Fundsmith
Sustainable Equity Fund

Fundsmith Sustainable Equity Fund

Short Form Report

For the year ended 31 December 2023

Fundsmith
Buy good companies
Don’t overpay
Do nothing

Profile of the Fund

Investment objective and policy

The objective of Fundsmith Sustainable 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 the 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.

The Fund will not invest in businesses which have substantial interests in any of the following sectors:

- aerospace and defence;
- brewers, distillers and vintners;
- casinos and gaming;
- gas and electric utilities;
- metals and mining;
- oil, gas and consumable fuels;
- pornography; and
- tobacco.

In addition, the ACD and the Investment Manager apply further criteria to screen investments in accordance with the ACD’s sustainable investment policy.

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 light of the Fund’s objective.

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.

Operational risk: Failures or delays in operational processes may negatively affect the Fund. There is a risk that any company responsible for the safekeeping of the assets of the Fund may fail to do so properly or may become insolvent, which could cause loss to 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.

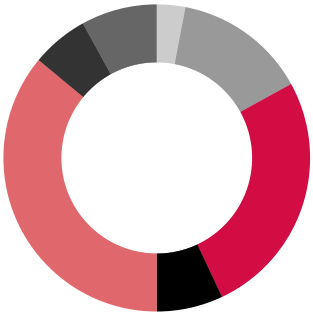
Generally, the higher the risk category, the greater the potential for higher returns but also the higher the risk of losing money. This fund is ranked at 5 because funds of this type have experienced medium to high rises and falls in value in the past. The underlying investments are, however, in large 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, concentration risk and operational risk which are explained above.

Information on the Fund

Breakdown by geography*
as at 31 December 2023

Breakdown by sector
as at 31 December 2023



The figures in brackets show comparative figures at 31 December 2022.

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

Summary of Significant Changes

For the year 1 January 2023 to 31 December 2023		For the year 1 January 2022 to 31 December 2022	
Largest purchases	**Cost (£)**	**Largest purchases**	**Cost (£)**
Marriott International	20,040,927	Adobe	30,448,171
McDonald's	16,207,278	Mettler-Toledo International	25,310,607
MasterCard	15,009,611	Otis Worlwide	7,911,793
Fortinet	11,788,266	Estée Lauder	7,095,401
Waters	5,275,415	Home Depot	3,012,950
Total	**68,321,497**	**Total**	**73,778,922**
Total purchases for the year	**86,776,607**	**Total purchases for the year**	**76,869,945**
Largest sales	**Proceeds (£)**	**Largest sales**	**Proceeds (£)**
Adobe	24,855,900	Intuit	25,424,190
Estee Lauder	18,692,235	Starbucks	18,691,523
Novo Nordisk	12,717,192	Kone	9,190,994
Alphabet	5,073,952	PayPal	9,183,849
McCormick	4,497,385	Colgate-Palmolive	5,254,729
Total	**65,836,664**	**Total**	**67,745,285**
Total sales for the year	**67,516,148**	**Total sales for the year**	**70,777,268**

Investment Manager's review

This report reproduces the Annual Letter that was sent to investors and published on the website in mid-January.

Dear Fellow Investor,

This is the sixth annual letter to owners of the Fundsmith Sustainable Equity Fund ('Fund').

The table below shows performance figures for the last calendar year and the cumulative and annualised performance since inception on 1st November 2017 and various comparators.

% Total Return	1st Jan to 31st Dec 2023	Inception to 31st Dec 2023		Sortino Ratio[5]
		Cumulative	Annualised	
Fundsmith Sustainable Equity Fund[1]	+7.1	+82.6	+10.3	0.44
Equities[2]	+16.8	+79.9	+10.0	0.37
UK Bonds[3]	+5.6	-4.7	-0.8	n/a
Cash[4]	+4.6	+8.1	+1.3	n/a

The Fund is not managed with reference to any benchmark, the above comparators are provided for information purposes only.
[1] I Class Accumulation shares, net of fees, priced at noon UK time, source: Bloomberg.
[2] MSCI World Index, £ net, priced at US market close, source: Bloomberg.
[3] Bloomberg/Barclays Bond Indices UK Gov. 5–10 year, source: Bloomberg.
[4] £ Interest Rate, source: Bloomberg.
[5] Sortino ratio is since inception to 31.12.23, 3.5% risk free rate, source: Financial Express Analytics.

