



Fundsmith Equity Fund
Short Form Report

For the six months ended 30 June 2014



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 Authorised Corporate Director (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

▶

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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 30 June 2014

	30.06.14	31.12.13	31.12.12
T Class (Accumulation shares)			
Total net asset value (£)	559,379,199	490,338,454	223,274,660
Net asset value per share (p)	168.79	162.16	129.38
Number of shares in issue	331,410,758	302,371,596	172,576,129
Performance since launch*	68.8%	62.2%	29.4%
Ongoing Charge Figure	1.09%	1.11%	1.16%
T Class (Income shares)			
Total net asset value (£)	71,958,368	61,593,449	29,041,516
Net asset value per share (p)	161.30	156.18	126.05
Number of shares in issue	44,612,399	39,437,719	23,039,399
Performance since launch*	68.4%	61.2%	29.1%
Ongoing Charge Figure	1.09%	1.11%	1.16%
R Class (Accumulation shares)			
Total net asset value (£)	90,503,797	96,290,925	51,449,415
Net asset value per share (p)	165.74	159.64	128.00
Number of shares in issue	54,605,011	60,319,176	40,195,474
Performance since launch*	65.8%	59.6%	28.0%
Ongoing Charge Figure	1.59%	1.61%	1.66%
R Class (Income shares)			
Total net asset value (£)	43,081,393	47,773,516	37,292,451
Net asset value per share (p)	161.19	156.09	125.99
Number of shares in issue	26,726,558	30,607,111	29,598,928
Performance since launch*	65.6%	58.9%	27.9%
Ongoing Charge Figure	1.59%	1.61%	1.66%
I Class (Accumulation shares)			
Total net asset value (£)	463,293,813	284,018,857	105,178,125
Net asset value per share (p)	169.39	162.66	129.64
Number of shares in issue	273,507,398	174,608,637.00	81,129,440
Performance since launch*	69.4%	62.7%	29.7%
Ongoing Charge Figure	0.99%	1.01%	1.06%
I Class (Income shares)			
Total net asset value (£)	822,619,762	598,649,920	390,117,192
Net asset value per share (p)	161.30	156.18	126.05
Number of shares in issue	510,002,210	383,317,013	309,504,398
Performance since launch*	69.1%	61.2%	29.4%
Ongoing Charge Figure	0.99%	1.01%	1.05%

*The performance is quoted, net of costs, for the period from launch on 1 November 2010 to 30 June 2014.

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.

Price and revenue records (unaudited)

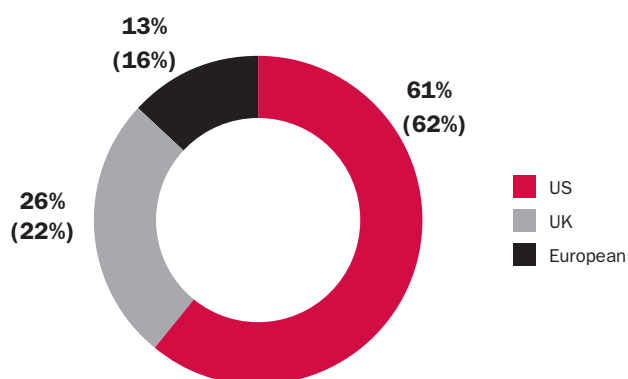
Calendar year all figures in pence (unless otherwise stated)	2014 (to 30 June)	2013	2012	2011	2010 (from 1 November)
T Class (Accumulation shares)					
Accumulation share high	170.98	164.70	131.98	115.47	107.52
Accumulation share low	155.45	130.17	114.73	100.47	98.98
Net revenue per accumulation share	1.3074*	1.8285	1.6888	1.4651	-
T Class (Income shares)					
Income share high	164.67	159.22	129.23	114.51	107.52
Income share low	149.73	126.82	113.34	99.64	98.99
Net revenue per income share	1.2608*	1.7768	1.6728	1.4261	-
R Class (Accumulation shares)					
Accumulation share high	167.96	162.51	130.61	115.10	107.46
Accumulation share low	152.95	128.78	114.06	100.12	98.97
Net revenue per accumulation share	0.8837*	1.0426	1.0828	0.8637	-
R Class (Income shares)					
Income share high	164.23	159.01	128.87	114.44	107.45
Income share low	149.57	126.76	113.27	99.54	98.97
Net revenue per income share	0.8642*	1.0187	1.0706	0.8860	-
I Class Net (Accumulation shares)					
Accumulation share high	171.58	165.13	132.24	115.54	107.53
Accumulation share low	155.94	130.43	114.84	100.55	98.99
Net revenue per accumulation share	1.3984*	1.9935	1.8284	1.5930	-
I Class Net (Income shares)					
Income share high	164.74	159.28	129.28	114.49	107.53
Income share low	149.74	126.82	113.32	99.63	98.98
Net revenue per income share	1.3382*	1.9255	1.8175	1.5621	-

* to 31 August 2014.

