Fundsmith Equity Fund
Short Form Report

For the year ended 31 December 2017

Fundsmith

Profile of the fund

Investment objective and policy

The aim of Fundsmith Equity Fund ("the Fund") is to achieve long term growth in value.

The Fund will invest in equities on a global basis. The Fund's approach is to be a long-term investor in its chosen stocks. It will not adopt short-term trading strategies.

The Fund has stringent investment criteria which the Authorised Corporate Director (ACD) and any appointed investment manager adhere to in selecting securities for the Fund's investment portfolio. These criteria aim to ensure that the Fund invests in businesses:

- that can sustain a high return on operating capital employed;
- whose advantages are difficult to replicate;
- which do not require significant leverage to generate returns;
- with a high degree of certainty of growth from reinvestment of their cash flows at high rates of return;
- that are resilient to change, particularly technological innovation; and
- whose valuation is considered by the Fund to be attractive.

Risk profile

The Fund has no exposure to derivatives and no borrowings. Further, the investments are all in large publicly quoted companies where there is significant liquidity in the stock. The principal risk factor is the market price of the securities held by the Fund which is kept under review in the light of the Fund's objectives.

Currency risk: The Fund's portfolio is a global share portfolio and many of the investments are not denominated in Sterling. There is no currency hedging in place and the price may therefore rise or fall purely on account of exchange rate movements.

Concentration risk: The investment criteria adopted by the Fund significantly limits the number of potential investments. The Fund generally holds 20 to 30 stocks and so it is more concentrated than many other funds. This means that the performance of a single stock within the portfolio has a greater effect on the price of the shares of the Fund.

Risk warning

Any stock market investment involves risk. These risk factors are contained in the full Prospectus. Investors should be aware that the price of shares and the income from them can fall as well as rise and investors may not receive back the full amount invested. Past performance is not a guide to future performance.

Risk and reward profile

Lower risk — Typically lower rewards | Higher risk — Typically higher rewards

1	2	3	4	5	6	7

The risk category reflects the significance of the Fund's share price fluctuations based on historical data. Historical data may not be a reliable indication of the future risk profile of the fund. The risk category of the Fund is not guaranteed and may change over time. Further, the lowest category of risk does not mean risk free.

Generally, the higher the risk category, the greater the potential for higher returns but also the higher the risk of losing money. The Fund is in Category 5 reflecting the risks inherent in the Fund's investment portfolio, including that of capital losses. The underlying investments are, however, in large companies with shares that are highly liquid.

There are a number of other risks that are not covered by the indicator above. A full description is contained in the prospectus under the heading "Risk Factors". The most material are currency risk and concentration risk which are explained above.

Performance Record

As at 31 December 2017

Change in net assets per share	T Class (Accumulation shares) 31.12.17 (p)	31.12.16 (p)	31.12.15 (p)	T Class (Income shares) 31.12.17 (p)	31.12.16 (p)	31.12.15 (p)
Opening net asset value per share	294.75	231.35	199.97	275.28	217.80	190.37
Return before operating charges	69.71	66.24	33.65	64.98	62.21	31.80
Operating charges	(3.53)	(2.84)	(2.27)	(3.29)	(2.66)	(2.15)
Return after operating charges	66.18	63.40	31.38	61.69	59.55	29.65
Distributions	(2.01)	(2.21)	(2.34)	(1.87)	(2.07)	(2.22)
Retained distributions on accumulation shares	2.01	2.21	2.34	–	–	–
Closing net asset value per share	360.93	294.75	231.35	335.10	275.28	217.80
After direct transaction costs of:	0.12	0.13	0.13	0.11	0.12	0.12
Performance						
Return after operating charges	22.45%	27.40%	15.70%	22.41%	27.34%	15.57%
Other information	£	£	£	£	£	£
Closing net asset value	1,995,229,262	1,483,593,346	999,310,168	169,761,429	139,644,464	109,730,718
Closing number of shares	552,805,417	503,333,749	431,944,155	50,659,894	50,727,913	50,382,100
Ongoing charge figure*	1.05%	1.06%	1.07%	1.05%	1.06%	1.07%
Direct transaction costs	0.04%	0.05%	0.06%	0.04%	0.05%	0.06%
Prices						
Highest share price	364.77	305.18	233.13	338.89	285.76	220.17
Lowest share price	293.66	221.51	196.44	274.26	208.54	185.52