The table shows the performance of the I Class Accumulation shares which rose by 7.1% in 2023 and compares with a rise of 16.8% for the MSCI World Index in sterling with dividends reinvested. The Fund therefore underperformed this comparator in 2023 but a longer-term perspective may be useful and is certainly more consistent with our investment aims and strategy. Since inception, the Fund has returned 0.3% p.a. more than the MSCI World Index and has done so with less downside price volatility as shown by the Sortino Ratio of 0.44 versus 0.37 for the Index. This simply means that the Fund has returned about 19%, ((0.44÷0.37)-1)x100, more than the Index for each unit of price volatility.

Outperforming the market or even making a positive return is not something you should expect from our Fund in every year or reporting period, and outperforming the market was more than usually challenging in 2023.

The performance of the Nasdaq Composite Index, which was up 43% in USD in 2023, was dominated by a few companies, the so-called Magnificent Seven — Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla — which accounted for 68% of that Index's gains. Nvidia, the designer of chips for use in AI applications, alone accounted for 11% of the 43% gain. We do not own all the Magnificent Seven and would probably not be willing to take the risk of doing so, even if all of them fitted our investment criteria.

In looking at individual stock contribution to performance I prefer to start with the problems. The bottom five detractors from the Fund's performance in 2023 were:

Stock	Attribution
Estée Lauder	-1.7%
Mettler-Toledo	-1.0%
McCormick	-1.0%
Johnson & Johnson	-0.8%
Waters	-0.5%

Source: State Street.

Investment Manager's review (continued)

We sold our stake in Estée Lauder whose mishandling of the demand/supply situation in China following reopening post Covid and in the travel retail market revealed serious inadequacies in its supply chain.

McCormick has yet to return the profit margins in its food service business to the level they were before the pandemic.

Mettler-Toledo and Waters suffered from a downturn in demand for laboratory equipment post the pandemic, demand falling in China and a tighter funding market for biotech companies. However, we have no concerns about their longer-term prospects and our holding in Mettler-Toledo, in particular, is small and we may be able to use share price weakness to acquire more.

Johnson & Johnson completed the spin-out of the Kenvue OTC medicine and personal care business but continues to be overhung by the end of the Covid vaccine boost.

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

Stock	Attribution
Novo Nordisk	+2.9%
Microsoft	+2.2%
L'Oréal	+1.9%
Alphabet	+1.4%
IDEXX Laboratories	+1.0%

Source: State Street.

Novo Nordisk rose to prominence this year as a result of the wild success of its weight loss drug Wegovy (also known as Ozempic when sold for treating diabetes). However, FSEFS has owned the stock since inception in 2017 — attracted by its seemingly unusual approach to drug discovery and its ownership structure. We are not aware of another drug company whose stated aim is the eradication of the ailment from which it derives most of its revenues. The controlling stake held by the Novo Nordisk Foundation seems to guarantee a genuine long-term approach to the business. Novo is making its third appearance in our top five contributors — this was a successful investment long before the words 'weight loss' were uttered in relation to Novo.

Microsoft appears in this list of contributors for the fifth time having attracted strident criticism when we started buying at about $25 a share in 2011 for Fundsmith Equity Fund and there were still naysayers when we started buying in FSEF at $83 on launch in 2017 (2023 year end price $376).

L'Oréal is a long-term favourite whose handling of the China market contrasts sharply with that of Estée Lauder.

Perhaps the most surprising to the five contributors was Alphabet (formerly Google) as it faced a number of headwinds, not least from competition authorities with the EU fining it €2.6bn and the Department of Justice bringing a case to stop Google paying to be the favoured search engine on Apple devices. Notwithstanding this the shares rose by 58% over the year.

IDEXX, the supplier of veterinary diagnostic equipment, makes its third appearance in our table of top five contributors despite concerns about a hangover following the upsurge in pet ownership during Covid.

We continue to apply a simple four step investment strategy:

- **Buy good companies**
- **ESG screen**
- **Don't overpay**
- **Do nothing**

I will review how we are doing against each of those in turn.

As usual we seek to give some insight into the first and most important of these — whether we own good companies — by giving you the following table which shows what Fundsmith Sustainable Equity Fund 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 and the S&P 500 Index (S&P 500). This also shows you how the portfolio has evolved over time.

Investment Manager's review (continued)

Year ended	Fundsmith Sustainable Equity Fund Portfolio						S&P 500	FTSE 100
	2018	2019	2020	2021	2022	2023	2023	2023
ROCE	29%	29%	23%	28%	31%	34%	18%	17%
Gross Margin	65%	65%	61%	61%	61%	60%	45%	41%
Operating Margin	28%	26%	21%	25%	26%	29%	16%	15%
Cash Conversion	95%	99%	102%	97%	88%	93%	76%	85%
Interest Cover	17x	17x	16x	20x	19x	20x	11x	10x

Source: Fundsmith LLP/Bloomberg.

