



**Fundsmith Equity Fund**  
Short Form Report

**For the six months ended 30 June 2016**



**Fundsmith**



## Profile of the fund

### Investment objective and policy

The aim of Fundsmith Equity Fund (“the Fund”) is to achieve long term growth and 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



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 30 June 2016

Change in net assets per share	30.06.16 (p)	T Class (Accumulation shares)		
		31.12.15 (p)	31.12.14 (p)	31.12.13 (p)
Opening net asset value per share	231.35	199.97	162.16	129.38
Return before operating charges	40.52	33.65	39.70	34.50
Operating charges	(2.61)	(2.27)	(1.89)	(1.73)
Return after operating charges	37.91	31.39	37.81	32.78
Distributions on income units	-	-	-	-
Closing net asset value per share	269.26	231.35	199.97	162.16
Retained distributions on accumulation shares	1.44	2.34	2.05	1.83
After direct transaction costs of	0.10	0.13	0.16	0.10
<b>Performance</b>				
Return after operating charges	16.39%	15.70%	23.32%	25.33%
<b>Other information</b>				
	£	£	£	£
Closing net asset value	1,297,273,681	999,310,168	741,941,491	490,338,454
Closing number of shares	481,787,085	431,944,155	371,035,373	302,371,596
Ongoing charge figure*	1.08%	1.07%	1.09%	1.11%
Direct transaction costs	0.04%	0.06%	0.09%	0.07%
<b>Prices</b>				
	(p)	(p)	(p)	(p)
Highest share price	269.30	233.13	202.30	164.70
Lowest share price	221.51	196.44	155.45	130.17

Change in net assets per share	30.06.16 (p)	T Class (Income shares)		
		31.12.15 (p)	31.12.14 (p)	31.12.13 (p)
Opening net asset value per share	217.80	190.37	156.18	126.05
Return before operating charges	38.14	31.79	37.97	33.58
Operating charges	(2.46)	(2.15)	(1.81)	(1.67)
Return after operating charges	35.68	29.64	36.16	31.91
Distributions on income units	(1.36)	(2.22)	(1.97)	(1.78)
Closing net asset value per share	252.12	217.80	190.37	156.18
Retained distributions on accumulation shares	-	-	-	-
After direct transaction costs of	0.09	0.12	0.15	0.10
<b>Performance</b>				
Return after operating charges	16.38%	15.57%	23.16%	25.32%
<b>Other information</b>				
	£	£	£	£
Closing net asset value	130,576,857	109,730,718	92,563,157	61,593,449
Closing number of shares	51,791,104	50,382,100	48,622,593	39,437,719
Ongoing charge figure*	1.08%	1.07%	1.09%	1.11%
Direct transaction costs	0.04%	0.06%	0.09%	0.07%
<b>Prices</b>				
	(p)	(p)	(p)	(p)
Highest share price	253.52	220.17	193.31	159.22
Lowest share price	208.54	185.52	149.73	126.82

\*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.

## Performance Record (continued)

As at 30 June 2016

Change in net assets per share	30.06.16 (p)	R Class (Accumulation shares)		
		31.12.15 (p)	31.12.14 (p)	31.12.13 (p)
Opening net asset value per share	225.47	195.86	159.64	128.00
Return before operating charges	40.00	32.85	38.91	34.11
Operating charges	(3.72)	(3.24)	(2.69)	(2.47)
Return after operating charges	36.28	29.61	36.22	31.64
Distributions on income units	-	-	-	-
Closing net asset value per share	261.75	225.47	195.86	159.64
Retained distributions on accumulation shares	0.82	1.25	1.16	1.04
After direct transaction costs of	0.10	0.12	0.15	0.10
<b>Performance</b>				
Return after operating charges	16.09%	15.12%	22.69%	24.72%
<b>Other information</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Closing net asset value	118,838,518	91,894,710	114,715,949	96,290,925
Closing number of shares	45,401,106	40,756,530	58,569,039	60,319,176
Ongoing charge figure*	1.58%	1.57%	1.59%	1.61%
Direct transaction costs	0.04%	0.06%	0.09%	0.07%
<b>Prices</b>	<b>(p)</b>	<b>(p)</b>	<b>(p)</b>	<b>(p)</b>
Highest share price	261.81	227.21	198.17	162.51
Lowest share price	215.83	191.78	152.95	128.78

