

January 2026

Dear Fellow Investor,

This is the eighth annual letter to owners of the Fundsmith Stewardship Fund ('Fund').

The table below shows performance figures for the last calendar year and the cumulative and annualised performance since inception on 1st November 2017 and various comparators.

% Total Return	1 st Jan to 31 st Dec 2025	Inception to 31 st Dec 2025		Sortino Ratio ⁶
		Cumulative	Annualised	
Fundsmith Stewardship Fund ¹	-6.0	+86.3	+7.9	0.31
Equities ²	+12.8	+145.0	+11.6	0.49
IA Global Sector ³	+10.8	+98.9	+8.8	0.35
UK Bonds ⁴	+6.1	-1.2	-0.1	n/a
Cash ⁵	+4.2	+18.4	+2.1	n/a

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

¹ I Class Accumulation shares, net of fees, priced at noon UK time, source: Bloomberg.

² MSCI World Index, £ net, priced at US market close, source: Bloomberg.

³ Source: Financial Express Analytics.

⁴ Bloomberg Series-E UK Govt 5-10 yr Bond Index, source: Bloomberg.

⁵ £ Interest Rate, source: Bloomberg.

⁶ Sortino Ratio is since inception to 31.12.25, 3.5% risk free rate, source: Financial Express Analytics.

The table shows the performance of the I Class Accumulation shares which fell by 6.0% in 2025 and compares with a rise of 12.8% for the MSCI World Index ('Index') in sterling with dividends reinvested. The Fund therefore underperformed this comparator in 2025.

Outperforming the market or even making a positive return is not something you should expect from our Fund in every year or

reporting period, and outperforming the market was challenging once again in 2025.

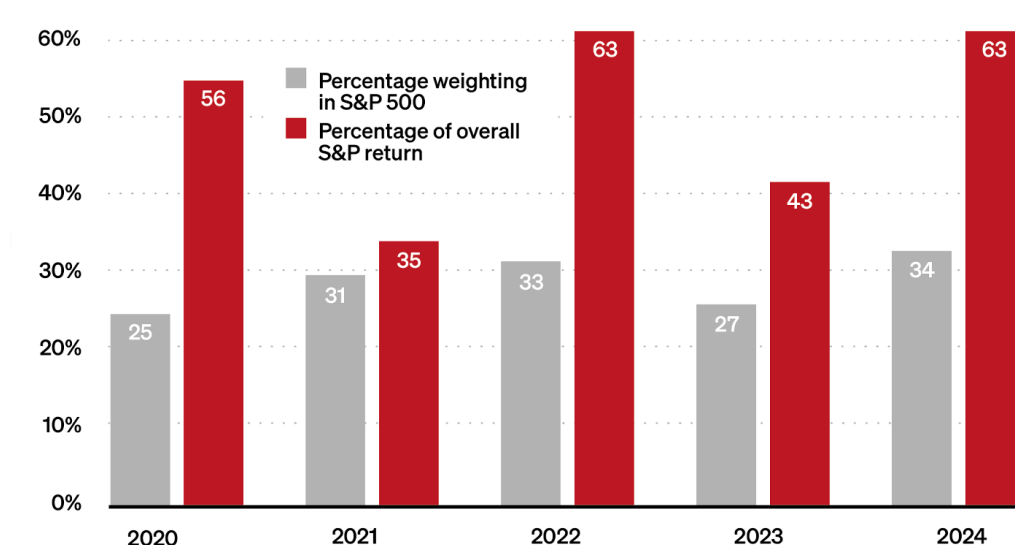
Before I turn to the reasons for the performance I should explain that contrary to the suggestion of some commentators I am not seeking to 'blame' anyone or anything for our Fund's relative performance. What I am seeking to do is explain it so that our investors have a clear understanding of what has happened and why. An explanation is not an excuse. I wonder how those commentators or our investors would view it if we offered no explanation. I see three main issues at play.

1. Index Concentration

The domination of returns by a small group of major 'technology' stocks became so pronounced by 2023 that it gave rise to one of those snappy descriptors that market commentators favour with the so-called Magnificent Seven: Alphabet (Google), Amazon, Apple, Meta (Facebook), Microsoft, Nvidia, and Tesla. This continued in 2024 after Jensen Huang, the CEO of Nvidia, made several public appearances at which he extolled the upcoming transformation of computing by Artificial Intelligence ('AI'), powered of course by Nvidia's chips. The result was akin to firing the starting gun in a race in which capital expenditure on semiconductor chips and data centers by the major tech companies — the so-called hyperscalers — spiralled upwards in an arms race matched only by the performance of their shares.

The result of this can be seen in these charts:

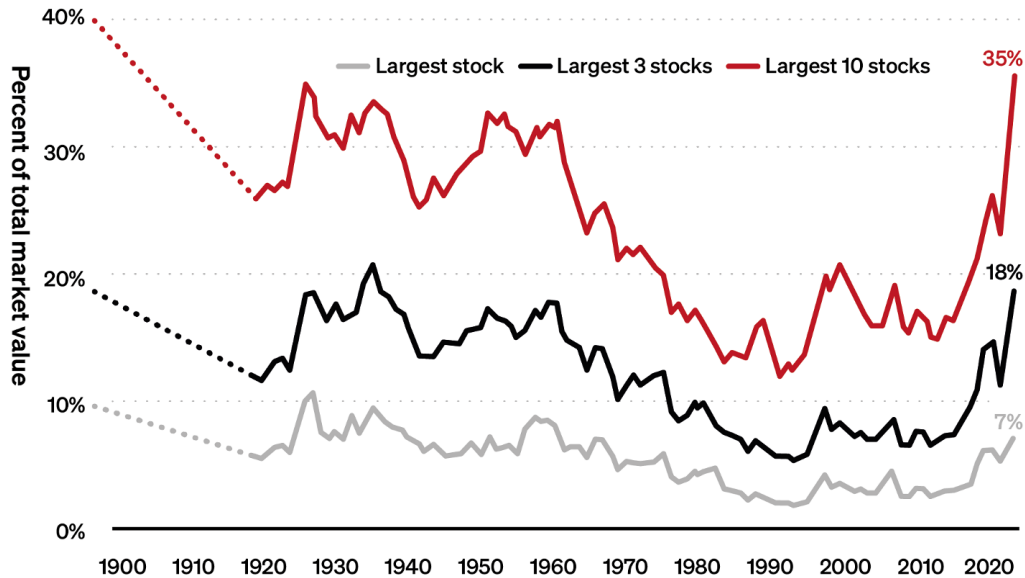
Concentration of Performance From Top 10 Stocks in S&P 500