ROCE, Gross Margin, Operating Margin and Cash Conversion are the weighted mean of the underlying companies invested in by the Fundsmith Sustainable Equity Fund and mean for the FTSE 100 and S&P 500 Indices. The FTSE 100 and S&P 500 numbers exclude financial stocks. Interest Cover is median.

2018–2019 ratios are based on last reported fiscal year accounts as of 31st December and for 2020–23 are Trailing Twelve Months and as defined by Bloomberg.

Cash Conversion compares Free Cash Flow per Share with Net Income per Share.

In 2023 returns on capital and operating profit margins were higher in the portfolio companies than in the past. Gross margins were steady. Importantly all of these metrics remain significantly better than the companies in the main indices (which include our companies). Moreover, if you own shares in companies during a period of inflation it is better to own those with high returns and gross margins.

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 2023? The weighted average free cash flow (the cash the companies generate after paying for everything except the dividend, and our preferred measure) grew by 18% in 2023.

The only metric which continues to lag its historical performance is cash conversion — the degree to which profits are delivered in cash. Although this recovered slightly to 93% in 2023, this is still below its historic level of around 100% as a result of unusual events affecting a handful of our companies which we expect to largely unwind to their benefit in 2024.

The average year of foundation of our portfolio companies at the year-end was 1932. Collectively they are a little under a century old.

The second leg of our strategy is to employ a negative sector-based sustainability screen, excluding companies operating in sectors with excessive sustainability-related risk (aerospace and defence, brewers, distillers and vintners, casinos and gaming, gas and electric utilities, metals and mining, oil, gas and consumable fuels, pornography and tobacco). We then assess company sustainability in the widest sense, evaluating a business's handling of risks and opportunities and their policies and practices covering research and development, new product innovation, dividend payments and the adequacy and productivity of capital investment.

One of the key metrics we use to assess sustainability risks is their RepRisk Index (RRI)*, which measures a company's current reputational risk exposure based on recent controversies. At the end of December 2023, the weighted average RepRisk Index for our portfolio was 26.8, lower than the 27.4 it was at the start of the year and lower than the MSCI World's weighted average of 29.9, which implies our portfolio has lower exposure to reputational risks related to sustainability factors than the MSCI World.

At the end of 2023, the four companies with the highest RepRisk Index scores were:

Stock	RepRisk
Alphabet	65
Johnson & Johnson	56
McDonald's	53
Unilever	52

Source: RepRisk.

Investment Manager's review (continued)

Alphabet has retained its position as the company with the highest RepRisk Index score in the portfolio. Two new entries to the top four are McDonald's and Unilever, replacing Microsoft and Procter & Gamble, respectively. Alphabet's RRI is high not due to real and significant negative impacts but because of a large amount of press coverage resulting from their size and the fact that their products are used by millions daily. This continued to be the case in 2023.

Additionally, US and European competition authorities tried to find evidence of market abuse or noncompliance with various updates to consumer privacy rules during the year. We expect the companies in which we invest to manage this regulatory risk effectively and do not currently think that Alphabet is excessively abusing its market position. One of the reasons that Alphabet is such an attractive company to invest in is its dominant position in the markets within it operates.

McDonald's RepRisk is higher than the portfolio average due to accusations of sexual harassment at some franchisee-owned stores in the US and the treatment of migrant workers in Saudi Arabia. We have assessed it as not having a significant net negative impact because of its ongoing and significant progress towards making its food healthier and improving animal welfare in its supply chain. Its restaurants also provide a cheap source of calories and protein to many underprivileged communities while providing thousands of young people their first employment experience.

Unilever and Johnson & Johnson's RRI tends to be among the highest in the portfolio due to the environmental impact of its large, complex supply chain and various historic legal cases against the company, respectively.

At the end of 2023, the four companies with the lowest RepRisk Index scores were:

Stock	RepRisk
Waters Corp	0
ADP	0
Fortinet	0
Mettler-Toledo	0

Source: RepRisk.

Waters and ADP remain on the list from 2022 and are joined this year by measurement specialist Mettler-Toledo and Fortinet. Fortinet is another new holding for the portfolio this year and specialises in cybersecurity solutions.

We use the RepRisk Index scores in two ways: first, to capture any coverage relating to the companies in the Fund's investable universe we may have missed in our routine research, and second, as a proxy for the absolute negative impacts a company has, particularly on society. While environmental impacts are relatively easy to measure (e.g. greenhouse gas emissions) and therefore assess both absolutely and relatively between companies, impacts on society are often qualitative and much more challenging to assess. Hence, we use the RRI as a proxy for evaluating these negative impacts. Although it isn't perfect, it gives us a framework to assess and compare non-quantitative impacts between the companies in our investable universe.

