled to an annual fee equivalent to 0.02% where the Net Asset Value of the Company is less than or equal to £1 billion, 0.01% where the Net Asset Value of the Company exceeds £1 billion and is less than £2 billion, and 0.005% where the Net Asset Value of the Company exceeds £2 billion. The contract may be terminated by either party on 180 days' notice. Annual fees are subject to VAT at the applicable rate.

**Results and Dividends**

The Company reported a total return after tax for the year of £496.5 million (2019: £238.1 million), comprising a capital return of £499.4 million (2019: £237.9 million) and a revenue loss of £2.9 million (2019: revenue return of £0.26 million). The Directors did not pay an interim dividend and are not proposing a final dividend for the period ended 31 December 2020.

This is consistent with the Company's policy of focusing on long term capital growth and only declaring dividends to the extent required to maintain the Company's tax status as an investment trust.

**Going Concern**

The Directors have adopted the going concern basis in preparing the financial statements. The following is a summary of the Directors' assessment of the going concern status of the Company, which included consideration of the risks and impact of the COVID-19 pandemic, and which should be read in conjunction with the Viability Statement on page 23.

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 document. 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. The Company's net assets at 31 December 2020 were £2,332 million (2019: £1,437 million). As at 31 December 2020, the Company held £2,280 million in listed investments (2019: £1,406 million) and had cash of £50.0 million (2019: £31.6 million). The Company has no borrowings. The Company

had dividend income net of withholding taxes of £14.6 million in the year to 31 December 2020 (2019: £14.1 million). The total operating expenses for the year ended 31 December 2020 were £17.5 million (2019: £13.9 million). Therefore, at the date of approval of this document, based on the aggregate of investments and cash held, the Company has substantial operating expenses cover.

**Leverage**

For the purposes of the Alternative Investment Fund Managers (AIFM) Directive, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. Further information is available in the Investor Disclosure Document on the Company's website at [www.smithson.co.uk](http://www.smithson.co.uk). The Company did not employ any leverage during the year ended 31 December 2020.

**Financial Instruments**

The Company's financial instruments comprise its investment portfolio, cash balances and debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. The financial risk management objectives and policies arising from its financial instruments and the exposure of the Company to risk are disclosed in note 15 to the financial statements and the Company's hedging policy on page 8.

**Directors' Indemnities and Directors' and Officers' Liability Insurance**

The Directors and officers of the Company are entitled to be indemnified against all losses and liabilities which they may sustain in the execution of the duties of their office, except to the extent that such an indemnity is not permitted by sections 232 or 234 of the Companies Act. Subject to sections 205(2) to (4) of the Companies Act, the Company may provide a Director with funds to meet their expenditure in defending any civil or criminal proceedings brought or threatened against them in relation to the Company. The Company may also provide a Director with funds to meet expenditure incurred in connection with proceedings brought by a regulatory authority.

The Company's Directors are covered by Directors' and Officers' Liability insurance.

**Governance Report**

**Investment Manager's Interests**

As at 31 December 2020, Terry Smith and other founder partners and key employees of the Investment Manager directly or indirectly and in aggregate, held 2.2% (2019: 2.6%) of the issued share capital of the Company.

**Significant Interests**

As at the year end and at the date of this report, the following investors had declared a notifiable interest in the Company's voting rights:

	31 December 2020		12 March 2021	
	No of shares	% of issued share capital	No of shares	% of issued share capital
Brewin Dolphin Limited	7,041,512	4.98%	7,041,512	4.67%
Rathbones*	5,739,467	4.06%	5,739,467	3.81%

\* Rathbone Investment Management Ltd and Rathbone Investment Management International Ltd

**Share Capital and Voting Rights**

As at 12 March 2021 (the latest practical date before publication of the Annual Report) the Company's share capital comprises 150,552,958 ordinary shares.

The holders of the ordinary shares are entitled to receive, and to participate in, any dividends declared in relation to the ordinary shares. On a winding-up or a return of capital by the Company, the holders of ordinary shares are entitled to all of the Company's remaining net assets after satisfaction of the Company's liabilities.

The ordinary shares carry the right to receive notice of, attend and vote at general meetings of the Company. The consent of the holders of ordinary shares is required for the variation of any rights attached to the ordinary shares. Holders of ordinary shares have one vote per share held.

There are no restrictions concerning the transfer of securities in the Company, no special rights with regard to control attached to securities, no restrictions on voting rights, and no agreements between holders of securities regarding their transfer which are known to the Company.

The Board is not aware of any significant agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid, nor any agreements with the Company and its Directors for compensation for loss of office that occurs because of a takeover bid.

During the year, the Company issued 26.9 million ordinary shares at an average price of £14.87, raising net proceeds of £398 million. The average premium to the prevailing net asset value at which these new shares were issued was 2.9%. For more details, please see the Statement of Changes in Equity on page 57 of the financial statements.

In the period from 31 December 2020 to 12 March 2021, (the latest practicable date before publication of the Annual Report), a further 9,132,000 ordinary shares have been issued raising aggregate net proceeds of £150.6 million. The average price at which these new shares were issued was £16.57.

**Charitable and Political Donations**

There were no charitable or political donations made during the year to 31 December 2020 (2019: nil).

**Board Appointments, Re-election and Removal**

All appointments to the Board and re-elections of Directors and removals of Board members are carried out in accordance with the Companies Act and the Company's Articles of Association. In accordance with best practice and developing Corporate Governance, Directors stand for re-election on an annual basis.

**Annual General Meeting**

The Company's Annual General Meeting ("AGM") will be held at 1.00 p.m. on 28 April 2021 at Ketton House, Rectory Road, Kedington, Suffolk, CB9 7QL, UK. The Notice of AGM will be sent to all shareholders entitled to receive such notice. As a result of the COVID-19 pandemic and associated Government guidance, including the rules on physical distancing and limitations on public gatherings, physical attendance at the AGM will not be possible. Arrangements will be made by the Company to ensure that a minimum number of shareholders required to form a quorum will attend the AGM in order that the meeting may proceed. Only members on the register of members of the Company as at close

**Governance Report**

of business on 26 April 2021 (or two days before any adjourned meeting, excluding non-business days) will be entitled to vote at the AGM. Given shareholders and third parties will be unable to attend the AGM in person, shareholders are strongly encouraged to appoint the Chairman of the AGM as their proxy to vote on their behalf. Any proxy must be lodged with the Company's registrars or submitted to CREST by 26 April 2021 at 1.00 p.m. or at least 48 hours, excluding non-business days, before any adjourned meeting.

The Board would normally invite the Investment Manager, Simon Barnard, to give a presentation at the AGM. In light of the proposed arrangements for the holding of this year's AGM, the presentation will be recorded separately and will be available through the Company's website ([www.smithson.co.uk](http://www.smithson.co.uk)). A dedicated email address ([SmithsonAGM@fundsmith.co.uk](mailto:SmithsonAGM@fundsmith.co.uk)) is available for shareholders to submit any questions they may have been planning to raise at the AGM. To the extent questions are not covered in Simon Barnard's presentation, the Directors or Investment Manager will respond to any enquiries sent to this address.

Special resolutions dealing with the allotment of shares, the disapplication of pre-emption rights, the repurchase of shares, amendment to the Articles of Association and to convene general meetings other than annual general meetings on no less than 14 days' notice will be put to the AGM.

**Authority to issue shares**

At the Annual General Meeting held on 30 March 2020, the Board was granted authority to issue a total of up to 40 million ordinary shares via a Placing Programme and an additional 23,653,190 Ordinary shares via a share issue programme (being 20% of the ordinary shares in issue at the date of the 2020 Notice of AGM), both without pre-emption rights. The authority granted under the Placing Programme expires on 31 March 2021 and the authorities granted under the share issue programme expire at the 2021 AGM. During the year under review a total of 26.9 million ordinary shares were issued and a further 9,132,000 ordinary shares were issued since year end and up to 12 March 2021 (the latest practicable date before publication of the Notice of Meeting). The Board intends to seek authority to issue without pre-emption rights, up to a further 20% of its issued share capital as at 12 March 2021 (the latest practicable date before publication of the Notice of Meeting) at the forthcoming Annual General Meeting. Shares will only be issued at a premium to the then prevailing net asset value.

**Authority to Buy back shares**

The Board was granted authority at the 2020 Annual General Meeting, to buy back up to 17,728,067 ordinary shares, representing 14.99% of the ordinary shares in issue as at the date of the 2020 AGM Notice of Meeting. No ordinary shares were bought back during the year to 31 December 2020 and since the year end up to the date of this report. However, the Board recommends that a new authority to purchase up to 22,567,888 ordinary shares which represents 14.99% of the ordinary shares in issue at 12 March 2021 (the latest practicable date before publication of the Notice of Meeting) be granted and a resolution to that effect will be put to the AGM. Any ordinary shares purchased will either be cancelled or, if the Directors so determine, held in treasury. Shares will only be bought back at a discount to the then prevailing net asset value.

**Articles of Association**

Articles of Association can only be amended via Special Resolution at a General or Annual General Meeting of shareholders. A resolution will be proposed at the forthcoming Annual General Meeting to amend the Articles of Association to permit General Meetings to be held either as a physical meeting or as a "hybrid meeting". A hybrid meeting is held and conducted by both physical attendance by members and/or proxies at a particular place and by members and/or proxies also being able to attend and participate by electronic means without needing to be in physical attendance at that place. The amendments are being sought in response to challenges posed by Government restrictions on social interactions as a result of the COVID-19 pandemic, which have made it difficult for shareholders to attend physical general meetings. The Board's aim in introducing these changes is to make it easier for shareholders to participate in general meetings through employing virtual technology for future meetings as the Directors may deem appropriate.

**General meetings**

The Board seeks shareholder approval for the Company to hold General Meetings (other than the Annual General Meeting) at 14 clear days' notice. The Company will only use this shorter notice period where it is merited by the purpose of the meeting.

The Board considers that all the resolutions put forward at the AGM are in the best interests of the shareholders as a whole. Accordingly, the Board unanimously recommends to the shareholders that they vote in favour of the resolutions to be proposed at the forthcoming

**Governance Report**

AGM as the Directors intend to do in respect of their own beneficial holdings. The explanatory notes to the Notice of AGM describe each resolution and explain the reasons for the Board's recommendation.

**Information to be disclosed in accordance with Listing Rule 9.8.4**

Listing Rule ("LR") 9.8.4 requires the Company to include certain information in a single identifiable section of the Annual Report or a cross reference table indicating where the information is set out. The Directors confirm that there are no disclosures to be made in this regard, other than in accordance with LR 9.8.4(7), details of the allotment of shares for cash, the information of which is detailed on page 67 under Share Capital.

**Events after the Reporting Period**

Since 31 December 2020 and up to 12 March 2021, (the latest practicable date before publication of the Annual Report), the Company has issued 9,132,000 Ordinary Shares raising net proceeds of £150.6 million.

With the withdrawal period for the United Kingdom exiting the European Union ending on 31 December 2020, the Board continued to monitor any resulting impact to the Company and as negotiations between both parties continue. No significant impact has been observed to date and as the Company's invests in global equities, the Board expects this to have limited impact on the Company's portfolio taken as a whole.

**Auditor Information**

Each of the Directors at the date of the approval of this report confirms that:

- (i) so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- (ii) the Director has taken all steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

In accordance with Section 489 of the Companies Act 2006, a resolution to re-appoint Deloitte LLP as the Company's auditor will be put forward at the forthcoming Annual General Meeting.

On behalf of the Board

**Mark Pacitti**

Chairman

15 March 2021

### Governance Report

The Corporate Governance Report forms part of the Report of the Directors.

The Listing Rules and the Disclosure Guidance and Transparency Rules of the UK Listing Authority require listed companies to disclose how they have applied the principles and complied with the provisions of the UK Corporate Governance Code, as issued by the Financial Reporting Council (“FRC”) in 2018 (“UK Code”). The UK Code can be viewed on the FRC’s website ([www.frc.org.uk](http://www.frc.org.uk)).