Change in net assets per share	30.06.16 (p)	R Class (Income shares)		
		31.12.15 (p)	31.12.14 (p)	31.12.13 (p)
Opening net asset value per share	217.60	190.21	156.09	125.99
Return before operating charges	38.39	31.74	37.87	33.53
Operating charges	(3.53)	(3.14)	(2.62)	(2.41)
Return after operating charges	34.86	28.60	35.25	31.12
Distributions on income units	(0.77)	(1.21)	(1.13)	(1.02)
Closing net asset value per share	251.69	217.60	190.21	156.09
Retained distributions on accumulation shares	-	-	-	-
After direct transaction costs of	0.09	0.12	0.15	0.10
<b>Performance</b>				
Return after operating charges	16.02%	15.03%	22.58%	24.70%
<b>Other information</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Closing net asset value	16,833,797	43,076,791	45,962,297	47,773,516
Closing number of shares	6,688,253	19,796,535	24,163,678	30,607,111
Ongoing charge figure*	1.58%	1.57%	1.59%	1.61%
Direct transaction costs	0.04%	0.06%	0.09%	0.07%
<b>Prices</b>	<b>(p)</b>	<b>(p)</b>	<b>(p)</b>	<b>(p)</b>
Highest share price	252.64	219.46	192.72	159.01
Lowest share price	208.29	185.24	149.57	126.76

\*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.

# Performance Record (continued)

As at 30 June 2016

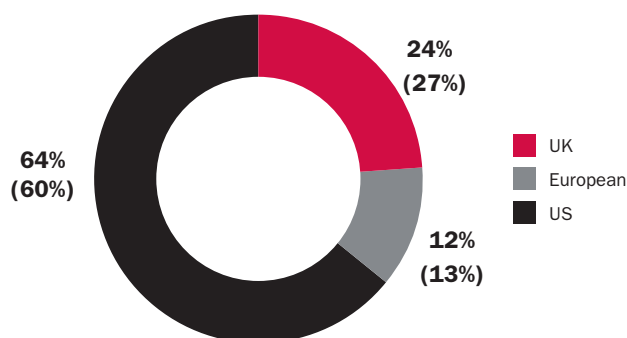
Change in net assets per share	30.06.16 (p)	I Class (Accumulation shares)		
		31.12.15 (p)	31.12.14 (p)	31.12.13 (p)
Opening net asset value per share	232.53	200.78	162.66	129.64
Return before operating charges	40.66	33.82	39.85	34.60
Operating charges	(2.40)	(2.07)	(1.73)	(1.58)
Return after operating charges	38.26	31.75	38.12	33.02
Distributions on income units	-	-	-	-
Closing net asset value per share	270.79	232.53	200.78	162.66
Retained distributions on accumulation shares	1.58	2.56	2.24	1.99
After direct transaction costs of	0.10	0.13	0.16	0.10
<b>Performance</b>				
Return after operating charges	16.45%	15.81%	23.44%	25.47%
<b>Other information</b>				
	£	£	£	£
Closing net asset value	2,979,267,829	1,665,042,251	843,461,107	284,018,857
Closing number of shares	1,100,197,792	716,047,119	420,087,945	174,608,637
Ongoing charge figure*	0.98%	0.97%	0.98%	1.01%
Direct transaction costs	0.04%	0.06%	0.09%	0.07%
<b>Prices</b>				
	(p)	(p)	(p)	(p)
Highest share price	270.81	234.32	203.12	165.13
Lowest share price	222.66	197.37	155.94	130.43