The portfolio companies continue to show their commitment to reducing their contribution to climate change. By the end of 2023, 90% of the Fund's emissions were covered by a commitment to set Science Based Targets initiative (SBTi) emission reduction targets. Further, 59% of the companies in the portfolio had SBTi-approved targets, all aligned with the more ambitious goal of keeping global warming within 1.5°C of pre-industrial levels. This compares to 22% of the MSCI All Country World Index.

While it is important to ensure our companies are making the commitments necessary to avoid the worst impacts of climate change, it is more important to ensure that they act upon these commitments. Companies failing to act risk facing accusations of greenwashing and corporate complacency which can be damaging.

Between 2018 and 2022, the portfolio companies have collectively reduced their carbon emissions (Scope 1 and 2) by over four million tonnes and have averaged a 23% emission reduction per company. Some have made more progress than others, however. Three consumer staples stocks in the portfolio account for over 3.8 million tonnes of the total emissions reduction: Procter & Gamble, Unilever, and PepsiCo. Other companies have also made similarly impressive reductions, though not in the same absolute terms. Our payment companies, Visa and Mastercard, achieved 90% and 87% emissions reductions, respectively. Both can now claim to have carbon-neutral operations.

Investment Manager’s review (continued)

The carbon emission reductions made by these five companies all have one thing in common: they were made by using more renewable energy. Visa and Mastercard sourced 100% of their energy from renewable sources by the end of the period, while P&G, PepsiCo and Unilever were able to scale up their renewable energy usage significantly, reaching totals of 99%, 65% and 86%, respectively.

The impact of increasing renewable energy usage on a company’s emissions can be seen in their reported Scope 2 emissions. Scope 2 represents the emissions generated by a company's electricity purchases and can be reported using two different methodologies. The first is a location-based methodology, which accounts for the energy mix of the local electricity grid. The second is the market-based method. This approach considers any Power Purchase Agreements or energy attribute certificates the company has chosen to acquire to increase the share of renewable energy it uses.

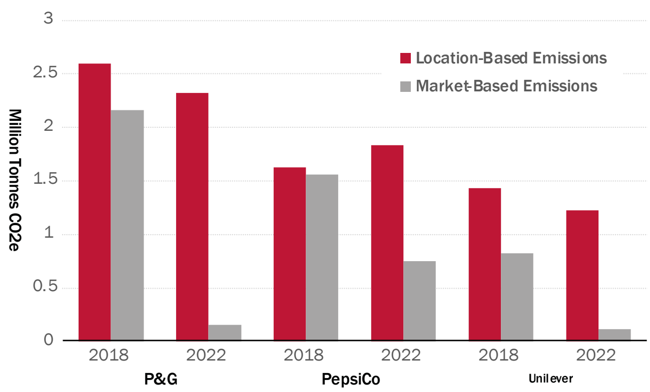
The market-based methodology has come under some criticism, mainly because the approach does not represent the energy consumed by companies as it comes off the local grid. We do not believe companies should be penalised for the energy mix of the country where their operations occur; even nations with mature renewable energy industries still use high percentages of fossil fuels to generate electricity. For example, the UK is one of the world’s leading producers of renewable energy but still relied on fossil fuels to generate 44% of the total electricity it generated in 2022. The market-based method allows companies to increase their use of renewable energy and incentivises investment in renewable energy.

In our view, the market-based approach is a better representation of a company's decisions and efforts to reduce its emissions. In contrast, the location-based approach represents the energy mix of where their operations are located, which is not necessarily a company’s choice.

As mentioned, companies can purchase renewable energy in two ways. Power Purchase Agreements (PPAs) are a long-term agreement between a consumer, typically a company that consumes large amounts of energy, and a renewable energy developer. The company agrees to buy either all or a pre-determined proportion of the renewable energy generated by the project. These agreements incentivise the developer to pursue renewable energy projects as they can ensure their profitability and they can also provide funding for the project. We prefer to see our companies following this route as it adds an additional renewable energy generation to the grid compared to the alternative option, Energy Attribution Certificates (EACs). EACs are instruments designed to track the origin of renewable energy, giving the purchaser insight into where the energy was produced, which technology was used to produce it and the age of the machine generating it. Companies can purchase these certificates (which each represent one MWh hour of renewable energy) and use them to offset non-renewable energy they use.