Change in net assets per share	R Class (Accumulation shares) 31.12.17 (p)	31.12.16 (p)	31.12.15 (p)	R Class (Income shares) 31.12.17 (p)	31.12.16 (p)	31.12.15 (p)
Opening net asset value per share	285.82	225.47	195.86	274.90	217.60	190.21
Return before operating charges	67.46	64.42	32.85	64.80	61.93	31.74
Operating charges	(5.04)	(4.07)	(3.24)	(4.83)	(3.79)	(3.14)
Return after operating charges	62.42	60.35	29.61	59.97	58.14	28.60
Distributions	(0.93)	(0.88)	(1.25)	(0.89)	(0.84)	(1.21)
Retained distributions on accumulation shares	0.93	0.88	1.25	–	–	–
Closing net asset value per share	348.24	285.82	225.47	333.98	274.90	217.60
After direct transaction costs of:	0.12	0.12	0.12	0.11	0.12	0.12
Performance						
Return after operating charges	21.84%	26.77%	15.12%	21.81%	26.72%	15.03%
Other information	£	£	£	£	£	£
Closing net asset value	214,534,477	151,796,524	91,894,710	21,617,959	18,124,119	43,076,791
Closing number of shares	61,605,186	53,108,693	40,756,530	6,472,856	6,592,971	19,796,535
Ongoing charge figure*	1.55%	1.56%	1.57%	1.55%	1.58%	1.57%
Direct transaction costs	0.04%	0.05%	0.06%	0.04%	0.05%	0.06%
Prices						
Highest share price	352.00	296.25	227.21	337.59	285.01	219.46
Lowest share price	284.62	215.83	191.78	273.75	208.29	185.24

Performance Record (continued)

As at 31 December 2017

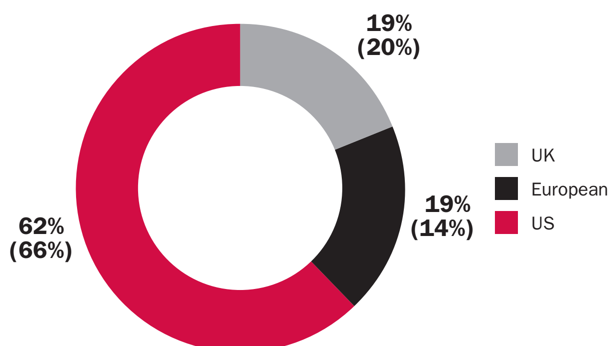
Change in net assets per share	I Class (Accumulation shares) 31.12.17 (p)	31.12.16 (p)	31.12.15 (p)	I Class (Income shares) 31.12.17 (p)	31.12.16 (p)	31.12.15 (p)
Opening net asset value per share	296.56	232.53	200.78	275.31	217.81	190.38
Return before operating charges	70.17	66.64	33.82	65.01	62.26	31.80
Operating charges	(3.22)	(2.61)	(2.07)	(2.98)	(2.43)	(1.95)
Return after operating charges	66.95	64.03	31.75	62.03	59.83	29.85
Distributions	(2.36)	(2.50)	(2.56)	(2.19)	(2.33)	(2.42)
Retained distributions on accumulation shares	2.36	2.50	2.56	–	–	–
Closing net asset value per share	363.51	296.56	232.53	335.15	275.31	217.81
After direct transaction costs of:	0.12	0.13	0.13	0.11	0.12	0.12
Performance						
Return after operating charges	22.58%	27.54%	15.81%	22.53%	27.47%	15.68%
Other information	£	£	£	£	£	£
Closing net asset value	6,420,742,471	4,038,574,367	1,665,042,251	4,589,257,018	3,231,524,070	1,645,010,538
Closing number of shares	1,766,325,585	1,361,786,758	716,047,119	1,369,331,709	1,173,767,633	755,248,320
Ongoing charge figure*	0.95%	0.96%	0.97%	0.95%	0.96%	0.97%
Direct transaction costs	0.04%	0.05%	0.06%	0.04%	0.05%	0.06%
Prices						
Highest share price	367.36	306.99	234.32	339.10	285.88	220.29
Lowest share price	295.49	222.66	197.37	274.32	208.56	185.56

*The Ongoing Charge Figure (OCF) is the ratio of the Fund's total disclosable costs (excluding overdraft interest) to the average net assets of the Fund.

