

Fundsmith - Stewardship Policy

OVERVIEW

Fundsmith LLP considers itself to have an important fiduciary duty to protect the interests of investors. Part of our role as an investment manager is to engage with investee companies in order to satisfy ourselves that they are acting in the best interests of shareholders.

We believe that shareholder engagement can help to support good corporate governance. This is important not only because it advocates shareholder interests directly, but also because of the wider benefits it can have from an economic, social and environmental perspective.

Therefore, we seek to establish a dialogue with investee companies so that we can share our objectives and expectations in an open and transparent manner. We hope that, by doing so, important decisions at our investee companies will always be made with shareholders' interests in mind.

The need to engage with investee companies is particularly important to us, given our long term approach to investing. Once we buy a stock, we hope to hold it indefinitely. Because of this, we want to make sure that the companies we invest in are run on a sustainable basis, meaning that they will continue to generate sustainable profits and increase in shareholder value over the long term.

Our primary concern is to ensure that the company continues to allocate capital in a manner which creates value for shareholders. We are also concerned with the structure of management remuneration. We encourage our investee companies to reward management in a way which promotes long term, sustainable growth, and which ensures that the interests of management are aligned with the interests of shareholders.

It is important to note that, although we engage with all investee companies and vote on all corporate governance issues, we are not an 'activist' shareholder. In other words, we do not seek to effect disruptive change. Our strategy is to invest in good companies. If we thought that significant change was required for a company to deliver a good return, we wouldn't invest in the first place.

It should also be noted that we are subject to strict regulatory and contractual limitations which prevent us from exerting a significant influence on the companies in which we invest. Therefore, we will only ever be a minority shareholder.

Fundsmith LLP delegates certain investment management functions to its affiliate Fundsmith Investment Services Limited. This policy applies to both entities.

The following sections set out how we will seek to uphold the Principles of the UK Stewardship Code.

Principle 1: Institutional investors should disclose their policy on how they will discharge their stewardship responsibilities

We comply with Principle 1 through the publication of this policy, together with the summary statement on our website. This policy sets out our approach to stewardship, voting and engagement with investee companies.

Principle 2: Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship, and this policy should be publicly disclosed

We have a conflicts of interest policy and inventory, through which we maintain a record of actual and potential conflicts faced by Fundsmith, together with a description of the way in which each conflict is, or would be managed. The policy and inventory will be updated annually, or on an ad hoc basis as any new conflicts arise. The policy covers all types of conflict faced by the Firm, including those which may arise through our stewardship and voting activities.

On a case by case basis, we will consider whether the exercise of our stewardship responsibilities, the pursuit of a particular governance objective in an investee company, or the exercise of a proxy vote on behalf of investors might create the possibility of a conflict, either between Fundsmith (or a member of personnel) and a client, or between one client and another.

In the event that a material conflict arose, the Chief Compliance Officer will be responsible, having discussed the situation with the Firm's partners for ensuring that decisions are taken in the best interests of investors.

If a conflict arises, a log will be maintained with details of the conflict, the chosen course of action, and a justification for the approach taken.

Fortunately, it is unlikely that a material conflict would arise in relation to the discharge of our stewardship duties or the exercise of a proxy vote on behalf of our investors. The funds managed by Fundsmith follow a simple buy and hold equity investment strategy. Fundsmith acts purely on behalf of its investors and does not engage in any proprietary trading. We do not invest in companies in which the Firm or its personnel have any material interest. We also maintain a strict personal account dealing policy, whereby any personal trades in securities within our investable universe are subject to pre-approval by the Chief Compliance Officer.

Principle 3: Institutional investors should monitor their investee companies

The monitoring of investee companies forms an integral part of our portfolio management process. We will monitor and engage with investee companies in an appropriate and proportionate manner, based on the nature of our investment and size of holding.

The initial decision to invest in a company is based on an assessment of whether it is a good company that possess a defined set of characteristics. In order to monitor investment performance, we periodically review the value of each company and ensure that it still meets our definition of a good company. This monitoring process will naturally involve both quantitative and qualitative elements. We will consider developments both internal and external to the company that drive the company's value and risks.

In our opinion, a good company will invariably have high standards of corporate governance.]Any actions that we take to promote good governance should have a beneficial impact on shareholder value. Therefore, we believe that fulfilment of our obligations under Principle 3 of the Stewardship Code goes hand in hand with our efforts to achieve a good rate of return for investors.

Our engagement with companies is likely to involve meetings with management. In addition to these meetings providing information on the company's business, its strategy and development, through these meetings we will seek to satisfy ourselves that the company's leadership is effective.]

The exercise of proxy votes on behalf of investors is another useful tool for expressing our opinion. We exercise our right to vote on all corporate governance issues for which we are eligible as proxy.