Source: UBS Global Investment Returns Yearbook 2025

It continued in 2025 and as a consequence, the top ten stocks were 39% of the value of the S&P 500 Index ('S&P') at the end of 2025 and provided 50% of the total return it delivered in USD. Is this different to the past?

US Market Concentration Over Last 125 years



Source: UBS Global Investment Returns Yearbook 2025

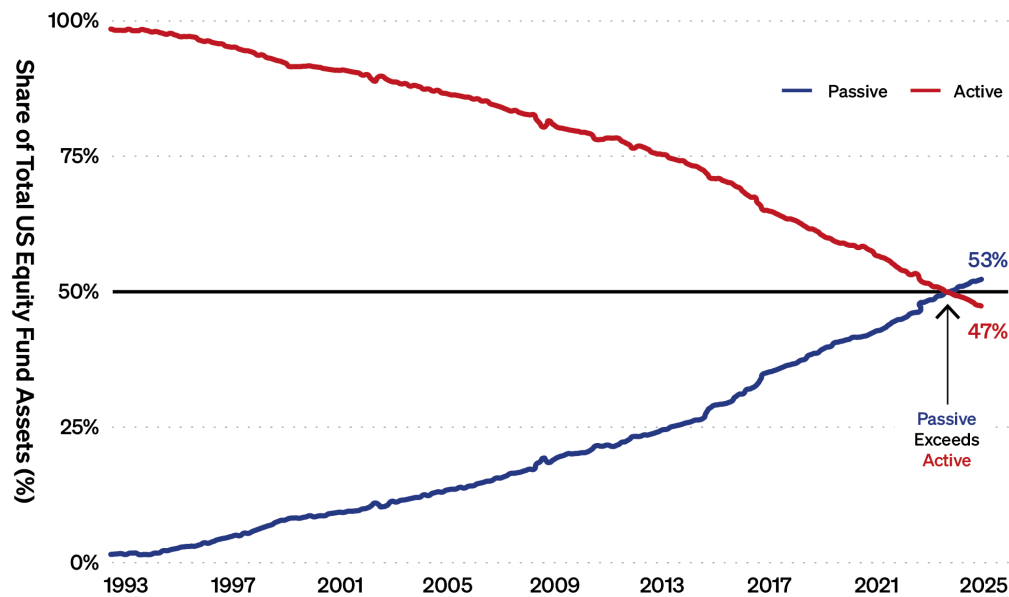
This second chart shows that the last time the US market value was this concentrated was in 1930. What happened next? It took until 1954 for the S&P to regain its 1930 high. Although this is regarded as prehistoric by most investors today it is wise to remember that the S&P (not the NASDAQ) did not regain its 2000 high until 2007 and then promptly lost it again in the Credit Crisis until 2013. When bubbles burst they can cause many lost years or even decades.

It was difficult to even perform in line with the index in recent years if you did not own most of these stocks in their market weightings, and we would not do so even if we became convinced that they were all good companies of the sort we seek to invest in, which we are not. It would in our view represent too much of a portfolio risk to own them all, just as we would not own all five of the drinks companies we have in our Investible Universe even if we thought that prospects for the sector were good. Our Fund is a portfolio, not a sectoral bet.

2. The Growth of Assets in Index Funds

The rise of the Magnificent Seven and the AI stocks also had a strong tailwind from the increase in assets held in index funds. In 2023 the proportion of equities held in index tracking funds passed 50% for the first time.

Active vs Passive Fund Share of US Equity Fund Assets



Source: Research Affiliates, Data as at 31st Dec 2024

The financial services industry sometimes does not aid understanding with the labels it employs. Index funds and index ETFs are often labelled 'passives' in contrast with 'active' funds, like Fundsmith Stewardship Fund, which have a fund manager making investment decisions. The 'passives' mostly track the index they invest in by holding the stocks in proportion to their market value. Far from being passive in any normally accepted sense of the word, this makes them a momentum strategy.

A momentum investment strategy is one in which the investor buys stocks which are performing strongly. If you redeem money from an active fund like Fundsmith and invest it in an S&P 500 Index tracker fund your new fund will buy the index stocks in proportion to their market value. Currently about 7% of it will go into Nvidia which we do not own. About 35% will go into the Magnificent Seven of which we own only three stocks — Alphabet, Meta and Microsoft. This gives added momentum to those stocks we do not own which are a major part of the index.

John Bogle, the pioneer of index investing who founded Vanguard, the index fund manager, was asked at the 2017 Berkshire Hathaway annual meeting if there was a level of assets in index funds which would distort markets and he agreed that there was, although he had no method of determining that level. We may already have reached it.

In 2021 the National Bureau of Economic Research ('NBER') in Cambridge, Massachusetts published research entitled *'In search of the origins of financial market fluctuations: the inelastic markets*

hypothesis'. You may not have heard of this as it is not the sort of thing to take for a read on a long flight. However, it has some startling revelations which are relevant to the current market.

