



**Fundsmith Sustainable Equity Fund**  
Short Form Report

**For the period ended 30 June 2021 (unaudited)**



## Profile of the fund

### Investment objective and policy

The aim 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 any 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 the light of the Fund’s 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.

**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, in most cases, 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.

# Performance Record

As at 30 June 2021

Change in net assets per share	Share Class T – Accumulation		Share Class T – Income	
	30.06.21 (p)	31.12.20** (p)	30.06.21 (p)	31.12.20** (p)
Opening net asset value per share	123.16	100.00	122.97	100.00
Return before operating charges	11.69	24.18	11.68	24.09
Operating charges	(0.66)	(1.02)	(0.66)	(0.99)
Return after operating charges	11.03	23.16	11.02	23.10
Distributions	(0.11)	(0.15)	(0.09)	(0.13)
Retained distributions on accumulation shares	0.11	0.15	-	-
Closing net asset value per share	134.19	123.16	133.90	122.97
After direct transaction costs of:	0.02	0.05	0.02	0.05
<b>Performance</b>				
Return after operating charges	8.96%	23.16%	8.96%	23.10%
<b>Other information</b>				
	£	£	£	£
Closing net asset value	29,541,744	13,226,907	965,035	456,989
Closing number of shares	22,014,051	10,739,982	720,719	371,626
Ongoing charge figure*	1.06%	1.07%	1.06%	1.07%
Direct transaction costs	0.04%	0.04%	0.04%	0.04%
<b>Prices</b>				
	(p)	(p)	(p)	(p)
Highest share price	134.22	124.66	134.02	124.49
Lowest share price	117.15	88.84	116.98	88.84

Change in net assets per share	Share Class I – Accumulation Net				Share Class I – Income Net			
	30.06.21 (p)	31.12.20 (p)	31.12.19 (p)	31.12.18*** (p)	30.06.21 (p)	31.12.20 (p)	31.12.19 (p)	31.12.18*** (p)
Opening net asset value per share	154.14	130.01	105.93	100.00	151.97	128.75	105.34	100.00
Return before operating charges	14.64	25.48	25.39	7.23	14.43	25.29	25.25	7.24
Operating charges	(0.74)	(1.35)	(1.31)	(1.30)	(0.73)	(1.33)	(1.30)	(1.30)
Return after operating charges	13.90	24.13	24.08	5.93	13.70	23.96	23.95	5.94
Distributions	(0.18)	(0.63)	(0.54)	(0.54)	(0.17)	(0.74)	(0.54)	(0.60)
Retained distributions on accumulation shares	0.18	0.63	0.54	0.54	-	-	-	-
Closing net asset value per share	168.04	154.14	130.01	105.93	165.50	151.97	128.75	105.34
After direct transaction costs of:	0.03	0.06	0.05	0.17	0.03	0.06	0.05	0.17
<b>Performance</b>								
Return after operating charges	9.02%	18.56%	22.73%	5.93%	9.01%	18.61%	22.73%	5.94%
<b>Other information</b>								
	£	£	£	£	£	£	£	£
Closing net asset value	302,871,381	222,608,282	143,208,987	67,029,889	226,265,659	195,271,253	172,847,707	117,081,258
Closing number of shares	180,236,867	144,414,955	110,155,339	63,277,160	136,716,061	128,492,036	134,255,642	111,142,170
Ongoing charge figure*	0.96%	0.97%	1.05%	1.05%	0.96%	0.97%	1.05%	1.05%
Direct transaction costs	0.04%	0.04%	0.04%	0.14%	0.04%	0.04%	0.04%	0.14%
<b>Prices</b>								
	(p)	(p)	(p)	(p)	(p)	(p)	(p)	(p)
Highest share price	168.07	156.03	136.52	115.65	165.70	153.92	135.26	115.16
Lowest share price	146.64	111.05	103.83	94.30	144.58	109.97	103.25	94.31

The Fund launched on 1 November 2017.

\*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.

