Smithson
Investment Trust

Dear Fellow Shareholder,

The performance of Smithson Investment Trust ('Smithson'), along with comparators, is laid out below. In 2024 the Net Asset Value per share (NAV) of the Company increased by 2.1% and the share price increased by 4.9%. Over the same period, the MSCI World Small and Mid Cap Index ('SMID'), our reference index, increased by 11.5%. We also provide the performance of UK bonds and cash for comparison.

	Total Return 1 January 2024 to 31 December 2024 %	Inception to 31 December 2024 Cumulative %	Annualised %
Smithson NAV[1]	+2.1	+63.2	+8.2
Smithson Share Price	+4.9	+48.4	+6.6
SMID Equities[2]	+11.5	+64.2	+8.3
UK Bonds[3]	-2.3	-7.0	-1.2
Cash[4]	+5.1	+12.9	+2.0

[1] Source: Bloomberg, starting NAV 1000, net of fees.

[2] MSCI World SMID Index, £ Net, source: www.msci.com.

[3] Bloomberg Series-E UK Govt 5 – 10 yr Bond Index, source: Bloomberg.

[4] £ Interest Rate, source: Bloomberg. Inception 19.10.18.

After a strong market sell-off in the last few days of the year, our final performance for 2024 can only be described as mediocre. It will also be marked down as the second time since inception in 2018 that we have finished the year behind our reference index.

Despite expectations at the end of 2023 that interest rates were close to peaking for this cycle, they actually increased again during 2024, with US 10 year bond yields rising from 3.9% at the start of the year to 4.5% by the end, exacerbated by comments from the Federal Reserve in December that interest rate cuts in 2025 will be less than expected. While it is tempting to point out again the headwind to strategy performance that this creates (causing the larger future profits of our faster growing and more highly rated companies to be discounted more by the higher interest rates), not everything can be blamed on this.

As described later in more detail, our individual performance detractors were not particularly severe, with no single position detracting as much as our worst performer in 2023, a year in which the portfolio generated a double digit return and outperformed the reference index by four percentage points. Instead, it was a lack of outstanding winners getting the portfolio motoring; the top performer this year would have ranked only 5th on last year's hit list. However, big winners were definitely out there, even in the small and mid-cap sector, which again underperformed the large cap sector, this time by 11% over the year.

What to do? This year's performance has prompted us to expend time and thought on potential improvements and as a result we have made incremental changes to our process. To become world class in any endeavour requires not only a relentless high effort, but the focus of that effort into a singular area of expertise. And, like a magnifying glass focusing the sun's energy onto a single spot, the more effective the focus, the brighter your result.

Thus, the primary change to our process is to focus ever closer on the specific areas where we think the best long term returns will reside, with the exclusion of all distractions. We are already fortunate to have the luxury to ignore any area of the market that we don't think will provide sustainable long term returns and can therefore remove the noise of such things as meme stocks, unprofitable companies, fluctuating commodities (including bitcoin) and all other highly volatile diversions. But while we were concentrating on companies of £500 million to £15 billion in market capitalisation, we now believe our attention should be placed into businesses in the lower half of this range, driven by the fact that many of our companies have grown quite large during our period of ownership. It makes intuitive sense to us that a good small company has a much greater probability of increasing in value multiple times than a large one. You will notice the first change in the portfolio to directly address this described below.

Further, we believe that if we can find small companies which are improving their profitability by serving long term growth areas within our typical sectors of technology, industrials, consumer and healthcare, there will be plenty of future ‘multiple bagger’ investments presented to us. We have identified many such growth areas including the electrification of industry and transport, energy infrastructure construction and maintenance, space and aerospace industry suppliers, AI deployment and data centre construction, healthcare diagnostics and small pharmaceutical and biotechnology company research and development. Other recent changes in the portfolio have originated from these avenues of discovery.

This year, we have also made the first addition to the investment management team, with Kurran Aujla joining as an analyst. Will Morgan recently left the company.

Of course, the overarching investment strategy, proven over decades, of buying good companies, not overpaying and then holding as long as we can to allow our investments to compound in value, remains unchanged. To demonstrate the quality of the companies in the portfolio, the table below outlining their average operating metrics shows that they remain far superior to the average company in the Index.