We also maintain a Sustainability Database of company comments on a range of issues, including environmental, governance, social and innovation. This data is used to create a relational database of coded notes. These notes are collected from the company's sustainability report (if they publish one),

the annual report or sometimes from the company's website. We also include news articles which are collated, summaries and distributed on a daily basis by each member of the research team. Each note is "tagged" with the company name, date, data source, and topics discussed. This means that we are able to search across the database by topic or company.

Whilst we will meet frequently with our investee companies to discuss issues such as management remuneration and the efficient allocation of capital, it is our policy *not* to be made insiders (i.e. we will ask *not* to be made privy to material, non-public, price-sensitive information).

Principle 4: Institutional investors should establish clear guidelines on how and when they will escalate stewardship activities

Fundsmith is a small team, which makes the process for escalating stewardship concerns straightforward. We have a single Chief Investment Officer (CIO), supported by the Head of Research and a team of analysts/researchers. All members of personnel in research and investment engage with investee companies. If a member of personnel had concerns, he or she would raise this with the CIO, who would then arrange a meeting with the company's management and/or board, if required. Any additional action would be taken on a case by case basis. We may consider, for example, whether it would be appropriate to raise the concern with the company's advisers, hold separate meetings with the Chairman or other independent directors or potentially discuss the issue with other institutional investors. For the reasons set out below, it is unlikely that Fundsmith would engage in an intervention which could be considered to be an attempt to exercise significant influence over the company.

Our overriding objective as investment manager is to protect the interests of our investors. We will engage with investee companies to support the continued creation of shareholder value.

As UCITS Schemes, however, Fundsmith Equity Fund and Fundsmith Sustainable Equity Fund are subject to strict rules which prevent it from exerting significant influence over any company in which it invests. We apply this philosophy to all portfolios under our management, and limitations regarding holding size are written into the contractual terms of each fund. We do not necessarily believe the objectives of the UCITS Directive and Stewardship Code are mutually exclusive. However, we are bound by the rules of the UCITS Directive and the contractual limitations in place for each portfolio.

In view of this, if we ever felt that an investee company no longer fit the profile of a good company, and/or was at risk of destroying shareholder value, the most likely course of action would be to sell our shares in that company. This would be done to minimise the risk of our investors suffering a loss. Given the small size of our holdings in comparison to the average market capitalisation of investee companies, we would be able to liquidate a position without negatively affecting the share price.

Principle 5: Institutional Investors should be willing to act collectively with other investors where appropriate

We accept that collaboration with other investors could be an appropriate and effective means of engagement, and that this could help to achieve a positive result on behalf of our investors. In applying this Principle, however, we must keep in mind the regulatory and contractual limitations on significant influence referred to above.

The need to act collectively should only arise in exceptional circumstances. There are a number of issues which would need to be considered before engaging in any collective action, such as conflicts of interest, or the risk of acting as a concert party/engaging in collusive behaviour. We would most likely seek legal counsel before taking this course of action.

If we felt that collective action was appropriate, and that it could help to achieve a positive result on behalf of our investors, it would be considered.

Principle 6: Institutional Investors should have a clear policy on voting and disclosure of voting activity

Fundsmith will vote on all matters for which it is eligible as proxy, and for which it has discretion to vote on behalf of its investors. We reserve the right not to vote if, for whatever reason, we consider that taking part in a particular vote would be inappropriate or detrimental to the interests of our investors.

Fundsmith does not use third party proxy voting services or voting advisory services. Nor do we engage in stock lending.

We do not feel it is appropriate to routinely publish details of our voting activity, and we do not believe this would be particularly productive or informative. We do, however, keep records of all voting activity.

Principle 7: Institutional investors should periodically report on their activities in relation to stewardship and voting

As noted above, we do not consider it appropriate to publish details of our stewardship and voting activity. However, we will respond to requests from individual investors in our UCITS funds. We may also include a brief summary of our voting and stewardship activities in the annual and semi-annual long form report for Fundsmith Equity Fund.

We are required to produce semi-annual and annual reports for the UCITS Scheme, and we believe that these reports are the most effective means for keeping investors up to date with our investing activities and the performance of the fund. We also produce monthly factsheets for the UCITS funds which highlight key developments. Likewise, investors in Fundsmith Emerging Equities Trust plc have access to monthly factsheets and annual reports and accounts.

Oversight and Governance

We have not engaged an independent third party to undertake an assessment of our stewardship and voting procedures. In our opinion, the costs of doing this would most likely outweigh the benefits. We will, however, review our stewardship and proxy voting activities as part of our internal and external compliance monitoring. This Stewardship policy will be reviewed annually and updated where necessary to reflect any changes in practice.

If you require further information in relation to our approach to stewardship please contact compliance@fundsmith.co.uk

Last Updated: June 2018

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