



**Fundsmith Equity Fund**  
Short Form Report

**For the year ended 31 December 2013**



**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 31 December 2013

	31.12.13	31.12.12	31.12.11
<b>T Class (Accumulation shares)</b>			
Total net asset value (£)	490,338,454	223,274,660	110,094,759
Net asset value per share (p)	162.16	129.38	114.98
Number of shares in issue	302,371,596	172,576,129	95,752,314
Performance since launch*	62.2%	29.4%	15.0%
Ongoing Charge Figure	1.11%	1.16%	1.20%
<b>T Class (Income shares)</b>			
Total net asset value (£)	61,593,449	29,041,516	14,883,839
Net asset value per share (p)	156.18	126.05	113.52
Number of shares in issue	39,437,719	23,039,399	13,110,685
Performance since launch*	61.2%	29.1%	14.0%
Ongoing Charge Figure	1.11%	1.16%	1.20%
<b>R Class (Accumulation shares)</b>			
Total net asset value (£)	96,290,925	51,449,415	10,178,969
Net asset value per share (p)	159.64	128.00	114.32
Number of shares in issue	60,319,176	40,195,474	8,903,889
Performance since launch*	59.6%	28.0%	14.4%
Ongoing Charge Figure	1.61%	1.66%	1.69%
<b>R Class (Income shares)</b>			
Total net asset value (£)	47,773,516	37,292,451	7,992,264
Net asset value per share (p)	156.09	125.99	113.46
Number of shares in issue	30,607,111	29,598,928	7,044,357
Performance since launch*	58.9%	27.9%	13.7%
Ongoing Charge Figure	1.61%	1.66%	1.69%
<b>I Class (Accumulation shares)</b>			
Total net asset value (£)	284,018,857	105,178,125	26,625,935
Net asset value per share (p)	162.66	129.64	115.09
Number of shares in issue	174,608,637.00	81,129,440	23,133,905
Performance since launch*	62.7%	29.7%	15.1%
Ongoing Charge Figure	1.01%	1.06%	1.10%
<b>I Class (Income shares)</b>			
Total net asset value (£)	598,649,920	390,117,192	61,173,345
Net asset value per share (p)	156.18	126.05	113.51
Number of shares in issue	383,317,013	309,504,398	53,891,499
Performance since launch*	61.2%	29.4%	14.0%
Ongoing Charge Figure	1.01%	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, for the period from launch on 1 November 2010 to 31 December 2013.

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 FCA 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 2013 would be the same figure to two decimal places and therefore using 2011 TER is justified.

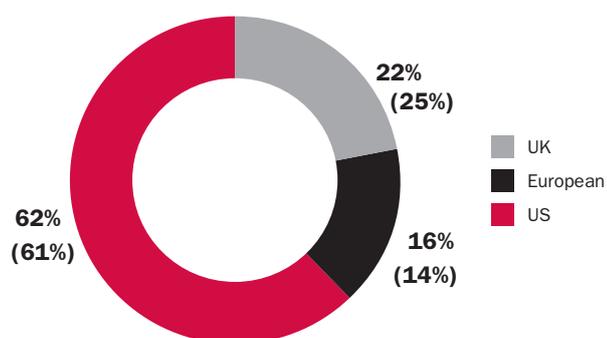
## Price and revenue records (unaudited)

