

Order Execution Policy

1. INTRODUCTION

- 1.1. Fundsmith LLP is authorised in the UK by the Financial Conduct Authority ("FCA") as a UCITS manager and a full scope UK alternative investment manager. Fundsmith LLP is the manager of a number of funds and also has permission to act as an investment manager for clients on a separate portfolio basis.
- 1.2. This document sets out the execution policy for Fundsmith LLP and Fundsmith Investment Services Limited (together "Fundsmith"). It describes Fundsmith's approach to providing best execution for its funds and other clients ("Clients").
- 1.3. Fundsmith is required to establish and implement a policy which allows it to obtain, when placing orders on behalf of Clients for execution, the best possible result for its Clients, taking into account certain prescribed factors. This Order Execution Policy is intended to satisfy those requirements.
- 1.4. Fundsmith only acts as an investment manager in relation to equity investments; it does not manage or trade in other types of financial instrument. Fundsmith does not execute trades on behalf of its Clients directly.
- 1.5. All Fundsmith's Clients are professional investors.

2. BEST EXECUTION, EXECUTION FACTORS AND CRITERIA

- 2.1. When placing orders on behalf of Clients, Fundsmith must act in the Client's best interests and is required to take all sufficient steps to achieve the best possible result for its Clients, taking into account the execution factors. This is what is meant by "best execution".
- 2.2. The execution factors which must be taken into account are: price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order.
- 2.3. The following criteria are taken into account when determining the relative importance of the execution factors to a particular trade, these are the best execution criteria:
 - 2.3.1. the characteristics of the Client, including its categorisation as a professional client. Where the Client is the fund, Fundsmith will consider the objectives, investment policy and risks specific to that fund as set out in its prospectus;
 - 2.3.2. the characteristics of the order;
 - 2.3.3. the characteristics of the financial instruments that are the subject of that order; and
 - 2.3.4. the characteristics of execution venues to which that order can be directed.

3. RELATIONSHIP WITH NORTHERN TRUST

- 3.1.** Fundsmith is a small firm. It does not have specialist staff or systems dedicated to trade execution. It has, therefore, outsourced these functions to Northern Trust Securities LLP ("Northern Trust"). Northern Trust acts as Fundsmith's delegate for these purposes.
- 3.2.** Northern Trust is a leading provider of execution services with in-depth expertise of trade execution across global equity markets. Northern Trust was selected to undertake this function on behalf of Fundsmith following detailed due diligence and analysis of their execution capabilities, expertise, systems and controls. The delegation arrangement provides Fundsmith with comprehensive dealing desk functions which operate globally and facilitate access to all relevant brokers and execution venues. Northern Trust acts solely in an agency capacity on behalf of Fundsmith.
- 3.3.** Northern Trust is required to take all sufficient steps to achieve the best possible result for Fundsmith's Clients on a consistent basis taking into account the execution factors and the relative importance of those execution factors as agreed with Fundsmith. There are detailed trading protocols which Northern Trust adheres to when providing these dealing services.
- 3.4.** Northern Trust also provides Fundsmith with detailed execution data and analysis in relation to each trade undertaken.
- 3.5.** Fundsmith believes that the arrangements with Northern Trust ensure that Clients obtain the best possible results in relation to the execution of trades.

4. BEST EXECUTION PROCEDURES IN PRACTICE

- 4.1.** For every trade undertaken on behalf of a Client, Northern Trust considers the execution factors and the execution criteria set out above and determines the most appropriate approach to the execution of that order with a view to achieving the best possible result for the Client.
- 4.2.** Generally, Fundsmith's trading protocols place greater weight on the execution factors of price, likelihood of execution and settlement, size and nature of order and market impact.
- 4.3.** Fundsmith aims to build a position in its chosen stocks when the liquidity is available, for the best available price. Given our buy and hold investment philosophy, Fundsmith tends to place more importance on price and the likelihood of execution rather than speed of execution, whilst at the same time ensuring that other relevant factors are given due consideration. Fundsmith will also prioritise the impact its orders may have on the market as our standard trade and position size have grown in line with our AUM.
- 4.4.** In general, any unfilled orders will be cancelled at the end of the day. Occasionally, unfilled orders at the end of the day will be left open until completed, but only if this is agreed following a discussion between Fundsmith and Northern Trust.
- 4.5.** If Northern Trust were ever concerned that a particular order might impact the market price or cause any other form of market disturbance, it would refer back to Fundsmith before proceeding. This would be highly unlikely for our developed equity market portfolios, but could potentially be an issue with the emerging markets equity portfolio.