The Board has also considered the Principles and Provisions of the Association of Investment Companies Code of Corporate Governance, as issued in 2019 (“the AIC Code”). The AIC Code is available on the AIC website ([www.theaic.co.uk](http://www.theaic.co.uk)). It includes an explanation of how the AIC Code adapts the Principles and Provisions set out in the UK Code to make it relevant for investment companies.

The Financial Reporting Council which issues the UK Code, has confirmed that, by following the AIC Code, boards of investment companies will be meeting their obligations under LR 9.8.6 of the Listing Rules. The Board therefore considers that as an investment company, reporting against the Principles and Provisions of the AIC Code provides more relevant information to shareholders and meets its obligations under the UK Code and associated disclosure requirements under LR 9.8.6 of the Listing Rules.

The Board considers that the Company has complied with the recommendations of the AIC Code and the provisions contained within the UK Code throughout the year under review, except for the provisions relating to:

- the role of the chief executive;
- the appointment of a senior independent director;
- Remuneration and Nomination Committees;
- executive directors’ remuneration; and
- the need for an internal audit function.

As the Board is small in number, having just three Board members, the Board does not consider that it is necessary to appoint a senior independent director as the role can be performed by the Board as

a whole. Shareholders are invited to contact any of the Directors, if they have any concerns which they wish to raise. The Audit Committee Chairman is responsible for leading the performance review of the Chairman instead of a senior independent director and the Board as a whole is responsible for agreeing the succession plan for the Chairman. The UK Code additionally includes provisions relating to the role of the chief executive and the need for Remuneration and Nomination Committees and the need for an internal audit function. The Board considers these provisions are not relevant to the position of the Company, being an externally managed investment company with a small Board and no executive directors. The Company has therefore not reported further in respect of these provisions.

The Chair of the Board should not be a member of the Audit Committee per the UK Code. However, the AIC Code permits the Chair to be a member of, but not chair the Audit Committee if they were independent on appointment. The Chairman was independent on appointment, and in view of the size of the Board, the Directors feel it is appropriate for the Chairman to be a member of the Audit Committee.

### The Board

The Board comprises three Directors, all of whom are non-executive. The Board has overall responsibility for the effective stewardship for the Company’s affairs. Its primary responsibility is to promote the long-term sustainable success of the Company, generate value for shareholders and have regard to stakeholder interests. It also establishes the Company’s purpose, values and strategy, and satisfies itself that these and its culture are aligned. It has a number of matters formally reserved for its approval including strategy, investment policy, gearing, treasury matters, dividend and corporate governance policy. The Board also approves the financial statements, revenue budgets and reviews the performance of the Company. A copy of the matters reserved to the Board is available from the company secretary or on the Company’s website at [www.smithson.co.uk](http://www.smithson.co.uk). Full and timely information is provided to the Board to enable the Board to function effectively and to allow Directors to discharge their responsibilities.

The Board considers the balance of skills, knowledge, diversity (including gender) and experience, amongst other factors when reviewing its composition and appointing new Directors. The Board

**Governance Report**

has considered the recommendations of the McGregor-Smith and the Hampton-Alexander reviews as well as the Parker review, but does not consider it appropriate to establish targets or quotas in these regards. The Board currently comprises three non-executive Directors of whom one is female. Summary biographical details of the Directors are set out on page 28. All of the Directors will offer themselves for election or re-election at each Annual General Meeting and explanations for why their appointment or continued appointment is appropriate is included in the explanatory notes to the Notice of Annual General Meeting.

The Board appraises its collective set of cognitive and personal strengths, performance, independence and diversity on an annual basis, so as to ensure it is aligned with the Company's strategic priorities. The Board is satisfied with its current composition.

All Directors have access to the advice of the company secretary, who is responsible for advising the Board on all governance matters. Both the appointment and removal of the company secretary is a matter for the whole board.

**Meeting Attendance**

The number of ordinary course scheduled Board and Committee meetings held during the year to 31 December 2020, and each Director's attendance, is shown below:

	Board	Audit Committee	Management Engagement Committee
Number of ordinary course meetings held	5	3	2
Mark Pacitti	5	3	2
Diana Dyer Bartlett	5	3	2
Lord St John of Bletso	5	3	2

In addition, Board and Committee ad-hoc meetings were held to deal with administrative matters and the formal approval of documents.

**Directors' Tenure and Performance Appraisal**

It is the Board's policy that all Directors, including the Chairman, will normally have their tenure limited to nine years from their first appointment to the Board, except when the Board may determine

otherwise if it is considered that the continued participation on the Board of an individual Director, or the Chairman, is in the best interests of the Company and its shareholders. This is also subject to the Director's re-election by shareholders at each Annual General Meeting.

All Directors were appointed on 14 September 2018. The Board has formulated a succession plan to promote regular refreshment and diversity, whilst maintaining stability and continuity of skills and knowledge on the Board.

Upon joining the Board, all Directors received an induction and relevant training is available to Directors on an ongoing basis.

A formal annual performance appraisal process is performed on the Board, the Committees, the individual Directors and the Company's main service providers. During the year, the Board commissioned an evaluation of its performance, effectiveness, processes and governance compared to best practice. This was conducted by external evaluation consultants, Fletcher Jones, who are independent of the Company and the Directors.

The evaluation was conducted through a programme of both open and closed-ended questions and personal interviews with each of the Directors. Feedback on the Board's effectiveness was also obtained from key service providers including the Investment Manager, company secretary and broker. The evaluation also considered the Board composition size and skillset and the Directors' performance including their roles in chairing committees. The evaluation of the discharge of the specific responsibilities of the committees was undertaken internally by the Board. The results of the evaluation were reviewed by the Chairman and discussed with the Board.

The conclusions of the performance evaluation were positive and demonstrated that the Directors were operating effectively and showed the necessary commitment to the effective fulfilment of their duties. The Board also considered the evaluation conclusions on the composition of the Board, which have been added to its succession planning discussions. As each of the Directors' maximum recommended tenure would be expected to end at the same time, the Board's succession plan seeks to address this with planned appointments and retirement dates that offer continuity and stability. New appointments will take into consideration the evaluation recommendations on desirable knowledge and skillsets.

**Governance Report**

Based upon the conclusions of the appraisal on Directors' performance and effectiveness, the Board recommends that each of the Directors should be re-elected as a Director at the forthcoming AGM. Furthermore, the Board is satisfied, having considered each Director's experience and the nature of, and anticipated demands on their time by their other business commitments including other investment trusts, that each Director is able to commit the time required to fulfil their responsibilities as a Director of the Company.

**Directors' Independence**

The Board consists of three non-executive Directors, each of whom is independent of the Investment Manager. No member of the Board is a Director of another investment company managed by the Investment Manager. Accordingly, the Board considers that all the Directors are independent and there are no relationships or circumstances which are likely to affect or could appear to affect their judgement. The Board has additionally adopted a conflicts of interest policy. Any new external appointments are approved by the Board before they are accepted, having regard to potential conflicts of interest and the time commitment involved.

**Role of the Chair**

The Chair's main role is to lead the Board. In doing so, the Chair promotes high standards of governance, ensures the Directors are provided with sufficient and timely information so that they are able to discharge their duties, allows each Board member's views to be considered and ensures appropriate action is taken. Additionally, the Chair's role includes ensuring that each Committee has the support required to fulfil its duties, overseeing the Board's effectiveness reviews and the induction and development of Directors. The Chair is required to remain independent of the Investment Manager, whilst providing effective support, challenge and advice to the Investment Manager. Through direct contact or through the Company's broker and Investment Manager, the Chair receives the views of shareholders and also ensures that the Board as a whole has a clear understanding of these.

**Role of Committees**

**Audit Committee**

The Board has established an Audit Committee which is chaired by Diana Dyer Bartlett and consists of all the Directors. As the Chairman was independent on appointment, he is entitled to be a member of the Audit Committee under the AIC Code. A report of the Audit Committee is included in this Annual Report and sets out the role and responsibilities of the Audit Committee. The Board considers that the members of the Audit Committee have the requisite skills and experience to fulfil the responsibilities of the Audit Committee.

**Management Engagement Committee**

The Board has established a Management Engagement Committee which is chaired by Lord St John of Bletso and consists of all the Directors. A report of the Management Engagement Committee is included in this Annual Report and sets out the role and responsibilities of the Management Engagement Committee.

**Nomination Committee and Remuneration Committee**

The Board as a whole fulfils the function of the Nomination Committee and the Remuneration Committee. The Board considers its size to be such that it would be unnecessarily burdensome to establish a separate Nomination Committee. As there are no executive directors, there is no need for a Remuneration Committee.

The terms of reference of each committee can be found on the Company's website at [www.smithson.co.uk](http://www.smithson.co.uk).

**Shareholder Relations**

Representatives of the Investment Manager regularly meet with institutional shareholders and private client wealth managers to present the Company's financial reports and understand shareholders' views. Reports from the Company's broker are submitted to the Board on shareholder feedback and industry issues. An analysis of the shareholder register of the Company is also provided to the Directors at each Board meeting.

## Corporate Governance Report

### Governance Report

The Board supports the principle that the AGM be used to communicate with private investors. However, as per the Chairman's Statement, the Board has reluctantly concluded that it is not possible for shareholders to attend the forthcoming AGM in person. Nevertheless, a presentation by the Investment Manager, Simon Barnard, on the Company's performance and recent market developments will be recorded separately and will be available through the Company's website at [www.smithson.co.uk](http://www.smithson.co.uk). A dedicated email address ([SmithsonAGM@fundsmith.co.uk](mailto:SmithsonAGM@fundsmith.co.uk)) is available for shareholders to submit any questions they may have been planning to raise at the AGM. To the extent that questions are not covered in Simon Barnard's presentation, the Directors or Investment Manager will respond to any enquiries sent to this address.

The Directors welcome the views of all shareholders and place considerable importance on communications with them. Shareholders wishing to communicate with the Chairman, or any other member of the Board, may do so by writing to the company secretary. Alternatively, the Chairman can be emailed at the following address: [smithsonchairman@fundsmith.co.uk](mailto:smithsonchairman@fundsmith.co.uk).

### Nominee Share Code

Where shares are held in a nominee company name, the Company undertakes:

- to provide the nominee company with multiple copies of shareholder communications upon request; and
- to allow investors holding shares through a nominee company to attend general meetings, provided the correct authority from the nominee company is available.

## Statement of Directors' Responsibilities

### Governance Report

The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements, International Accounting Standard 1 require that the Directors have:

- selected suitable accounting policies and then applied them consistently;
- made judgements and accounting estimates that are reasonable and prudent;
- presented information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provided additional disclosures when compliance with the specific requirements in IFRS were insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- prepared the financial statements on a going concern basis.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements are published on the Company's website ([www.smithson.co.uk](http://www.smithson.co.uk)). The Investment Manager has delegated authority for the maintenance and integrity of the website on behalf of the Company. The work carried out by the auditor does not involve consideration of the maintenance and integrity of the website and, accordingly, the auditor accepts no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that this Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Each of the Directors, who are listed on page 28 confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and net return of the Company for the year ended 31 December 2020; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board

**Mark Pacitti**  
Chairman

15 March 2021

## Audit Committee Report

### Governance Report

#### Statement from the Chairman

I am pleased to present the Audit Committee Report for the year ended 31 December 2020. The Committee met three times during this year and all three members attended each meeting. The Committee also met on 9 March 2021 to consider this Report. The Company's external auditor attended the meetings to agree the audit plan and to consider this Annual Report. The Investment Manager attends meetings by invitation of the Audit Committee, but the Audit Committee also met the external auditor without the Investment Manager at meetings held to approve the annual financial statements.

#### Composition

The Audit Committee comprises all the Directors whose biographies are set out on page 28. As the Chairman of the Board was independent on appointment and continues to be independent, under the AIC Code, he is entitled to be a member of the Committee. The Board is satisfied that the Committee as a whole has competence relevant to the sector in which the Company operates and the Committee considers that each member has recent and relevant financial experience. Diana Dyer Bartlett, who chairs the Committee, is a chartered accountant and is also audit committee chairman of three other public companies. Mark Pacitti is also a chartered accountant.