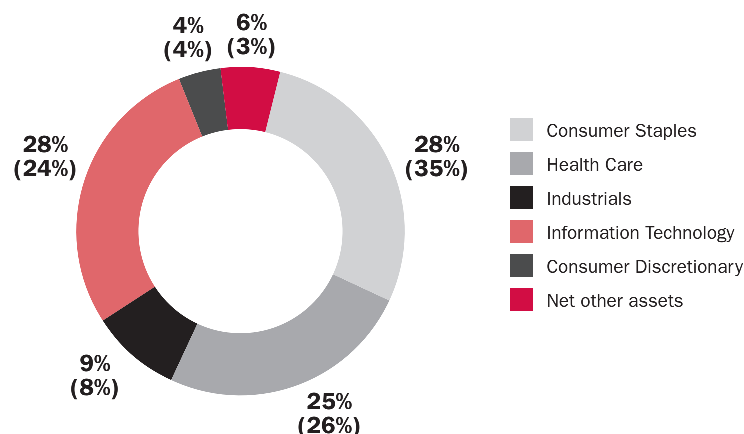
The prices in the above table are different from the published dealing prices that were available for investors on the 29 December. This is to comply with accounting rules that require us to publish the net asset value in this report based on close of day prices. The dealing prices were used in the investment managers review and the factsheet as the fund could only be bought or sold at those prices.

Information on the fund

Breakdown by geography*
as at 31 December 2017



Breakdown by sector
as at 31 December 2017



The figures in brackets show comparative figures at 31 December 2016.

Summary of significant changes

For the year 1 January 2017 to 31 December 2017		For the year 1 January 2016 to 31 December 2016	
Largest purchases	**Cost (£)**	**Largest purchases**	**Cost (£)**
Novo Nordisk	358,582,195	JM Smucker	241,170,472
Becton Dickinson and Company	300,046,157	Estée Lauder Companies	226,304,913
Intuit	282,337,803	Paypal	218,133,792
Dr Pepper Snapple	228,261,826	Amadeus IT	179,846,529
Reckitt Benckiser	208,349,743	Waters	179,253,315
Total	**1,377,577,724**	**Total**	**1,044,709,021**
Total purchases for the year	**3,010,703,590**	**Total purchases for the year**	**2,998,662,360**
Largest sales	**Proceeds (£)**	**Largest sales**	**Proceeds (£)**
JM Smucker	324,420,720	Procter & Gamble	95,276,499
Imperial Brands	318,965,139		
CR Bard	286,731,951		
Reckitt Benckiser	18,679,638		
Total	**948,797,448**	**Total**	**95,276,499**
Total sales for the year	**948,797,448**	**Total sales for the year**	**95,276,499**

*Breakdown by geography is by country listing and not reflective of breakdown by operations.

Investment Manager's review

As is now traditional, this report reproduces, in part, the Annual letter that was sent out in mid-January. The table below shows performance figures for the last calendar year and the cumulative and annualised performance since inception on 1st November 2010 compared with various benchmarks.

	Total Return 1.1.17 to 31.12.17 %	Inception to 31.12.17 Cumulative %	Inception to 31.12.17 Annualised %
Fundsmith Equity Fund[1]	+22.0	+261.7	+19.7
Equities[2]	+11.8	+135.5	+12.7
UK Bonds[3]	+1.4	+34.2	+4.2
Cash[4]	+0.4	+4.4	+0.6

[1]*T Class Acc shares, net of fees, priced at noon UK time.*
[3]*Bloomberg/Barclays Bond Indices UK Gov. 5–10 yr.*
[1,3,4]*Source: Bloomberg.*
[2]*MSCI World Index, £ net, priced at close of business US time.*
[4]*3 Month £ LIBOR Interest Rate.*
[2]*Source: www.msci.com.*

The table shows the performance of the T Class Accumulation shares, the most commonly held class and one in which I am invested, which rose by +22.0% in 2017 and compares with +11.8% for the MSCI World Index in sterling with dividends reinvested. The Fund therefore beat this benchmark in 2017, and our Fund remains the No.1 performer since its inception in the Investment Association Global sector by a cumulative margin of 40 percentage points over the second best fund and 160 percentage points above the average for the sector which delivered +101.2%.