Calendar year all figures in pence (unless otherwise stated)	2013	2012	2011	2010 (from 30 November)
<b>T Class (Accumulation shares)</b>				
Accumulation share high	164.70	131.98	115.47	107.52
Accumulation share low	130.17	114.73	100.47	98.98
Net revenue per accumulation share	1.8285*	1.6888	1.4651	-
<b>T Class (Income shares)</b>				
Income share high	159.22	129.23	114.51	107.52
Income share low	126.82	113.34	99.64	98.99
Net revenue per income share	1.7768*	1.6728	1.4261	-
<b>R Class (Accumulation shares)</b>				
Accumulation share high	162.51	130.61	115.10	107.46
Accumulation share low	128.78	114.06	100.12	98.97
Net revenue per accumulation share	1.0426*	1.0828	0.8637	-
<b>R Class (Income shares)</b>				
Income share high	159.01	128.87	114.44	107.45
Income share low	126.76	113.27	99.54	98.97
Net revenue per income share	1.0187*	1.0706	0.8860	-
<b>I Class Net (Accumulation shares)</b>				
Accumulation share high	165.13	132.24	115.54	107.53
Accumulation share low	130.43	114.84	100.55	98.99
Net revenue per accumulation share	1.9935*	1.8284	1.5930	-
<b>I Class Net (Income shares)</b>				
Income share high	159.28	129.28	114.49	107.53
Income share low	126.82	113.32	99.63	98.98
Net revenue per income share	1.9255*	1.8175	1.5621	-

\* to 28 February 2014.

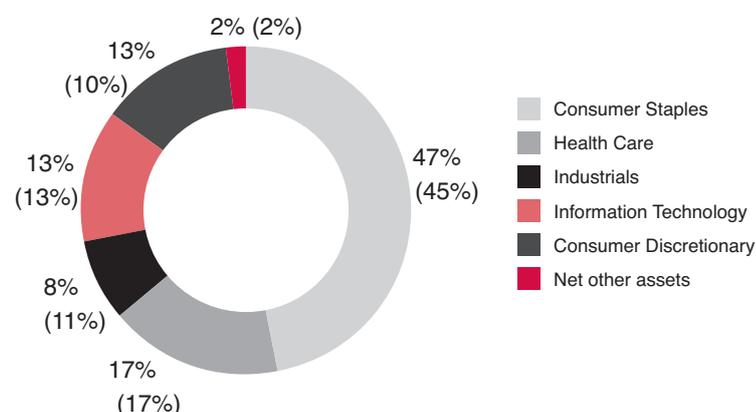
# Information on the fund

## Breakdown by geography as at 31 December 2013



The figures in brackets show comparative figures at 31 December 2012.

## Breakdown by sector as at 31 December 2013



## Summary of significant changes

### For the Year 1 January 2013 to 31 December 2013

Largest purchases	Cost (£)	Largest sales	Proceeds (£)
Swedish Match	42,672,379	Waters	48,446,157
Dr Pepper Snapple	37,800,192	McDonalds	26,850,990
Philip Morris International	37,033,699	Sigma Aldrich	25,628,853
Nestlé	36,701,566	Serco	14,970,381
Imperial Tobacco	36,504,275	Schindler	13,617,235
<b>Total</b>	<b>190,712,111</b>	<b>Total</b>	<b>129,513,616</b>
<b>Total purchases for the year</b>	<b>648,390,159</b>	<b>Total sales for the year</b>	<b>148,780,861</b>
	(2012: £561,918,419)		(2012: £16,021,254)

### Top 10 Holdings

31 December 2013	(%)	31 December 2012	(%)
Stryker	6.04	Dr Pepper Snapple	5.60
Microsoft	5.87	Reckitt Benckiser	5.60
Domino's Pizza	5.69	Stryker	5.28
Dr Pepper Snapple	5.65	Imperial Tobacco	5.24
Reckitt Benckiser	5.56	Domino's Pizza	5.18
Becton Dickinson and Company	4.95	Automatic Data Processing	4.91
Intercontinental Hotels	4.87	Intercontinental Hotels	4.84
Unilever	4.71	Becton Dickinson and Company	4.82
3M	4.43	Microsoft	4.79
Imperial Tobacco	4.36	Unilever	4.57

## Investment Manager's review

	Total Return	Inception to 31.12.13	
	2013 %	Cumulative %	Annualised %
<b>Fundsmith Equity Fund<sup>1</sup></b>	+25.3	+62.2	+16.5
Equities <sup>2</sup>	+24.3	+40.5	+11.3
UK Bonds <sup>3</sup>	-4.3	+11.9	+3.6
Cash <sup>4</sup>	+0.5	+2.3	+0.7

<sup>1</sup>T Class Acc Shares, net of fees, priced at noon UK time.

