Dear Fellow Shareholder,

The performance of Smithson Investment Trust ('Smithson'), along with comparators, is laid out below. In 2023 the Net Asset Value per share (NAV) of the Company increased by 13.3% and the share price increased by 8.2%. Over the same period, the MSCI World Small and Mid-Cap Index ('SMID'), our reference index, increased by 9.1%. I also provide the performance of UK bonds and cash for comparison.

	Total Return 1 January 2023 to 31 December 2023 %	Launch to 31 December 2023 Cumulative %	Launch to 31 December 2023 Annualised %
Smithson NAV[1]	+13.3	+59.8	+9.4
Smithson Share Price	+8.2	+41.5	+6.9
SMID Equities[2]	+9.1	+47.2	+7.7
UK Bonds[3]	+5.6	-4.9	-1.0
Cash[4]	+4.6	+7.5	+1.4

[1] Source: Bloomberg, starting NAV 1000.

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

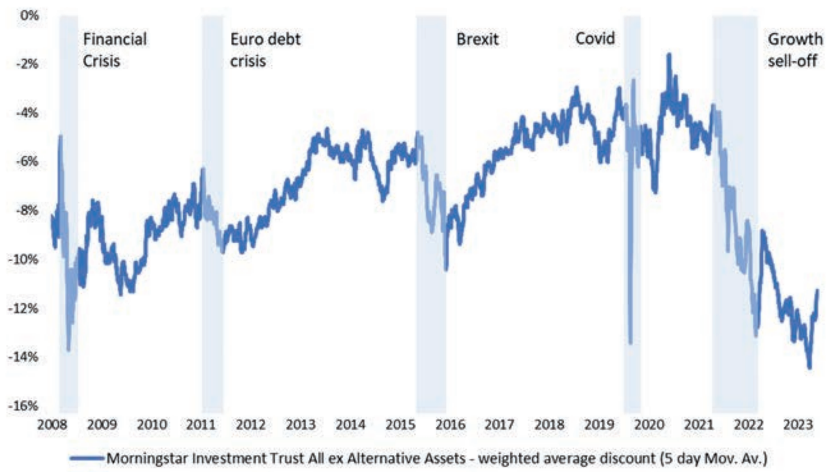
[3] Bloomberg/Barclays Bond Indices UK Govt 5-10 yr, source: Bloomberg.

[4] Month £ LIBOR Interest Rate source: Bloomberg.

We are pleased to have generated a NAV return of 13.3% during a relatively volatile period for the market, and in doing so, to have outperformed the reference index.

2023 saw the 5th anniversary of the launch of the Smithson Investment Trust and over the last five years Smithson is the best performing trust in the Association of Investment Companies Global Smaller Companies sector and is more than 20 percentage points ahead of the average performance of the sector*. Further, while the NAV compound return of 9.4% is ahead of our reference index, given the current low point in the market we would hope for greater absolute performance in the future should the market provide the backdrop to achieve this.

We are disappointed that the share price performance of Smithson has lagged the NAV performance during the last couple of years. The chart below shows the average trust sector discount over the last 15 years and one can see that not even in the depths of the financial crisis in 2008/09 did trust discounts get to the same level as that reached in 2023.



*NAV performance over five years to 31/12/2023.

Smithson is not immune to this, and we believe that despite the regular share buybacks conducted by the Board, our discount has been exacerbated by this market phenomenon. This sector discount is a clear indicator of the recent bear market in equities, and so long as our performance continues to be satisfactory, there is one key factor in the eventual resolution of this situation: time. I believe there will come a future period, unknowable in advance, when market sentiment allows Smithson to once more trade at a premium.

It has been a busy 12 months, taking advantage of low prices during the weak market to improve and diversify the portfolio. After these actions, we are unashamedly enthusiastic about what we now own. The portfolio is without doubt in the best shape it has been since inception and I am excited to share the changes with you, but first I must explain our state of mind.