#### Responsibilities

The Committee's main responsibilities under its terms of reference are:

1. To review the Company's Interim and Annual Reports. In particular, the Committee considers whether the financial statements are fair, balanced and understandable, allowing shareholders to assess the Company's investment policy, position and performance, business model and strategy;
2. To review the risk management and internal control processes of the Company;
3. To recommend the re-appointment of Deloitte LLP as external auditor and agree the scope of its work and its remuneration, reviewing its independence and the effectiveness of the audit process;
4. To consider any non-audit work to be carried out by the auditor. The Audit Committee reviews the need for non-audit services to be performed by the auditor in accordance with the Company's non-audit services policy, and authorise such on a case by case basis having given consideration to the cost effectiveness of the services and the objectivity of the auditor;
5. To consider the need for an internal audit function; and
6. To review and challenge the assumptions and qualifications in respect of the Company's going concern and viability statements.

#### Meetings and Business

The Committee met three times during the year under review. The following matters were dealt with at those meetings:

##### Financial statements

The Committee has confirmed that, in its opinion, the Board can make the required statement that this Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. In making this assessment, the Committee had regard to guidance published by the Financial Reporting Council. The Committee assessed and agreed that transactions had been fairly disclosed, performance measures had been prepared on a consistent basis and were reflective of the business, there was adequate commentary on the Company's strengths and weaknesses and that this Annual Report, taken as a whole, is consistent with the Board's view of the operation of the Company. The Committee has given this confirmation on the basis of its review of the whole document, underpinned by involvement in the planning for its preparation and review of the processes to assure the accuracy of factual content.

##### Significant reporting matters

The Committee considered key accounting issues, matters and judgements in relation to the Company's financial statements and disclosures relating to:

### Governance Report

#### *Valuation and ownership of the Company's investments*

The Committee is responsible for reviewing procedures to confirm the valuation and existence of investments. Controls are in place to ensure that valuations are appropriate, and existence is verified through reconciliations undertaken by the Depositary. The Committee confirmed that the external auditor had reviewed the valuation assumptions in accordance with the new auditing standard with regard to material estimates.

#### *Recognition of revenue from investments*

The Committee took steps to gain an understanding of the processes in place to record investment income and transactions. The Committee sought confirmation that all dividends receivable have been accounted for correctly.

#### *Accounting policies*

The current accounting policies, as set out on pages 59 to 62, have been applied consistently throughout the period.

#### **Going concern and viability statements**

Having reviewed the Company's financial position, liabilities, principal risks and prospects, the Committee recommended to the Board that it was appropriate for the Board to prepare the financial statements on the going concern basis. Further detail is provided on page 30. It further formulated the Viability Statement set out on page 23 including the appropriate assessment period.

#### **Risk management and internal controls**

The Board has overall responsibility for the Company's risk management and systems of internal controls and for reviewing their effectiveness. In common with the majority of investment trusts, investment management, accounting, company secretarial and custodial services have been delegated to third parties.

The Board has delegated responsibility to the Audit Committee to advise on the assessment and management of principal risks as well as identification of emerging risks. The principal risks, risk mitigation and procedures to identify emerging risks are summarised in the Strategic Report. The Committee reviewed the Company's schedule of key risks twice during the period and adopted a risk appetite statement to summarise the Board's attitude to its principal risks and to identify when active Board engagement might be required outside the normal cycle of Board meetings. No significant control failings or weaknesses were identified in the Committee's most recent risk review and no modifications to the risk mitigation programme were recommended.

A review of the Company's anti-bribery and corruption policy and its policy for the prevention of the facilitation of tax evasion was carried out and changes made in order to ensure that they continued to be appropriate and reflective of best practice. The Committee recommended to the Board that both updated policies be adopted. It also confirmed that appropriate whistleblowing policies were in place at the Investment Manager and the other key service providers. The Board has adopted best practice of the AIC Code and responsibility for whistleblowing has been elevated to the Board level as well.

#### **Internal audit**

The Audit Committee has considered the need for an internal audit function and considers that this is not appropriate given the nature and circumstances of the Company. Separately, the Audit Committee considered whether there was merit in appointing a firm of accountants to undertake any internal audit reviews into the Company's policies and procedures. It concluded that this would not add any value on the basis that all the Company's operations had been outsourced to third parties and reports were received from such third parties regarding their processes and procedures. In relation to the Investment Manager, fund administrator and depositary, external audit reports were also received which confirmed that no issues had been identified with such third parties' procedures and internal controls. The Audit Committee keeps the need for an internal function under periodic review.

#### **External Auditor**

During the year, the nature and scope of the external audit together with Deloitte LLP's audit plan were considered by the Committee. Subsequent to the year end, the Committee also met with Deloitte LLP to review the outcome of the audit and the draft 2020 Annual Report.

In order to fulfil the Committee's responsibility regarding the independence of the auditor, the Committee considered:

- the senior audit personnel;
- the auditor's arrangements concerning any potential conflicts of interest;
- the extent of any non-audit services undertaken by the auditor on behalf of the Company; and

## Audit Committee Report

### Governance Report

- the statement by the auditor that they remain independent within the meaning of the regulations and their professional standards.

In its review of the effectiveness of the audit process, the Committee considered:

- the auditor's fulfilment of the agreed audit plan;
- the level and effectiveness of challenge provided by the auditor;
- the audit quality control arrangements, including the stages of review of the Annual Report, the time spent by the audit partner and whether any issues identified during the audit had been dealt with on a timely basis;
- the auditor's report on the FRC's Audit Quality Review issued in July 2020 (and confirmation that there were no significant developments since that time);
- the auditor's audit approach taking into account the new audit requirements in respect of material assumptions;
- the report arising from the audit itself; and
- feedback from the company secretary, the Investment Manager and the fund administrator on the conduct of the audit.

The Committee was satisfied with the auditor's independence and the effectiveness of the audit process, together with the degree of diligence and professional scepticism brought to bear and that the auditor provided effective independent challenge in carrying out its responsibilities.

The Committee confirms that the Company is in compliance with the requirements of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014. This order relates to the frequency and governance of tenders for the appointment of the external auditor and the setting of the policy on the provision of non-audit services.

#### Non-audit services

During the year, the Company's policy for the provision of non-audit services by the auditor was reviewed and aligned with the Revised Ethical Standards 2019 (the "Auditing Standards"). The Company's policy is that the provision of non-audit services by the auditor is permissible where no conflicts of interest arise, where the

independence of the auditor is not likely to be impinged by undertaking the work and the quality and the objectivity of both the non-audit work and audit work will not be compromised. There were no non-audit services undertaken by the Company's auditor during the year under review.

Details of the fees paid to the external auditor for audit services are set out in note 5 to the financial statements on page 63. The Audit Committee received representations from the external auditor concerning their independence and considered the external auditor to be independent.

#### Auditor re-appointment

The auditor to the Company is Deloitte LLP who were engaged on 24 July 2019. The current audit partner, Chris Hunter, has held the role since that date.

The Committee conducted a review of the performance of the auditor during the year and concluded that performance was satisfactory and that there were no grounds for change. It also reviewed the audit fee. In the planning meeting, the audit partner was asked how he would demonstrate his professional scepticism and was subsequently asked for a report in this regard at the meeting to approve the financial statements. The Audit Committee was satisfied that this responsibility had been discharged.

Deloitte LLP have indicated their willingness to continue to act as auditor to the Company for the forthcoming year and a resolution for their re-appointment will be proposed at the Annual General Meeting as well as a resolution to approve the auditor's remuneration.

#### Audit Committee Effectiveness

During the year the Audit Committee reviewed its effectiveness and concluded that it had discharged all its obligations as set out in the Audit Committee's terms of reference in an efficient and effective manner. The Audit Committee concluded that there were no changes required to its procedures.

#### Diana Dyer Bartlett

Chairman of the Audit Committee

15 March 2021

### Governance Report

#### Statement from the Chairman

I am pleased to present the Management Engagement Committee Report for the year ended 31 December 2020. The Management Engagement Committee met twice during the year and the attendance by each Director is shown in the table on page 35. The Committee also met on 9 March 2021 to consider this Report.

#### Composition

The Committee comprises all the Directors whose biographies are set out on page 28.

#### Responsibilities

The Committee's main responsibilities during the period were:

- to undertake an annual review of the compliance by the Investment Manager with the Company's investment policy as established by the Board and with the Investment Management Agreement entered into between the Company and the AIFM and the Investment Manager; and
- to undertake an annual review of the performance of the Investment Manager and any other key service providers to the Company other than the external auditor.

#### Investment Manager

The Company has appointed Fundsmith LLP as the Company's AIFM and Investment Manager.

Before the publication of this report, the Management Engagement Committee reviewed the performance of the Investment Manager and whether it had fulfilled the terms of the Investment Management Agreement and complied with the Company's investment policy. It also received a report and presentation from the Investment Manager's Compliance Officer regarding the Investment Manager's compliance processes.

The Committee agreed that the Investment Manager has the required skills and depth of experience to manage the Company's investments. The Committee also concluded that the performance of the Investment Manager was satisfactory, and that the continuing

appointment of the Investment Manager was in the best interests of shareholders. The Committee further noted that the Investment Manager had paid £5.1 million costs in respect of the IPO and the Placing Prospectus issued during the year. The Committee agreed that the existing fee arrangements and other contractual terms remained appropriate and further aligned the Investment Manager's interests with those of the Company's shareholders.

#### Other Key Service Providers

The Company's other key service providers are:

- Depositary and administrator (Northern Trust Global Services SE)
- Custodian (Northern Trust Company)
- Company secretary (PraxisIFM Fund Services (UK) Limited)
- Registrar (Link Group) and
- Broker (Investec Bank plc)

The Committee received feedback on the performance of these service providers by the Investment Manager and company secretary. The level of fees were reviewed and compared with fees charged to other Investment Trusts and across sectors, recommending where applicable their renegotiation. As a result, the Board has agreed revised depositary and administration fee rates effective 1 January 2021, reflecting the growth of the Company since launch. It also asked all its key service providers to complete questionnaires concerning their operations, internal controls, business continuity plans, policies and procedures and these questionnaires were reviewed by the Committee. The Committee also held meetings with representatives of the depositary, administrator and registrar and has in place an ongoing programme of meetings with key service providers.

Following the Committee's review and analysis, the Committee concluded that the performance of all the Company's current key service providers was satisfactory and that each be retained until the next review.

## Management Engagement Committee Report

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### Governance Report

#### **Management Engagement Committee Effectiveness**

During the year the Management Engagement Committee reviewed its effectiveness and concluded that it had discharged all its obligations as set out in the Management Engagement Committee's terms of reference in an efficient and effective manner. The Management Engagement Committee concluded that there were no changes required to its procedures.

#### **Lord St John of Bletso**

Chairman of the Management Engagement Committee

15 March 2021

### Governance Report

#### Statement from the Chairman

I am pleased to present the Directors' Remuneration Report to shareholders. The law requires the Company's auditor to audit certain disclosures provided in this report. Where disclosures have been audited, they are indicated as such and the auditor's opinion is included in its report to shareholders on pages 48 to 54.

All Directors are non-executive and do not have service contracts with the Company but are engaged under letters of appointment. The Directors' letters of appointment, and the terms and conditions within, are available for inspection on request at the Company's registered office.

The Board considers the framework for the remuneration of the Directors on an annual basis. It reviews the ongoing appropriateness of the Company's Remuneration Policy and the individual remuneration of Directors by reference to the activities of the Company and comparison with other companies of a similar structure and size.

As explained in the 2019 Annual Report, the Board stated that it intended to undertake an external evaluation of both its effectiveness and its remuneration. The Board appointed external remuneration consultants Fletcher Jones, who are independent of both the Company and the Directors, to conduct the remuneration evaluation. The review considered the remuneration of other similar investment companies and the wider investment trust landscape, along with the Company's size, profile and Directors' workload. The evaluation concluded that the Company's remuneration was considerably out of step with companies of a comparable size and structure and recommended that Directors' remuneration should be set at £30,000 for Board members, with an additional fee payable per annum of £15,000 to the Chair of the Board; £10,000 to the Chair of the Audit Committee; and £5,000 to the Chair of the Management Engagement Committee.