P&G, PepsiCo and Unilever have used a combination of these methods, for example PepsiCo’s renewable project with Iberdrola and P&G’s with EDPR, to significantly increase the amount of renewable energy they use over the past 5 years. This in turn has allowed them to reduce the amounts of greenhouse gasses they are responsible for and therefore reduce their contribution to climate change. The impact these power purchasing projects and EACs have had on the emissions of the companies can be seen by comparing the location and market-based emissions reported in 2018 and 2022, as we have illustrated in the chart below.

P&G, PepsiCo & Unilever Reported Emissions 2018-2022



Investment Manager's review (continued)

Taking P&G as an example, its location-based emissions have fallen from 2.6m tonnes in 2018 to 2.3m tonnes in 2022, a 12% reduction in its absolute emissions despite its revenues and operating profit growing by 20% and 33%, respectively. However, as the market-based emissions show, the reduction in net contribution to climate change has been even more significant due to the various renewable energy deals the company has signed. P&G's market-based emissions have fallen from 2.2m tonnes in 2018 to 0.2m tonnes in 2022, an impressive 93% reduction.

The third leg of our strategy is about valuation. The weighted average free cash flow ('FCF') yield (the free cash flow generated as a percentage of the market value) of the portfolio at the outset of the year was 3.1% and ended it at 3.2%. The year-end median FCF yield on the S&P 500 was 3.7%.

Our portfolio consists of companies that are fundamentally a lot better than the average of those in the S&P 500 so it is no surprise that they are valued more highly than the average S&P 500 company. In itself this does not necessarily make the stocks expensive, any more than a lowly rating makes a stock cheap. However, we expect some of this disparity in valuation to be eradicated in 2024 if, as we expect, the cash conversion of our portfolio companies improves.

Turning to the fourth 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 3.3% during the period. It is perhaps more helpful to know that we spent a total of just 0.002% (a fifth of one basis point) of the Fund's average value over the year on voluntary dealing (which excludes dealing costs associated with subscriptions and redemptions as these are involuntary). We sold our stakes in Adobe and Estée Lauder and purchased stakes in Marriott, Mastercard, McDonald's and Fortinet. As last year this may seem a lot of names for what is not a lot of turnover as in some cases the size of the holding sold or bought was small. We have held 14 of our companies for more than 5 years, 12 of which since inception in 2017.

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 2023 for the I Class Accumulation shares was 0.96%. 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, 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.

We provide our own version of this total cost including dealing costs, which we have termed the Total Cost of Investment ('TCI'). For the I Class Accumulation shares in 2023 the TCI was 0.97%, including all costs of dealing for flows into and out of the Fund, not just our voluntary dealing. We are pleased that our TCI is just 0.01% (1 basis point) above our OCF when transaction costs are taken into account. However, we would again caution against becoming obsessed with charges to such an extent that you lose focus on the performance of funds. It is worth pointing out that the performance of our Fund tabled at the beginning of this letter is after charging all fees which should surely be the main focus.

Last year I spent quite a lot of this letter trying to explain the background to the period of low interest rates and Quantitative Easing and how the resurgence of inflation and interest rate rises had affected company valuations, and especially those which had above average valuations.

As an illustration of this effect, consider the following. If you had invested $100 in the Vanguard Long US Government Bond Index Fund (Ticker: VBLAX, 'Bond Fund') in June 2020, at the trough in yields on US Treasury bonds, your total income over the next 10 years would be a mere $7 i.e. you would receive 70 cents per annum in income. You would have had to invest a lot of dollars to get an income you could live on. Had you invested in October 2023, which may represent the high point in this economic cycle for bond yields, your total income over the life of the investment will be $47.50. Quite a change.

Investment Manager's review (continued)

This illustrates two points.

One is that you would have lost a lot of money had you bought the Bond Fund in 2020 and had still been holding it in October 2023. The Bond Fund's net asset value, at which it trades, declined from a peak of $17.71 in June 2020 to a low of $9.19 in October 2023, a fall of 48%. This puts the losses from investing in high quality equities over this period into perspective. Better to be in equities than long bonds when interest rates rise sharply.

The other point it illustrates is that bonds have been offering an alluring alternative to equities for many investors. If Uncle Sam is willing to pay a risk-free income (and short dated bonds are as close to risk free as you can get) of close to 5%, why take the risk of investing in equities? The short answer is because equities provide a better return. For the period 1928–2023 (the earliest for which I can get reliable data), the annualised return on 10 Year US Treasury Bonds was 4.6% whereas the S&P 500 compounded at 9.8% with dividends reinvested[#]. This of course includes the Great Depression and World War Two as well as other more recent and lesser incidents like the 1987 Crash, the Dotcom meltdown, the Great Financial Crisis of 2008–09 and the Covid pandemic.