It starts with the seemingly uncontroversial assertion that \$1 (or \$1m or \$1bn) switched between either stocks or bonds (or any other switch) does not affect the intrinsic value of either. If you redeem funds from an active fund like Fundsmith to place them in an index fund it does not alter the valuation of the stocks we have to sell to fund the redemption or the stocks that the index fund buys. However, the NBER paper shows that in reality such a switch has a multiplier effect of anything from 3:1 to 8:1, an average of about 5.5:1. The inflow from such switches pushes up the value of the stocks purchased by an average of five times the amount invested. To say this flies in the face of fundamental investment theory would be a masterly understatement.

The NBER paper attributes this to the inelasticity of demand and supply for equities. Over 50% of equities are in index funds which have no discretion over what they buy. Moreover, some portion of the so-called active funds which are left are managed in a way that makes them unlikely to bet against what is happening in the index. Apart from any mandate restrictions, fund managers have long realised the career preserving nature of so-called closet indexation in which they do not stray far from the index weightings. Given our experience in recent years, who can blame them?

The NBER research could in one sense be regarded as a statement of the blindingly obvious impact of the rise of index funds, but what is far from obvious is the scale of that impact. Nor does the fact that something may seem obvious, once it is explained, mean that it should then be ignored.

It may make no fundamental sense to buy Tesla shares on a Price Earnings Ratio ('PE') of 327 (which is its current rating) but it is the ninth largest company in the S&P 500 Index by value so not holding it is a perilous position to take when money is flowing into index funds.

John Bogle was right. The increasing proportion of equities held by index funds are invested without any regard to the quality or valuation of the shares bought which produces dangerous distortions.

Contrary to popular belief, the stock market is not a substitute for online casinos but rather a mechanism for valuing companies, raising capital and providing liquidity. When this becomes distorted the result is often a major misallocation of capital.

Sir John Templeton, who founded the eponymous investment management group, once said, 'The four most dangerous words in investing are: This time it's different'. He was pointing out that there are always people who are willing to rationalise outbursts of investment mania but they are always proven wrong when the bubble bursts and investment fundamentals reassert themselves.

We have seen this before, not only in the Dotcom boom and bust, but in other examples such as the Japanese market in the late 1980s. Then we were told that the PE of over 50 on the Nikkei Index was OK because Japanese accounting was conservative. In fact the market was just over-valued. After the subsequent fall in the Nikkei it took until 2024 for the index to regain the peak it attained in 1989.

When companies and/or investors are encouraged by soaring share prices and valuations to believe that capital is almost free, some disastrous investment decisions follow. They seem to act as though the cost of the capital that companies are investing is to some degree the reciprocal of their PE ratio. So, a PE of 50 equates to a cost of capital of 2% ($100 \div 50$). This is utter nonsense.

The cost of equity does not vary inversely with the valuation and is perhaps best estimated by the cost of so-called risk-free capital, being the yield on long-dated government bonds plus what is called an equity risk premium. It is not a bad starting point when trying to estimate a cost of equity capital to look at the long-term return on equities as it is in effect an opportunity cost: what return should an investor expect from equity investment over the long term? That is what they should demand as a cost of supplying equity by owning shares — the cost of equity capital. US equities have averaged a return of about 9% p.a. over the past century. It certainly isn't 2%.

If companies or investors start making decisions which deviate much from that assumption based upon soaring share valuations the outcome will be disastrous. In 2000 Vodafone, the UK based mobile phone operator which was one of the leaders in the Dotcom boom, bid for Mannesmann, the German mobile operator. At the time Vodafone was on a PE of 54 and Mannesmann was on a PE of 56. That points to another fallacy — managements often justify what they are paying for assets in booms and bubbles by the fact that they are paying by issuing over-valued or highly-valued shares. Hang on a minute, what does that imply for investors? We can see the results insofar as Vodafone's shares peaked at a value of 570p in 2000 when it bid for Mannesmann and they are now trading at 99p. When value is destroyed by bad capital investment decisions there is always a reckoning.

Perhaps the executives running some of the leading AI companies have a clear view of the future and can foresee that AI will produce not just a transformation in our lives and the way we work but also incremental cash flows such that the returns on the humongous amounts of capital they are investing will be adequate or better than adequate. But if not, we can expect Sir John Templeton's adage to be proven to be right once again, albeit maybe after a longer period and larger scale of irrational exuberance than we have seen in the past, driven by the momentum of index investing.

However, even if we are right in diagnosing this move to index funds as one of the causes of our recent underperformance and it is laying the foundations of a major investment disaster, I have no clue how or when it will end except to say badly.

With sincere respect to the late Sir John Templeton whom I quoted earlier, I think this time it may be different. Not in the sense that the Magnificent Seven/AI boom is different but rather in the scale it may attain and how long it may persist. When we had the Dotcom boom the proportion of AUM which was in index funds was under 10%. The dominance of index funds now makes the rise of these large stocks a self-fulfilling prophecy.

3. Dollar weakness

Just to add to the headwinds, the US dollar fell against the pound from about \$1.25/GBP at the start of the year to \$1.35 at year end:

USD vs GBP Exchange Rate



Source: Bloomberg

I doubt this reflects relative strength of the UK economy or satisfaction with government policy. The Trump administration is obviously keen to see interest rates lower and to reduce the trade deficit. Neither of these aims is compatible with a strong dollar.

Dollar weakness can also be seen in the price of gold which is at a 50 year high of \$4319 per ounce. There is lots of speculation about the reasons for the strength of the gold price but to some extent I view it as an expression of weakness in the currency in which gold is priced.