After consideration of the basis of the recommendations and comparative data, the Board resolved to adopt the recommendations of the remuneration evaluation with effect from 1 January 2021. Prior to this date, and as set at the time of the Company's initial listing in 2018, annual Directors' fees were paid at the rate of £30,000 per annum for the Chairman and £25,000 per annum for the other Directors with Directors who chaired a Board committee receiving an additional £2,000 per annum.

The Board believes that the level of increase and resulting fees more appropriately reflect prevailing market rates for an investment trust of the Company's size and profile as well as the increasing complexity of regulation and the resultant time spent by the Directors on Company matters, and will also enable the Company to attract appropriately experienced Directors in the future. Any new Director will be appointed on the same terms as other Board members with a similar role.

The total fees paid to the Directors for the year to 31 December 2020 are set out in the table below.

#### Directors' Remuneration Policy

Set out below is the Directors' Remuneration Policy which was approved by shareholders at the AGM held in 2020.

The Company's Remuneration Policy provides that fees payable to the Directors should reflect the value of the time spent by the Board on the Company's affairs and the responsibilities borne by the Directors and should be sufficient to enable candidates of high calibre to be recruited. Directors are remunerated in the form of fees payable monthly in arrears, paid to the Director personally. There are no long-term incentive schemes, share option schemes or pension arrangements and the fees are not specifically related to the Directors' performance, either individually or collectively. Directors' remuneration comprises solely Directors' fees. Additionally, there are no benefits in kind, however, Directors are authorised to claim reasonable expenses from the Company in relation to the performance of their duties such as expenses incurred in the course of travel to attend meetings and duties undertaken. Directors may also earn a pro rata day rate in connection with extraordinary corporate events or transactions requiring them to commit significant extra time to the Company. No additional day rates were charged in either 2019 or 2020. The Company does not have any employees.

Whilst the articles allow the Company to establish pension schemes and similar benefits for the Directors, no such scheme has been established or is intended to be established.

In accordance with statute, the Remuneration Policy will be considered by shareholders at the Annual General Meeting at least once every three years. The Remuneration Policy was approved by

## Directors' Remuneration Report

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### Governance Report

shareholders at the AGM held on 30 March 2020. Accordingly, an ordinary resolution for the approval of the Remuneration Policy will next be considered by shareholders at the Annual General Meeting in 2023. The provisions set out in the Remuneration Policy apply until they are next submitted for shareholder approval. In the event of any proposed material variation to the Remuneration Policy, shareholder approval will be sought for the proposed new policy prior to its implementation. The Remuneration Policy sets out the principles the Company follows in remunerating Directors and the result of the shareholder vote on the Remuneration Policy is binding on the Company.

### Current and Future Policy

Component	Director	Purpose of reward	Operation
Annual fee	All Directors	For services as non-executive Directors of a plc	Determined by the Board
Additional fee	Chair of the Board and Chair of each committee	For additional responsibility and time commitment	Determined by the Board
Expenses	All Directors	Reimbursement of expenses incurred in the performance of duties	Submission of appropriate supporting documentation

The way in which the Board implemented the Company's Remuneration Policy in the year ended 31 December 2020 is set out below.

### Single Total Figure of Remuneration

Date of appointment to the Board	(Audited) Fees for the year to 31 December 2020 (£)	(Audited) Fees from appointment on 18 September 2018 to 31 December 2019 (£) *	(Unaudited) % annualised change in Directors' fees **
Mark Pacitti (Chairman) 14 September 2018	30,000	38,769	0%
Diana Dyer Bartlett 14 September 2018	27,000	34,892	0%
Lord St John of Bletso 14 September 2018	27,000	34,892	0%
	<b>84,000</b>	<b>108,553</b>	

\* The fees paid in the period to 31 December 2019 are for the extended period from the Directors' appointment on the 18 September 2018. The per annum fee rate paid to each Director was unchanged between 18 September 2018 and 31 December 2020.

\*\* In accordance with The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, this column has been included to show the annual percentage change over the preceding financial year by comparison to the current financial year in respect of each Director that has served in their relevant role for a minimum of two financial years. The Board will publish this annual percentage change cumulatively each year going forward until there is an annual percentage change over the five financial years preceding the relevant financial year in accordance with the new regulation. These fees exclude taxable benefits which could vary substantially as they reflect expenses incurred whilst carrying out the board's duties.

No communications have been received from shareholders regarding Directors' remuneration. The remuneration for the non-executive Directors is within the limits set out in the Company's Articles of Association. The present limit is £250,000 in aggregate per annum.

### Directors' Fees and Expenses

The Directors, as at the date of this report, received the fees listed above. These exclude any employers' national insurance contributions. No other forms of remuneration were received by the Directors and so fees represent the total remuneration of each Director.

### Sums Paid to Third Parties (audited information)

None of the fees referred to in the above table were paid to any third party in respect of the services provided by any of the Directors.

**Governance Report**

**Loss of Office**

The Directors' letters of appointment specifically exclude any entitlement to compensation upon leaving office for whatever reason. Appointment as Director may, at the discretion of either party, be terminated upon three months' notice.

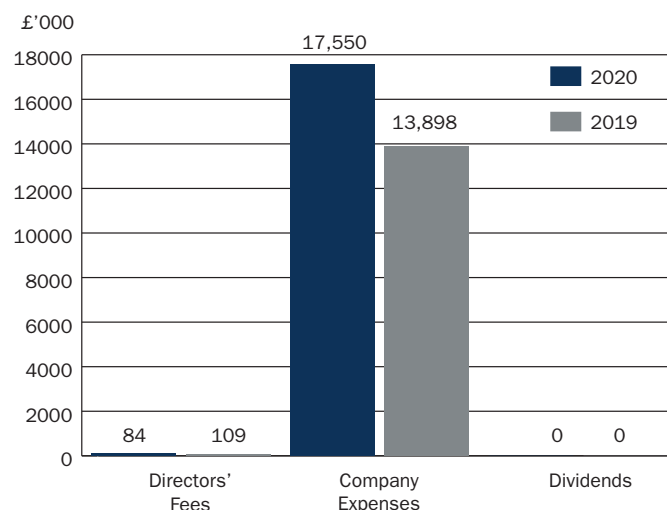
**Share Price Total Return**

A performance comparison is required to be presented in this report. The performance comparison is shown for the period since launch to 31 December 2020. The MSCI World SMID Index, on a net sterling adjusted basis, has been adopted by the Board as reference index against which the Company's performance has been measured for the period.



**Relative Cost of Directors' Remuneration**

The bar chart below shows the comparative cost of Directors' fees compared with Company expenses for the year ended 31 December 2020 and comparative for the period from the Company's incorporation on 14 August 2018 to 31 December 2019. During the year no dividends were paid and there were no buy backs of shares (2019: same).



**Directors' Interests in the Company's Shares as at 31 December 2020 (audited)**

The beneficial interests of the Directors of the Company (and their connected parties) at the year end and at the date of this report are set out below:

Director	No of ordinary shares	
	31 December 2020	31 December 2019
Mark Pacitti	20,000	20,000
Diana Dyer Bartlett	5,000	5,000
Lord St John of Bletso	10,000	10,000

No changes have been notified at the date of this report.

## Directors' Remuneration Report

### Governance Report

#### Shareholder Approval

An ordinary resolution for the approval of the Directors' Remuneration Report will be put to shareholders annually at the Company's Annual General Meeting. This vote is advisory only and not binding on the Company, nor does it affect the remuneration payable to any individual Director. However, it does give Shareholders the opportunity to inform the Board of their views on Directors' remuneration. Should the resolution fail to be approved in a year in which the Remuneration Policy was not put to a shareholder resolution, this will require the Company to put the Remuneration Policy to shareholders the following year.

The following table sets out the votes received at the last Annual General Meeting of shareholders, held on 30 March 2020, in respect of the approval of the Directors' Remuneration Policy and Directors' Remuneration Policy Implementation Report.

	In Favour/ Discretionary		Against		Withheld Total Votes
	Total Votes	%	Total Votes	%	
Directors' Remuneration Policy	32,640,708	99.94	18,618	0.06	12,159
Directors' Remuneration Policy Implementation Report	32,641,629	99.95	17,697	0.05	12,159

#### Statement

On behalf of the Board and in accordance with Part 2 of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, I confirm that this report summarises, as applicable, for the year to 31 December 2020:

- (i) the major decisions on Directors' remuneration;
- (ii) any substantial changes relating to Directors' remuneration made during the period; and
- (iii) the context in which the changes occurred and decisions have been taken.

This report on Directors' remuneration was approved by the Board on 15 March 2021 and signed on its behalf by the Chairman.

**Mark Pacitti**

Chairman

15 March 2021

## Report on the audit of the financial statements

### 1. Opinion

In our opinion the financial statements of Smithson Investment Trust plc (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the period then ended;
- have been properly prepared in accordance international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Statement of Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Changes in Equity;
- the Statement of Cash Flows; and
- the related notes 1 to 18.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRS as issued by the IASB.

### 2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### 3. Summary of our audit approach

#### Key audit matters

The key audit matter that we identified in the current year was:

- Valuation and ownership of listed investments

Within this report, key audit matters are identified as follows:

- Newly identified
- Increased level of risk
- Similar level of risk
- Decreased level of risk

#### Materiality

The materiality that we used in the current period was £23.3m, which was determined as 1% of net assets as at 31 December 2020.

#### Scoping

Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

#### Significant changes in our approach

There were no significant changes in our approach. We have assessed that the level of risk of valuation and ownership of listed investments remains consistent with the prior year.

**Financial Statements**

**4. Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining an understanding of relevant controls in place in preparing the revenue projections;
- Assessing liquidity and the ability of the Managers to trade in the investment portfolio (within the normal spreads) in order to cover operational expenditure as it falls due;
- Assessing management's revenue account projections for the subsequent 12 month period (from March 2021) for reasonableness;
- Assessing any other market altering factors such as Covid-19 by looking at the operational impact and business continuity plans; and
- Assessing the going concern disclosures included within the financial statements

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the company has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

**5. Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**5.1 Valuation and ownership of listed investments**

**Key audit matter description**

As an investment entity, the company holds investments of £2,280m as at 31 December 2020 (2019: £1,407m) which has increased by 38% from the prior year-end. These represent the most quantitatively significant financial statement line on the statement of financial position.

There is a risk that listed investments may not be valued correctly or may not represent the property of the company. This may result in a material misstatement within the investments held at fair value through profit or loss and also the fair value hierarchy for investments disclosures. Given the nature and size of the balance and its importance to the entity, we have considered that there is a potential risk of fraud in this area.

Investments are valued by a fund administrator on behalf of the company.

Refer to note 1f to the financial statements for the accounting policy on investments and details of the investments are disclosed in note 9 to the financial statements. The valuation and ownership of investment risk is included within the Audit Committee report on page 39.

Financial Statements

**How the scope of our audit responded to the key audit matter**

We performed the following procedures to address the valuation and ownership of investments key audit matter:

- We obtained an understanding over the controls at the funds administrator relating to valuation and ownership of investments by reviewing an assurance report over the fund administrator's controls, and obtained reconfirmation from the fund administrator that these controls were in effect during the year. We assessed the professional competence and independence of the auditor who provided the assurance report;
- We agreed 100% of the last traded prices of quoted investments on the schedule of investments at year-end to closing bid prices published by an independent pricing source and investigated total portfolio difference that is above the reporting threshold; and
- We confirmed the ownership of 100% of investments at the year-end date by obtaining independent third party confirmations directly from the custodian and investigated any differences in the holdings.

In addition, we performed the following procedures to address whether the investment portfolio was actively traded and designated with the correct fair value hierarchy:

- We identified investments that were not actively traded and considered indicators of impairment;
- We monitored the post year-end volume of trade data, the number of 'zero trade' days and also the bid-ask spreads on investment holdings that were not traded out within 10 business days from the year end; and
- We reviewed the completeness and appropriateness of disclosures in relation to fair value measurements and liquidity risk.

**Key observations**

Based on the work performed we concluded that the valuation of listed investments is appropriate and we did not identify differences in the investment holdings when agreeing the company's investment portfolio to the confirmation received directly from the custodian.