<sup>3</sup>Bloomberg/EFFAS Bond Indices UK Govt 5-10 yr.

<sup>1,3,4</sup>Source: Bloomberg.

<sup>2</sup>MSCI World Index, £ net, priced at close of business US time.

<sup>4</sup>3 Month £ LIBOR Interest Rate.

<sup>2</sup>Source: www.msci.com

As you will be used to by now, we have already sent you our annual letter and our views have not changed since that. We have therefore summarised the letter here. The table shows performance figures for the last calendar year and the cumulative and annualised performance since inception on 1 November 2010.

We remain critical of attempts to measure investment performance over short periods of time. However this proviso notwithstanding, the table shows the performance of the T Class Accumulation shares which rose by 25.3% in 2013 and compares that with 24.3% for the MSCI World Index in Sterling with dividends reinvested. The Fund therefore outperformed the market in 2013 by 1%.

For the year, the top five contributors to the Fund's performance were:

Domino's Pizza	+3.02%
Microsoft	+2.05%
Stryker	+1.98%
Becton Dickinson	+1.96%
3M	+1.93%

The bottom five were:

Swedish Match	-0.06%
Serco	+0.03%
Imperial Tobacco	+0.14%
Schindler	+0.14%
Philip Morris Intl.	+0.21%

It is worth noting the following about the bottom five contributors: only one actually had a negative performance, Swedish Match, which we began buying during the year in response to share price weakness and a resulting more attractive valuation. Three of the five are tobacco companies which suffered from concerns about

plain packaging and e-cigarettes. We suspect that these concerns are overdone but nonetheless have a self-imposed limit on our exposure to the sector, as we do to most sectors, in order to ensure that the effects are limited if we are wrong. Schindler and Serco, two of the other bottom five performers, were sold during the year.

Minimising portfolio turnover is one of our objectives and this was again achieved with a negative turnover of -17.6% during the period. Negative turnover occurs because the method of calculating turnover excludes flows into or out of the fund, otherwise a newly established fund would automatically have 100% or more turnover. However, it is not very helpful in judging our activities. It is perhaps therefore more helpful to know that we spent a total of £351,227 or just 0.025% (2.5bps) of the Fund on dealing other than that associated with flows into the Fund which was involuntary.

Why is this important? It helps to minimise costs, and minimising the costs of investment is a vital contribution to achieving a satisfactory outcome as an investor. Too often investors, commentators and advisers focus on the Annual Management Charge ("AMC") or the Ongoing Charges Figure ("OCF"), which includes some costs over and above the AMC, which are charged to the fund. The OCF for 2013 for the T Class Shares was 1.11%. The trouble is that the OCF does not include an important element of costs – the costs of dealing. When a fund manager deals by buying or selling investments for a fund, the fund typically incurs commission paid to a broker, the bid-offer spread on the stocks dealt in and, in some cases, Stamp Duty. This can add significantly to the costs of a fund yet it is not included in the OCF.

I find that investors are often confused by this and in my view do not pay enough attention to it. The fact is that as an investor you can only benefit from the price appreciation of shares in your fund

## Investment Manager's review (continued)

and dividends paid. Costs of dealing detract from those returns and therefore need to be taken into account when you are comparing funds.

We have published our own version of this total cost including dealing costs, which we have termed the Total Cost of Investment, or TCI. For the T Class Shares in 2013 this amounted to a TCI of 1.2%, including all costs of dealing for flows into and out of the Fund, not just our voluntary dealing. As a result of the Investment Management Association's campaign for fuller disclosure I am hopeful that we will eventually get such disclosure from many more funds so that investors can make a well informed comparison between funds. When they are able to do so, I fully expect that the Fundsmith Equity Fund will compare favourably.