However, I realise that many or indeed most of our investors do not use the MSCI World Index as the natural benchmark for their investments. Those of you who are based in the UK may look to the FTSE 100 Index ('FTSE' or 'FTSE 100') as the yardstick for measuring your investments and may hold funds which are benchmarked to this index and often hug it. The FTSE delivered a total return of +12.0% in 2017 so our Fund outperformed this by a margin of 10.0%.

Last year in order to describe our Fund's performance for the year I quoted the commentator's cliché that football is a game of two halves, because in 2016 a strong first half performance by our Fund contrasted with a weaker second half of the year.

The commentator's quote I wish to use to describe this year's performance is from Yogi Berra, the American baseball player, manager and coach, who had some deceptively simplistic or seemingly illogical aphorisms. One of my favourites is 'You can observe a lot by watching' which I think some people would do well to consider. However, the one which I think expresses the performance of the Fund and market in 2017 is 'It's déjà vu all over again'. What have we experienced in December? A fall in technology sector shares and a rise in bank shares in anticipation of the next rise in interest rates by the Federal Reserve Bank.

When judging these events, the fact that we seem to have seen this movie before might lead us to conclude that we know how it will end.

I can now trace back five years of market commentary that has warned that shares of the sort we invest in, our strategy and our Fund would underperform. During that time the Fund has risen in value by over 175%. The fact that you would have foregone this gain if you had followed their advice will of course be forgotten by them if or when their predictions that our strategy will underperform the 'value' strategy of buying cyclicals, financials and assorted junk pays off for a period.

You or they might well counter by saying that this past outperformance is all very well but it does not help you in making a decision on whether to own our Fund from today, which must surely be determined by its future performance or as the legalese goes 'Past performance is not necessarily a guide to future performance'. I think the key word in that sentence is 'necessarily'.

Investment Manager’s review (continued)

Let me offer a couple of thoughts on that.

The first problem is of course that the commentators upon whom you might rely may simply be wrong. I have lost track of the number of analysts, commentators and pundits who predicted that:

- The UK would vote for ‘Remain’ in the Brexit referendum
- The UK would enter a recession immediately if it voted to ‘Leave’ the EU
- Donald Trump would not become President
- Narendra Modi would not become Prime Minister of India
- Narendra Modi’s economic reforms would fail
- Theresa May would have such a resounding victory in the 2017 election that Labour would disintegrate
- Angela Merkel would sweep to victory in the German elections
- President Trump’s tax reform bill would not be passed by the US legislature

In some cases, they have a ‘Full House’ having made all these predictions. The fact that they have been shown to be comprehensively wrong does not seem to stop them from giving us the dubious benefit of further predictions. They seem to have forgotten that their role is to report events accurately and have decided that instead they need to influence the outcome to one they desire. They also seem to have missed the point that voicing your views in an echo chamber is not likely to lead to a challenging debate in which to test your opinions.

Thankfully, I spend little or no time trying to apply predictions about macro events in order to manage our portfolio. However, that does not mean that I do not think about them. As I have maintained for most of the decade since the Financial Crisis, looking back to the Great Depression for an analogy that would enable us to understand these events and form a view of how they may unfold is probably a mistake.

A better analogy may be the Long Depression of 1873–96 when a new industrial power came on stream and caused a wave of deflation as it could manufacture goods cheaper than in the Old World. That industrial power was America after the Civil War. The Long Depression was also preceded by a collapse of part of the banking system. Sound familiar?

The wave of deflation we have been experiencing has been caused by a number of factors. These include the rise of China as the world’s greatest industrial power, other cheap manufacturers and the offshoring of manufacturing to cheap manufacturers under free trade agreements, such as Mexico under NAFTA, which so exorcises President Trump. The situation now is probably worse than it was during the Long Depression insofar as then there was virtually no international competition in services whereas now in our connected world there is in software (India) and call centres (the Philippines), for example. Plus there is the rise of the so-called gig economy in which the internet, casual employment and the sharing of assets have made price comparisons easier, and have driven down prices and returns in retail (Amazon), transport (Uber) and lodging (Airbnb), for example.