This affects the GBP value of our Fund since the majority of the companies are listed in the United States and more importantly that is their biggest single source of revenue.

I hope that all of this may go some way towards explaining what we have been facing in terms of competition from index funds and the performance of large tech companies in particular in recent years with the added handicap of dollar weakness.

These events have convinced me that Tommy Docherty was an optimist. In the week when he was fired as manager of Manchester United and his wife filed for divorce he said, 'In life when one door closes, another slams in your face'. I think I know how he felt.

Perhaps a more pertinent question is what are we going to do about it?

We could:

1. Start buying stocks in all the large companies which dominate the indices, and/or
2. Become momentum investors who buy shares which are performing strongly irrespective of their fundamental merits.

We are not going to do either. If you want an index fund you can buy one with much lower costs than we or any other active investment manager apply. Nor are we momentum investors and there are better exponents of this investment strategy than us. I would just offer one note of caution if you are thinking of taking this approach. Good momentum investors in my experience buy shares which are going up and sell them when they start going down. They do not convince themselves, for example, that because they have bought Nvidia shares when they are going up, they know what is going to happen with AI or GPUs.

We won't be buying shares in companies simply because they are large and dominate the index weightings and performance unless we become convinced that they are good businesses of the sort we wish to own which have long term relatively predictable sources of growth and more than adequate returns on the capital they invest.

Whilst we are going to stick to our investment strategy we will of course seek to do it better. We are fans of many of the late Charlie Munger's pronouncements but the one which best applies here is 'Any year that you don't destroy one of your best-loved ideas is probably a wasted year.' More to follow.

Looking at individual stock contribution to performance in 2025 as usual I prefer to start with the problems. The bottom five detractors from the Fund's performance in 2025 were:

Stock	Attribution
Novo Nordisk	-2.0%
Greggs	-1.7%
Church & Dwight	-1.5%
Zoetis	-1.2%
Procter & Gamble	-1.0%

Source: State Street

Novo Nordisk managed to reaffirm my belief that you should never say 'Things can't get any worse'. The company has parlayed a market leading position in what is probably the most exciting drug development for about three decades into a secondary position and has failed to prevent illegal generic competition in its core US market.

One of our mantras has been that we should always invest in businesses which could be run by an idiot so that performance is not heavily reliant upon management. We have been made painfully aware that the range of businesses which can be run by an idiot is much more limited than we thought and hereafter we will aim to be more aware of the impact that poor management can have. Our experience also suggests that when we encounter poor management, engagement to change it is less effective than selling the shares. Meanwhile Novo Nordisk has appointed a new CEO and made wholesale board changes and the present rating (a PE of 13) appears to us to be expecting very little. If we did not already own it I suspect we would contemplate buying it as a good business which has been depressed by a 'glitch', albeit a rather large glitch.

Greggs has suffered in the general malaise surrounding the UK hospitality sector. Although the shares look cheap to us on a PE of 11 with still growing units and sales, they have become cheaper whilst we held them.

Church & Dwight, the consumer staples business, seems to be suffering from the fact that the mixed fortunes of different groups of consumers in the US economy, far from driving consumers towards its discount products, is instead impoverishing those consumers who naturally gravitate towards them.

Zoetis is the leading maker of veterinary pharmaceuticals. We began buying after concerns had surfaced about side effects from its drug for pain in osteoarthritis in dogs. The shares have continued to be weak but we feel sure that the secular tailwinds from increased spending on pets' medical care will support the business.

Procter & Gamble was caught up in the general malaise surrounding consumer staples which have been adversely affected as the air has been sucked out of the room by the race to invest in AI.

In an age in which analysts rely on spoon fed forecasts in the form of 'guidance' and there is limited liquidity as the NBER paper suggests, results which fall short of optimistic guidance can produce spectacularly bad share price movements.

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

Stock	Attribution
Alphabet	+2.3%
IDEXX	+2.1%
L'Oréal	+0.9%
Microsoft	+0.6%
Mettler-Toledo	+0.4%

Source: State Street

Alphabet makes its third appearance.

IDEXX, the veterinary diagnostic equipment business, makes its fourth appearance having resurrected its position from being a detractor last year when it was suffering from the ebbing of the Covid era mania for pet adoption.

L'Oréal appears for the second time and benefitted from the recovery in the China market and outperformed the beauty category in sales performance, as usual.

Microsoft enters the top five contributors for the six time. Whilst we gratefully accept this performance we remain wary of the impact of the AI hype/boom.

Mettler Toledo has begun to bounce back for the effects of its logistics problem in Europe and the downturn in China.

We continue to apply a simple four step investment strategy:

- Buy good companies
- ESG screen
- Don't overpay
- Do nothing

I will review how we are doing against each of those in turn.

As usual we seek to give some insight into the first and most important of these — whether we own good companies — by giving you the following table which shows what Fundsmith Stewardship Fund would be like if instead of being a fund it was a company and accounted for the stakes which it owns in the portfolio on a 'look-through' basis, and compares this with the market, in this case the FTSE 100 and the S&P 500 Index. This also shows you how the portfolio has evolved over time.

Year ended	Fundsmith Stewardship Fund Portfolio							S&P 500	FTSE 100
	2019	2020	2021	2022	2023	2024	2025	2025	2025
ROCE	29%	23%	28%	31%	34%	32%	30%	17%	17%
Gross Margin	65%	61%	61%	61%	60%	60%	60%	45%	43%
Operating Margin	26%	21%	25%	26%	29%	27%	26%	18%	17%
Cash Conversion	99%	102%	97%	88%	93%	92%	94%	89%	99%
Interest Cover	17x	16x	20x	19x	20x	24x	34x	9x	8x

Source: Fundsmith LLP/Bloomberg.