**6. Our application of materiality**

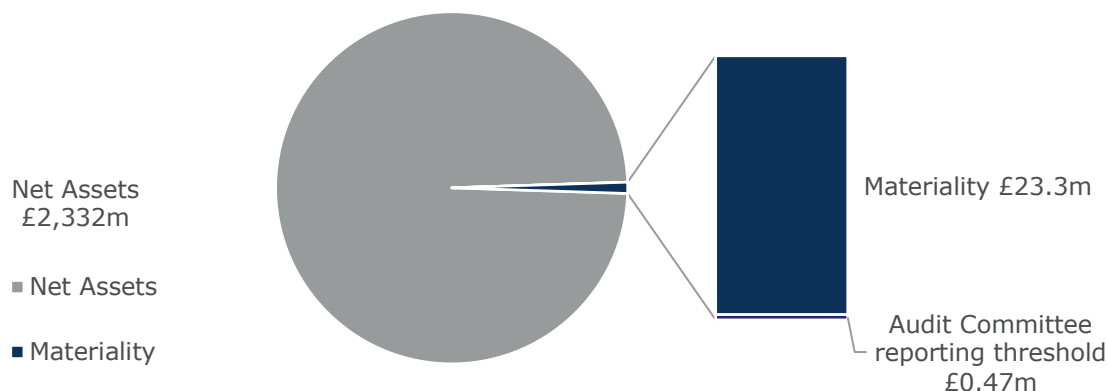
**6.1 Materiality**

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Materiality</b>	£23.3m (2019: £14.4m)
<b>Basis for determining materiality</b>	1% (2019: 1%) of net assets
<b>Rationale for the benchmark applied</b>	Net assets has been chosen as a benchmark as it shows the most relevant benchmark for investors and is a key driver of shareholder value. The increase in materiality year on year arose principally from the increase in the company's net assets.

**Financial Statements**



**6.2 Performance materiality**

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 65% of materiality for the 2020 audit (2019: 65%). In determining performance materiality, we considered the following factors:

- a. no significant changes in business structure and operations;
- b. our experience from previous audits has indicated a low number of corrected and uncorrected misstatements identified in prior periods; and
- c. in view of the uncertainty and volatility brought about by the Covid-19 pandemic, we maintained performance materiality at 65% even though this is now the second year of our appointment as auditor.

**6.3 Error reporting threshold**

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.47m (2019: £0.29m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

**7. An overview of the scope of our audit**

**7.1 Scoping**

Our audit was scoped by obtaining an understanding of the company and its environment, including internal control and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

**7.2 Our consideration of the control environment**

As part of our risk assessment, we assessed the control environment in place at the fund administrator, to the extent relevant to our audit.

**8. Other information**

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the Annual Report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Financial Statements****9. Responsibilities of directors**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

**10. Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**11. Extent to which the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

**11.1 Identifying and assessing potential risks related to irregularities**

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the area of valuation and ownership of listed investments. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that

- had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the company's qualification as an Investment Trust under UK tax legislation.

**11.2. Audit response to risks identified**

As a result of performing the above, we identified valuation and ownership of listed investments as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

**Financial Statements**

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and the FCA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

**Report on other legal and regulatory requirements**

**12. Opinions on other matters prescribed by the Companies Act 2006**

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

**13. Corporate Governance Statement**

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 30;
- the directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 23;
- the directors' statement on fair, balanced and understandable set out on page 38;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 20;
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on page 40; and
- the section describing the work of the audit committee set out on pages 39 to 41.

## **14. Matters on which we are required to report by exception**

### **14.1 Adequacy of explanations received and accounting records**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

### **14.2 Directors' remuneration**

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

## **15. Other matters which we are required to address**

### **15.1. Auditor tenure**

Following the recommendation of the audit committee, we were appointed by the Directors on 24 July 2019 to audit the financial statements for the period ending 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 2 years, covering the years ending 31 December 2019 and 31 December 2020.

### **15.2. Consistency of the audit report with the additional report to the audit committee**

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

## **16 Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Chris Hunter CA (Senior statutory auditor)**

For and on behalf of Deloitte LLP

Statutory Auditor

Edinburgh, United Kingdom

15 March 2021

## Statement of Comprehensive Income

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### Financial Statements

	Notes	For the year ended 31 December 2020			For the period from incorporation on 14 August 2018 to 31 December 2019		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income from investments held at fair value through profit or loss	2	16,054	-	16,054	15,547	-	15,547
Gains on investments held at fair value through profit or loss	9	-	500,734	500,734	-	239,338	239,338
Foreign exchange gains/(losses)		15	(785)	(770)	-	(18)	(18)
Investment management fees	4	(16,148)	-	(16,148)	(12,509)	-	(12,509)
Other expenses and transaction costs	5	(1,402)	(584)	(1,986)	(1,389)	(1,431)	(2,820)
<b>Profit/(loss) before tax</b>		<b>(1,481)</b>	<b>499,365</b>	<b>497,884</b>	<b>1,649</b>	<b>237,889</b>	<b>239,538</b>
Tax	6	(1,388)	-	(1,388)	(1,392)	-	(1,392)
<b>Profit/(loss) for the period</b>		<b>(2,869)</b>	<b>499,365</b>	<b>496,496</b>	<b>257</b>	<b>237,889</b>	<b>238,146</b>
<b>Return/(loss) per share (basic and diluted) (p)</b>	<b>7</b>	<b>(2.29)</b>	<b>399.28</b>	<b>396.99</b>	<b>0.26</b>	<b>242.23</b>	<b>242.49</b>

The Company does not have any income or expenses which are not included in the profit for the period.

All of the profit and total comprehensive income for the period is attributable to the owners of the Company.

The "Total" column of this statement represents the Company's Income Statement, prepared in accordance with International Financial Reporting Standards (IFRS). The "Revenue" and "Capital" columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies (AIC).

All items in the above statement derive from continuing operations.

The accompanying notes on pages 59 to 71 are an integral part of these financial statements.

## Statement of Financial Position

### Financial Statements

	Notes	As at 31 December 2020 £'000	As at 31 December 2019 £'000
<b>Non-current assets</b>			
Investments held at fair value through profit or loss	9	2,279,938	1,405,671
<b>Current assets</b>			
Receivables	10	6,432	1,653
Cash and cash equivalents		50,046	31,558
		56,478	33,211
<b>Total assets</b>		<b>2,336,416</b>	<b>1,438,882</b>
<b>Current liabilities</b>			
Trade and other payables	11	(4,466)	(1,577)
<b>Total assets less current liabilities</b>		<b>2,331,950</b>	<b>1,437,305</b>
<b>Equity attributable to equity shareholders</b>			
Share capital	12	1,414	1,145
Share premium	13	1,595,894	1,198,014
Capital reserve		737,254	237,889
Revenue reserve		(2,612)	257
<b>Total equity</b>		<b>2,331,950</b>	<b>1,437,305</b>
<b>Net asset value per share (p)</b>	<b>14</b>	<b>1,648.9</b>	<b>1,255.2</b>

The financial statements on pages 55 to 71 were approved by the Board on 15 March 2021 and were signed on its behalf by:

Mark Pacitti  
Chairman

The accompanying notes on pages 59 to 71 are an integral part of these financial statements.  
Smithson Investment Trust plc – Company Registration Number 11517636 (Registered in England and Wales)

## Statement of Changes in Equity

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**Financial Statements**
**For the year ended 31 December 2020**

	Notes	Share Capital £'000	Share Premium £'000	Capital* Reserve £'000	Revenue* Reserve £'000	Total £'000
Balance at 1 January 2020		1,145	1,198,014	237,889	257	1,437,305
Issue of new shares on secondary market		269	399,880	-	-	400,149
Costs on new share issues on secondary market		-	(2,000)	-	-	(2,000)
Profit for the period		-	-	499,365	(2,869)	496,496
<b>Balance at 31 December 2020</b>	<b>12</b>	<b>1,414</b>	<b>1,595,894</b>	<b>737,254</b>	<b>(2,612)</b>	<b>2,331,950</b>

**For the period from incorporation on 14 August 2018 to 31 December 2019**

	Notes	Share Capital £'000	Share Premium £'000	Capital* Reserve £'000	Revenue* Reserve £'000	Total £'000
Balance at 14 August 2018		-	-	-	-	-
Issue of shares at IPO		822	821,687	-	-	822,509
Issue of new shares on secondary market		323	378,729	-	-	379,052
Costs on new share issues on secondary market		-	(2,402)	-	-	(2,402)
Profit for the period		-	-	237,889	257	238,146
<b>Balance at 31 December 2019</b>	<b>12</b>	<b>1,145</b>	<b>1,198,014</b>	<b>237,889</b>	<b>257</b>	<b>1,437,305</b>

\* Distributable reserve.

The accompanying notes on pages 59 to 71 are an integral part of these financial statements.

## Statement of Cash Flows

### Financial Statements

	Notes	For the year to 31 December 2020 £'000	For the period from incorporation on 14 August 2018 to 31 December 2019 £'000
<b>Cash flows used in operating activities</b>			
Profit before tax		497,884	239,538
<b>Adjustments for:</b>			
Gain on investments	9	(500,734)	(239,338)
Loss on foreign exchange		770	18
Increase in receivables		(345)	(554)
Increase in payables		791	1,577
Overseas taxation paid	6	(1,804)	(1,707)
<b>Net cash flow used in operating activities</b>		<b>(3,438)</b>	<b>(466)</b>
<b>Cash flows used in investing activities</b>			
Purchases of investments	9,11	(575,004)	(1,205,635)
Sale of investments	9	203,569	39,302
<b>Net cash flow used in investing activities</b>		<b>(371,435)</b>	<b>(1,166,333)</b>
<b>Cash flows used in financing activities</b>			
Proceeds from issue of new shares		396,111	1,200,773
Issue costs relating to new shares		(1,980)	(2,398)
<b>Net cash flow used in financing activities</b>		<b>394,131</b>	<b>1,198,375</b>
<b>Net increase in cash and cash equivalents</b>			
Effect of foreign exchange rates		(770)	(18)
<b>Change in cash and cash equivalents</b>		<b>18,488</b>	<b>31,558</b>
Cash and cash equivalents at start of the year / period		31,558	-
<b>Cash and cash equivalents at end of the year / period</b>	<b>15</b>	<b>50,046</b>	<b>31,558</b>
<b>Comprised of:</b>			
<b>Cash at bank</b>		<b>50,046</b>	<b>31,558</b>

Dividends and interest received in cash during the year amounted to £13,982,000 and £nil (2019: £13,310,000 and £nil), respectively.

The accompanying notes on pages 59 to 71 are an integral part of these financial statements.

**Financial Statements**

**1. Accounting policies**

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

The financial statements of the Company have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

**(a) Accounting convention**

The financial statements have been 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 international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as issued by the International Accounting Standards Board (IASB) and with the Statement of Recommended Practice ("SORP") 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued by the Association of Investment Companies ("AIC") in November 2014 (and updated in October 2019). They have also been prepared on the assumption that approval as an investment trust will continue to be granted. The Directors believe that it is appropriate to continue to adopt the going concern basis for preparing the financial statements for the reasons stated on page 30. 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.

**(b) Critical accounting judgements and sources of estimation uncertainty**

The Board confirms that no significant accounting judgements or estimates have been applied to the financial statements and therefore there is not a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

**(c) Presentation of the Statement of Comprehensive Income**

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.

**(d) 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.

**(e) Expenses**

The management fee is recognised as a revenue item in the Statement of Comprehensive Income. All other expenses are charged to revenue except expenses of a capital nature which are treated as capital.

**Financial Statements****1. Accounting policies (continued)****(f) Investments**

Investments have been designated upon initial recognition at fair value through profit or loss. Investments are recognised and de-recognised 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 period as a capital item in the Statement of Comprehensive Income 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 this 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.

All the investments are defined by IFRS as investments held at fair value through profit or 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 or loss".

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 derecognition 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 in capital on the Statement of Comprehensive Income.

**(g) Foreign currencies**

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the date of the Statement of Financial Position 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.

**(h) Cash and cash equivalents**

Cash and cash equivalents comprise cash and demand deposits which are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

**(i) 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.

**Financial Statements**

**1. Accounting policies (continued)**

**(j) Other receivables and other payables**

Other receivables and other payables do not carry any interest and are short term in nature and are accordingly stated at their amortised cost, which is the same as fair value.