If the closest analogy for the events which we have experienced since the Financial Crisis is the Long Depression, we may be barely half way through it simply on the basis of elapsed time. In which case, the period of sluggish economic growth and low interest rates which we have experienced over the past decade may persist for some considerable time. I think this is likely for the simplest of reasons: little or nothing has been done to correct the problems which led to the Financial Crisis. The unsupportable expansion of credit that sparked the crisis has not been resolved. There is in fact more debt in existence now than there was in 2007. Admittedly, some of it is in different hands – China has more debt now and much of the debt in the developed world has been ‘socialised’ and assumed by governments. However, governments are just us collectively, contrary to the fevered imaginings of the ‘magic money tree’ devotees. What seems to have happened over the past decade is a prolonged experiment in borrowing your way out of a debt problem. Maybe it will work, although I am amongst those who would bet against it, but it certainly is not the sort of circumstance which would suggest that a ‘normal’ economic recovery or a rapid rise or ‘hike’ in interest rates is likely.

Secondly, if you nonetheless take the view that our Fund’s strategy has indeed delivered a good performance but that valuations (which I will come to later) for stocks of the sort it owns are high and that this will limit their share price performance at least in the near term, the obvious problem this poses is what you or we might invest in as an alternative.

Investment Manager's review (continued)

This presents several problems. One is that the valuation of the Fund's stocks are not all that much higher than the market, especially when their relative quality is taken into account. Of course, all this may prove is that everything is expensive or at least highly rated, and there are plenty of pundits and fund managers who have indeed suggested that we are in a so-called 'bubble' which will end badly with everything falling a long way. So far, they have only managed to demonstrate the difficulty in making predictions and implementing actions based upon them. Even if they are eventually proven right, why will a basket of cyclical stocks and financials prove to perform better in these circumstances than a group of companies which are high quality and defensive in terms of supplying everyday consumables and necessities? The events of 2007 – 09 suggest that the opposite is true.

There is also the fact that the alternative of investing in cyclicals, financials and so-called 'value' stocks involves investing in companies, which over time do not create shareholder value by generating returns on capital above their cost of capital and growing by deploying more capital at such favourable returns. We seek to invest in companies which accomplish this.

Quoting Warren Buffett, the 'Sage of Omaha' and arguably the best investor over the past fifty or so years has in my view become somewhat passé. It is frequently done by acolytes or imitators many of whom seem to have done only the most cursory study of what he actually does, if anything at all. So instead I am going to quote his business partner and Berkshire Hathaway's Vice Chairman, Charlie Munger:

'Over the long term, it's hard for a stock to earn a much better return than the business which underlies it earns. If the business earns 6% on capital over 40 years and you hold it for that 40 years, you're not going to make much different than a 6% return – *even if you originally buy it at a huge discount*. Conversely, if a business earns 18% on capital over 20 or 30 years, *even if you pay an expensive looking price, you'll end up with a fine result*' (emphasis added).

I have no idea why Mr. Munger chose those particular rates of return but what I do know is that he is not voicing an opinion. What he is describing is a mathematical certainty. If you invest for the long term in companies which can deliver high returns on capital, and which invest at least a significant portion of the cash flows they generate to earn similarly high returns, over time that has far more impact on the performance of the shares than the price you pay for them. Yet I have been asked far more frequently whether a share, a strategy or a fund is cheap or expensive than I am asked about what returns the companies involved deliver and whether they are good companies which create value or not.

Even though Mr. Munger is right it requires a long-term investment perspective to capture that compounding by high return companies, and finding those companies is not easy especially as you need to assess their ability to grow and ward off competition. But the most difficult part of applying the investment strategy suggested by Mr. Munger's quote, and which we seek to apply, is us. Our inability to take a really long-term view, particularly through the periods when our chosen strategy and companies are not performing as well as less good companies, which are enjoying their period in the sun, is our greatest enemy.

Moving on to review the outcome for 2017 in terms of our Fund's strategy. As you hopefully know by now, we have a simple three step investment strategy:

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

I intend to review how we are doing against each of these in turn.

As usual, we seek to give some insight into the first of those – whether we own good companies – by giving you the following table which shows what Fundsmith would be like if instead of being a fund it was a company and accounted for the stakes which it owns in the portfolio on a 'look through' basis, and compares this with the market, in this case the FTSE 100 Index and the S&P 500 Index ('S&P 500').

This year we not only show you how the portfolio compares with the major indices but also how it has evolved over time.