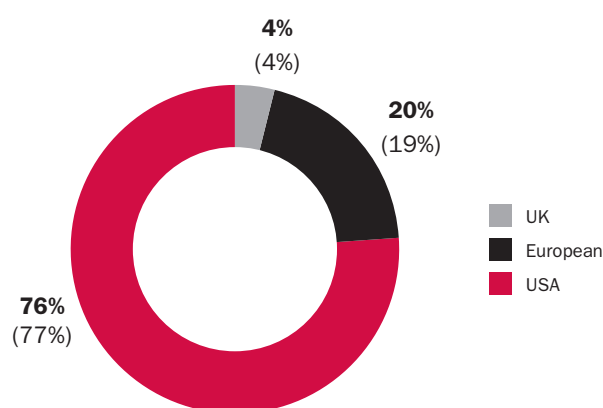
The prices in the above table are different from the published dealing prices that were available for investors on the 30 June. This is to comply with accounting rules that require us to publish the net asset value in this report based on close of day prices. The dealing prices were used in the investment manager's review and the factsheet as the fund could only be bought or sold at those prices.

\*\*From inception 2 March 2020 to 31 December 2020.

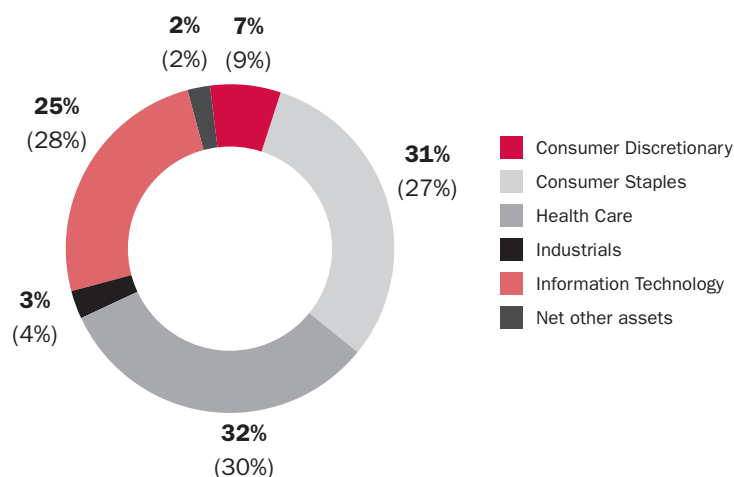
\*\*\*From inception 1 November 2017 to 31 December 2018.

## Information on the fund

### Breakdown by geography\* as at 30 June 2021



### Breakdown by sector as at 30 June 2021



The figures in brackets show comparative figures at 31 December 2020.

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

### Summary of significant changes

For the six months to 30 June 2021		For the six months to 30 June 2020	
<b>Largest purchases</b>	<b>Cost (£)</b>	<b>Largest purchases</b>	<b>Cost (£)</b>
Procter & Gamble	19,027,055	Starbucks	13,947,633
Coloplast	10,385,337	Becton Dickinson	8,418,201
Unilever	9,764,697	Stryker	6,097,550
Zoetis	7,089,483	L'Oréal	6,046,929
L'Oréal	6,047,967	Automatic Data Processing	4,739,514
<b>Total</b>	<b>52,314,539</b>	<b>Total</b>	<b>39,249,827</b>
<b>Total purchases for the six months</b>	<b>80,135,617</b>	<b>Total purchases for the six months</b>	<b>67,875,649</b>
<b>Largest sales</b>	<b>Proceeds (£)</b>	<b>Largest sales</b>	<b>Proceeds (£)</b>
Intertek	2,679,901	Clorox	16,420,115
-	-	Waters	4,650,373
-	-	Coloplast	4,004,362
-	-	Reckitt Benckiser	3,041,648
-	-	L'Oréal	3,031,385
<b>Total</b>	<b>2,679,901</b>	<b>Total</b>	<b>31,147,883</b>
<b>Total sales for the six months</b>	<b>2,679,901</b>	<b>Total sales for the six months</b>	<b>58,047,312</b>