LTM Figures	Smithson Investment Trust	MSCI SMID
ROIC	26%#	8%
Gross Margin	62%	30%
Operating Profit Margin	25%	8%
Cash Conversion	104%	80%
Interest Cover	61x	5x

Source: Fundsmith

Data for the MSCI World SMID Cap Index is shown ex-financials, with weightings as at 31.12.2024.

Data for MSCI World SMID Cap Index is on a weighted average basis, using last available reported figures as at 31.12.24

Data for Smithson portfolio is on a weighted average basis, ex-cash, using last available reported figures as at 31.12.24

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

Return On Invested Capital for Smithson excludes Verisign which now has a negative balance of invested capital after share buybacks

Not overpaying for these companies can be assessed by looking at the average free cash flow yield (the free cash flow divided by the market capitalisation) of the portfolio. This has increased to 3.3% from 2.8% this time last year. Over the last twelve months, the growth in free cash flow for our companies was 45% on a weighted average basis, although this includes several companies rebounding in profitability from a low point induced by the pandemic. The median average figure, which in this case is likely more instructive, was 22%.

Regarding our holding period, while our ambition is to maintain our positions for many years, this is particularly difficult with small companies, for three main reasons:

1) management teams, particularly those which are founder-led, are able to and sometimes prone to abruptly change the capital allocation strategy of the company;

2) the niche markets in which small companies operate can quickly shift in terms of demand trends or competitive dynamics, exacerbated by some companies having exposure to just a single market;

3) the more volatile share prices of small capitalisation companies relative to large capitalisation ones can lead to more frequent valuation extremes in the former group.

All of the divestments made from the portfolio this year can be explained by one or more of the issues listed above. This trading activity, as well as new additions to the portfolio, meant that discretionary portfolio turnover (excluding share buybacks), was 35.9% compared to 27.2% in 2023. We believe this is a reasonable level given the necessity to take more frequent action when managing a portfolio of smaller capitalisation companies and remains well below the average turnover for all actively managed equity funds, which tends to be above 60%, according to Morningstar.

Costs of all dealing, including taxes, amounted to 0.03% (3 basis points) of NAV in the period, similar to the 0.03% incurred in 2023. The Ongoing Charge Figure was 0.86% of NAV, compared with 0.87% in 2023. This includes the Management Fee of 0.9%, applied to the market capitalisation of the Trust, which was lower than the NAV during the year. Combined, this means the Total Cost of Investment in the Trust was 0.89% of NAV (2023: 0.90%).

In terms of portfolio changes, having explained the purchases during the first half year of HMS Networks, Choice Hotels, Inficon, Reply and Melexis and the sales of IPG Photonics, Temenos and Domino's Pizza Enterprises in the interim report, I shall simply comment here on those changes that were made in the second half of 2024.

We bought a position in Monotaro, which is an online MRO (maintenance and repair organisation) based in Japan selling all the products that businesses need to run, except for raw materials. For example, products sold include safety clothing, tools, spare parts and office furniture. Monotaro is the largest online reseller in Japan, with around 15% market share, but currently only 20% of the Japanese domestic MRO market is online. This provides a good path to growth and we expect revenue to grow at around 15% a year as most of the marginal growth in the industry accrues to Monotaro as the largest player, supported by its broad product selection and strong online presence. Further, the company was founded as a JV by the US company WW Grainger, which still holds a 50% stake, and which was so impressed with Monotaro's technology that it has licenced it for use in its own US online business.

We also acquired a position in Medpace, a US company that provides outsourced research and development and drug trial services to small pharmaceutical and biotechnology companies. This is an attractive market being the fastest growing part of the pharmaceutical industry. These small companies typically opt for full service contracts given a lack of internal infrastructure, and such contracts often carry the highest margins, making Medpace one of the fastest growing, highest margin and highest return contract research organisations in the industry. The company has only grown organically to date (i.e. with no acquisitions), and continues to be run by the founder. It is also currently trading on a lower than average rating due to market concerns regarding the post-pandemic funding environment for biotechnology companies, although weak funding environments have proven to be short lived when they occurred in the past.

