Fundsmith Equity Fund
Short Form Report

For the year ended 31 December 2012

Fundsmith

Profile of the fund

Investment objective and policy

The aim of 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 ACD, as investment manager, adheres 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 which the ACD reviews in the light of the fund 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.

Net asset value and ongoing charge figure (OCF) as at 31 December 2012

	31.12.12	31.12.11
T Class (Accumulation shares)		
Total net asset value (£)	223,274,660	110,094,759
Net asset value per share (p)	129.38	114.98
Number of shares in issue	172,576,129	95,752,314
Performance since launch*	29.4%	15.0%
Ongoing Charge Figure**	1.16%	1.20%
T Class (Income shares)		
Total net asset value (£)	29,041,516	14,883,839
Net asset value per share (p)	126.05	113.52
Number of shares in issue	23,039,399	13,110,685
Performance since launch*	29.1%	14.0%
Ongoing Charge Figure**	1.16%	1.20%
R Class (Accumulation shares)		
Total net asset value (£)	51,449,415	10,178,969
Net asset value per share (p)	128.00	114.32
Number of shares in issue	40,195,474	8,903,889
Performance since launch*	28.0%	14.4%
Ongoing Charge Figure**	1.66%	1.69%
R Class (Income shares)		
Total net asset value (£)	37,292,451	7,992,264
Net asset value per share (p)	125.99	113.46
Number of shares in issue	29,598,928	7,044,357
Performance since launch*	27.9%	13.7%
Ongoing Charge Figure**	1.66%	1.69%
I Class Net (Accumulation shares)		
Total net asset value (£)	105,178,125	26,625,935
Net asset value per share (p)	129.64	115.09
Number of shares in issue	81,129,440	23,133,905
Performance since launch*	29.7%	15.1%
Ongoing Charge Figure**	1.06%	1.10%
I Class Net (Income shares)		
Total net asset value (£)	390,117,192	61,173,345
Net asset value per share (p)	126.05	113.51
Number of shares in issue	309,504,398	53,891,499
Performance since launch*	29.4%	14.0%
Ongoing Charge Figure**	1.05%	1.10%

*The Fund launched on 1 November 2010; therefore, five-year performance data are not available.

The performance is quoted, net of costs. The comparative & period is from launch on 1 November 2010 to 31 December 2012.

**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. With effect from 1 July 2012, UCITS Funds are required to prepare and disclose an OCF.

Changes have been implemented in accordance with FSA Collective Investment Schemes Sourcebook and the additional guidance provided for in the Statement of Recommended Practice for Authorised Funds issued by the IMA in July 2011. The objective of this change was to ensure a harmonised approach to the calculation of the OCF by all UCITS Funds. This has replaced the Total Expense Ratio (TER) as previously required and disclosed per the regulations.

As prior period figures have not been calculated the TER will be retained as a comparative figure. The main implications of this change are the inclusion of transaction costs and exclusion of performance fees within the calculation.

For the Fundsmith Equity Fund, the TER and the OCF for 2012 would be the same figure to two decimal places and therefore using last year's TER is justified.