Financial assets held at amortised cost are reviewed for impairment using the credit loss model. Given the nature of the Company's short-term receivables, no credit losses have occurred to date and no credit losses are currently expected to occur in the future.

**(k) Nature and purpose of reserves**

**Share capital**

This represents nominal value of the issued share capital.

**Share premium account**

This account represents share premium that arose on the issue of new shares.

**Capital reserve**

This reserve reflects any:

- gains or losses on the disposal of investments
- foreign exchange gains and losses of a capital nature;
- the increases and decreases in the fair value of investments which have been recognised in the capital column of the Statement of Comprehensive Income; and
- expenses which are capital in nature.

The capital reserve may be distributed by way of dividends. However, any gains in the fair value of investments that are not readily convertible to cash are treated as unrealised gains in the capital reserve and are non-distributable.

**Revenue reserve**

This reserve reflects all income and expenditure recognised in the revenue column of the Statement of Comprehensive Income and is distributable by way of dividend.

**(l) Taxation**

The charge for taxation is based upon the revenue for the period 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 Statement of Financial Position 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 Statement of Financial Position 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.

**Financial Statements**

**1. Accounting policies (continued)**

**(m) Adoption of new and revised standards**

At the date of authorisation of these financial statements the following standards and amendments to standards, which have not been applied in these financial statements, were in issue, but not yet effective.

IFRS 17, 'Insurance contracts' (effective for accounting periods beginning on or after 1 January 2023).

IFRS 9, IAS 39, IFRS 7, IFRS 16 and IFRS 4: Interest Rate Benchmark Reform – phase 2 (amended) (effective for accounting periods beginning on or after 1 January 2021).

Amendments to IAS1 'Classification of liabilities as current or non-current' (effective for accounting periods beginning on or after 1 January 2023).

The Company does not believe that there will be a material impact on the financial statements or the amounts reported from the adoption of these standards.

In the current financial year the Company has applied the following amendments to standards:

Amendments to IFRS 3 'Definition of Business' (effective for accounting periods beginning on or after 1 January 2020).

Amendments to IAS 1 & IAS 8 'Definition of Material' (effective for accounting periods beginning on or after 1 January 2020).

Amendments to IFRS 9, IAS 39 and IFRS 7 'Interest Rate Benchmark Reform' (effective for accounting periods beginning on or after 1 January 2020)

There is no material impact on the financial statements or the amounts reported from the adoption of these amendments to the standards.

**2. Dividend income**

	<b>2020</b> <b>£'000</b>	<b>2019</b> <b>£'000</b>
UK dividends	3,544	4,077
Overseas dividends	12,510	11,470
<b>Total</b>	<b>16,054</b>	<b>15,547</b>

**3. Segmental reporting**

The Directors are of the opinion that the Company is engaged in a single segment of business being the investment business. The Company's objective is to be a core investment for investors seeking increasing capital growth and income over the long term. The accounting policies of the operating segment, which operates in the UK, are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on total profit before tax, which is shown in the Statement of Comprehensive Income on page 55. A geographical split of the portfolio can be seen on page 14.

**4. Investment management fee**

	<b>2020</b> <b>£'000</b>	<b>2019</b> <b>£'000</b>
<b>Investment management fee</b>	<b>16,148</b>	<b>12,509</b>

As at 31 December 2020, an amount of £1,768,000 (2019: £1,124,000) was payable to the Investment Manager. Details of the terms of the Investment Management Agreement are provided on page 29.

## Notes to the Financial Statements

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### Financial Statements

#### 5. Other expenses

	2020			2019		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Transaction costs on fair value through profit or loss investments	-	584	584	-	1,431	1,431
Directors' fees	84	-	84	109	-	109
Employer national insurance contributions	8	-	8	3	-	3
Auditor fees in relation to audit	36	-	36	35	-	35
Tax compliance fee	23	-	23	14	-	14
Registrar fees	40	-	40	37	-	37
Broker fees	34	-	34	48	-	48
Company secretarial fees	132	-	132	137	-	137
Custody fees	205	-	205	72	-	72
Depository fees	280	-	280	212	-	212
Postage and printing	59	-	59	22	-	22
Legal fees	39	-	39	31	-	31
Fund administration fees	411	-	411	336	-	336
Other expenses*	51	-	51	333	-	333
<b>Total Expenses</b>	<b>1,402</b>	<b>584</b>	<b>1,986</b>	<b>1,389</b>	<b>1,431</b>	<b>2,820</b>

\* Other expenses include VAT of £80,000 as a net credit amount, due to £109,000 of VAT being recovered in relation to 2019 (2019: £222,000 of VAT expense included at 100% irrecoverable).

Transaction costs on fair value through profit or loss investments represent such costs incurred on both purchases and sales of those investments. Transaction costs on purchases amounted to £509,000 (2019: £1,417,000) and on sales amounted to £75,000 (2019: £14,000).

No non-audit fees were paid during the year to Deloitte LLP by the Company.

For the period ended 31 December 2019, in addition to the audit fees paid by the Company disclosed above, fees of £131,700 were paid to Deloitte LLP by the Investment Manager on behalf of the Company for IPO and reporting accounting assistance. Total remuneration paid to Deloitte LLP amounted to £166,700.

Financial Statements

**6. Taxation**

(a) Analysis of tax charge in the period

	2020			2019		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>Taxation on ordinary activities</b>						
Irrecoverable overseas withholding tax	1,388	-	1,388	1,392	-	1,392
<b>Total tax</b>	<b>1,388</b>	<b>-</b>	<b>1,388</b>	<b>1,392</b>	<b>-</b>	<b>1,392</b>

(b) The tax charge for the period is lower than the standard rate of corporation tax in the UK of 19%. The differences are explained below:

	2020			2019		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>Profit/(loss) before tax</b>	<b>(1,481)</b>	<b>499,365</b>	<b>497,884</b>	<b>1,649</b>	<b>237,889</b>	<b>239,538</b>
Corporation tax at standard rate of 19%	(281)	94,879	94,598	313	45,199	45,512
<b>Effects of:</b>						
Non-taxable UK dividends	(673)	-	(673)	(775)	-	(775)
Non-taxable overseas dividends	(2,377)	-	(2,377)	(2,179)	-	(2,179)
Net gains on investments	-	(95,139)	(95,139)	-	(45,474)	(45,474)
Expenses not deductible for tax purposes	-	110	110	-	272	272
Net losses on foreign exchange	(4)	150	146	-	3	3
Unrelieved expenses and charges	3,335	-	3,335	2,641	-	2,641
Overseas withholding tax	1,388	-	1,388	1,392	-	1,392
<b>Total tax</b>	<b>1,388</b>	<b>-</b>	<b>1,388</b>	<b>1,392</b>	<b>-</b>	<b>1,392</b>

As at 31 December 2020, the Company had unrelieved expenses and charges of £31.4 million carried forward (2019: £13.9 million). Due to the Company's status as an investment trust and the intention to continue to meet the conditions required to maintain approval in the foreseeable future, the Company has not provided deferred tax on capital gains and losses arising on the revaluation or disposal of investments.

**7. Return per share**

Return per ordinary share is as follows:

	2020			2019		
	Revenue	Capital	Total	Revenue	Capital	Total
Profit / (loss) for the period (£'000)	(2,869)	499,365	496,496	257	237,889	238,146
<b>Return / (loss) per ordinary share (p)</b>	<b>(2.29)</b>	<b>399.28</b>	<b>396.99</b>	<b>0.26</b>	<b>242.23</b>	<b>242.49</b>

Return per share is calculated based on returns for the year and the weighted average number of 125,066,574 ordinary shares in issue from 1 January 2020 to 31 December 2020. (2019: 98,209,751)

**Financial Statements**
**8. Dividends**

There are no dividends proposed, declared or payable for the year (2019: nil).

**9. Investments held at fair value through profit or loss**

All investments are designated as fair value through profit or loss on initial recognition, therefore all gains and losses arise on investments designated as fair value through profit or loss.

<b>As at 31 December</b>	<b>2020 £'000</b>	<b>2019 £'000</b>
Opening book cost	1,158,602	-
Opening investment holding gains	247,069	-
Opening fair value at 1 January (2019: at incorporation date)	1,405,671	-
Purchases at cost	577,102	1,205,635
Sales – proceeds	(203,569)	(39,302)
Gains on investments	500,734	239,338
Closing fair value at 31 December	2,279,938	1,405,671
Closing book cost at 31 December	1,581,420	1,158,602
Closing unrealised gain at 31 December	698,518	247,069
<b>Valuation at 31 December</b>	<b>2,279,938</b>	<b>1,405,671</b>

The Company received £203,569,000 (2019: £39,302,000) excluding transaction costs from investments sold in the year. The book cost of the investments when they were purchased was £154,868,000 (2019: £48,464,000) excluding transaction costs. These investments have been revalued over time until they were sold and unrealised gains/losses were included in the fair value of the investments.

All investments are listed.

**Fair value of financial instruments**

Under IFRS 13 'Fair Value Measurement' an entity is required to classify investments using a fair value hierarchy that reflects the significance of the inputs used in making the measurement decision.

The following shows the analysis of financial assets recognised at fair value based on:

- Level 1 – quoted prices in active markets for identical instruments. As at 31 December 2020, £2,279,938,000 of the investment portfolio was classified as level 1.
- Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayments, credit risk, etc.). There are no level 2 investments.
- Level 3 – significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments). There are no level 3 investments.

Financial Statements

**9. Investments held at fair value through profit or loss (continued)**

Fair value measurements recognised in the Statement of Financial Position

As at 31 December	2020			Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
Investments held at fair value through profit or loss	2,279,938	-	-	2,279,938
<b>Total</b>	<b>2,279,938</b>	<b>-</b>	<b>-</b>	<b>2,279,938</b>

As at 31 December	2019			Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
Investments held at fair value through profit or loss	1,405,671	-	-	1,405,671
<b>Total</b>	<b>1,405,671</b>	<b>-</b>	<b>-</b>	<b>1,405,671</b>

**10. Receivables**

As at 31 December	2020 £'000	2019 £'000
Accrued income	806	529
Share issue proceeds	4,802	784
Overseas tax recoverable	731	315
Other receivables	93	25
	<b>6,432</b>	<b>1,653</b>

The above receivables do not carry any interest and are short term in nature. The Directors consider that the carrying values of these receivables approximate their fair value.

**11. Payables**

As at 31 December	2020 £'000	2019 £'000
Securities purchased payable	2,098	-
Investment management fee payable	1,768	1,124
Other payables	600	453
	<b>4,466</b>	<b>1,577</b>

**Financial Statements**
**12. Share capital**

As at 31 December	2020		2019	
	Number	£'000	Number	£'000
<b>Issued, allotted and fully paid</b>				
Ordinary shares of £0.01 each	<b>141,420,958</b>	<b>1,414</b>	114,510,958	1,145

During the year ended 31 December 2020, the Company issued 26,910,000 (2019: 114,510,958) shares of £0.01 each for a net consideration of £398,149,000 (2019: £1,199,159,000). Details of the shareholder authorities granted to Directors to issue and buy back shares during the year are provided on page 32.

**13. Share premium account**

As at 31 December	2020 £'000	2019 £'000
Balance at 1 January (2019: at incorporation)	1,198,014	-
Issue of shares at IPO	-	821,687
Issue of new shares on secondary market	399,880	378,729
Costs on new share issues on secondary market	(2,000)	(2,402)
	<b>1,595,894</b>	<b>1,198,014</b>

**14. Net asset value per share**

As at 31 December	2020	2019
Net asset value	£2,331,950,000	£1,437,305,000
Shares in issue	141,420,958	114,510,958
Net asset value per share	1,648.9p	1,255.2p

**15. Risk management and financial instruments**

The Company's investing activities undertaken in pursuit of its investment objective, as set out on page 7, involve certain inherent risks. The Board monitors the Company's risk as described in the Strategic Report on pages 20 to 22. The main risks arising from the Company's financial instruments are market price risk, interest rate risk, liquidity risk, credit risk and currency risk. The Board reviews and agrees policies for managing each of these risks as summarised below. These policies have remained substantially unchanged during the current year.