These new positions were funded by selling out of three existing holdings. TechnologyOne, a company which had increased in share price by five times during our period of ownership, had become the highest rated company in the portfolio and was trading at a valuation we could no longer justify. We also sold out of Fortinet, which, after having increased in share price by four times since we acquired it in 2020, had become very large at over $60bn in market capitalisation, making it an appropriate source of capital with which to acquire smaller companies. Finally, Cognex was sold as its exposure to deteriorating economic conditions in China and the global autos sector was causing the business to struggle, while it appears the market still had high hopes for the company, given it was trading on a lofty multiple.

To discuss in more detail the fund performance, let's start with what went wrong. The top five detractors to performance are shown below.

Security	Country	Contribution %
Temenos	Switzerland	-1.3%
Spirax Group	UK	-1.3%
Domino's Pizza Enterprises	Australia	-1.2%
Fevertree Drinks	UK	-1.1%
Qualys	United States	-1.0%

Source: Northern Trust.

Temenos, a Swiss banking software company, caused us much frustration over the first few months of the year. We now believe that the company will require more investment in the short and medium term to fix a badly managed transition to a Software as a Service (SaaS) business model, which will likely place pressure on both margins and returns over the coming years. We therefore sold the company in the first half.

Spirax Group, the industrial business based in the UK, has been a victim of slowing global industrial production growth over the last couple of years, which has continued falling, down from 1.5% in August to 0.9% now. All regions have slowed but there was particular weakness in China due to its struggling property market having knock-on effects across its economy. Further to this, Spirax's peristaltic pumps business has a large exposure to the pharmaceutical sector which has been weak since the pandemic-stimulated boost faded away. Still, the latest trading statement showed some acceleration in group revenue growth, with all business units now growing again, which we take as a positive early sign of recovery.

Domino's Pizza Enterprises, the Australian Domino's franchisor also performed poorly during the year. This is a company that had performed very well until 2021, after which mis-execution in several markets, including Japan and Germany, led to underperformance. While management has set out a plan to recover sales in these markets, we believe that given the amount of time this turnaround might take, our shareholders' capital would be better deployed in other opportunities, and we sold the position. Interestingly, the company's supervisory Board appeared to share our impatience and recently parted ways with the long serving CEO.

Fevertree is the UK producer of premium tonics and mixers. While its margins have been recovering from the logistics and raw material cost squeeze it suffered in recent years, its overall demand environment has become weaker over the last 12 months due to declining alcohol consumption, particularly the gin market in the UK, its largest and most profitable market.

Qualys is a US company providing cyber security software and its order growth has been held back recently by the macroeconomic uncertainty leading to reductions in corporate IT budgets. We expect this to be temporary and for orders to recover once corporate budgets start growing again. Indeed, in the latest results, billings growth rebounded to 14%, sending the share price up 16% at the time of the report. As it happens, there was also bid speculation reported on the same date, causing the shares to jump a further 10% by the end of the day.

The top five contributors to performance are shown below.

Security	Country	Contribution %
Fortinet	United States	1.6%
Fisher & Paykel Healthcare	New Zealand	1.4%
Addtech	Sweden	1.0%
TechnologyOne	Australia	0.9%
Diploma	UK	0.9%

Source: Northern Trust.

Fortinet, the US cybersecurity company performed extremely well this year, up 55% in share price terms, after results in Q2 and Q3 positively surprised the market. In particular, the growth rate of bookings started reaccelerating in Q2 after a substantial slowdown over the last couple of years. This news sent the share price up 25% in a single day, which once more demonstrates that equity returns are anything but linear.

Fisher & Paykel Healthcare, the medical device company based in New Zealand, had a much better year as its demand recovered from the post-Covid lull it had experienced over the last couple of years, propelling the share price to new highs.

Addtech, the diversified Swedish industrial business, has only been in the portfolio for 3 years but over that time its share price has more than doubled. Earnings results over the last 12 months continued to be better than expected, primarily due to its strategy of frequently acquiring small, profitable companies at low multiples of earnings.

TechnologyOne, the software company based in Australia, continued its strong share price performance as the business managed to maintain the mid-teens revenue growth it has achieved since 2022. This is a result of a successful transition to Software-as-a-Service (SaaS) for its Enterprise Resource Planning (ERP) software, which has proven popular with institutional clients such as universities and the UK government.