Our lifetime is finite. This is known by all but accepted by few, outside of possibly those who have received a terminal medical diagnosis. I don't wish to be morbid but only to emphasise the point that what you do with your time in any given moment is an active choice to exclude every other option, as you will never have time to do everything. It is the same for constructing a concentrated portfolio. As there are only a certain number of companies we can hold at any given moment we have to exclude the tens of thousands of other companies we could own. Which is a good thing, because just as one ought to be highly selective as to how to spend one's time, it makes us choose our investments very carefully.

It was Peter Lynch who coined the word 'diworsification' to describe the problem with including different assets of dubious quality with the sole intention of increasing diversification. We have not done this. We believe every one of the companies we have acquired to be of very high quality, and we have funded these purchases with companies we felt were below the average quality in the portfolio.

The new companies we invested in this year were Graco, Exponent, Oddity, Croda and Clorox and those we sold to facilitate this were Domino's Pizza Group, Rightmove and Masimo.

Graco – pronounced Gray-co after the founding Gray brothers – is a US company which designs, manufactures and markets systems and equipment to measure and dispense fluid and powdered materials. Founded in 1926, it is the market leader in technology and expertise for the management of fluids and coatings in both industrial and commercial applications. We were attracted by its stable operating margin of over 25% and high return on invested capital of 40%. These metrics have been achieved over a long period of time, and we hope will continue long into the future, thanks to the fact that its products are of very high quality and are sold under brands which are trusted by customers to help solve manufacturing problems, increase productivity, conserve energy, save material, control environmental emissions and reduce labour costs. We also feel we were provided a good entry point in terms of valuation as worries about a recession in the US, had caused share price weakness.

Exponent took the fund into a new sector of consulting. This industry can be highly competitive and doesn't often have the ability to grow quickly and profitably through operating leverage as they need more staff to bill more hours. As is often the case in human capital businesses, the humans tend to take the majority of the returns at the expense of the business (think investment banks). However, Exponent is different. It was founded in 1967 in California as Failure Associates, which is appropriate as it focuses on highly technical areas across a broad range of scientific disciplines, often in response to disasters or litigation. For instance, they did investigative work for the Challenger shuttle explosion, the Piper Alpha oil platform disaster, the 9/11 World Trade Centre collapse, the Exxon Valdez oil spill, Samsung's exploding tablets, and the preliminary fire investigation into Grenfell Tower. They have assembled the largest group of PhD scientists in the industry for this purpose and are the clear number one player, able to command healthy fees for such specialist projects which do not get passed straight on to the employees. They are mainly being used to defend companies against litigation (which also tends to be price insensitive) or by companies wishing to investigate their own products before launch, such as autonomous driving systems.

Croda is a UK company and the first chemical ingredients company we have bought. Founded in 1925 it wasn't until after WWII that the company moved into cosmetics and fragrances, and now only produces substances from natural and renewable resources, unlike some competitors which still use refined fossil fuels. The company also provides ingredients for life sciences, including being the number one provider of a key component for mRNA delivery systems, which are finding many new applications since their well-publicised use for Covid vaccines. It is their leading market positions in niches such as these, where they produce small but critical components for larger, high value products that makes Croda so interesting to us.

One particular area of success over the last five years was investing in high quality companies that were going through what we call a 'glitch' in their business. This includes companies like Equifax, the US credit data bureau, which we bought in the aftermath of a major cyber-attack which compromised over 150 million consumer records. Despite the large amounts of capital spent by management to improve the security of the company after the attack, and the recent headwinds due to lower mortgage origination, it has still proven to be one of our best performing investments.

Interestingly, we feel we may have just been given a similar opportunity with Clorox. The US household goods company suffered a cyber-attack in August which closed down its operation systems for a few days and resulted in the shares falling over 30% from the recent peak. We started buying the company's shares once the attack had been contained and we believe it has given us a rare opportunity to buy a high quality consumer staples company within our market capitalisation range at a very attractive valuation. Clorox produces branded goods from bleach to cat litter with a track record of strong profitability and steady growth. Regarding the prior point on diversification, it is also quite different to anything else we currently own in the portfolio, in fact in numerical terms it has the lowest historical correlation with the fund of any company in our Investible Universe.