ROCE (Return on Capital Employed), Gross Margin, Operating Margin and Cash Conversion are the weighted mean of the underlying companies invested in by the Fundsmith Stewardship Fund and mean for the FTSE 100 and S&P 500 Indices. The FTSE 100 and S&P 500 numbers exclude financial stocks. Interest Cover is median.

2019 ratios are based on last reported fiscal year accounts as of 31st December and for 2020–25 are Trailing Twelve Months and as defined by Bloomberg. Cash Conversion compares Free Cash Flow per Share with Net Income per Share.

In 2025 return on capital, gross margins and operating profit margins were all high and steady.

Consistently high returns on capital are one sign we look for when seeking companies to invest in. Another is a source of growth — high returns are not much use if the business is not able to grow and deploy more capital at these high rates. So how did our companies fare in that respect in 2025? The weighted median free cash flow (the cash the companies generate after paying for everything except the dividend, and our preferred measure) grew by 13%.

From a fundamental perspective, which is what we seek to focus on, we are confident that our portfolio companies will continue to perform well over the business and market cycles. The quality of our portfolio

companies is as high as it has ever been and collectively they continue to grow free cash flow quicker than the historical average of the portfolio. The underlying business performance remains our primary focus. If we get that right then our Fund will emerge with the intrinsic value of its investments maintained or enhanced, as sooner or later, share prices reflect fundamentals, not the other way around.

Encouragingly, the average year of foundation of our portfolio companies at the year-end was 1926. Collectively they are a little under a century old.

The only metric which continues to lag its historical performance is cash conversion — the degree to which profits are delivered in cash. Although this recovered slightly to 94% in 2025, this is still below its historical level of around 100%. This was due to a sharp rise in capital expenditure at a small group of companies: Alphabet and Microsoft. The tech companies are in a race to build capacity for AI in the form of GPU chips and data centres. Whether this arms race produces adequate profits and returns for the amounts expended remains an open question.

As we can see, our tech companies are ramping up of capital expenditure along with Amazon and Meta:

Capex For Major Tech Companies

\$bn	2020	2021	2022	2023	2024	2025 (E)	2026 (E)
Alphabet	22.3	24.6	31.5	32.3	52.5	85.3	91.8
Amazon	40.1	61.1	63.6	52.7	83.0	113.8	124.1
Meta	15.2	18.7	31.4	27.3	37.3	68.5	96.3
Microsoft ₁	15.4	20.6	23.9	28.1	44.5	64.6	86.0
Total	93.0	125.0	150.4	140.4	217.3	332.2	398.2

₁ Microsoft year to June

Source: Fundsmith.

And this table does not include some companies which have major capex commitments like Oracle which has announced it will spend some \$50 billion in 2025/6 or CoreWeave which is predicting around \$25 billion of capex in 2026.

When commentators discuss the future of Artificial Intelligence and whether there is a bubble in AI investments they often seem to miss the point. AI may have a profound effect on our lives and employment but that does not guarantee that investment in it will attain an

adequate return or that returns will gravitate to the present incumbents.

One company which intrigues us in this respect is Apple. Depending upon your point of view it has either been left behind in the scramble to build Large Language Models ('LLMs') and hyperscale to provide AI infrastructure or it has opted out of the race. As a result, its capital expenditure in 2025 was a mere \$12 billion which pales into insignificance in comparison with the companies in the table above.

It may be making a virtue of necessity but maybe Tim Cook the CEO is working on an old adage, 'You don't have to own a cow to sell milk'. Apple has its devices and about a billion mostly high-end consumers locked into them and increasingly into its services. It seems unlikely that there will be a shortage of LLMs that the hyperscalers will want to offer Apple for iPhone users. If this is indeed the business model Apple is relying on it may not bode well for the LLM developers and/or hyperscalers' profitability.

The second leg of our strategy is to employ a negative sector-based sustainability screen, excluding companies operating in sectors with excessive sustainability-related risk (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). We then assess company sustainability in the widest sense, evaluating a business's handling of risks and opportunities and their policies and practices covering research and development, new product innovation, dividend payments, and the adequacy and productivity of capital investment.

One of the metrics we use to assess sustainability risks is RepRisk's RepRisk Index (RRI), which measures a company's current reputational risk exposure based on controversies over the last 24 months. At the end of December 2025, the weighted average RepRisk Index for our portfolio was 28.5, higher than the 27.3 at the start of the year and lower than the MSCI World's weighted average of 34.5. This implies that, on average, our portfolio has a lower exposure to reputational risks relating to sustainability factors than the MSCI World.

The portfolio's RepRisk Index rose over the year, partly due to increases in the RRI at Marriott and IDEXX of 23 and 17, respectively. This was offset by the addition of Intuit, Wolters Kluwer, and EssilorLuxottica to the portfolio, all of which had lower RRIs than Mastercard, which was sold from the portfolio.

Marriott's RepRisk increased after a guest of its St. Regis hotel brand alleged that they were sexually harassed by a staff member in the

US. IDEXX's increase is due to its inclusion in a PETA report on animal testing. IDEXX usually experiences very little negative news, which means the scale of the RRI increase is larger. IDEXX creates machines for vets to use to diagnose pets, so it shouldn't be that surprising that they are involved in animal testing, given it's their main business.

At the end of 2025, the four companies with the highest RepRisk Index scores were:

Stock	RepRisk
Alphabet	64
Microsoft	58
Marriott	52
Novo Nordisk	49

Source: RepRisk

Alphabet and Microsoft are among the largest companies in the world, and their products and services are used by millions of people every day. As a result, both companies are subject to extensive media coverage. This inflates their RRI beyond what we would consider an accurate reflection of their negative impacts. Both companies faced continued antitrust scrutiny in the US and Europe in 2025, which contributed to their high RRIs.