Although our turnover was once again very low in 2013, we sold five holdings: McDonald's, Schindler, Serco, Sigma-Aldrich and Waters Corporation. There may seem to be an inherent contradiction between the fact that we sold five holdings yet our turnover was low. Part of the explanation is that some of these holdings had already become an insignificant proportion of our portfolio because we had been struggling to add to them as their valuations had become too high to represent good value in our view. Once this point is reached it begs the obvious question of whether we should in fact sell our holding to make way for an investment which offers better value, either within our existing portfolio stocks or from within our wider Investable Universe of stocks on which we maintain research.

There were also individual reasons for sale in each case:

McDonald's valuation had held up despite a run of poor sales figures which made it hard to add to our holding. The poor sales also arose despite McDonald's offering meal options for as little as \$1. This began to convince us that McDonald's had started to become a business which was selling solely on price, which we seek to avoid, and it seems that its Dollar Menu has perhaps unsurprisingly handicapped its attempts to sell premium items. Its performance was in sharp contrast to Domino's Pizza which has had no trouble growing sales with price points close to \$6 for a pizza, and we took comfort in the fact that we retained our Domino's holding and with it a continued exposure to the franchised fast food business which we like.

Schindler had simply become too expensive for us to add to our holding and we were able to retain an exposure to the attractive elevator and escalator sector via Kone.

Serco seemed to fit the profile of businesses we seek to invest in as it depends on a large number of everyday repeat transactions: if you ride a Boris bike, take the Docklands Light Railway, see a traffic light being repaired in London, get a parking ticket in San Francisco, have the misfortune to be incarcerated in certain UK prisons or transported to court in a prison van, pass through airspace governed by US air traffic control or encounter the Australian immigration authorities, you are dealing with Serco. But we had always been troubled by the fact that these transactions emanated from much larger contracts, typically with governments, which gave rise to the risk that large contracts could be lost and in so doing could adversely affect Serco's relationship with its government customers. Then early in 2013 it became apparent that a significant acquisition of an Indian-based business process outsourcing business, which Serco had undertaken, had changed its cash flow generation and capital intensity in a way which was adverse and we sold our holding in February. Serco's problems with electronic tagging of offenders followed some months later and confirmed our concerns.

Sigma-Aldrich is a company based in the US Midwest which supplies chemicals and equipment to researchers and manufacturers in the life sciences, high tech industries and R&D. It supplies a large number of items in small ticket sizes to a large number of purchasers, and so fitted our investment profile, not least because it also has an excellent record in terms of return on capital and cash conversion (turning profits into cash, in plain English). However, Sigma-Aldrich attempted to acquire Life Technologies, a company which is much larger in every sense – revenues and market valuation. This worried us a lot. With our low portfolio turnover we are in effect leaving the allocation of capital generated by the wonderful returns earned by our portfolio companies to the management of those companies. When one of them looks likely to take a business with good, predictable returns and do something large, exciting and risky, we have a strong impulse to run away.

Waters Corporation makes and services liquid chromatography, mass spectrometry and thermal analysis equipment. The company's main customers are in the pharmaceutical and biotechnology industries but it also supplies industrial, food and

## Investment Manager's review (continued)

environmental customers. Its revenues are partly a play on the growth in the requirement for testing in these areas. Although its equipment represents large ticket capital items, it makes nearly half its revenues from consumables, service and spares, so satisfying our criteria on repeat purchases. But it has significant sales to Asia including the Indian generic pharmaceutical industry and we were fearful that the slowdown in Emerging Markets would adversely impact the equipment sales which underpin its revenue model. Waters was also the only non-dividend paying stock which we held. Whilst we are prepared to hold such stocks, we need to be convinced that their reinvestment opportunities warrant the absence of a dividend and we were increasingly wary of this with Waters.

So much for the sales.