**Market price risk**

Market price risk arises mainly from uncertainty about future prices of financial instruments used in the Company's business. It represents the potential loss the Company might suffer through holding market positions in the face of price movements. The Board meets on four scheduled occasions in each year and at each meeting it receives sufficient financial and statistical information to enable it to monitor adequately the investment performance and status of the business. The Board has also established a series of investment parameters, per the Company's investment policy, designed to manage the risk inherent in managing a portfolio of investments.

## 15. Risk management and financial instruments (continued)

### Interest rate risk

Interest rate risk is the risk of movements in the value of, or income from, cash balances that arise as a result of fluctuations in interest rates. The Company finances its operations through equity and retained profits including capital profits, with no additional financing.

### Liquidity risk

The Company's assets comprise mainly readily realisable securities, which can be sold to meet funding commitments if necessary. Short-term flexibility is achieved through the use of cash balances and short-term bank deposits. All payables are due within three months.

### Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. This is mitigated by the Investment Manager reviewing the credit ratings of broker counterparties. The risk attached to dividend flows is mitigated by the Investment Manager's research of potential investee companies. The Company's custodian bank is responsible for the collection of income on behalf of the Company. Cash is held with Northern Trust Company which has a Fitch rating of AA-.

The carrying amounts of financial assets best represents the maximum credit risk exposure at the Statement of Financial Position date, and the main exposure to credit risk is via the Company's custodian who is responsible for the safeguarding of the Company's investments and cash balances.

At the reporting date, the Company's financial assets exposed to credit risk amounted to the following:

As at 31 December	2020 £'000	2019 £'000
Cash and cash equivalents	50,046	31,558
Receivables	6,432	1,653
	<b>56,478</b>	<b>33,211</b>

All the assets of the Company which are traded on a recognised exchange are held by Northern Trust, the Company's custodian. Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed or limited.

### Currency risk

The income and capital value of the Company's investments and liabilities can be affected by exchange rate movements as some of the Company's assets and income are denominated in currencies other than sterling which is the Company's reporting currency. The key areas where foreign currency risk could have an impact on the Company are:

- movements in rates that would affect the value of investments, assets and liabilities; and
- movements in rates that would affect the income received.

## Notes to the Financial Statements

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### Financial Statements

#### 15. Risk management and financial instruments (continued)

The Company had the following currency exposures, all of which are included in the Statement of Financial Position at fair value based on the exchange rates ruling at the period end.

	31 December 2020					31 December 2019				
	Investments £'000	Cash £'000	Receivables £'000	Payables £'000	Total £'000	Investments £'000	Cash £'000	Receivables £'000	Payables -	Total £'000
Australian Dollar	155,936	-	2,098	(2,098)	155,936	85,111	-	-	-	85,111
Danish Krone	138,264	-	210	-	138,474	108,591	-	136	-	108,727
Euro	213,122	-	96	-	213,218	79,720	-	12	-	79,732
New Zealand Dollar	42,145	-	-	-	42,145	48,169	-	-	-	48,169
Swiss Franc	143,036	-	425	-	143,461	79,128	-	167	-	79,295
US Dollar	1,083,119	98	-	-	1,083,217	666,260	463	-	-	666,723
	<b>1,775,622</b>	<b>98</b>	<b>2,829</b>	<b>(2,098)</b>	<b>1,776,451</b>	<b>1,066,979</b>	<b>463</b>	<b>315</b>	<b>-</b>	<b>1,067,757</b>

The Company mitigates the risk of loss due to exposure to a single currency by way of diversification of the portfolio.

#### Foreign currency sensitivity

At 31 December 2020, an exchange rate move of +/-5% against sterling which is a reasonable approximation of possible changes would have increased or decreased total net assets and total return by £88,823,000 (2019: £53,388,000).

#### Interest rate risk

The majority of the Company's financial assets are equity shares and other investments which neither pay interest nor have a maturity date. The Company's cash balance of £50,046,000 (2019: £31,558,000) earns interest, calculated on a tiered basis, depending on the balance held, by reference to the base rate. The level of interest paid fluctuates in line with the base rate. At 31 December 2020 the interest rate was 0% (2019: 0%).

If the base rate increased by 0.05%, the impact on the profit or loss and net assets would be expected to be a positive £25,023 (2019: £15,779). A decrease of 0.05% would have had an equivalent opposite effect. The calculations are based on the cash balances at the year end date and are not representative of the year as a whole.

All current liabilities have no interest rate and are payable within one year.

#### Other price risk exposure

If the investment valuation had fallen by 20% at 31 December 2020, the impact on profit or loss and net assets would have been negative £455,987,600 (2019: £281,134,200). An increase of 20% would have had an equivalent opposite effect. The calculations are based on the portfolio valuations as at the respective period end date and are not representative of the period as a whole, as well as the assumption that all other variables remained constant.

The Company held the following categories of financial instruments, all of which are included in the Statement of Financial Position at fair value.

Financial Statements

**15. Risk management and financial instruments (continued)**

As at 31 December	2020 £'000	2019 £'000
Assets at fair value through profit or loss	2,279,938	1,405,671
Cash	50,046	31,558
Investment income receivable	806	529
Share issue proceeds	4,802	784
Overseas tax recoverable	731	315
Other receivables	93	25
Payables	(4,466)	(1,577)
	<b>2,331,950</b>	<b>1,437,305</b>

**Liquidity risk exposure**

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. All payables are due within three months.

Liquidity risk is not significant as the majority of the Company's assets are investments in quoted securities that are easily and readily realisable. The Company does not have any borrowing facilities and as at 31 December 2020 held £50,046,000 (2019: £31,558,000) in cash.

**Capital management policies and procedures**

The Company's capital management objectives are to ensure that it will be able to continue as a going concern, and to provide long-term growth in revenue and capital.

The Company's capital is its equity share capital and reserves that are shown in the Statement of Financial Position at a total of £2,331,950,000 (2019: £1,437,305,000).

The Board, with the assistance of the AIFM, monitors and reviews the broad structure of the Company's capital on an ongoing basis. This includes a review of the planned level of gearing, the need to repurchase or issue equity shares, and the extent to which any revenue in excess of that which is required to be distributed be retained.

**16. Contingent liabilities**

As at 31 December 2020 there were no contingent liabilities or capital commitments (2019: nil).

**17. Related party transactions**

IAS 24 'Related party disclosures' requires the disclosure of the details of material transactions between the Company and any related parties. Accordingly, the disclosures required are set out below:

Directors – The remuneration of the Directors totalling £84,000 (2019: £108,553), is set out in the Directors' Remuneration Report on page 45. There were no contracts subsisting during or at the end of the period in which a Director of the Company is or was interested and which are or were significant in relation to the Company's business. There were no other material transactions during the period with the Directors of the Company. The Company has no employees.

**Financial Statements****17. Related party transactions (continued)**

AIFM and Investment Manager – Details of the contract including the remuneration due to the AIFM and Investment Manager are set out on page 29.

Terry Smith and other founder partners and key employees of the AIFM and Investment Manager directly or indirectly and in aggregate, held 3,063,180 (2019: 2,987,897) shares in the Company amounting to 2.2% (2019: 2.6%) of the issued share capital of the Company as at 31 December 2020.

**18. Events after the reporting period**

Since the year end and up to 12 March 2021 (the latest practical date before publication of the Annual Report), the Company has issued 9,132,000 ordinary shares raising net proceeds of £150.6 million.

With the withdrawal period for the United Kingdom exiting the European Union ending on the 31 December 2020, the Board continued to monitor any resulting impact to the Company and as negotiations between both parties continue. No significant impact has been observed to date and as the Company's invests in global equities, the Board expects this to have limited impact on the Company's portfolio taken as a whole.

### Further Information

#### Financial Calendar

31 December	Financial Year End
March	Final Results Announced
April	Annual General Meeting
30 June	Half Year End
August	Half Year End Results Announced

#### Annual General Meeting

The Annual General Meeting of Smithson Investment Trust plc will be held at Ketton House, Rectory Road, Kedington, Suffolk, CB9 7QL on Wednesday, 28 April 2021 at 1.00 p.m.

#### Share Price

The Company's ordinary shares are listed on the London Stock Exchange. The price is given daily in the Financial Times and other newspapers.

#### Change of Address

Communications with shareholders are mailed to the address held on the share register. In the event of a change of address or other amendment this should be notified to the Company's Registrar, Link Group, under the signature of the registered holder. The Registrar's address is listed on page 82.

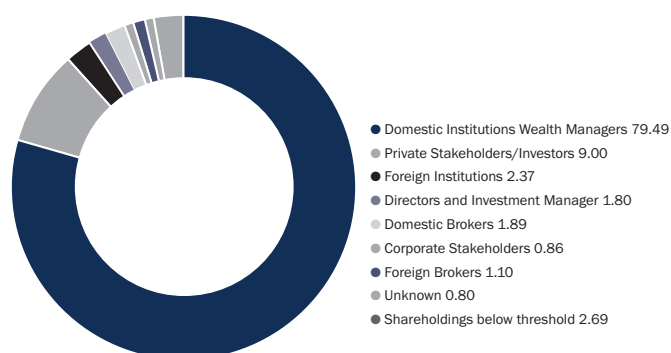
#### Daily Net Asset Value

The daily net asset value of the Company's shares can be obtained on the Company's website at [www.smithson.co.uk](http://www.smithson.co.uk) and is published daily via the London Stock Exchange.

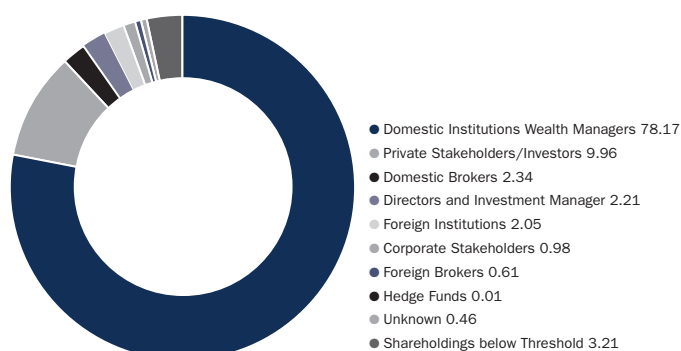
#### Profile of the Company's Ownership

% of ordinary shares held at 31 December 2020

##### 31 December 2020



##### 31 December 2019



### Further Information

## Alternative Investment Managers Directive Disclosures

### Periodic Disclosures

As described in the Company's Investor Disclosure Document ("IDD") (which can be found on the Company's website [www.smithson.co.uk](http://www.smithson.co.uk)) Fundsmith LLP ("Fundsmith") and the Company are required to make certain periodic disclosures in accordance with the Alternative Investment Fund Managers Directive ("AIFMD"). For the purposes of the AIFMD:

- None of the Company's assets are subject to special arrangements arising from their illiquid nature.
- The Strategic Report and note 15 to the financial statements set out the risk profile and risk management systems in place. There have been no changes to the risk management systems in place in the period under review and no breaches of any of the risk limits set, with no breach expected.
- There are no new arrangements for managing the liquidity of the Company or any material changes to the liquidity management systems and procedures employed by Fundsmith.
- There have been no changes to the maximum level of leverage that Fundsmith may employ on behalf the Company.
- There have been no changes to Fundsmith's right of re-use of collateral or any guarantee granted under any leveraging arrangement (insofar as there continues to be no right of re-use of collateral or any guarantees granted under the leveraging arrangement).

### Leverage

For the purposes of the AIFMD, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Company's exposure and its net asset value and can be calculated on a Gross and a Commitment method. Under the Gross method, exposure represents the sum of the Company's positions after the deduction of sterling cash balances, without taking into account any hedging and netting arrangements. Under the Commitment method, exposure is calculated without the deduction of sterling cash balances and after certain hedging and netting positions are offset against each other.

The table below sets out the current maximum permitted limit and actual level of leverages for the Company:

	As a percentage of assets	
	Gross method	Commitment method
Maximum level of leverage	115%	115%
Actual level at 31 December 2020	Nil	Nil

### Material changes

There have been no material changes to the information set out in the Company's IDD during the period covered by this Annual Report.