Change in net assets per share	30.06.16 (p)	I Class (Income shares)		
		31.12.15 (p)	31.12.14 (p)	31.12.13 (p)
Opening net asset value per share	217.81	190.38	156.18	126.05
Return before operating charges	38.06	31.80	37.97	33.58
Operating charges	(2.24)	(1.95)	(1.64)	(1.52)
Return after operating charges	35.82	29.85	36.33	32.06
Distributions on income units	(1.47)	(2.42)	(2.13)	(1.93)
Closing net asset value per share	252.16	217.81	190.38	156.18
Retained distributions on accumulation shares	-	-	-	-
After direct transaction costs of	0.09	0.12	0.15	0.10
<b>Performance</b>				
Return after operating charges	16.44%	15.68%	23.26%	25.43%
<b>Other information</b>				
	£	£	£	£
Closing net asset value	2,516,412,066	1,645,010,538	1,161,061,308	598,649,920
Closing number of shares	997,935,583	755,248,320	609,850,760	383,317,013
Ongoing charge figure*	0.98%	0.97%	0.98%	1.01%
Direct transaction costs	0.04%	0.06%	0.09%	0.07%
<b>Prices</b>				
	(p)	(p)	(p)	(p)
Highest share price	253.66	220.29	193.40	159.28
Lowest share price	208.56	185.56	149.74	126.82

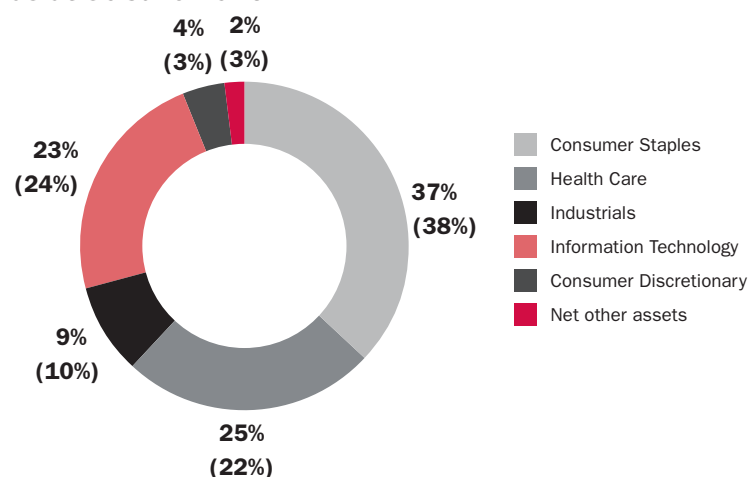
\*The Ongoing Charge Figure (OCF) is the ratio of the Fund's total disclosable costs (excluding overdraft interest) to the average net assets of the Fund.

## Information on the fund

**Breakdown by geography\***  
as at 30 June 2016



**Breakdown by sector**  
as at 30 June 2016



The figures in brackets show comparative figures at 31 December 2015.

### Summary of significant changes

For the six months to 30 June 2016		For the six months to 30 June 2015	
<b>Largest purchases</b>	<b>Cost (£)</b>	<b>Largest purchases</b>	<b>Cost (£)</b>
JM Smucker	226,237,478	Intertek	66,304,727
Estee Lauder Companies	146,265,496	Sage	55,446,840
Paypal	145,088,440	Waters	50,117,376
Waters	110,474,383	Johnson & Johnson	42,077,094
Amadeus IT	106,815,629	eBay	41,084,821
<b>Total</b>	<b>734,881,426</b>	<b>Total</b>	<b>255,030,858</b>
<b>Total purchases for the six months</b>	<b>1,764,492,129</b>	<b>Total purchases for the six months</b>	<b>582,450,615</b>
<b>Largest sales</b>	<b>Proceeds (£)</b>	<b>Largest sales</b>	<b>Proceeds (£)</b>
Procter & Gamble	95,276,499	Domino's Pizza	50,334,456
		Choice Hotels	37,344,359
		Becton Dickinson	15,060,142
<b>Total</b>	<b>95,276,499</b>	<b>Total</b>	<b>102,738,957</b>
<b>Total sales for the six months</b>	<b>95,276,499</b>	<b>Total sales for the six months</b>	<b>102,738,957</b>