The Fund purchased a holding in C.R. Bard which makes medical devices, particularly catheters for use in oncology, urology and vascular conditions. It is to some extent a play on the medical needs of an aging population. Its business is centred on the developed world at present and we believe it may have a significant opportunity to grow in Emerging Markets. Unlike Waters, Bard's opportunities in Emerging Markets are not linked to the capital expenditure cycle of its customers which is by definition lumpy and cyclical as it does not sell high value equipment but mainly consumables.

We also began to acquire a holding in a transaction services company but this has not yet reached a size where we feel that our buying is complete and so do not wish to disclose the name at present.

Perhaps the question we faced most frequently from investors or prospective investors over the year was whether companies of the sort we invest in have become too expensive.

There has certainly been a growing fashion for investing in the type of large, well established companies whose business consists of selling or supplying goods and services which are characterised by the small ticket, repeat, relatively predictable everyday events which we seek. Whilst this may seem like a welcome development insofar as it means that the Fund's shares have risen in value faster than the market, it also means that an increasing proportion of the Fund's performance has been delivered by rising valuations of those stocks rather than growth in their revenues, profits and

cash flows. As we cautioned in this letter last year, 'increasingly desperate attempts to stimulate the economy are far more likely to stimulate the valuation of our portfolio'. This happened in 2013.

Whilst such increases in valuation may seem like cause for celebration it is not always so as we intend to be long term or even indefinite investors and such valuation changes are certainly finite and maybe even temporary. They are the result of the massive injection of liquidity from QE and a sustained period of zero interest rates. Apart from the fact that we intend to be long term investors, even if we were trying to guess the timing of the withdrawal of these factors in order to exit from markets, we would point out that there is no certainty that such increases in valuations may not be sustained or even go further as QE continues. At the moment stories of QE's demise are at least exaggerated. Fortunately seeking to profit from short term valuation anomalies or changes is not part of our strategy but given the upside which has been generated from these policies, I have little doubt that we will have to live through some character testing times when they are withdrawn.

There are many ways of looking at valuation, but here are a few thoughts:

1. We seek to buy our portfolio companies when their free cash flow ("FCF") yield (the free cash flow they generate divided by their market value) is at or above the yield we would expect to get on long term government bonds in the same currency. Please note; not the current yield on bonds, which in most cases has been depressed by governments buying their own bonds, but the yield we think might apply if this were to stop and all bonds had to be sold to third party investors. Our starting guess for the yield that might then be required is one percent over the expected rate of inflation. If we can buy shares with FCF yields higher than that and which will grow, unlike the coupon on the bonds, we should have captured some value. There are still shares within our portfolio which look good value on this basis, albeit not as many or as cheap as they were a year or two ago.

The weighted average FCF yield of the portfolio started the year at 5.7% and ended it at 5.1% – still above the level we would find acceptable on the basis of the comparison with expected bond yields. Our companies on average grew their free cash flow per share by 6.6% during the year. They actually grew their

## Investment Manager's review (continued)

operating cash flow by 8.1% but also spent 21% more on capital expenditure ("capex"). We find the fact that they have significantly increased their capex as encouraging as we have yet to find an industry which can grow without committing additional capital in order to do so.

This 5.1% FCF yield compares with a median FCF yield for the non-financial stocks in the S&P 500 of 4.6% and a mean of 4.1% or a median for the non-financial stocks in the FTSE 100 of 4.0% and a mean of 3.7%. Our stocks do not look bad value in comparison to the market. Although of course, both may be expensive, but both may continue to be so or become more expensive.