This is unsurprising. Equities benefit from a feature which no other asset class, including bonds, can provide: a portion of the profit or cash flow which belongs to the shareholders is reinvested each year by the company. This is the retained profit which is not paid out as dividends, and its investment is the source of compounding which underpins the returns of long-term investment. In my view this is the least discussed and appreciated aspect of equity investment versus all other asset classes.

So, if equities outperform bonds why are investors so keen to hold bonds at the moment? The answer of course is that whilst equities may outperform bonds over long periods of time, there is no guarantee that equities will provide this superior return in any given period, and in fact they may lose value for periods of time, as they did in 2022.

Many investors do not have the appetite to invest in an asset whose price is set daily by a process which was illustrated by this wonderful cartoon:

It requires not only a grasp of investment analysis but also an iron constitution to ignore the periodic shenanigans of the stock market and reap the rewards of long-term equity investment.

I thought it would be amiss not to mention two events which marked 2023.

The first event is the rise of Artificial Intelligence, or AI, as one of the driving forces behind the rise of most of the Magnificent Seven and especially Nvidia. What to make of it? I would offer a few observations.

Firstly, AI is not quite as new as the rise in interest in AI in the stock market this year, driven by Microsoft's investment in OpenAI and the adoption of its ChatGPT large language model (actually launched in November 2022). IBM launched an AI model called Watson which beat two human champions in the US quiz show Jeopardy! in 2011. Google (now Alphabet) acquired the AI developer DeepMind in 2014.

Investment Manager's review (continued)

Secondly, the stock market, in a fashion exemplified by the earlier cartoon, has decided at the outset that it can identify winners in AI in the form of Nvidia designing the chips on which the generative AI models will run and Microsoft as a provider of an AI model. If it can do so at this stage it would seem to me to be a break with tradition. Think back to some of the major technology developments of the past half century or so and the early leaders:

- Microchips: Intel
- Internet Service Providers: AOL
- Mobile Phones: Nokia
- Search Engines: Yahoo
- Smartphones: Research In Motion (Blackberry)
- Social Media: Myspace

Where are they now? Does this experience suggest that we can predict a winner in the area of AI at the outset?

Moreover, maybe there won't be a winner, either in the provision of large language models or their use. There are numerous large language models in development and deployment by the major tech companies: such as Alphabet's Gemini, Meta's Llama 2 (stands for Large Language Model) and Microsoft's ChatGPT, as well as stock market excitement about the deployment of such models by Adobe, Intuit and Fortinet amongst just the companies that we follow. There is no shortage of contenders.

The adoption of AI may lead to a situation where everyone has it, so no one has any advantage. The analogy I would offer (with acknowledgement to Warren Buffett) is a football stadium. As the game becomes exciting and the striker runs into the penalty area with the ball, the second row of spectators stands up to get a better view. This blocks the view of those in the third row who follow suit. Pretty soon all the spectators are standing but no one has a better view than before, but they are all less comfortable.

So, I think we will suspend judgement of who, if anyone, will emerge as a winner in AI.

The second event worthy of mention is the passing of Charlie Munger, Warren Buffett's long time business partner, who passed away in November at the age of 99. Apart from offering a perspective on the perennial question about my retirement, Mr Munger's demise has led to the inevitable repetition of quotations from him by commentators. However, none of the commentators has alighted upon the Charlie Munger quote which in my view encapsulates the current state of world affairs: "If you're not a little confused about what's going on, you don't understand it."

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

Yours sincerely,

Terry Smith

Terry Smith
CEO
Fundsmith LLP

Disclaimer: A Key Investor Information Document and an English language prospectus for the Fundsmith Sustainable Equity Fund are available via the Fundsmith 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.

Sources: Fundsmith LLP, Bloomberg and #NYU Stern School of Business, unless otherwise stated.

Data is as at 31st December 2023 unless otherwise stated.

Portfolio turnover is a measure of the fund's trading activity and has been calculated by taking the total share purchases and sales less total creations and liquidations 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 2023 unless otherwise stated. Percentage change is not calculated if the TTM period contains a net loss.

MSCI World Index is the exclusive property of MSCI Inc. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or final products. This report is not approved, reviewed or produced by MSCI. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and Standard & Poor's and 'GICS®' is a service mark of MSCI and Standard & Poor's.

Performance Record

The per share net asset values in the table below are different from the published dealing prices that were available to investors. This is to comply with accounting rules that require the net asset values in this report to be based on close of day bid prices. The investment manager's review and factsheet uses dealing prices as the Fund could only be bought or sold at these prices.