Oddity is another atypical investment for us but one which we believe has substantial opportunity for growth. It is the first ever IPO we have taken part in, and we did not do so lightly. We got to know the management several months before the IPO as we were approached directly by the company after they had been made aware that the business exhibited much of what we look for in a high quality, growing company. We were extremely impressed by the track record as well as the potential opportunity for the company. Oddity is a beauty and wellness company which creates its own brands and products to sell direct to consumers online. So far, the company has launched two brands, Il Makiage and SpoiledChild, both of which have been the fastest growing online brands in history, and now sell more online than large established beauty brands such as MAC. Traditionally there has been a large knowledge gap between consumers and beauty experts, requiring consumers to interact with a trained salesperson to match the myriad of beauty products to their needs and show them how to apply them at home. The large established cosmetics companies haven't so far made strong attempts to sell products to new customers online (refill purchases are obviously easier) but Oddity has been able to build AI technology using data from their users - 1bn datapoints from 40m users - to 'learn' how to match the right products to consumers with inputs including online questionnaires and, increasingly, selfie photos. Their 90% skin match accuracy compared to 80% in-store equivalent has generated over 4m customers, with more than half of revenue now coming from repeat customers. This is not only a strong indication of the value of their service but is also much more profitable. We expect to see very high annual revenue growth for the next few years as the company's technology is several years ahead of established competitors and addresses such an enormous potential market.

Rightmove was one company we sold to facilitate these new investments. OnTheMarket, a weak third tier competitor to Rightmove, was recently acquired by the much larger US company CoStar, which has a history of competing aggressively in the new markets it enters. Even if Rightmove with its dominant number one position wins this war, there could well be a few years of bitter and expensive competition before it's over. We therefore sold our holding of Rightmove soon after the bid was announced.

We sold other businesses where we had doubts about management actions. Domino's Pizza Group had caused us consternation for some time due to the fairly regular turnover of its senior management team. During the period of our ownership we counted four CEOs and four CFOs, and along with mediocre performance for many of those years, our patience eventually wore out.

Masimo is another where we were disappointed by management action, although this team has stayed in place as the CEO is the founder and a large shareholder. The company has a fantastic core business selling best in class sensors to hospitals but management decided to branch out into consumer medical devices, and bought an audio equipment business selling speakers, headphones and home theatre systems because of its access to retail outlets. The situation was further complicated by an activist investor who, after several meetings with us appeared quite sensible, but whom the management team chose to oppose. The final straw came with a profit warning only a few weeks after management had reassured us that everything was 'fine'. This ultimately led to us losing faith and we felt we could no longer trust them to be good stewards of your capital.

Despite these changes our strategy remains the same:

- Buy good companies
- Don't overpay
- Do nothing

To demonstrate that we are still buying good companies, I include the table below, which is the weighted average operating metrics of our owned companies over the last 12 months compared to the reference Index.

LTM Figures	Smithson Investment Trust	MSCI SMID
ROIC	59%#	10%
Gross Margin	61%	34%
Operating Profit Margin	24%	6%
Cash Conversion	97%	71%
Interest Cover	34x	8x

Source: Fundsmith.

Data for the MSCI World SMID Cap Index is shown ex-financials, with weightings as at 31.12.2023.

Data for MSCI World SMID Cap Index is on a weighted average basis, using last available reported financial year figures as at 31.12.2023.

Data for Smithson portfolio is on a weighted average basis, ex-cash, using last available reported financial year figures as at 31.12.2023.

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

ROIC for Smithson includes Verisign (835% ROIC). Excluding Verisign the ROIC is 26%.

The table shows that our portfolio companies remain superior to those in the Index on every metric, most of which are significantly in excess of that observed for the Index. The ROIC is particularly high at 59% although this does include Verisign, with a ROIC of 835%, without which the average ROIC would be 26%. Both of these average figures are higher than the 43% and 23% of last year. All other metrics are broadly similar to 2022 except the cash conversion, which is lower than the 101% recorded last year. As explained in the 2022 report, cash flow has been depressed for many of our companies due to the re-build of inventory after supply chains returned to normal following the Covid pandemic. This is already starting to improve and will likely continue to do so in 2024.