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

# Investment Manager's review

The table below shows the performance of the Fund during the first half of 2016 and since inception compared with a number of benchmark indices:

	01.01.16 –	Since inception	
	30.06.16	Cumulative	Annualised
	%	%	%
<b>Fundsmith Equity Fund</b>	16.4	169.3	19.1
MSCI World	11.0	82.3	11.2
FTSE100	6.7	41.3	6.3
UK Gilts	7.7	33.8	5.3
Cash	0.3	3.8	0.7

Our Fund outperformed what is perhaps the most obvious benchmark – the MSCI World Index – by a bit over 5% during the first half of 2016 period for equities. It outperformed the FTSE100 Index which is relevant to many of our UK investors by closer to 10%.

The main contributors to our performance in the first half of 2016:

<b>TOP 5</b>	<b>% Contribution*</b>
Stryker	1.79
CR Bard	1.60
Idexx Laboratories	1.38
JM Smucker	1.30
Johnson & Johnson	1.22

The top five detractors from our Fund's performance during the period were:

<b>BOTTOM 5</b>	<b>% Contribution*</b>
Microsoft	-0.09
Procter & Gamble	-0.02
Estee Lauder	+0.08
Colgate-Palmolive	+0.20
Paypal	+0.21

None of these price moves seem to us to indicate that we should have significant worries about continuing to hold these stocks.

We began purchasing a holding in Estee Lauder during the period. It is a leading cosmetics business headquartered in America and we believe it complements our holding in L'Oreal through its greater emphasis on make-up rather than skin care or fragrances.

With regard to portfolio changes, our sole outright sale was our stake in Procter & Gamble. We expressed concern about P&G in our Annual Letter. We have felt for some time that its premium pricing in certain products and willingness to accept volume declines was particularly ill-suited to the current era of low growth in demand and we were not encouraged to believe that the business would change stance successfully given that it has had three CEOs in three years all of whom were internal appointees. However, it remains a company in which we are interested in investing if circumstances change or we prove to be wrong.

Our portfolio turnover -9.15% (negative 9.15%). The concept of negative turnover is not particularly easy to grasp or helpful in explaining the dealing activity of our Fund, but it is likely to arise during a period when we had strong flows into our Fund and relatively little dealing activity using the formula which we are obliged to use for this calculation.

Perhaps more important than the arcane methodology of turnover calculations is the question of how much we spent on dealing. Voluntary dealing – in which we made a decision to buy or sell a stock rather than deploying flows into the Fund – cost £142,915 in the first half of 2016 or 0.3 basis points (a basis point or bp being one hundredth of a percent) – that is 0.003% of the average value of the Fund (£5.5bn) in this period. This is very low as any of the stockbrokers who try (mostly unsuccessfully) to deal with us can attest. We eagerly await the day when all funds disclose this cost to see how we compare.

\*Contribution shows the gross contribution to the Fund's return by stock as calculated by State Street Investment Analytics.



## Investment Manager's review (continued)

The Ongoing Charge Figure of OCF for our Fund was just 8bps over the Annual Management Charge. If you are paying 1% AMC, as I am for my investment in the Fund, then the OCF is 1.08% the same as the first half of last year. If you add the costs of all dealing to derive the Total Cost of Investment or TCI this rises to 1.12%.

This may still appear to be acronym strewn gobbledegook but it is an important subject. In order to maximise your returns you need to minimise the cost of investment. Investors too often ignore this or if they focus on it at all they merely look at the AMC or the OCF. However, this is only part of the picture of what you pay before you get the benefit of the performance of the shares in your Fund.