	Share Class T - Accumulation		
Change in net asset value per share	**12 months to 31.12.23 (p)**	**12 months to 31.12.22 (p)**	**12 months to 31.12.21 (p)**
Opening net asset value per share	135.08	150.02	123.16
Return before operating charges	11.39	(13.54)	28.29
Operating charges	(1.47)	(1.40)	(1.43)
Return after operating charges	9.92	(14.94)	26.86
Distributions	(0.28)	(0.15)	(0.11)
Retained distributions on accumulation shares	0.28	0.15	0.11
Closing net asset value per share	145.00	135.08	150.02
After direct transaction costs of:	0.01	0.01	0.04
Performance			
Return after operating charges	7.34%	(9.96%)	21.81%
Other information	**£**	**£**	**£**
Closing net asset value	62,278,580	55,388,343	44,598,841
Closing number of shares	42,949,603	41,002,997	29,728,690
Ongoing charges figure*	1.06%	1.05%	1.07%
Direct transaction costs	0.01%	0.01%	0.03%
Prices	**(p)**	**(p)**	**(p)**
Highest share price	145.46	149.27	150.97
Lowest share price	132.92	122.15	117.15

*The Ongoing Charges Figure (OCF) is the share class's total annualised operating costs (excluding overdraft interest) expressed as a percentage of the average net assets of the share class.

Performance Record (continued)

The per share net asset values in the table below are different from the published dealing prices that were available to investors. This is to comply with accounting rules that require the net asset values in this report to be based on close of day bid prices. The investment manager's review and factsheet uses dealing prices as the Fund could only be bought or sold at these prices.

	Share Class T - Income		
Change in net asset value per share	**12 months to 31.12.23 (p)**	**12 months to 31.12.22 (p)**	**12 months to 31.12.21 (p)**
Opening net asset value per share	134.65	149.69	122.97
Return before operating charges	11.34	(13.50)	28.26
Operating charges	(1.46)	(1.40)	(1.45)
Return after operating charges	9.88	(14.90)	26.81
Distributions	(0.27)	(0.14)	(0.09)
Closing net asset value per share	144.26	134.65	149.69
After direct transaction costs of:	0.01	0.01	0.04
Performance			
Return after operating charges	7.34%	(9.95%)	21.81%
Other information	**£**	**£**	**£**
Closing net asset value	3,239,610	2,979,238	2,684,955
Closing number of shares	2,245,696	2,212,639	1,793,677
Ongoing charges figure*	1.06%	1.05%	1.07%
Direct transaction costs	0.01%	0.01%	0.03%
Prices	**(p)**	**(p)**	**(p)**
Highest share price	144.91	148.95	150.63
Lowest share price	132.42	121.88	116.98

*The Ongoing Charges Figure (OCF) is the share class's total annualised operating costs (excluding overdraft interest) expressed as a percentage of the average net assets of the share class.

Performance Record (continued)

The per share net asset values in the table below are different from the published dealing prices that were available to investors. This is to comply with accounting rules that require the net asset values in this report to be based on close of day bid prices. The investment manager's review and factsheet uses dealing prices as the Fund could only be bought or sold at these prices.

	Share Class I - Accumulation		
	12 months to 31.12.23	12 months to 31.12.22	12 months to 31.12.21
Change in net asset value per share	(p)	(p)	(p)
Opening net asset value per share	169.40	187.94	154.14
Return before operating charges	14.29	(16.94)	35.42
Operating charges	(1.67)	(1.60)	(1.62)
Return after operating charges	12.62	(18.54)	33.80
Distributions	(0.52)	(0.34)	(0.18)
Retained distributions on accumulation shares	0.52	0.34	0.18
Closing net asset value per share	182.02	169.40	187.94
After direct transaction costs of:	0.01	0.01	0.05
Performance			
Return after operating charges	7.45%	(9.86%)	21.93%
Other information	£	£	£
Closing net asset value	379,132,966	363,242,394	395,690,235
Closing number of shares	208,291,167	214,429,462	210,535,702
Ongoing charges figure*	0.96%	0.95%	0.97%
Direct transaction costs	0.01%	0.01%	0.03%
Prices	(p)	(p)	(p)
Highest share price	182.59	187.01	189.13
Lowest share price	166.82	153.10	146.64

*The Ongoing Charges Figure (OCF) is the share class's total annualised operating costs (excluding overdraft interest) expressed as a percentage of the average net assets of the share class.

Performance Record (continued)

The per share net asset values in the table below are different from the published dealing prices that were available to investors. This is to comply with accounting rules that require the net asset values in this report to be based on close of day bid prices. The investment manager's review and factsheet uses dealing prices as the Fund could only be bought or sold at these prices.