The companies in our portfolio have consistently had significantly higher returns on capital and better profit margins than the average for the indices. They convert more of their profits into cash and achieve this with a much lower level of borrowing than the average company. Moreover, their average level of borrowing is

Investment Manager’s review (continued)

	Fundsmith Equity Fund Portfolio								S&P 500	FTSE 100
Year ended	2010	2011	2012	2013	2014	2015	2016	2017	2017	2017
ROCE	29%	28%	29%	31%	29%	26%	27%	28%	15%	14%
Gross margin	54%	58%	58%	63%	60%	61%	62%	63%	44%	41%
Operating margin	20%	22%	23%	24%	25%	25%	26%	26%	13%	13%
Cash conversion	117%	103%	101%	108%	102%	98%	99%	102%	97%	96%
Leverage	63%	15%	44%	40%	28%	29%	38%	37%	52%	46%
Interest cover	15x	27x	18x	16x	15x	16x	17x	17x	7x	8x

Source: Fundsmith LLP/Bloomberg.

ROCE, Gross Margin, Operating Profit Margin and Cash Conversion are the weighted mean of the underlying companies invested in by the Fundsmith Equity Fund and the mean for the FTSE 100 and S&P 500 Indices. The FTSE 100 and S&P 500 numbers exclude financial stocks. The Leverage and Interest Cover numbers are both median. All ratios are based on last reported fiscal year accounts as at 31st December and as defined by Bloomberg. Cash Conversion compares Free Cash Flow per Share with Net Income per Share.

significantly lower than it was when we started the Fund. The world at large may not have de-geared much but the companies in our portfolio have. Nor is this a one off – they have been achieving these superior results for many years. The average year of foundation of our portfolio companies at the year end was 1916.

Consistently high returns on capital are one sign we look for when seeking companies to invest in. Another is a source of growth – high returns are not much use if the business is not able to grow and deploy more capital at these high rates. So how did our companies fare in that respect in 2017? The weighted average free cash flow (the cash the companies generate after paying for everything except the dividend, and our preferred measure) grew by 13% in 2017. We regard this as a very good result given the generally lackluster growth which the world continues to experience.

This leads onto the question of valuation. The weighted average free cash flow (‘FCF’) yield (the free cash flow generated by the companies divided by their market value) on the portfolio at the outset of the year was 4.4% and ended it at 3.7% so they did become more highly rated. However, it is important to bear in mind that this is not a like-for-like comparison as our portfolio did not remain static over the year. In fact the two shares we sold – Imperial Brands and J M Smucker – had by far the highest FCF yields in the portfolio and much higher than the FCF yields of the one we purchased – Intuit. If we had not made these changes the portfolio FCF yield would have remained at 4.0% (although it is worth noting that the growth rate would have been significantly lower – the FCF of both companies fell in 2017) so some of the fall in yield was a result of our action rather than any rise in market valuations.

The year end mean FCF yield on the S&P 500 was 3.9% and the median 4.1%. The year end mean FCF yield on the FTSE 100 was 5.6% and the median 4.9%. More of our stocks are in the former index than the latter. To try to cut through all these means and medians, our portfolio consists of companies that are fundamentally a lot better than those in the index and are valued more highly than the average FTSE 100 company and slightly higher than the average S&P 500 company.

However, that should not be taken to mean that we are entirely comfortable with the seemingly ever higher rating which the shares in our portfolio are achieving. It is clearly a finite and reversible source of performance. However, the growth in the free cash flows of the portfolio are providing a greater portion of the performance which is how we would prefer it and what Mr. Munger might have predicted.

One aspect of our performance which we have often been asked about in the past is the degree to which it has benefited from the strength of the US dollar as the majority of the stocks we own are listed in the United States. This is a complex subject as currency

Investment Manager's review (continued)

exposure is driven by where a company derives its revenues rather than where it is headquartered or listed. However, this year there has been a noticeable absence of such questions. Could this perhaps be because in 2017 the best estimate we have is that the weakness of the US dollar cost our Fund some -5.9%. The performance in 2017 was attained despite this headwind.

For the year the top five contributors to the Fund's performance were:

Paypal	+2.9%
Amadeus	+2.3%
CR Bard	+1.8%
Novo Nordisk	+1.5%
Waters Corp	+1.4%

CR Bard is making an appearance for the second year running, at least partly because it was bid for by Becton Dickinson, another of our portfolio companies.

The bottom five were:

JM Smucker	- 0.3%
Imperial Brands	- 0.2%
Dr Pepper Snapple	0.0%
Colgate Palmolive	+0.1%
Reckitt Benckiser	+0.1%

We sold our holdings in JM Smucker and Imperial Brands during the year.

