Smithson Investment Trust

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Battle of the investment trusts: Smithson versus Woodford Patient Capital

The flagship investment trusts of Neil Woodford and Terry Smith have both held London's heavyweight fundraising crown but these two vehicles could not be more different in their approach or their recent fortunes.

When Woodford Patient Capital Trust PLC (LON:WPCT) trust floated in 2015 it raised £800mln in what was Britain's largest ever investment trust launch by some margin.

But last October, Smith, a former boxer in his youth, knocked his rival off the top spot with an initial public offer for his Smithson Investment Trust PLC (LON:SSON) that raised £822.5mln.

As well as holding this informal title, another similarity between the two fund managers is that both are masters of their own fortunes with their own investment houses set up in recent years.

First in this instance was Smith, the former equity analyst who has been taking swings at what he sees as the financial sector's unjust practices ever since his Accounting For Growth book lifted the lid on how companies used accounting sleight of hand to flatter their reported performance. He set up his Fundsmith investment house, with the Fundsmith Equity open-ended fund its first launch, in 2010.

Four years later came Woodford Investment Management, formed by the man who was at the time Britain's most celebrated fund manager after 25 highly successful years at the giant Invesco Perpetual. It also started out with a unit trust as its first independent offering, the Equity Income fund.

Putting the two company's closed-ended funds head to head, both have a long-term focus and as investments trusts both allow some level of gearing, but the similarities pretty much end there.

Smithson aims high
Smithson, which weighs in with total assets of £1.3bn, follows the investment process set out for the firm as a whole by chief executive Smith: of buying high-quality companies that are not felt to be trading on excessive valuations and then holding them for the long-term.

Avoiding businesses that rely on debt to achieve their returns, the Fundsmith approach is to find companies with clear growth prospects, generating cash and whose goods or service or selling points are difficult to replicate.

Smithson, as the "son of" the £19bn Fundsmith, looks at the next layer down in the market strata, perusing for listed mid caps and small caps, although under its definition this ranges from £500mln to £15bn.

Along with this generous definition, the fund's focus is global, which sets it apart from most others calling themselves 'small and mid cap'.

Share Information

Code: SMITR
Listing: PRIVATE-UK
Sector: **Investments and investor services**
Website: **smithson.co.uk**

Company Synopsis:
Smithson Investment Trust PLC is a closed-end Investment Trust incorporated in the United Kingdom. It invests in shares issued by small and mid sized listed or traded companies globally with a market cap (at the time of investment) of between £500 million to £15 billion.

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The investment trust is overseen by Smith but he does not manage it directly, that is in the hands of two fund managers hired from Goldman Sachs, Simon Barnard and Will Morgan, who are charged with operating a fairly concentrated portfolio of 25 to 40 companies.

The portfolio had 29 investments at the end of June, with no new investments or divestments made during the six-month period, while the biggest sector weighting is telecom, media and technology at 47.9%, followed by industrials at 20.50% and health care at 17.2%.

Smithson's net asset value (NAV) at the end of June was recorded at 1,202.5p, up more than 20% since its IPO less than 10 months ago, and since rising to 1,209.39p by 12 August.

The share price has exceeded that, growing 22% to 1,248p since the float, meaning at the shares stand at more than a 3% premium, with an average premium over the first half of 2019 of 4.1%.

Patient approach
The differences with Woodford Patient Capital, which weighs in with total assets of £847mln and net assets of £723.2mln, are immediately obvious.

Firstly, its investment focus is almost entirely on the UK and with a very strong focus on early-stage companies, which by their very nature tend to be unquoted or illiquid. Currently almost two thirds of the portfolio is unquoted.

Woodford's stated aim is to find businesses with disruptive intellectual property and backing them for several years, aiming to deliver a return in excess of 10% per year over the longer term.

To achieve long-term capital growth, WPC invests in a broader, diversified portfolio of 50-100 holdings, which will give it a chance of connecting with the necessary haymakers to cover the inevitable misses that occur when investing in genuine small caps.

As well as the smaller companies, the trust's portfolio also includes mature, mid and large-cap listed companies.

The important clue to the investment strategy is in the name: patient.

Patient capital is, as one wise industry head recently put it, "a state of mind, not an asset class", and is meant to be all about sensible long-term investing.

While some investors currently sitting on losses may well question the 'sensible' part of that equation, Woodford contrarian approach has not been without much success in the past.

In terms of sectors, healthcare is a major theme in the WPC, with 48.61%, while telecom, media and technology is at 19.25% and financials at 16.4%.

Comparisons are odious
With so many differences, comparing performance between the two is rather odious. For one, investment trusts should be for the long term and Smithson has been in existence for less than a year so far.

Furthermore, WPC has been hit by the stink surrounding the flagship Woodford Equity Income fund, which was gated in June after a rush of investor redemptions followed a period of pretty odorous performance.

This partly stemmed from the open-ended fund's high proportion of unlisted and other illiquid assets, arguably investments that should have been focused mostly or entirely in the WPC vehicle, which was set up as an investment trust as this really is the only suitable structure for illiquid investments.

Over the past 12 months WPC's NAV is down 10.4% and has tumbled 17.6% since launch, while the shares, which in their early days enjoyed a premium of more than 10%, sit at a discount of more than 46% to NAV at Tuesday's closing price of 43.9p.

Time will tell

Myron Jobson at Interactive Investor notes that WPC has sold off even more sharply since news of the suspension of the Woodford Equity fund is to continue until at least December.

"In addition, the huge funding requirements of holdings in WPCT such as Proton Partners and the listing status of its two largest holdings - Industrial Heat and Benevolent AI - which were delisted from the International Stock Exchange in Guernsey are among other key concerns that have taken its toll on performance," Jobson said.

"The trust trades at a discount and some investors say that as the name indicates patience is the key and they are backing Woodford to come good. Only time will tell."