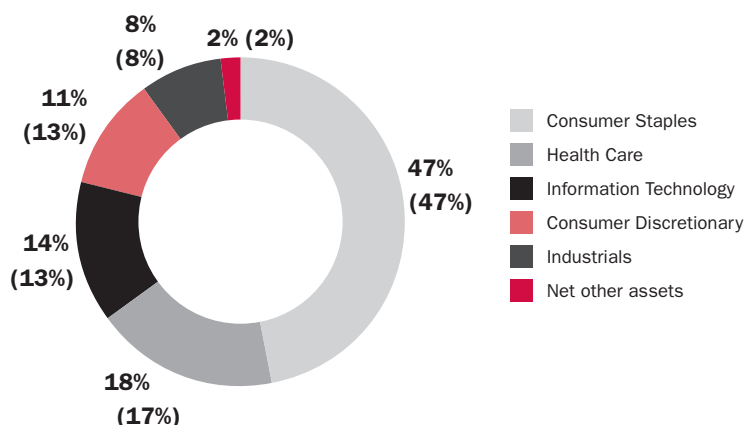
The Fund launched on 1 November 2010; therefore, five-year performance data are not available.

Information on the fund

Breakdown by geography as at 30 June 2014



Breakdown by sector as at 30 June 2014



The figures in brackets show comparative figures at 31 December 2013.

Summary of significant changes

For the six months 1 January 2014 to 30 June 2014		For the six months 1 January 2013 to 30 June 2013	
Largest purchases	Cost (£)	Largest purchases	Cost (£)
VISA	41,728,877	Swedish Match	38,653,189
Unilever	38,820,878	Dr Pepper Snapple	31,789,028
Kone	38,536,818	Imperial Tobacco	29,358,622
eBay	35,795,359	Stryker	28,752,563
Reckitt Benckiser	33,708,661	Nestlé	25,689,986
Total	188,590,593	Total	154,243,388
Total purchases for the six months	453,031,205	Total purchases for the six months	292,841,553
Largest sales	Proceeds (£)	Largest sales	Proceeds (£)
Swedish Match	58,682,454	Sigma Aldrich	25,628,853
Total	58,682,454	SGS	14,970,381
Total sales for the six months	58,682,454	Schindler	13,617,235
		Total	54,216,469
		Total sales for the six months	54,216,469

Investment Manager's review

The table below shows the performance of the Fund during the first half of 2014 compared with a number of benchmark indices:

	Total Return	Inception to 30.06.14	
	2014 %	Cumulative %	Annualised %
Fundsmith¹	+4.1	+68.8	+15.4
Equities ²	+2.9	+44.5	+10.6
UK Bonds ³	+2.7	+15.0	+3.9
Cash ⁴	+0.3	+2.6	+0.7

Our Fund continued to outperform a rising market modestly. You might be surprised by this given that our portfolio could be characterised as defensive-consisting of companies which have relatively low cyclicalities. We do not own any businesses whose shares tend to do well in bull markets: cyclicals, financials, highly-leveraged companies or recovery stocks. Two factors seem to assist our performance during these periods:

1. We are always fully invested – we do not seek to “time the market” by selling shares and holding cash when we think the market may fall. We do not do this because we do not possess any ability to predict the course of markets, something which probably gives us an edge over those who have not yet realised that they too do not have this ability. Markets rarely produce their performance smoothly and evenly. Investors who seek to time markets often seem to find that they are only partly invested, or worse, during the typically short periods of time when markets are rising sharply and this adversely affects their performance.
2. One of the few things we can be confident about is that our Fund owns shares in good companies. Companies which have long track records of delivering high returns on their capital invested in cash and reinvesting a portion of the cash they generate to compound in value. Our experience suggests that when you own shares in good companies, acquirers periodically appear to try to take them over. The benefits of this can be seen in the main contributors to our performance in the first half of 2014:

Dr Pepper Snapple	+1.00%
Intercontinental Hotels	+0.87%
Imperial Tobacco	+0.76%
Microsoft	+0.69%
Stryker	+0.60%

Of these contributors, Intercontinental Hotels Group was on the receiving end of a bid approach. Whilst this has made a welcome addition to our performance, bid approaches and actual takeover bids are a double-edged sword. In the event that they are actually acquired we need to find a replacement investment and there are very few companies which satisfy our criteria.