JM Smucker was a disappointment. One half of the business is in ambient packaged food in which it is a struggle to generate growth – Folgers coffee, Jif peanut butter and Smucker's jams (jellies if you are American). However, what attracted our interest was when JM Smucker acquired the Big Heart Pet Brands pet food business from private equity. We are keen on businesses which sell to pet owners, such as IDEXX, albeit indirectly, and we had made a very good return on the Big Heart business when it was owned by Del Monte before it was acquired by private equity. However, the outcome in terms of the margins and returns achieved on the business by JM Smucker proved to be disappointing and we were concerned by the management's reaction to this especially as JM Smucker is a family controlled company.

Imperial Brands is the former Imperial Tobacco that we had held since the inception of the Fund. We had become increasingly concerned about the company's positioning in terms of its lack of exposure to the developing world and to the next generation reduced risk products such as heat not burn devices, all of which has led to volumes falling at a rate that it is difficult to cope with. We were even more concerned by the management reaction which we literally could not understand.

Colgate makes the table of our five worst performers for the second year running even though it is our smallest position. It has been facing a tough time with its largest market being Brazil.

Turning to the third leg of our strategy which we succinctly describe as 'do nothing', minimising portfolio turnover remains one of our objectives and this was again achieved with a portfolio turnover of 5.4% during the period. It is perhaps more helpful to know that we have held 13 of our portfolio companies since inception and we spent a total of £1.3m or just 0.011% (1.1 basis points) of the Fund's average value over the year on voluntary dealing (which excludes dealing costs associated with fund subscriptions and redemptions as these are involuntary).

Why is this important? It helps to minimise costs, and minimising the costs of investment is a vital contribution to achieving a satisfactory outcome as an investor. Too often investors, commentators and advisers focus on or in some cases obsess about the Annual Management Charge ('AMC') or the Ongoing Charges Figure ('OCF'), which includes some costs over and above the AMC, which are charged to the Fund. The OCF for 2017 for the T Class Accumulation shares was 1.05%. The trouble is that the OCF does not include an important element of costs – the costs of dealing. When a fund manager deals by buying or selling investments for a fund, the fund typically incurs the cost of commission paid to a broker, the bid-offer spread on the stocks dealt in and, in some cases, transaction taxes such as stamp duty in the UK. This can add significantly to the costs of a fund yet it is not included in the OCF.

Investment Manager's review (continued)

We provide our own version of this total cost including dealing costs, which we have termed the Total Cost of Investment ('TCI'). For the T Class Accumulation shares in 2017 this amounted to a TCI of 1.08%, including all costs of dealing for flows into and out of the Fund, not just our voluntary dealing. We think that figure will prove to be low if or when other funds produce comparable numbers. However, we would caution against becoming obsessed with charges to such an extent that you lose focus on the performance of a fund. It is worth pointing out that the performance of the Fund tabled at the beginning of this letter is after charging all fees which should surely be the main focus.

Finally, I wish you a happy New Year and thank you for your continued support for our Fund.

Terry Smith
CEO
Fundsmith LLP
21 February 2018

Remuneration disclosure

We are required to make this remuneration disclosure to the Funds' investors in accordance with the Undertakings for Collective Investment in Transferable Securities (UCITS) Directive as amended by Directive 2014/91/EU (UCITS V Directive).

During the year ending 31 March 2017, Fundsmith LLP ('Fundsmith') had 19 members of personnel in total, including employees and Partners. The total amount of remuneration paid to Fundsmith personnel during this period was £19,052,741. Out of this figure, the total amount of remuneration paid to the Partners of Fundsmith LLP was £14,158,194 whilst the total amount of remuneration paid to the employees of Fundsmith LLP was £4,894,547.

Of the £4,894,547 paid to Fundsmith employees, £3,720,469 was variable remuneration and £1,174,078 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.

Overall, therefore, of the £19,052,741 of total remuneration, £15,332,272 was fixed remuneration and £3,720,469 was variable remuneration.

The financial year of Fundsmith Equity Fund (FEF) 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 2016 to 31 March 2017. These figures have been independently audited and filed with Companies House.