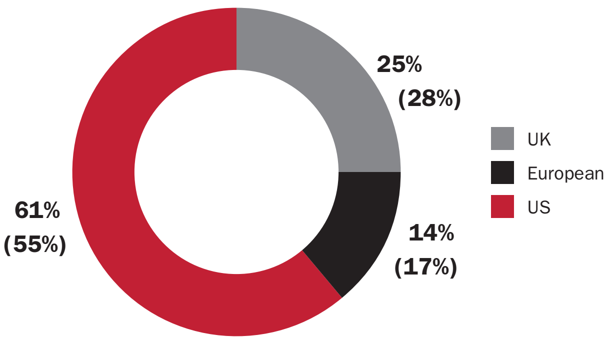
Price and revenue records

Calendar year all figures in pence (unless otherwise stated)	2012	2011	2010 (from 30 October)
T Class (Accumulation shares)			
Accumulation share high	131.98	115.47	107.52
Accumulation share low	114.73	100.47	98.98
Net revenue per accumulation share	1.6888*	1.4651	–
T Class (Income shares)			
Income share high	129.23	114.51	107.52
Income share low	113.34	99.64	98.99
Net revenue per income share	1.6728*	1.4261	–
R Class (Accumulation shares)			
Accumulation share high	130.61	115.10	107.46
Accumulation share low	114.06	100.12	98.97
Net revenue per accumulation share	1.0828*	0.8637	–
R Class (Income shares)			
Income share high	128.87	114.44	107.45
Income share low	113.27	99.54	98.97
Net revenue per income share	1.0706*	0.8860	–
I Class Net (Accumulation shares)			
Accumulation share high	132.24	115.54	107.53
Accumulation share low	114.84	100.55	98.99
Net revenue per accumulation share	1.8284*	1.5930	–
I Class Net (Income shares)			
Income share high	129.28	114.49	107.53
Income share low	113.32	99.63	98.98
Net revenue per income share	1.8175*	1.5621	–

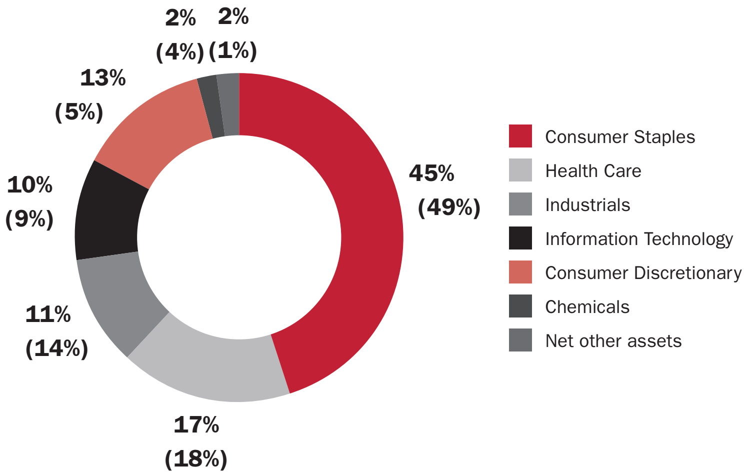
* to 28 February 2013.
The performance is quoted, net of costs.

Information on the fund

Breakdown by geography*
as at 31 December 2012



Breakdown by sector
as at 31 December 2012



The figures in brackets show comparative figures at 31 December 2011.

Summary of significant changes

Top ten holdings	31.12.12 % of fund		31.12.11 % of fund
Dr Pepper Snapple	5.60	Becton Dickinson and Company	5.39
Reckitt Benckiser	5.60	L'Oreal	5.34
Stryker	5.28	Intercontinental Hotels	5.30
Imperial Tobacco	5.24	Nestle	5.30
Domino's Pizza	5.18	Microsoft	5.17
Automatic Data Processing	4.91	Unilever	5.06
Intercontinental Hotels	4.84	Stryker	5.05
Becton Dickinson and Company	4.82	Imperial Tobacco	4.81
Microsoft	4.79	Procter & Gamble	4.81
Unilever	4.57	Pepsi	4.77

*The geographical breakdown is shown by the companies' country of listing, not by where the companies operate. We invest in companies that operate globally, or at least across a significant number of countries, and the split by revenue may well differ from this.

Investment Manager's review

T Accumulation Shares, Total Return	2012 %	Since Inception to 31.12.12 %	Annualised %
Fundsmith Equity Fund £	12.5	29.4	12.6
MSCI World World Index £*	11.4	14.8	6.6

*Source: Bloomberg

As in previous years, we have already written to you with a review of the year. Our views have not changed since the annual letter and therefore we have summarised the letter here.

We have presented three periods of performance figures this year - the performance since inception, the annualised returns and the last calendar year.

We remain critical of attempts to measure investment performance over short periods of time. Even a calendar year is too short for this purpose. It is the time it takes the Earth to go around the Sun and has no natural link to the investment or business cycle other than for agricultural businesses. However this proviso notwithstanding, how did we do in 2012?

The Fund rose by 12.5% in 2012 and modestly outperformed the market (which we take as the Morgan Stanley Capital International World Index – or MSCI World – in sterling with dividends reinvested) by 1.1%.

I'm rather surprised that we managed to outperform the market at all in this reporting period. 2012 was a year in which so-called risk assets performed well. This is not an environment in which I would expect our Fund to perform well relative to the market as the rising tide of liquidity floats all ships, many of which we would not consider owning.

It is worth bearing in mind that we do not seek to outperform in every reporting period or in all market conditions, rather we seek to outperform the market and other funds over longer periods of time.