# Investment Manager's review

The table below shows the performance of the Fund during the first half of 2021 and the cumulative and annualized performance since inception and various comparators:

	01.01.21 – 30.06.21 %	Inception to 30.06.21 Cumulative %	Annualised %
<b>Fundsmith SEF<sup>1</sup></b>	+9.6	+68.1	+15.2
Equities <sup>2</sup>	+11.9	+52.0	+12.1
UK Bonds <sup>3</sup>	-3.2	+7.5	+2.0
Cash <sup>4</sup>	+0.0	+2.0	+0.5

<sup>1</sup> Fundsmith Sustainable Equity Fund I Acc, total return, net of fees priced at midday UK time, in sterling. Inception 1 November 2017. Source: Bloomberg.

<sup>2</sup> MSCI World Index (£ Net) priced at close of business US time. The MSCI World Index is a market capitalisation weighted index of developed world equities and, as such, is a fair comparison given the Fund's investment objective and policy. source: www.msci.com.

<sup>3</sup> Bloomberg/Barclays Bond Indices UK Govt 5-10 yr, source: Bloomberg.

<sup>4</sup> £ Interest Rate, source: Bloomberg.

N.B. The Fund is not managed with reference to any benchmark, the above comparators are provided for information purposes.

Our Fund underperformed what is perhaps the most obvious comparator – the MSCI World Index – by 2.3% during the first half of 2021. It underperformed the FTSE100 Index which is relevant to many of our UK investors by 1.3%.

Whilst underperformance is never welcome, it is inevitable from time to time, and the first half of 2021 was one such time. If you have been reading what investment commentators have been saying during this period you might be rather surprised that our Fund has not fared worse than it did. You might even be surprised that we are still here.

Since markets started to sense an end to the economic disruption caused by the lockdowns in the final quarter of 2020 there has been a so-called 'rotation' from quality stocks of the sort we own into so-called value stocks and those expected to recover as the lockdowns end. In such a situation our Fund is always likely to underperform for a period, after all the companies we invest in mostly have little or nothing to recover from.

Our Fund's performance versus the 'value' stocks and Covid recovery plays tells its own story.

	Covid drawdown <sup>1</sup> %	Covid recovery <sup>2</sup> %	Pre-Covid High to 30 June 2021 %
Fundsmith SEF	-20%	51%	21%
S&P 500 value index	-37%	79%	12%
American Airlines	-70%	135%	-30%
Exxon	-56%	101%	-11%
JP Morgan	-44%	97%	10%
FTSE 100 index	-35%	41%	-8%
BP	-62%	63%	-38%
Carnival Cruises	-84%	175%	-55%
Lloyds Bank	-62%	95%	-27%
Ryanair	-49%	95%	-1%

Note:

<sup>1</sup> Fall from 2020 high to Covid low.

<sup>2</sup> Increase from Covid low until 30 June 2021.

Source: Bloomberg. Returns in local currency.

As you can see, our Fund outperformed all the 'value' and what are now regarded as recovery plays in the downturn and although they outperformed it in the market recovery it outperformed them all significantly if you look across the whole period. Hopefully this puts the first half performance in context.

## Investment Manager's review (continued)

The main contributors to our performance in the first half of 2021 were:

Top Five	Contribution %
Waters	+1.7
Intuit	+1.3
PayPal	+1.2
Microsoft	+1.1
L'Oréal	+1.0

The only discernible theme for at least some of these is the continued digitalisation driven partly by the pandemic.

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

Bottom Five	Contribution %
McCormick	-0.5
Amadeus	-0.2
Church & Dwight	-0.1
Colgate-Palmolive	-0.1
Becton Dickinson	0.0

As an airline reservation systems business Amadeus continues to struggle with the pandemic restrictions and some consumer staples are affected by lapping the 'pantry loading' of 2020.