### Remuneration Disclosure

During the year ending 31 March 2020, Fundsmith LLP ('Fundsmith') had 27 members of personnel in total, including employees and Partners. The total amount of remuneration paid to Fundsmith personnel during this period was £58,468,366. Out of this figure, the total amount of remuneration paid to the Partners of Fundsmith LLP was £48,483,057 whilst the total amount of remuneration paid to the employees of Fundsmith LLP was £9,985,309.

Of the £9,985,309 paid to Fundsmith employees, £7,315,835 was variable remuneration and £2,669,474 was fixed remuneration.

The partners of Fundsmith LLP are not paid a bonus. All of their remuneration is fixed as it is based on a fixed proportion of Fundsmith LLP's net profits.

### Further Information

#### Explanatory Note

Fundsmith LLP is required to make this remuneration disclosure to the Company's investors in accordance with the AIFMD.

The financial period of the Company runs from 1 January to 31 December, whereas the financial year of Fundsmith LLP runs from 1 April to 31 March. The above figures are taken from the financial report and accounts of Fundsmith LLP for the period 1 April 2019 to 31 March 2020. These figures have been independently audited and filed with Companies House.

The rules require Fundsmith to disclose both the amount of remuneration paid in total, and the amount paid to "Code Staff" (broadly, senior management and/or risk takers). Fundsmith's only Code Staff are the Partners.

The information above relates to Fundsmith LLP as a whole, and it has not been broken down by reference to the Company or the other funds that Fundsmith manages. Nor has the proportion of remuneration which relates to the income Fundsmith earns from their management of the Company been shown. Fundsmith has not provided such a breakdown because this does not reflect the way they work or the way Fundsmith is organised. All of the Partners and most of the employees are involved in the management of the Company.

The Company represents approximately 7.1% of Fundsmith's total funds under management.

#### Statement on the Alternative Investment Fund Managers Remuneration Code

The Company is classified as an Alternative Investment Fund (AIF) in accordance with the Alternative Investment Fund Managers Directive (AIFMD). Fundsmith LLP is duly authorised as an Alternative Investment Fund Manager (AIFM) for the purpose of managing the Company.

As an authorised AIFM, Fundsmith LLP must adhere to the AIFM Remuneration Code.

The AIFM Remuneration Code contains a set of principles, which are designed to ensure that AIFMs reward their personnel in a way which promotes sound and effective risk management, which does not encourage risk-taking, which supports the objectives and strategy of any AIFs it manages, and which supports the alignment of interest between the AIFM, its personnel and any AIFs it manages (where this alignment extends to the AIF's investors).

Remuneration at Fundsmith LLP is deliberately straightforward. The employees are paid a competitive salary. At the end of each year, the employees' performance is reviewed by the Partners in order to determine whether or not a bonus should be paid. All bonus decisions are agreed unanimously by the Partners.

The Partners are each paid a fixed proportion of Fundsmith LLP's net profits. They consider that this is the best way to ensure that the Partners' interests are completely aligned with their investors' interests over the long-term. This alignment of interest is reinforced by the fact that Fundsmith personnel have invested approximately £30 million in the Company. They have a clear and direct interest in the long term success of the Company.

Any investor who would like more information on how Fundsmith adheres to the Principles of the Remuneration Code may request a summary of the Fundsmith Remuneration Policy.

## Alternative Performance Measures

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### Further Information

#### Alternative Performance Measures (“APMs”)

APMs are often used to describe the performance of investment companies although they are not specifically defined under IFRS. APM calculations for the Company are shown below.

##### 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 2020	As at 31 December 2019
NAV per ordinary share	a	2	1,648.9p	1,255.2p
Share price	b	2	1,710.0p	1,298.0p
<b>Premium</b>	<b>(b÷a)-1</b>		<b>3.7%</b>	<b>3.4%</b>

##### 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.

Year ended 31 December 2020		Page	Share price	NAV
Opening at 1 January 2020	a	2	1,298.0p	1,255.2p
Closing at 31 December 2020	b	2	1,710.0p	1,648.9p
<b>Total return</b>	<b>(b/a)-1</b>		<b>31.7%</b>	<b>31.4%</b>

Year ended 31 December 2019		Page	Share price	NAV
Opening at 1 January 2019	a	2	1,000.2p	942.2p
Closing at 31 December 2019	b	2	1,298.0p	1,255.2p
<b>Total return</b>	<b>(b/a)-1</b>		<b>29.8%</b>	<b>33.2%</b>

Period from Company's listing on 19 October 2018 to 31 December 2020		Page	Share price	NAV
Opening at 19 October 2018	a	2	1,000.0p	1,000.0p
Closing at 31 December 2020	b	2	1,710.0p	1,648.9p
<b>Total return</b>	<b>(b/a)-1</b>		<b>71.0%</b>	<b>64.9%</b>
<b>Annualised total return</b>			<b>27.6%</b>	<b>25.5%</b>

Further Information

**Ongoing charges ratio**

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

		Page	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000	Period from Company's listing on 19 October 2018 to 31 December 2020 £'000
Average NAV	a	n/a	1,760,386	1,181,166	1,412,134
Annualised expenses	b	n/a	17,550	11,555	14,276
<b>Ongoing charges ratio</b>	<b>(b÷a)</b>		<b>1.0%</b>	<b>1.0%</b>	<b>1.0%</b>

**Further Information****AIC**

Association of Investment Companies

**Alternative Investment Fund or “AIF”**

An investment vehicle under AIFMD. Under AIFMD (see below) the Company is classified as an AIF.

**Alternative Investment Fund Managers Directive or “AIFMD”**

A European Union directive which came into force on 22 July 2013 and has been implemented in the UK.

**Annual General Meeting or “AGM”**

A meeting held once a year which shareholders can attend and where they can vote on resolutions to be put forward at the meeting and ask directors questions about the company in which they are invested.

**Custodian**

An entity that is appointed to safeguard a company's assets.

**Discount**

The amount, expressed as a percentage, by which the share price is less than the net asset value per share.

**Depository**

Certain AIFs must appoint depositaries under the requirements of AIFMD. A depository's duties include, inter alia, safekeeping of the Company's assets and cash monitoring. Under AIFMD the depository is appointed under a strict liability regime.

**Dividend**

Income receivable from an investment in shares.

**Ex-dividend date**

The date from which you are not entitled to receive a dividend which has been declared and is due to be paid to shareholders.

**Financial Conduct Authority or “FCA”**

The independent body that regulates the financial services industry in the UK.

**Gearing**

A way to magnify income and capital returns, but which can also magnify losses. A bank loan is a common method of gearing.

**Gross assets**

The Company's total assets before the deduction of any liabilities.

**Further Information**

**Index**

A basket of stocks which is considered to replicate a particular stock market or sector.

**Investment company**

A company formed to invest in a diversified portfolio of assets.

**Investment trust**

An investment company which is based in the UK and which meets certain tax conditions which enables it to be exempt from UK corporation tax on its capital gains. The Company is an investment trust.

**Leverage**

An alternative word for “Gearing”.

Under AIFMD, leverage is any method by which the exposure of an AIF is increased through borrowing of cash or securities or leverage embedded in derivative positions.

Under AIFMD, leverage is broadly similar to gearing, but is expressed as a ratio between the assets (excluding borrowings) and the net assets (after taking account of borrowing). Under the gross method, exposure represents the sum of the Company’s positions after deduction of cash balances, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash balances and after certain hedging and netting positions are offset against each other.

**Liquidity**

The extent to which investments can be sold at short notice.

**Net assets**

An investment company’s assets less its liabilities

**Net asset value (NAV) per ordinary share**

Net assets divided by the number of ordinary shares in issue (excluding any shares held in treasury)

**Ongoing charges ratio**

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

**Ordinary shares**

The Company’s ordinary shares of 1p each.

**Portfolio**

A collection of different investments held in order to deliver returns to shareholders and to spread risk.

**Further Information****Premium to NAV**

The amount, expressed as a percentage, by which the share price is more than the net asset value per share.

**Share buyback**

A purchase of a company's own shares. Shares can either be bought back for cancellation or held in treasury.

**Share price**

The price of a share as determined by a relevant stock market.

**Total return**

A measure of performance that takes into account both income and capital returns. This may take into account capital gains, dividends, interest and other realised variables over a given period of time.

**Treasury shares**

A company's own shares which are available to be sold by a company to raise funds.

**Volatility**

A measure of how much a share moves up and down in price over a period of time.

**Further Information**

**Investment Platforms**

The Company's shares are traded openly on the London Stock Exchange and can be purchased through a stockbroker or other financial intermediary. The shares are available through savings plans (including Investment Dealing Accounts, ISAs, Junior ISAs and SIPPs) which facilitate both regular monthly investments and lump sum investments in the Company's shares. There are a number of investment platforms that offer these facilities. A list of some of them, that is not comprehensive nor constitutes any form of recommendation, can be found below:

- AJ Bell Securities Limited
- Albert E Sharp LLP
- Alliance Trust Savings Limited
- Barclays Bank plc
- Hargreave Hale Ltd
- Hargreaves Lansdown Asset Management Limited
- iDealing.com Limited
- Interactive Investor Services Limited
- Shore Capital Stockbrokers Limited
- SVS Securities plc
- The Share Centre

**Link Group – Share Dealing Service**

A quick and easy share dealing service is available to existing shareholders through the Company's Registrar, Link Group, to either buy or sell shares. An online and telephone dealing facility provides an easy to access and simple to use service.

There is no need to pre-register and there are no complicated forms to fill in. The online and telephone dealing service allows you to trade 'real time' at a known price which will be given to you at the time you give your instruction.

To deal online or by telephone all you need is your surname, investor code, full postcode and your date of birth. Your investor code can be found on your share certificate. Please have the appropriate documents to hand when you log on or call, as this information will be needed before you can buy or sell shares.

For further information on this service please contact: [www.linksharedeal.com](http://www.linksharedeal.com) (online dealing) or 0371 664 0445† (telephone dealing).

† Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom are charged at the applicable International rate. Lines are open from 8.00 a.m. to 4.30 p.m. Monday to Friday excluding public holidays in England and Wales.

**Further Information****Risk Warnings**

- Past performance is no guarantee of future performance.
- The value of your investment and any income from it may go down as well as up and you may not get back the amount invested. This is because the share price is determined, in part, by the changing conditions in the relevant stock markets in which the Company invests and by the supply and demand for the Company's shares.
- As the shares in an investment trust are traded on a stock market, the share price will fluctuate in accordance with supply and demand and may not reflect the underlying net asset value of the shares; where the share price is less than the underlying value of the assets, the difference is known as the 'discount'. For these reasons, investors may not get back the original amount invested.
- Although the Company's financial statements are denominated in sterling, most of the holdings in the portfolio are currently denominated in currencies other than sterling and therefore they may be affected by movements in exchange rates. As a result, the value of your investment may rise or fall with movements in exchange rates.
- Investors should note that tax rates and reliefs may change at any time in the future.

The value of ISA and Junior ISA tax advantages will depend on personal circumstances. The favourable tax treatment of ISAs and Junior ISAs may not be maintained.

**Further Information**

**Directors**

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

**Registered Office and Directors' business address**

1st Floor  
Senator House  
85 Queen Victoria Street  
London EC4V 4AB

**Investment Manager**

Fundsmith LLP  
33 Cavendish Square  
London W1G 0PW

**Broker**

Investec Bank plc  
30 Gresham Street  
London EC2V 7QP

**Legal advisers**

Travers Smith LLP  
10 Snow Hill  
London EC1A 2AL

**Statutory Auditor**

Deloitte LLP  
Saltire Court  
20 Castle Terrace  
Edinburgh EH1 2DB

**Company Secretary**

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1st Floor  
Senator House  
85 Queen Victoria Street  
London EC4V 4AB

**Administrator**

Northern Trust Global Services Limited  
50 Bank Street  
Canary Wharf  
London E14 5NT

**Depository**

Northern Trust Global Services SE  
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Canary Wharf  
London E14 5NT

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

**Registrar and Receiving Agent**

Link Group  
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Central Square  
29 Wellington Street  
Leeds  
LS1 4DL

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[www.smithson.co.uk](http://www.smithson.co.uk)

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Perivan 260400