Since inception our Fund has managed an annualised return in Sterling of 12.6% p.a. versus a return of 6.6% p.a. for the MSCI. This seems like a satisfactory start to our investment campaign. Our Fund remains the best performing fund in the IMA Global Sector since inception to the end of December 2012.

It is important that our investors recognise that this is what we are aiming for. Too often investors seek to find fund managers who can outperform all the time and in all market conditions. The trouble is that no such person exists. But the attempt to find this mythical creature leads to some investors moving their assets between managers, incurring costs and most frequently ditching a manager whose investment style is out of step with the current market in favour of one with recent good performance just as they are about to switch positions.

The main positive contributors to that performance in 2012 were: Intercontinental Hotels, L'Oreal, Reckitt Benckiser, Kone and Diageo.

The main detractors from the Fund's performance were: Procter & Gamble, McDonald's, Imperial Tobacco, Becton Dickinson, and Swedish Match. McDonald's is a small position as it has only recently come within valuation range for us after reporting a number of periods with poor sales performance. We believe it is a business of the quality which we seek and therefore are willing to use this as an opportunity to buy stock. It might be worth thinking about the implications when a business which sells some meals for one dollar is struggling to grow sales. Clearly this is not because consumers are feeling flush and trading up.

Portfolio turnover in the Fund in 2012 was 0.48%. This figure is flattered by the inflow of funds over the period which is not included in the calculation otherwise a new fund would have 100% turnover from investing cash inflows, but even so it is exceptionally low.

Our only outright sale during the year was of SGS, the Swiss testing company. We remain convinced that it and the sector are good quality businesses, but the shares had reached the point at which they were one of the most highly rated within our Investable Universe and so we thought that there was better value to be found elsewhere.

We finished the year with 28 holdings up from 24 holdings at the end of 2011, which is towards the top end of our range but we are in the course of selling a holding which will reduce this number.

Our outright purchases for the year were Choice Hotels, Domino's Pizza, McDonald's, Visa and Swedish Match. Our purchase of

Investment Manager's review (continued)

Domino's is perhaps the one which requires most explanation since we sold it the year before. The sale was partly based upon apprehension about Domino's debt refinancing which had been postponed. We took this as a bad sign in a banking market which is exemplified by a cartoon which shows a man sitting in front of a bank manager (you can tell this because there's a sign on the desk saying "Bank Manager") who says "I'd like to borrow some money" to which the Bank Manager replies "What a coincidence, so would we." There is clearly nothing wrong with Domino's but plenty wrong with the banking industry on which it was reliant for its refinancing.

In the event, Domino's proved us comprehensively wrong. Not only did it manage to refinance but they did so on terms which enabled it to pay a $3 per share special dividend. So I did what you should always do, but we so rarely manage to do, when we get it wrong a) admit this – most importantly to yourself; and b) reverse the decision. So Domino's was repurchased.

Fortunately there was a period of share price weakness after the refinancing which enabled us to do this on reasonable terms but frankly that does not matter as much as whether the shares were still good value when we repurchased them, which we believe they were.

There are several morals to the Domino's trades but the main one is that almost every time we sell a position in a quality company we get to regret it in terms of subsequent share price performance. The good news is that we don't do it very often.

This brings me onto the wider subject of the expenses borne by the Fund. The Ongoing Charges Figure (or "OCF" as it is now called) for the year is likely to be 16bps or 0.16% in addition to the Annual Management Charge. This is a 4bp reduction compared to 2011 figure. These expenses are often ignored both by investors and other fund managers. But, like all charges, they detract from the performance of the Fund, deserve proper attention and should be minimised. The Fund can only perform as well as the performance of the shares it owns and to the extent that performance is absorbed by expenses, the returns for investors will suffer.

The majority of the costs borne by the Fund are the costs of running and maintaining the share register. These costs are driven by numbers of shareholders and transactions. We continue to focus on reducing these charges, ensuring the Fund benefits from economies of scale as it grows and does not overpay for services simply because of the increase in its size. If the Fund remains at its current size, we would expect the Ongoing Charges Figure to fall by another 3bps in 2013.