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. While the valuation currently appears expensive, with the free cash flow yield of the portfolio now at 2.4%, the method we have traditionally used to calculate it is very backward looking, with the valuation for many companies being generated by 2022 cash flows due to the timing of their reports. As mentioned above, this includes a significant period when cash flow was depressed. Adjusting the measure to use only 2023 cash flows would put the portfolio free cash flow yield at around 2.8%, which we think is more indicative of the current position, bearing in mind we expect more progress on free cash flow normalisation in 2024. Further, a couple of our companies are still recovering from specific issues which have completely depleted their free cash flow, so should these companies start producing cash again next year, as appears likely, it would potentially take the portfolio free cash flow yield back above 3%.

In terms of 'doing nothing', there was some trading activity as discussed earlier. This meant that discretionary portfolio turnover, excluding share buybacks, was 27.2% compared to 48.5% in 2022. Excluding the sale and reinvestment of the proceeds from the Simcorp bid, over which we had no choice, the turnover was 15.4%. Despite the changes made to the portfolio, this is much lower than last year and still far below the average turnover for actively managed equity funds, which tends to be above 60%, according to Morningstar.

Costs of dealing, including taxes, amounted to 0.03% (3 basis points) of NAV in the period, slightly lower than the 0.03% incurred in 2022, although both figures round to the same number. The Ongoing Charge Figure was 0.87% of NAV, compared with 0.91% in 2022. 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 0.90% of NAV (2022: 0.94%).

To review in more detail the fund performance in 2023, I highlight the largest detractors of performance below.

Security	Country	Contribution %
Sabre	United States	-1.5%
Masimo	United States	-1.2%
Paycom Software	United States	-0.7%
Cognex	United States	-0.5%
Domino's Pizza Enterprises	Australia	-0.5%

Source: State Street.

Sabre, travel software company, was the largest detractor in 2023 for two reasons. First, during the course of the year it became apparent that travel industry volumes, whilst still recovering, were growing slower than the rates seen in 2021 and 2022. Second, Sabre took on significant debt during the pandemic and the company's profitability was therefore impacted by the sharp rise in interest rates. We continue to believe that the travel industry will keep growing, which will in turn enable the company to reduce its debt over time to the benefit of our equity investment.

Our issues with Masimo have been outlined above and although we made money on the position over our period of ownership, having sold shares at much higher levels during the pandemic, we unfortunately lost money on the remaining holding during the course of this year.

Paycom, the US company providing human resources management software, underperformed after management reduced its guidance for revenue growth this year. With revenue tied to the number of employees enrolled in its software, the weaker US jobs market over the last 12 months provided a more difficult backdrop for the company's short term growth.

Cognex, the US factory and warehouse automation company, suffered declining revenue and earnings throughout the year as its largest customers held back on building or upgrading their manufacturing and logistics facilities. Consumer electronics was a sector particularly hard hit. As we see no fundamental issues with the company or its competitive position, we continue to hold as we wait for the expected upturn to arrive in the coming years.

The performance of Domino's Pizza Enterprises was also disappointing in the period. This was primarily due to the fiscal half year results, released in February, indicating weaker sales after prices and delivery charges had been increased to offset cost inflation. Consumer price sensitivity was noted in Japan and Germany particularly. Fortunately, the company's performance was much improved in the second half of its fiscal year, so management now appear to be resolving the issue.

The top five contributors to performance are shown below.

Security	Country	Contribution %
Simcorp	Denmark	2.0%
Nemetschek	Germany	1.8%
Temenos	Switzerland	1.8%
Qualys	United States	1.6%
Recordati	Italy	1.2%

Source: State Street.

Simcorp, the asset management software company, was the biggest contributor to performance in the year thanks to the share price moving up 38% in one day in April after the company was bid for by Deutsche Börse. The acquisition was completed in October.

We found that several companies whose share prices had been weak in 2022, despite the underlying businesses continuing to perform well, saw their price rebound in 2023. Nemetschek, the construction and media software company, up 66%, and Qualys, the cybersecurity software company, up 75%, were both examples of this.