2. Consumer Staples, in particular, have been more highly rated in the past than they are now. We mention this because we frequently read or are told that they are more expensive than ever. This is simply not so – they were more highly rated in the 1990s, for example. Moreover, whilst commentators seem to focus on Consumer Staples stocks, these are less than half of our portfolio, and some of our medical equipment stocks are much closer to the low end of their historic valuation range.
3. We examined the relative performance of Colgate-Palmolive and Coca-Cola over a 30 year time period from 1979-2009. Why 30 years? Because we thought it was long enough to simulate an investment lifetime in which individuals save for their retirement after which they seek to live on the income from their investment. Why 1979-2009? We wanted a recent period and in 1979 it so happens that Coca-Cola was on exactly the same Price Earnings Ratio ("PE") as the market – 10 and Colgate was a little cheaper on 7x. The question we posed is what PE could you have paid for those shares in 1979 and still performed in line with the market, which we took as the S&P 500 Index, over the next 30 years? We found the answer rather surprising – it was 36x in the case of Coke and 34x in the case of Colgate when the market was on 10x. Another way of looking at it is that you could therefore have paid a PE of 3.6x the market PE for Coke and 4.9x the market PE for Colgate in 1979 and still matched the market performance over the next 30 years. The reason is the differential rate of compound growth in the share prices (to a large extent driven by growth in the earnings) of those companies over the 30 years. They compounded at about 5% p.a. faster than the market. You may be surprised that this

differential can have such a profound effect upon the outcome. It's the magic of compounding.

Albert Einstein said that he thought compound interest was the eighth wonder of the world. It is certainly one of the concepts least understood by investors. The simplest illustration of this is to ask how long it takes to double your capital at 10% p.a. compound return. The whole point is that we are talking about compound returns in which the gains are added to the capital sum to which each successive period's rate of return is applied. Consequently, the answer is a counterintuitive seven years. It only takes a compound return of 7% p.a. to double your money in ten years.

That is a simple enough example, but how about this one: starting with the same initial sum, what is the difference in final capital from 30 years of investment at 10% p.a. compound versus 30 years at 12.5% p.a.? I ask this because it may represent a reasonable range of outcomes from an investment lifetime. The answer, rather surprisingly, is that the extra 2.5% of compound return would double the final sum.

As discussed earlier Coke & Colgate's total returns grew at about 5% p.a. faster than the market over the period 1979-2009, this 5% differential multiplied their share prices four times more than the market over that period. Of course, the next 30 years may be different to the 1979-2009 period. However, if I had to guess how it would affect this calculation it would be that companies like Coke and Colgate will fare even better versus the rest of the market in terms of growth given that the cyclical stocks are unlikely to benefit from a repetition of the growth which was stimulated by the credit bubble. But what do I know?

It is also fair to point out that quality stocks may indeed not be too expensive relative to the rest of the market but that both will prove to be expensive, particularly when interest rates rise. But even so, I suggest you consider how you might have reacted if someone had suggested that you invest in Coke or Colgate at say twice the market PE in 1979. In rejecting that idea you would have missed the chance to make nearly twice as much money as an investment in the market indices over that period which included some periods of very high interest rates. Of course, capturing this opportunity would have required you to have the fortitude to sit on your hands during

## Investment Manager's review (continued)

those periods of high interest rates and poor performance (hint: we will be reminding you about this when interest rates rise). As at 31st December 2013 they were trading at PE's slightly above the market – our portfolio was on a PE of 20.6x versus 17.4x for the S&P 500, which doesn't sound quite so expensive when you look at their historical performance and quality.

4. In fact, we rarely look at PE's, usually only doing so to make such comparisons as other market commentators use them. We prefer instead to rely upon free cash flow yields when evaluating our investments as not all E's, or Earnings, are created equal. Our portfolio companies' businesses are less capital intensive than the market as whole. As their earnings are generated with less capital, their Return on Capital Employed is much higher than the average, which we regard as the primary test of their performance. The return on capital of the companies in our portfolio averages 34%. This compares with an average of about 19% for the non-financial stocks in both the S&P 500 and the FTSE 100. They also deliver more of their earnings in cash than the market as a whole, typically 90-100%. And we like cash – it is the main way of paying bills and earnings delivered in cash are of higher quality than those which aren't.