Perhaps surprisingly, the Ongoing Charges Figure does not include all charges the Fund has paid in the year. The commission paid on share purchases and sales are not included and neither is Stamp Duty or the bid/offer spread which is incurred in dealing. During the year, the Fund paid £232,000 in commission-less than 4bp on the value of the total trades. The vast majority of those trades were due to inflows into the Fund. Stripping out the commission on trades caused by the inflow, the amount of commission paid on trades executed voluntarily was under 1bp of the average funds under management. This compares with estimated charges incurred by the average UK mutual fund manager of about 1% pa excluding Stamp Duty.

Turning to the characteristics of our portfolio, probably the question I am asked most frequently is whether the strong performance of most shares in the Fund to date means that they are now over-valued.

The weighted average free cash flow ("FCF") yield, which is our primary valuation yardstick, of the companies in the portfolio started the year at about 5.8% and finished it at about 5.7%.

This 5.7% FCF yield compares with a median yield on the non-financial stocks in the S&P 500 of about 6.1% and an average of 5.4%; or a median for the non-financial stocks in the FTSE 100 of 4.6% and an average of 4.9%. The valuation of our stocks on this basis therefore looks about the same or a bit better (cheaper) than the average.

The yield is also significantly higher than the yield on government bonds which was previously known as the risk free rate before investors started to relearn that governments default. This is significant. The coupon on those bonds cannot grow over time whereas the free cash flow from our companies can. So if we can buy them with a higher FCF yield than the bond yield then we have probably created value.

We should perhaps compare the FCF yield of the portfolio not with the yield on major government bonds but what we think that bond yield should be since government bond yields across the developed world are distorted by Quantitative Easing in which the central banks, controlled by the government, are the main or even the sole buyer of bonds. We work on the assumption that government bonds would need to yield at least 1% over the

Investment Manager's review (continued)

expected rate of inflation to attract rational investors, and so we seek to invest in companies only when their FCF yield is the same as or more than that required bond yield.

The return on capital of the companies in our portfolio averaged about 32% p.a. This compares to an average of about 20% p.a. for the non-financial stocks in both the S&P 500 and the FTSE 100. Bearing in mind the longevity and resilience of our portfolio companies I think we can remain confident that we own stocks with a superior fundamental performance to the average which is not fully reflected in their valuation relative to bonds or other equities.

At Fundsmith we obtain excitement not from the delusion that we have discovered an investment that no other investors have found or from a long shot winning, but from delivering predictable, superior investment returns.

On the whole, we would prefer that the share price performance of our stocks tracked the underlying free cash flow performance of the companies since performance from increasing valuations is a finite game which also tends to even out over long periods of time, and we intend to run this portfolio for a long period of time.

Similarly, we would prefer that the increase in free cash flow from our portfolio companies was derived from top line volume growth, albeit from companies which are able to maintain good prices and high margins on their sales. However, in the low growth environment which we occupy, free cash flow growth is increasingly a result of cost cutting and/or share buybacks. These are also finite sources of growth even when share buybacks are executed in a way which creates value for remaining shareholders, which is not always the case. But it is better to be invested in companies which can maintain growth in free cash flow per share by these means in these circumstances than in companies which can't.

The historical dividend yield of the portfolio is 2.3% and we forecast the prospective yield is 2.5%. Dividend cover remains 2.6 times. Yield is an important element of investment return. Over the long run, it has contributed a higher percentage of equity performance than share price appreciation. But I would caution against a blind search for higher yields.

The average company in the portfolio was founded in 1902 – this time last year it was 1894. Clearly some of our purchases have shortened the average age of our companies which has produced a worrying leap on average into the twentieth century.

Looking forward to 2013, one reasonably likely outcome is that we might experience "Groundhog Year" in which there are more EU summits, further commitments to do "whatever it takes" whilst actually doing nothing, another "rescue" deal for Greece, wrangling over the US debt ceiling to follow the Fiscal Cliff, and more QE to keep an otherwise stagnant economy across the developed world alive on life support.

However, it seems likely that one thing is changing: the mandate of central banks in the developed world. The Fed recently doubled its monthly QE programme to $85bn and said it would maintain this programme at least until unemployment falls below 6.5%. Shinzo Abe became Prime Minister of Japan for the second time with the stated intention of making the Bank of Japan target an increase in inflation. Mark Carney, the much heralded new Governor of the Bank of England, got off to an unusual start by announcing seven months before he starts work that he thinks there should be a debate about whether central bankers should currently be targeting nominal GDP growth i.e. ignoring inflation.