The rules require us to disclose both the amount of remuneration paid in total, and the amount paid to " Identified Staff" (broadly, senior management and/or risk takers). Fundsmith's only Identified Staff are the Partners. The Partners all fall within the category of "senior management"; two of the Partners also fall within the category of risk-takers and also one in the category of control staff. To avoid duplication all Partners' remuneration is disclosed within the category of senior management. The total remuneration therefore paid to senior management is £14,158,194.

The information above relates to Fundsmith LLP as a whole, and we have not broken it down by reference to FEF or the other funds that we manage. Nor have we shown the proportion of remuneration which relates to the income we earn from our management of FEF. We have not provided such a breakdown because this does not reflect the way we work or the way we are organised at Fundsmith. All of the Partners and most of our employees are involved in the management of FEF. We have not included information relating to remuneration paid by Fundsmith Investment Services Limited, to whom Fundsmith LLP delegates certain portfolio management activities.

Remuneration at Fundsmith LLP is deliberately straightforward. Our employees are paid a competitive salary. At the end of each financial year, our 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. We consider that this is the best way to ensure that our Partners' interests are completely aligned with our investors' interests over the long term. This alignment of interest is reinforced by the fact that Fundsmith Partners have invested a significant amount in FEF.

The Management Committee of Fundsmith LLP has reviewed the Remuneration Policy and considers that it meets all regulatory requirements and is satisfied that no irregularities occurred during the period.

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

Further information

Report and accounts

Each year, we publish on our website (www.fundsmith.co.uk) annual and semi-annual reports discussing investment activity during the period and providing management commentary.

UCITS IV

The Fund is an Undertaking for Collective Investment in Transferable Securities ("UCITS IV") for the purpose of the Council Directives 2001/107/EC ("the Management Directive") and 2001/108/EC ("the Product Directive").

Prospectus

The Fund Prospectus, an important document describing Fundsmith Equity Fund in detail, is available from the ACD, which is responsible for the management and administration of the Funds.

Also available are the Key Investor Information Document (KIID) and the Supplementary Information Documents (SID).

The ACD for Fundsmith Equity Fund is Fundsmith LLP located at 33 Cavendish Square, London W1G 0PW

Minimum investment

The company has three different types of share classes:

I shares, R shares and T shares.

The T share class has been used as the representative share class.

There are two types of share available in each class – Income shares or Accumulation shares.

The following table summarises the investment levels for T shares.

Minimum lump sum investment level	**£1,000**
Minimum regular sum investment level	**£100**
Minimum top-up investment amount	**£250**
Minimum holding level	**£1,000**

Publication of prices

The most recent share prices will be published daily in the Daily telegraph or Financial Times.

Dealing charges

There are no dealing charges on the purchase, sale or switching of shares.

Dilution adjustment

The ACD may impose a dilution adjustment to the share price.

The dilution adjustment aims to mitigate the costs to the Company of making investments (when additional cash is available following new investment into the Company) or selling investments in order to meet redemption requests.

Further information regarding the circumstances in which a dilution adjustment may be applied is set out in the full Prospectus.

Contact details

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Authorised and regulated by The Financial Conduct Authority.
FCA Registration Number IC000846

Authorised Corporate Director

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United Kingdom

Authorised and regulated by The Financial Conduct Authority.
FCA Registration Number 523102

Registrar

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Administrator

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Depositary

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Financial Conduct Authority

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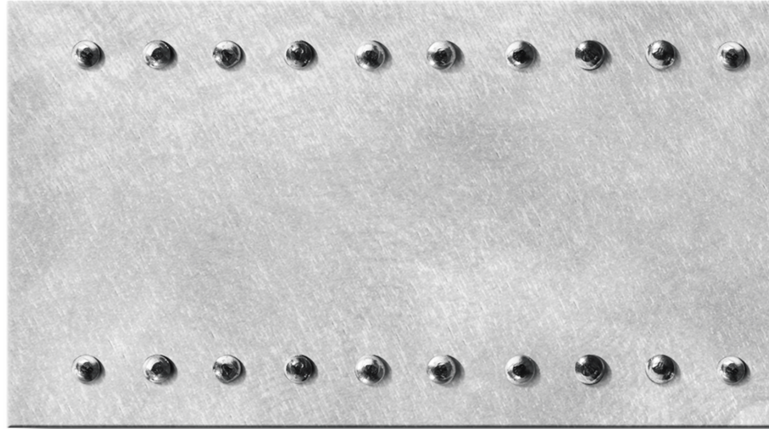

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