We 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.

5. A striking and direct comparison is between the dividend yield on some of our stocks and the redemption yield on their bonds. Take Nestle for example, at the end of December 2013 its 2018 bonds had a redemption yield of 0.21% whilst its ordinary shares yielded 3.1%. Leaving aside fund managers who are limited to investing in bonds by their mandate, why would anybody in their right mind own the bonds rather than the shares? The answer is that some investors are willing to overpay for the apparent certainty which the bonds bring. They have a fixed coupon, a redemption date and a par value which will be repaid to the holder on redemption. The shares have none of those things. Although it has to be said that the dividend is pretty safe given that Nestle has only reported one loss in 146 years, but it is still not a fixed charge, as the interest coupon is. And you cannot rely on the shares being a particular price if you need to dispose of them. But this does seem to

suggest that the shares are at least good value relative to the bonds. Although that does not mean that either of them is cheap, it does raise the question of where you would invest the money as an alternative to the shares with a better risk/reward relationship in the current environment.

6. As at 31st December 2013 the weighted historic dividend yield of the Fund was 2.3% and the weighted prospective yield was 2.5% and the prospective dividend cover was 2.4x.

People often ask us what we think the outlook is for the economy and/or the market. Apart from prefacing any response with the phrase, "we don't know", we usually point out that whatever the outlook it will not alter our methodology of investment. We mention this because we sometimes feel that the questioner supposes that if we too scent economic recovery we might switch the portfolio into cyclical, financials and highly leveraged companies which might benefit from a recovery most (but which might otherwise go bust). Whatever our view on the economy, The Fundsmith Equity Fund will always be fully invested in high quality companies which satisfy our exacting criteria on financial performance and have done so for many decades.

Terry Smith  
**Fundsmith LLP**  
 24 January 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.

<b>Minimum lump sum investment level</b>	<b>£1,000</b>
<b>Minimum monthly sum investment level</b>	<b>£100</b>
<b>Minimum subsequent investment amount</b>	<b>£250</b>
<b>Minimum holding level</b>	<b>£1,000</b>

## 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](http://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.

## Accounting Dates

	<b>Period end</b>	<b>Distribution payment</b>
<b>Interim</b>	30 June	31 August
<b>Annual</b>	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

**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](http://www.fundsmith.co.uk)**

### Registered office

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

Authorised and regulated by The Financial Conduct Authority.  
FCA Registration Number IC000846

### 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

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

### Depository

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

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

### Independent auditor

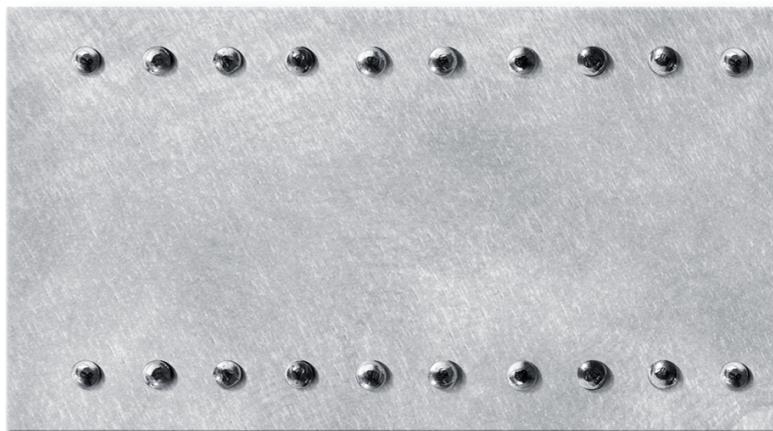
Deloitte LLP  
London

### Financial Conduct Authority

25 North Colonnade  
Canary Wharf  
London  
E14 5HS  
United Kingdom

Telephone: 0845 606 1234  
Website: [www.fca.gov.uk](http://www.fca.gov.uk)

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



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