Diploma is an industrial distribution business that has performed so well over the last few years that it has grown into our largest holding. This has been achieved through an admirable ability by management to maintain organic growth in the mid single digit range despite the slowing global industrial production, while also adding new companies to the group which have significantly outperformed management's initial expectations, thus proving to be extremely good value acquisitions.

The current positioning of the fund 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 1965 – our companies may be small, but they are not unproven.

Sector	31 December 2024 (%)	31 December 2023 (%)
Industrials	42%	36%
Information Technology	20%	28%
Health Care	13%	12%
Consumer Discretionary	11%	10%
Consumer Staples	8%	8%
Financials	4%	3%
Materials	2%	2%
Cash	0%	1%

Source: Northern Trust.

The Industrials sector weighting has increased over the year due to the outperformance of several of our industrial companies, including Addtech and Diploma mentioned already, but also with notable performances from Rational and Verisk. The Information Technology sector declined in weight due to the sale of IPG Photonics, Temenos, TechnologyOne and Fortinet, and despite the addition of HMS Networks, Inficon, Reply and Melexis. Healthcare was the only other notable mover, increasing in weight due to the addition of Medpace.

Region	31 December 2024 (%)	31 December 2023 (%)
USA	50%	45%
UK	16%	14%
Italy	9%	10%
Germany	7%	7%
Switzerland	5%	8%
New Zealand	4%	3%
Sweden	3%	3%
Denmark	3%	4%
Japan	2%	0%
Belgium	1%	0%
Australia	0%	5%
Cash	0%	1%

Source: Northern Trust.

The table above illustrates how the regional exposure in terms of country of listing has changed during the year. The USA is the largest country exposure and increased further due to the outperformance of the country relative to other developed markets in 2024. The other countries to change meaningfully are Switzerland, after the acquisition of Inficon, Australia, after the sale of Domino's Pizza Enterprises and TechnologyOne and Japan, with Monotaro being our first direct exposure to the country.

The geographical weighting that we pay most attention to though is the economic exposure of our companies, measured by the origin of revenue (below). Here, one can see that portfolio changes have meant that the exposure to North America now more closely matches the listed weighting, as our US based acquisitions have more domestic exposure as a proportion of their business than the ones which were sold. The exposure to Europe has decreased in line with this change while the exposure to emerging markets was little changed.

Source of Revenue	31 December 2024 (%)	31 December 2023 (%)
North America	51%	41%
Europe	27%	34%
Asia Pacific	17%	19%
Eurasia, Middle East, Africa	3%	4%
Latin America	2%	2%

Source: Fundsmith.

In closing, the performance of the portfolio this year is far from what we expect. But with a systematic and disciplined focus on where we hope to find exciting opportunities and an incessant determination to leave no stone unturned in our pursuit of attractive long term investments, we feel confident about the future of the Trust and appreciate your continued support.

Simon Barnard
Fundsmith LLP
Investment Manager

Disclaimer: A Key Information Document and the prospectus for the Fund are available via the Smithson website or on request and investors should consult these documents before purchasing shares in the fund. Past performance is not necessarily a guide to future performance. The value of investments and the income from them may fall as well as rise and be affected by changes in exchange rates, and you may not get back the amount of your original investment. Fundsmith LLP does not offer investment advice or make any recommendations regarding the suitability of its products. This document is a financial promotion and is communicated by Fundsmith LLP which is authorised and regulated by the Financial Conduct Authority.

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Portfolio turnover is a measure of the fund's trading activity and has been calculated by taking the total share purchases and sales divided by the average net asset value of the fund.

P/E ratios and Free Cash Flow Yields are based on trailing twelve month data and as at 31st December 2024 unless otherwise stated. Percentage change is not calculated if the TTM period contains a net loss.

The MSCI World SMID Index captures mid and small cap representation across 23 Developed Markets countries and, as such, is a fair comparison given the fund's investment objective and policy.

The Bloomberg Bond Indices UK Govt 5-10 yr shows what you might have earned if you had invested in UK Government Debt.

The £ Interest Rate shows what you might have earned if you had invested in cash.

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