We are confident that the TCI on the Fundsmith Equity Fund is very competitive partly because we deal so infrequently but since most other funds do not yet reveal their TCI, we will continue to have to wait until they do in order to demonstrate that.

Terry Smith  
**Fundsmith LLP**  
17 August 2016

# Further information

## Report and accounts

Each year, you will be sent annual and interim reports discussing investment activity during the period and providing management commentary.

The long report will be available, free of charge upon request from the ACD.

## 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 Fund.

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.

<b>Minimum lump sum investment level</b>	<b>£1,000</b>
<b>Minimum regular sum investment level</b>	<b>£100</b>
<b>Minimum top-up investment amount</b>	<b>£250</b>
<b>Minimum holding level</b>	<b>£1,000</b>

## Publication of prices

The most recent share prices will be published daily on the website ([www.fundsmith.co.uk](http://www.fundsmith.co.uk)) and 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.

## Accounting Dates

	<b>Period end</b>	<b>Distribution payment</b>
<b>Interim</b>	30 June	31 August
<b>Annual</b>	31 December	28 February

## Contact details

### Dealing and enquiries

**Fundsmith LLP**  
**PO Box 10846**  
**Chelmsford**  
**Essex**  
**CM99 2BW**  
**United Kingdom**

**Telephone: 0330 123 1815\***  
**9.00 am to 5.00 pm, Monday to Friday**  
**Website: [www.fundsmith.co.uk](http://www.fundsmith.co.uk)**

### Registered office

Fundsmith Equity Fund  
33 Cavendish Square  
London  
W1G 0PW  
United Kingdom

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

### Authorised Corporate Director

Fundsmith LLP  
33 Cavendish Square  
London  
W1G 0PW  
United Kingdom

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

### Registrar

International Financial Data Services (UK) Limited  
IFDS House  
St Nicholas Lane  
Basildon  
Essex  
SS15 5FS  
Phone 0800 328 1571  
9.00 am to 5.00 pm, Monday to Friday

### Administrator

State Street Bank and Trust Company  
20 Churchill Place  
London  
E14 5HJ  
United Kingdom

### Depository

State Street Trustees Limited  
525 Ferry Road  
Edinburgh  
EH5 2AW  
United Kingdom

Authorised and regulated by The Financial Conduct Authority.  
FCA Registration Number 186237

### Independent auditor

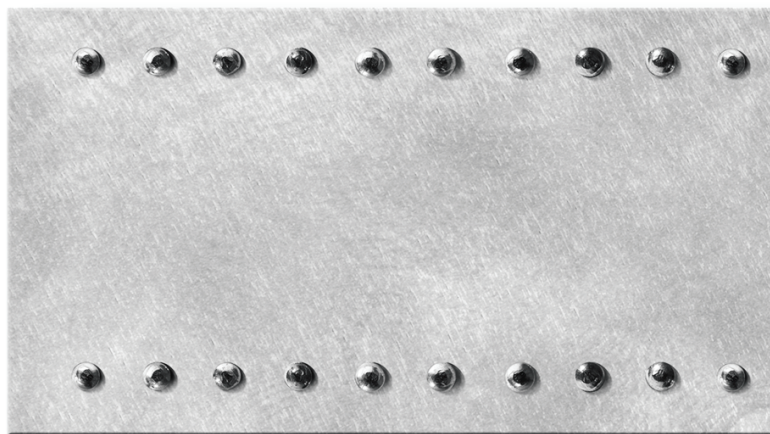
Deloitte LLP  
2 New Street Square  
London  
EC4A 3BZ  
United Kingdom

### Financial Conduct Authority

25 North Colonnade  
Canary Wharf  
London  
E14 5HS  
United Kingdom

Telephone: 0845 606 1234  
Website: [www.fca.gov.uk](http://www.fca.gov.uk)

\* Please note telephone calls may be recorded for monitoring and training purposes, and to confirm investors' instructions.



## **Fundsmith**

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W [www.fundsmith.co.uk](http://www.fundsmith.co.uk)