Our portfolio turnover for the period was -8.7%. Negative turnover is not a concept which is intuitive. It basically occurs when a fund's net cash inflow is greater than the amount of trading it does in a period. Perhaps a better guide is that we spent just £5,298 or 0.001% of FSEF's Net Asset Value or 0.1 basis points of the average value of the Fund on voluntary dealing (which excludes dealing costs associated with the fund subscription and redemptions that are involuntary). Hopefully, this illustrates that we have a long term, low turnover approach for FSEF which we believe is one of the keys to good investment performance. This compares to 3.1bps last year. During the period our involuntary turnover involved the sale of our stake in Intertek, the testing services business.

The Ongoing Charges Figure of OCF for our Fund was just 6bps over the Annual Management Charge. This is lower than the full

year 2020 and the first half 2020. If you add the costs of all dealing to this in order to derive the Total Cost of Investment this comes to 1.00%. This compares to 1.01% for the whole of 2020 and 1.04% for the comparable period last year.

We monitor many statistics in order to assess the sustainability of our portfolio. As at 30<sup>th</sup> June they showed the following:

RepRisk Indicators (RRI)	FSEF	MSCI World
Environmental	4.2	4.8
Social	11.0	12.8
Governance	10.5	11.4
<b>Total RRI</b>	<b>25.7</b>	<b>29.0</b>
1 month RRI Change	+1.1	+1.0
Peak 24 Month RRI	38	39
RepRisk Rating (RRR)	BB	BB

Innovation	FSEF	MSCI World
R&D as % of sales	6.8%	5.8%
Organic Growth	2.5%	n/a
Capital Impact™	0.30	0.14

Environmental	FSEF	MSCI World
Waste (tonnes/£m of FCF)	29	1,556
Hazardous waste (tonnes/£m of FCF)	0.6	29
Water (m3/£m of FCF)	7,498	53,819
GHG/CO2 emissions (tonnes/£m of FCF)	149	603
Energy (MWh/£m FCF)	459	2,428

Social	FSEF	MSCI World
Women Executives	28%	16%
Women Directors	34%	27%

Governance	FSEF	MSCI World
UN Global Compact Signatories	40%	27%
Independent Directors	80%	70%

You may note that we have updated our comparison set of companies from the S&P 500 to the MSCI World, and in order to keep the comparison consistent, we have also changed the relative index for our RepRisk statistics to the MSCI World. In addition, we have changed our environmental statistics to be

## Investment Manager's review (continued)

weighted rather than simple averages. We have also updated our estimation engine that calculates estimates of environmental statistics for companies that don't report them.

The sustainability of the companies in the FSEF portfolio on these measures remains markedly better than the main benchmark Index.

However, some of the statistics shown above are not ostensibly monitored by almost all other sustainability funds, namely those which measure fundamental aspects of business sustainability which we label "Innovation" such as:

- R&D as % of sales-how much of sales revenue is spent on product development;
- Organic growth-sales revenue growth excluding M&A and FX; and
- Capital Impact™ – this is a proprietary measure Fundsmith devised which uses the formula of capital expenditure ("capex")/depreciation multiplied by return on capital. Thus, an average company might have capex roughly in line with depreciation so capex/depreciation =1.0 and a return on capital of some 14% currently, which is why the number for the MSCI World is 0.14 (1.0x 0.14). As you can see from the FSEF portfolio's Capital Impact of 0.30, the companies in our portfolio are investing more than the average for the Index and at better rates of return.

We seek to view sustainability in holistic fashion insofar as we see little point in assembling a portfolio of companies which do well in assessments of environmental impact, governance and reputational risk but which are not implementing basic business disciplines to ensure their longevity.

This approach was supported by independent research published in April 'Honey I Shrunk the ESG Alpha' by SGX and EDHEC. This concluded that 75% of ESG portfolio outperformance is due to quality factors and ESG investors looking for value-added through ESG scores are' looking in the wrong place and would do better to consider quality factors to achieve outperformance'. We concur – there is no point in investing in a business which complies with ESG factor scores but fails to perform fundamentally and/or financially. This has been at the root of our approach to sustainability from the launch of our Fund and it will continue to be so.