- 4.6. Northern Trust arranges for the execution of trades through a number of brokers, trading platforms and venues including regulated markets, multilateral trading facilities and systematic internalisers. It is possible that trades will be executed outside of a regulated trading venue and in these circumstances the trade will carry additional counterparty risk. Fundsmith will provide further information on these types of trades if requested by a Client.
- 4.7. Northern Trust uses a number of trading platforms including Bloomberg, Tradeweb, Marketaxess and Candeal, to request competing quotations from potential counterparties and to assess market liquidity. Northern Trust use their expertise and judgement to assess the quotes and the execution factors are considered as a fundamental part of the process to determine the counterparty or execution venue which will best serve the Client's interests. When evaluating different counterparties Northern Trust takes into account a number of criteria including their market share, tenure in the market and breadth of market coverage, their ability to manage complex orders, their recent performance on other orders, any specialisations, the speed of execution and responsiveness and their credit worthiness.
- 4.8. Appendix 1 contains a list of the main execution venues utilised.
- 4.9. When Northern Trust places an order for execution on behalf of Fundsmith, Northern Trust will ensure that the broker is under an obligation to provide best execution in relation to that trade.

5. SPECIFIC CLIENT INSTRUCTIONS

- 5.1. The duty of best execution is modified to the extent that a Client gives a specific instruction concerning the execution of its order. Although it would be highly unusual for a Client to do this, if there is a specific instruction from the Client, Fundsmith in connection with Northern Trust must execute the order following the specific instruction.
- 5.2. Any specific instruction from the Client may prevent Fundsmith from taking the steps that it has designed and implemented in this Policy to obtain the best possible result for the execution of orders in respect of the elements covered by those instructions.
- 5.3. Even where the Client gives Fundsmith a specific instruction, Fundsmith must still obtain the best possible result for the Client Fundsmith must be able to explain to the Client or the FCA how it handled those parts of the order which were not subject to a specific instruction.

6. CLIENT DISCLOSURES, CONSENT AND NOTIFICATIONS

- 6.1. Fundsmith makes this Policy and any material changes to it available to investors in its funds via its website at www.fundsmith.co.uk. This Policy is also contained in the Prospectus of the UCITS funds. Fundsmith will respond to all reasonable and proportionate requests from investors for information about this Policy or its order execution arrangements clearly and within a reasonable time.
- 6.2. Other Clients have been provided with a copy of this Policy and will be notified of any material changes to it. As part of that process, Fundsmith has informed the Client that in certain circumstances orders may be executed outside of a regulated trading venue.

7. DATA AND INFORMATION PUBLICATION

- 7.1.** Fundsmith summarises and makes public, on an annual basis, for each class of financial instrument, the top five brokers or entities, in terms of trading volume, where it placed Client orders in the preceding year. It presents this data as required by the relevant rules and publishes it on its website (in a format which is available for downloading by the public) by 30 April each year in respect of the period 1 January to 31 December of the preceding year.
- 7.2.** Fundsmith also summarises and makes public annually information on the quality of execution obtained on all venues, and information on the quality of execution obtained from all entities, in the preceding year. It publishes this information on its website (in a format which is available for downloading by the public) by 30 April each year in respect of the period 1 January to 31 December of the preceding year.

8. MONITORING AND REVIEW

8.1. Ongoing monitoring and assessment

- 8.1.1.** Fundsmith monitors on an ongoing basis the effectiveness of its order execution arrangements and this Policy in order to identify and, where appropriate correct, any deficiencies.
- 8.1.2.** In addition, Fundsmith assesses, on a regular basis, whether the execution quality obtained is consistent with its obligation to provide for the best possible result for its Clients or whether changes to the execution arrangements are required. This includes assessing whether the execution venues used provide for the best possible result for its Clients. In making this assessment Fundsmith will take into account the information published by execution venues and by other firms in relation to the quality of execution of orders (including information about price, costs, speed and likelihood of execution for individual financial instruments).
- 8.1.3.** A quarterly review of best execution is carried out with Northern Trust who provide detailed reports for this purpose.
- 8.1.4.** Fundsmith has appropriate procedures in place to obtain relevant data published and takes a proportionate approach to its assessment of such data.

8.2. Formal review of policy

- 8.2.1.** Fundsmith reviews this Policy, and its order execution arrangements, on an annual basis. This review comprises a formal review of the relationship with Northern Trust, the execution venues and brokers used, the quality of execution obtained and an analysis of the information published by brokers and execution venues.
- 8.2.2.** Fundsmith will carry out an additional review should a material change occur which affects its ability to continue to obtain the best possible result for its Clients on a consistent basis using the arrangements, venues and brokers listed in this Policy, including considering making changes to the relative importance of the best execution factors or the execution venues in meeting the best interests requirements. A material change for these purposes is a significant event of an internal or external nature that could impact the parameters of best execution such

as cost, price, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the order. As noted above, Fundsmith notifies its Clients of any material changes to this Policy.

This policy was discussed and approved at the Fundsmith LLP Management Committee meeting on the following date, as evidenced by the minutes of that meeting:

Last Updated: December 2020

Date of Partners' Meeting: January 2021