Now depending upon your point of view this is either good news because it means yet more stimulus will be applied or bad news because you do not think that the additional stimulus will do much to achieve economic growth or increased employment but it will risk side effects which can be as bad or worse than the ailment they are seeking to treat.

I am in the latter camp. At some point, the inevitable consequence of this is inflation and currency depreciation. The newer generation of central bankers such as Mr Carney have yet to experience that. When they do, they may discover that when inflation takes hold it does not conveniently stop at some predetermined target rate.

Still whilst we wait to see if or when this scenario comes to pass, the good news is that macro views and developments have no bearing on our strategy; increasingly desperate attempts to stimulate the economy are far more likely to stimulate the valuation of our portfolio (not that we like to make money that way); and our stocks are likely to be a relatively good hedge against a resurrection of inflation.

Terry Smith
Fundsmith LLP
5 February 2013

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.

Shareholders will be sent the short report for the company automatically and the long report will be available, free of charge upon request from the ACD.

Interim accounts for the period ended 30 June.

Annual accounts for the period ended 31 December.

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 Document (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 monthly sum investment level	**£100**
Minimum subsequent 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. Shareholders can also obtain the current price of their shares by calling the ACD on 0330 123 1815*, during the ACD's normal business hours, or online on the ACD's website at www.fundsmith.co.uk.

Dealing Charges

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

Stamp Duty Reserve Tax ("SDRT")

The ACD may, in certain circumstances, levy an SDRT charge on the redemption or transfer of shares. The SDRT charge will be paid into the Fund. This charge is paid for directly by the investor and will be deducted from the redemption proceeds before being paid to the investor. Full details of when SDRT would be applied are set out in the Prospectus.

Dilution Adjustment

The ACD may impose a dilution adjustment to the share price. The dilution adjustment aims to mitigate the costs to the Fund of making investments (when additional cash is available following new investment into the Fund) 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.

Distribution Payment Dates

Interim	31 August
Annual	28 February

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

Fundsmith

Contact details

Dealing and enquiries

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

Telephone: 0330 123 1815*
9.00 am and 5.00 pm, Monday to Friday
website: www.fundsmith.co.uk

Registered office

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

Authorised and regulated by The Financial Services Authority.
FSA Registration Number IC000846

Authorised Corporate Director

Fundsmith LLP
33 Cavendish Square
London
W1G 0PW
United Kingdom

Authorised and regulated by The Financial Services Authority.
FSA Registration Number 523102

Registrar

International Financial Data Services (UK) Limited
IFDS House
St Nicholas Lane
Basildon
Essex
SS15 5FS
United Kingdom

Administrator

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

Depositary

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

Authorised and regulated by The Financial Services Authority.
FSA Registration Number 186237

Independent auditor

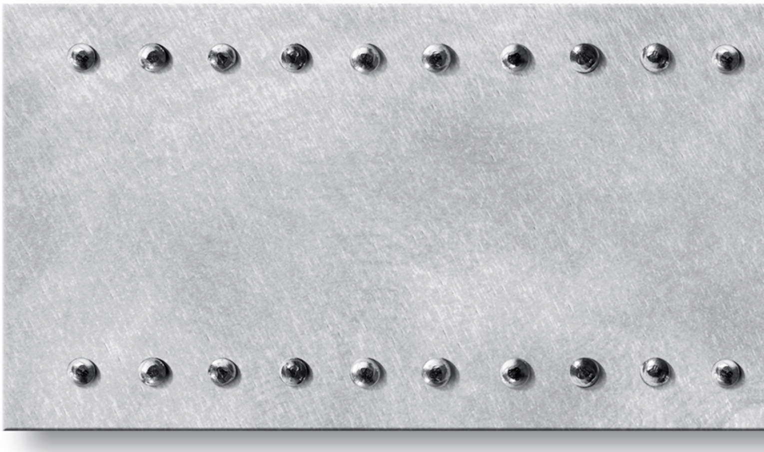
Deloitte LLP
London

Financial Services Authority

25 North Colonnade
Canary Wharf
London
E14 5HS
United Kingdom

Telephone: 0845 606 1234
Website: www.fsa.gov.uk

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



Fundsmith

33 Cavendish Square
London
W1G 0PW
UK

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

©2013 Fundsmith LLP. All rights reserved.