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

Kone	-0.29%
Choice Hotels	-0.24%
Visa	-0.23%
Procter & Gamble	-0.20%
Automatic Data Processing	-0.19%

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

The only portfolio change which we made during the period was the sale of our stake in Swedish Match and the beginning of a holding in eBay. In the case of Swedish Match we were concerned that the advent of e-cigarettes may represent a significant change in the prospects for its smokeless products. eBay derives the majority of its revenues from transaction fees.

¹T Class Acc Shares, net of fees, priced at midday UK time (source: Fundsmith).
³Bloomberg/EFFAS Bond Indices UK Govt 5-10 yr (source: Bloomberg).

²MSCI World Index (£ Net) priced at close of business US time (source: www.msci.com).
⁴3 Month £ LIBOR Interest Rate (source: Bloomberg).

Investment Manager's review (continued)

As a result of this limited activity, our portfolio turnover continued to be minimal. In fact it was negative at -4.7%. Negative turnover is a rather strange concept and reflects the fact that the turnover calculation is affected by the inflows into the Fund. Perhaps a better way of gauging the effect of our (relative lack of) portfolio turnover is to look at the costs incurred.

The Ongoing Charge Figure ("OCF") for our Fund is 9bps over the Annual Management Charge ("AMC"). Or in English, if you are paying 1% AMC, as I am for my investment in the Fund, then the OCF is 1.09%. If you add the costs of dealing to derive the Total Cost of Investment ("TCI") this rises to 1.18%.

This may 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 reveal their TCI we will have to wait until they do in order to demonstrate that.

On a personal note, some investors may have noted that I have agreed to stand down from my position as CEO of Tullett Prebon PLC by 1st September 2014. I now intend to focus my business interests solely on my role at Fundsmith. I will leave it to you to judge whether this is good or bad news.

Terry Smith
Fundsmith LLP
15 August 2014

Further information

Report and accounts

Each year, you will be automatically sent Annual and Interim short 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 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 also levy an SDRT charge on the redemption or transfer of shares (as described above under “What tax regime is the Company subject to?”). The SDRT charge will be paid into the Company. This charge is paid for directly by the investor and will be deducted from the redemption proceeds before being paid to the investor. Stamp duty reserve tax has been abolished from 30 March 2014 for OEICs.

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.

Accounting Dates

	Period end	Distribution payment
Interim	30 June	31 August
Annual	31 December	28 February

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

Contact details

Dealing and enquiries

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Website: www.fundsmith.co.uk

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FCA Registration Number IC000846

Authorised Corporate Director

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United Kingdom

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FCA Registration Number 523102

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Administrator

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E14 5HJ
United Kingdom

Depository

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United Kingdom

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

Independent auditor

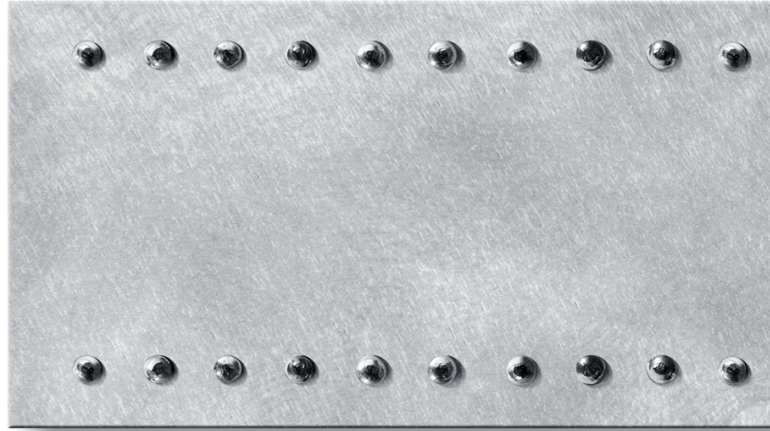
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