We expect the companies we invest in to manage this regulatory risk effectively and do not currently think that Microsoft or Alphabet are excessively abusing their market position. One reason Microsoft and Alphabet have such strong positions is their continued success in developing superior products and services compared to their competitors.

At the end of 2025, the four companies with the lowest RepRisk Index scores were:

Stock	RepRisk
Waters	0
Mettler-Toledo	0
Wolters Kluwer	5
ADP	11

Source: RepRisk

Waters and Mettler-Toledo remain on the list from 2024, and this year are joined by payroll company ADP and new holding Wolters Kluwer, which provides expert information and software to accountants, lawyers, doctors and other professionals.

We use the RepRisk Index scores in two ways. First, to help capture coverage relating to the companies in the Fund's investable

universe. Second, as a proxy for the absolute negative impacts a company has, particularly on society. While environmental impacts are relatively easy to measure (e.g., greenhouse gas emissions) and therefore assess, aggregate, and scrutinise both absolutely and relatively across companies, impacts on society are often qualitative and much more challenging to assess objectively. Hence, we use the RRI as a proxy for evaluating these negative impacts. However, it isn't perfect as companies with larger public profiles, such as Alphabet and Microsoft, receive significantly more media coverage than many of the other names in the Fund's investible universe, which inflates their RRI scores beyond what we would deem to be a fair reflection of their impact. Further, companies that are rarely subject to negative press experience excessively large RRI increases when news does appear. This 'novelty' factor makes sense for reputational risk but is imprecise for measuring the scale, both absolute and relative, of net negative impact, especially given that it doesn't take account of any positive impacts of a company's products and services.

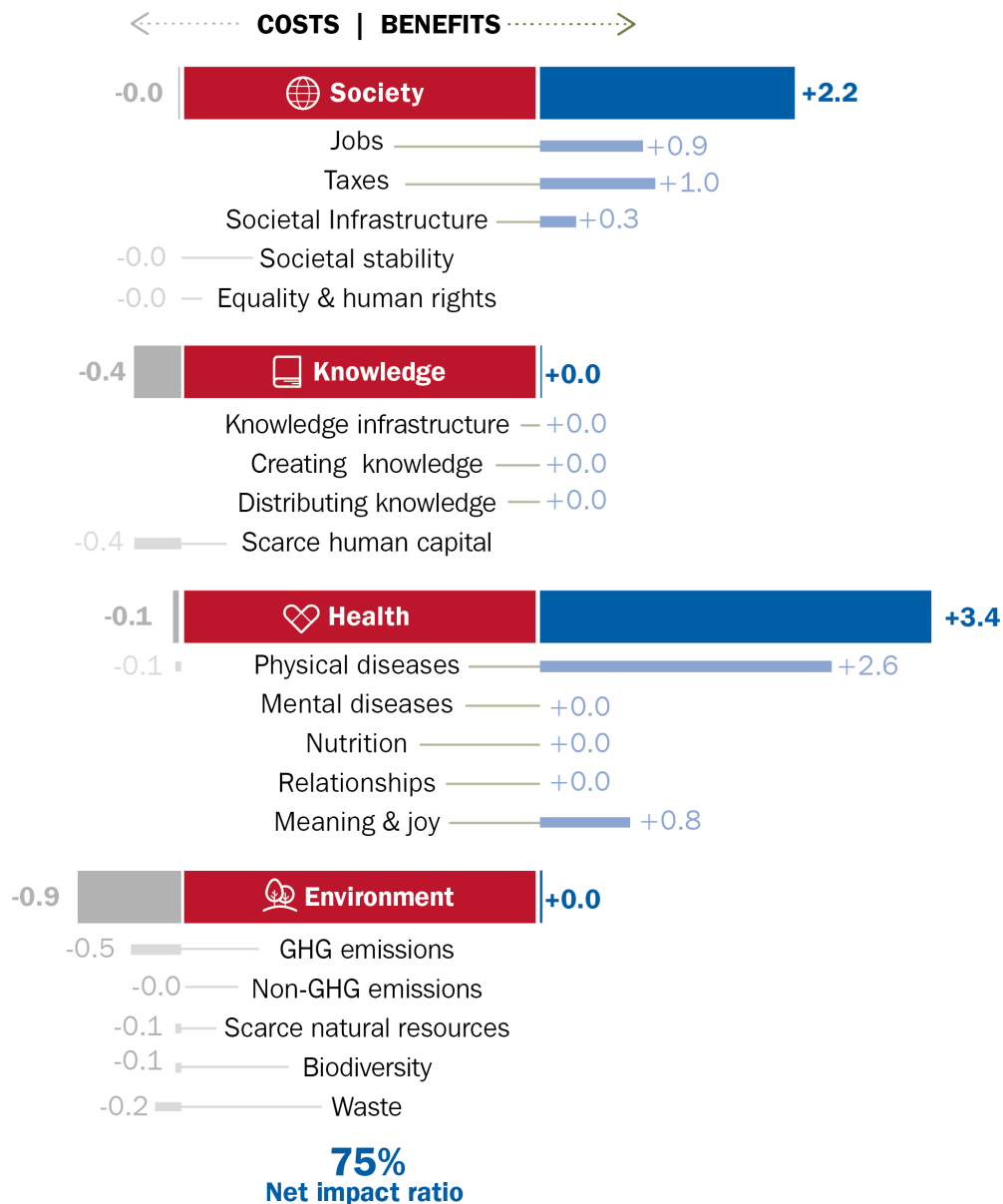
With this in mind, we have started using data from a Finnish company called the Upright Project ('Upright'). It uses a science-based approach to calculate a business's net impact by accounting for upstream and downstream impacts, based on the products and services it produces. The company uses academic studies and proprietary modelling to quantify the net impact of over 150,000 products and services.