	Share Class I - Income		
Change in net asset value per share	**12 months to 31.12.23 (p)**	**12 months to 31.12.22 (p)**	**12 months to 31.12.21 (p)**
Opening net asset value per share	166.51	185.11	151.97
Return before operating charges	14.04	(16.70)	34.90
Operating charges	(1.64)	(1.57)	(1.59)
Return after operating charges	12.40	(18.27)	33.31
Distributions	(0.51)	(0.33)	(0.17)
Closing net asset value per share	178.40	166.51	185.11
After direct transaction costs of:	0.01	0.01	0.05
Performance			
Return after operating charges	7.45%	(9.87%)	21.92%
Other information	**£**	**£**	**£**
Closing net asset value	238,979,980	238,995,006	264,144,561
Closing number of shares	133,955,409	143,532,688	142,693,570
Ongoing charges figure*	0.96%	0.95%	0.97%
Direct transaction costs	0.01%	0.01%	0.03%
Prices	**(p)**	**(p)**	**(p)**
Highest share price	179.33	184.20	186.28
Lowest share price	163.84	150.79	144.58

*The Ongoing Charges Figure (OCF) is the share class's total annualised operating costs (excluding overdraft interest) expressed as a percentage of the average net assets of the share class.

Remuneration Disclosure

Remuneration Disclosure

The ACD is required to make this remuneration disclosure to investors in Fundsmith Sustainable Equity Fund in accordance with COLL 4.5.7 R (7) in the FCA Handbook.

The financial year of Fundsmith Sustainable Equity Fund runs from 1 January to 31 December, whereas the financial year of the ACD, Fundsmith LLP (Fundsmith, or the Firm), runs from 1 April to 31 March. The latest financial year of Fundsmith is the year to 31 March 2023 and the remuneration figures below relate to that period. The Fundsmith Report and Accounts for the year to 31 March 2023 have been independently audited and filed with Companies House.

Under Fundsmith LLP's remuneration policy staff receive a basic salary, certain benefits (primarily pension contributions which are capped) and are eligible for an award of an annual discretionary bonus which is based on performance.

Fundsmith employed an average of 44 staff in the year, with total remuneration, including pension contributions, for those staff of £15.2 million comprising fixed remuneration (salaries and pension contributions) of £5.5 million and variable remuneration of £9.7 million.

The amount of profit awarded to the one Executive Member of the Firm which is treated as remuneration for the purposes of the Remuneration Codes is not included in the quantitative disclosures above and the ACD has not disclosed this amount for individual privacy reasons.

Amounts due to Members of the Firm because of their investment of capital and their ownership of the business are not related to individual or Fund performance and cannot be varied, and therefore are not variable remuneration under the Remuneration Codes and are not included in the quantitative disclosures above.

Fundsmith is subject to the UCITS (SYSC 19E), AIFM (SYSC 19B) and MIFIDPRU (SYSC 19G) Remuneration Codes. The Management Committee of Fundsmith considers which staff are Material Risk Takers under these codes and are therefore within the definition of Remuneration Code Staff.

There are only two Remuneration Code staff whose remuneration is included in the quantitative disclosures above. These two individuals are in different categories of Code Staff, and the ACD has not disclosed the amount of remuneration broken down by category of UCITS Remuneration Code Staff for individual privacy reasons.

The information above relates to Fundsmith as a whole, is not broken down by reference to Fundsmith Sustainable Equity Fund or the other funds managed by Fundsmith and does not show the proportion of remuneration which relates to the income Fundsmith earns from the management of this fund, as this would not reflect the way Fundsmith is organised.

The Management Committee of Fundsmith has reviewed the Remuneration Policy and its implementation and is satisfied that no irregularities occurred during the period.

There have been no material changes made to the Remuneration Policy applicable for the Firm's financial year to 31 March 2023 compared with the policy applicable for the year to 31 March 2022.

Further Information

Reports and accounts

Each year, the ACD will publish on its website (www.fundsmith.green) Annual and Interim Reports and Accounts for the Company discussing investment activity during the period and providing management commentary.

UK UCITS

The Company is an authorised Collective Investment Scheme constituted as a UK UCITS in accordance with the FCA rules.

Prospectus

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

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

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

All documents are available on the ACD's website.

Minimum investment

The Company has two different share classes:

I shares and T shares.

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 prices of shares are published daily on the ACD's website at www.fundsmith.green. Shareholders can also obtain the current price of their Shares by calling the ACD on 0330 123 1815.

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 Prospectus.

Fundsmith

33 Cavendish Square
London
W1G 0PW
UK

T 0330 123 1815
E enquiries@fundsmith.co.uk
W www.fundsmith.co.uk