Temenos, the bank software provider, is a company which did not perform as expected in 2022 but where fundamentals improved in 2023 after the CEO was replaced by the Executive Chairman. Things are now starting to move further in the right direction, both in the terms of the new contracts being signed with large international bank customers, and the underlying operating metrics of the business, including cash flow conversion.

Recordati's share price rose steadily through the year, with the healthcare company posting double digit organic sales and profit growth, with improvement in both its rare disease and primary care drugs. This was bolstered by the acquisition of commercialisation rights for two urology drugs from GSK. It now expects 2023 results to come at the high end of its original guidance range, and to exceed the mid term targets it previously disclosed.

An honourable mention also goes to Verisk, just outside the list, as it is an interesting example of a company with an attractive core business, in this case insurance data analytics, surrounded by much poorer performing ancillary divisions (often built up, as it was in this case, through acquisition). 2022 was the year when management finally decided to sell the underperforming businesses, leaving shareholders with a much higher quality asset by the end of 2023. The market rewarded this action with a rerating in the company's valuation over the course of the year.

The 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 1967 – our smaller companies are far from being deemed 'start-ups'.

Sector	31 December 2023 (%)	31 December 2022 (%)
Industrials	36%	23%
Information Technology	28%	38%
Healthcare	12%	15%
Consumer Discretionary	10%	13%
Consumer Staples	8%	4%
Financials	3%	3%
Materials	2%	0%
Communication Services	0%	3%
Cash	1%	1%

Source: State Street.

The changes are immediately obvious, with Information Technology for the first time since inception no longer being the largest sector weighting. Instead, the top position is now occupied by Industrials after the acquisition of Graco and Exponent, and the re-classification by MSCI of Paycom from Information Technology to Industrials and Sabre from Information Technology to Consumer. Healthcare has decreased slightly due to the sale of Masimo while Consumer Staples has almost doubled in size from the addition of Clorox. The decline of Communication Services to zero is due to the sale of Rightmove.

Region	31 December 2023 (%)	31 December 2022 (%)
USA	45%	40%
UK	14%	17%
Italy	10%	10%
Switzerland	8%	6%
Germany	7%	6%
Australia	5%	7%
Denmark	4%	8%
Sweden	3%	2%
New Zealand	3%	3%
Cash	1%	1%

Source: State Street.

The table above illustrates how the regional exposure in terms of country of listing has changed over the course of the year. The USA is still the largest country exposure and has actually increased thanks to the US listed acquisitions mentioned earlier. The UK exposure is smaller due to the sale of Rightmove and Domino's Pizza Group, offset by the purchase of Croda. Aside from the halving of the Danish weighting after Simcorp exited the portfolio, other differences are somewhat limited, being mostly caused by stock market movements during the year.

The geographical weighting that we pay most attention to though, is the economic exposure of our companies, measured by the origin of revenue. This year, North America increased with the new additions, to once more become the largest exposure, with the decrease in UK and Danish exposure now making Europe number two on the list. The other entries are broadly unchanged from last year. While Smithson only invests in developed markets, some of those companies generate revenue in emerging markets, shown by the EMEA and Latin America lines below.

Source of Revenue	31 December 2023 (%)	31 December 2022 (%)
North America	41%	36%
Europe	34%	39%
Asia Pacific	19%	19%
Eurasia, Middle East, Africa	4%	4%
Latin America	2%	2%

Source: Fundsmith.

We end this year with significant optimism for the future. Not only is portfolio positioning the best we believe it has ever been, but the subject of much of my commentary over the last couple of years, the interest rate cycle, is almost certainly at its peak. The upward movement in interest rates has been the strongest negative force against the relative performance of small and mid-cap equities and it is perhaps worth observing that over the two years since rates started increasing, the MSCI World Small and Mid-cap index has underperformed the MSCI World Large cap index by over 10%. We wait to see what effect falling rates might have.

We thank you once more for your support of Smithson and look ahead to a bright future in the coming years.

Simon Barnard
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