Upright's net impact model comprises two main parts: a macro model and a company model. The macro model uses a database of over 200m scientific articles and Upright's own deep learning algorithm to calculate the negative, positive, and net impact of a product or service. The company model then aggregates the positive and negative impacts of all the products/services sold by a company, proportional to revenues, to calculate the net impact of the overall business.

A company's net impact ratio is expressed as a percentage, with a positive score indicating a net positive impact and a negative score indicating a net negative impact. A score of 10%, for example, would suggest that a company produces 10% more positive impacts from its products and services than negative impacts. The net impact of a product/service is measured across four dimensions: environment, health, society, and knowledge, which we think is a better reflection of the impact companies have.

Below is an example of the scorecard for EssilorLuxottica, the company ranked with the highest positive impact in the portfolio:

EssilorLuxottica Net Impact Breakdown



Ranks in the **top 3%** across the global universe of companies

Source: Data from Upright, as at 31st December 2025

This provides a much clearer breakdown of the company's impact across the different subcategories and greater transparency into what drives these scores. EssilorLuxottica makes the vast majority of prescription lenses worldwide, which is why it is rated as having a significant positive benefit on Physical Diseases. With 5.6 positive impacts and just -1.4 negative impacts it has an overall 75% net impact ratio $(5.6 - 1.4) / 5.6$.

We have been using data from the Upright Project for about a year to inform the net-negative impact assessment. We are also going to start using it in the annual sustainability summary and quarterly

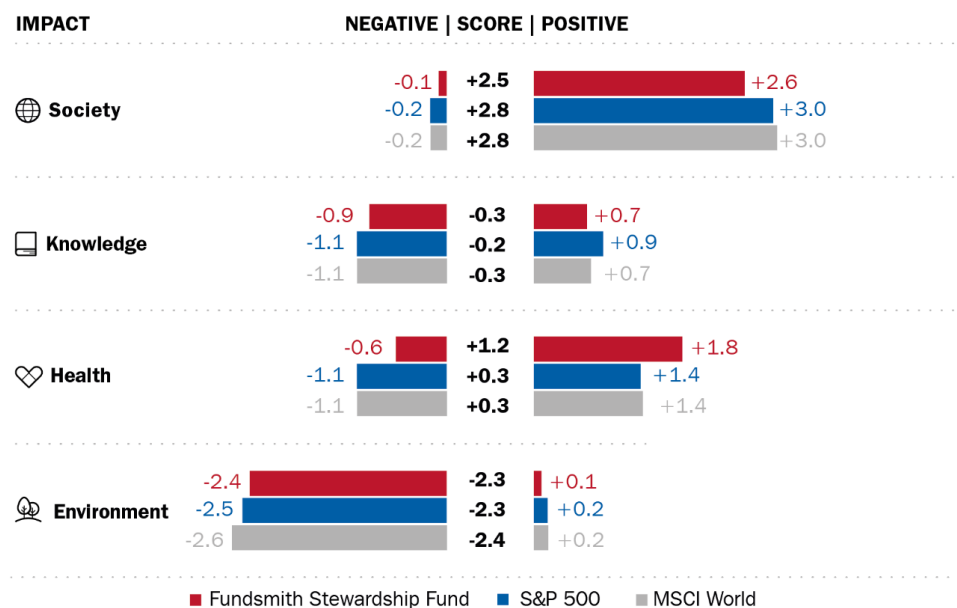
Sustainability Factsheets instead of the RepRisk data, as we think it provides a more accurate proxy of a company's impact on society and the environment.

Overall, the Fundsmith Stewardship Fund performs similarly to the MSCI World in 'Knowledge' and 'Environment' but significantly outperforms in 'Health', mainly due to our higher exposure to healthcare companies.

The Fund slightly underperforms the index in 'Society', largely due to underperformance in the societal infrastructure subcategory. The main topics considered in societal infrastructure are energy, transportation, water and sanitation, and industrial infrastructure, areas in which we do not invest. The result is that our companies' positive contribution to these areas is lower than that of the MSCI World, not because the companies in which we invest have a higher negative impact.

Overall, the Fundsmith Stewardship Fund has a net impact ratio of 23% compared to 10% for the S&P 500 and 7% for the MSCI World, with the scores split by category as below:

Net Impact Ratio



Source: Data from Upright, as at 31st December 2025

The companies held in the Fundsmith Stewardship Fund also continue to show their commitment to reducing their contribution to climate change. At the end of 2025, companies which are responsible for 94% of the Fund's emissions had already set 1.5°C-aligned emission reduction targets under the Science Based Targets initiative (SBTi) with a further 4% of the Fund's emissions being in the process of doing so. Furthermore 80% of the portfolio by weight had climate targets approved by the SBTi, compared to 21% of the

MSCI All Country World Index¹ and 87% of the Fund's emissions were covered by a company-wide target to reach net zero emissions by at least 2050.

The third leg of our strategy is about valuation. The weighted average free cash flow ('FCF') yield (the free cash flow generated as a percentage of the market value) of the portfolio at the outset of 2025 was 3.2% and ended the year at 3.6%. The year-end FCF yield of the S&P 500 was 2.8% and MSCI World was 3.1%. Our portfolio stocks have become a lot more lowly valued than the S&P as the free cash flow of many of the major stocks which now dominate the index has shrunk or disappeared in the face of massive capex spending on AI.