Last year I concluded this letter as follows:

We face an uncertain outlook given recent events, but 'twas ever thus. We have no crystal ball unlike the commentators who tell us that the recovery from the pandemic and resulting closure of economic activities deemed non-essential will be shaped like a V, a U, a W, a bathtub or the Nike swoosh (I'm not making this up). No one knows-as the economist J K Galbraith said 'The only function of economic forecasting is to make astrology look respectable'. However, what we know is that we have assembled a portfolio of high quality companies which have to date proven to be resilient. If you are a long term investor that is the most certain determinant of your future returns.

I see little reason to change that view.

Terry Smith  
**Fundsmith LLP**  
31 August 2021



## Further information

### Reports and accounts

Each year, we will publish on our website ([www.fundsmith.green](http://www.fundsmith.green)) Annual and Interim reports discussing investment activity during the period and providing management commentary.

### UCITS

The Company is an UK Undertaking for Collective Investment in Transferable Securities (“UK UCITS”) in accordance with the FCA Rules.

### Prospectus

The Fund Prospectus, an important document describing Fundsmith Sustainable Equity Fund 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 Documents (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 website.

### Minimum investment

The company has two different types of share classes:

I shares and T shares.

The I 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 I shares.

<b>Minimum lump sum investment level</b>	<b>£5,000,000</b>
<b>Minimum top-up investment amount</b>	<b>£5,000</b>
<b>Minimum holding level</b>	<b>£5,000,000</b>

### Publication of prices

The prices of Shares are published daily on the ACD’s website at [www.fundsmith.green](http://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 full Prospectus.

# Contact details

## Dealing and enquiries

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

**Telephone: 0330 123 1815**  
**[www.fundsmith.green](http://www.fundsmith.green)**

## Registered office

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

Authorised and regulated by The Financial Conduct Authority.  
FCA Registration Number 784191

## Authorised Corporate Director

Fundsmith LLP  
33 Cavendish Square  
London  
W1G 0PW  
United Kingdom

Authorised and regulated by The Financial Conduct Authority.  
FCA Registration Number 523102

## Registrar

SS&C Financial Services International Limited  
SS&C 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

## Depository

State Street Trustees Limited  
Quartermile 3  
10 Nightingale Way  
Edinburgh  
EH3 9EG  
United Kingdom

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

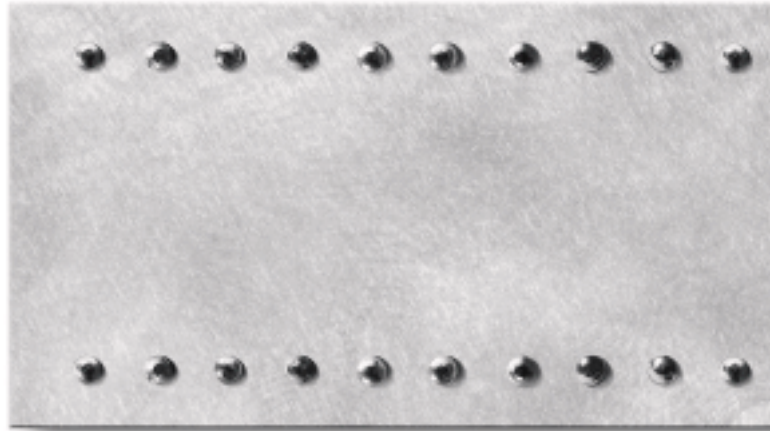
## Independent auditors

Deloitte LLP  
2 New Street Square  
London  
EC4A 3BZ  
United Kingdom

## Financial Conduct Authority

12 Endeavour Square  
London  
E20 1JN  
United Kingdom  
Telephone: 0845 606 1234  
Website: [www.fca.org.uk](http://www.fca.org.uk)





## **Fundsmith**

33 Cavendish Square  
London  
W1G 0PW  
UK

T 0330 123 1815  
E [enquiries@fundsmith.green](mailto:enquiries@fundsmith.green)  
W [www.fundsmith.green](http://www.fundsmith.green)