Our portfolio consists of companies that are fundamentally a lot better than the average of those in the S&P 500, and in the past we have explained that it is no surprise if they are valued more highly than the average S&P 500 company. In itself this does not necessarily make the stocks expensive, any more than a lowly rating makes a stock cheap but they are now significantly cheaper than the S&P. But it also raises an obvious concern about what will happen to the market.

Turning to the fourth leg of our strategy, which we succinctly describe as 'Do nothing', minimising portfolio turnover remains one of our objectives and this was again achieved with a portfolio turnover of 4.6% during the period. It is perhaps more helpful to know that we spent a total of just 0.002% (a fifth of one basis point) of the Fund's average value over the year on voluntary dealing (which excludes dealing costs associated with subscriptions and redemptions as these are involuntary). We sold one company, purchased three and received a holding in Magnum Ice Cream which was spun out from Unilever. As last year this may seem like a lot of names for what is not a lot of turnover as in some cases the size of the holding sold or bought was small. We have held ten of the portfolio's 27 companies since inception in 2017.

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, or in some cases obsess about, 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 2025 for the I Class Accumulation shares was 0.95%. The trouble is that the OCF does not include an important element of costs — the costs of dealing.

¹ <https://www.msci-institute.com/wp-content/uploads/2025/11/MSCI-Transition-Finance-Tracker-Q3-2025-201125.pdf>

When a fund manager deals by buying or selling, the fund typically incurs the cost of commission paid to a broker, the bid-offer spread on the stocks dealt in and, in some cases, transaction taxes such as stamp duty in the UK. This can add significantly to the costs of a fund, yet it is not included in the OCF.

We provide our own version of this total cost including dealing costs, which we have termed the Total Cost of Investment ('TCI'). For the I Class Accumulation shares in 2025 the TCI was 0.98%, including all costs of dealing for flows into and out of the Fund, not just our voluntary dealing. We are pleased that our TCI is just 0.03% (3 basis points) above our OCF when transaction costs are taken into account. However, we would again caution against becoming obsessed with charges to such an extent that you lose focus on the performance of funds. It is worth pointing out that the performance of our Fund tabled at the beginning of this letter is after charging all fees which should surely be the main focus.

We sold our stake in Mastercard and started purchasing stakes in EssilorLuxottica, Intuit and Wolters Kluwer during the year.

We reduced the Fund's exposure to payment processors by selling our stake in Mastercard ahead of the Trump administration proposals to cap rates on credit card lending.

EssilorLuxottica arose from the merger of French and Italian companies which dominate the market for eyeglasses, both frames and lenses. There is a tailwind for this business from people who do not yet have access to vision correction. In addition, it has some interesting innovations such as the Stellest lenses which help prevent deterioration for children with myopia and of course the Meta AI glasses.

We previously sold a position we held in Intuit, the accounting and tax software company, after it acquired Mailchimp in 2021 because we felt that Mailchimp fell outside its circle of competence and they paid about three times the right price, something which they attempted to justify by pointing out that half the consideration paid was in Intuit shares. What this implied about their valuation seemed obvious to us. For a while after we sold the shares AI hype drove the price but latterly the poor performance of the Mailchimp acquisition has become evident and reflected in the share price. We have started to rebuild a stake in the hope that the management has learned from the debacle.

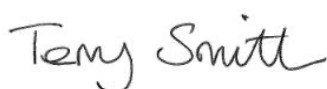
Wolters Kluwer is the leader in technical publishing used by professionals in health, tax, accounting, risk & compliance and legal. It seems to have become viewed as an AI disruption victim but

this seems about as true as the now discredited view that Adobe and Intuit were AI beneficiaries. This view has driven the PE to <19x and it is still growing at c.5% p.a. with a ROIC of 18% and ROE of about 50%.

We intend to continue holding a portfolio of good businesses in the hope and expectation that their strong fundamental returns will shine through into superior share price and fund performance over the long term and that in the interim our fund will prove relatively immune from any shocks which arise if or when the present extraordinary market conditions unwind.

Finally, once more I wish you a happy New Year and thank you for your continued support for our Fund.

Yours sincerely,



Terry Smith
CEO
Fundsmith LLP

Disclaimer: A Key Investor Information Document and an English language prospectus for the Fundsmith Stewardship Fund are available via the Fundsmith website or on request and investors should consult these documents before purchasing shares in the fund. Past performance is not necessarily a guide to future performance. The value of investments and the income from them may fall as well as rise and be affected by changes in exchange rates, and you may not get back the amount of your original investment. Fundsmith LLP does not offer investment advice or make any recommendations regarding the suitability of its products. This document is a financial promotion and is communicated by Fundsmith LLP which is authorised and regulated by the Financial Conduct Authority.

The views and opinions expressed herein are those of Fundsmith as of the date hereof and are subject to change based on prevailing market and economic conditions and will not be updated or supplemented.

Sources: Fundsmith LLP, Bloomberg and FE Analytics unless otherwise stated.

Data is as at 31st December 2025 unless otherwise stated.

Portfolio turnover is a measure of the fund's trading activity and has been calculated by taking the total share purchases and sales less total creations and liquidations divided by the average net asset value of the fund.

P/E ratios and Free Cash Flow Yields are based on trailing twelve month data and as at 31st December 2025 unless otherwise stated. Percentage change is not calculated if the TTM period contains a net loss.

The MSCI World Index is a developed world index of global equities across all sectors and, as such, is a fair comparison given the fund's investment objective and policy.

The Investment Association Global Sector in Sterling is representative of funds that invest at least 80% of their assets globally in equities. This facilitates a comparison against funds with broadly similar characteristics.

The Bloomberg Series-E UK Govt 5-10 yr Bond Index shows what you might have earned if you had invested in UK Government Debt.

The £ Interest Rate shows what you might have earned if you had invested in cash.

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