Fundsmith

Sustainability Report 2025

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Buy good companies
Don’t overpay
Do nothing

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Contents

Introduction

Welcome to Fundsmith LLP's 2025 Sustainability Report. This report is published in accordance with the Financial Conduct Authority's (FCA) Sustainability Disclosure Requirements (SDR), namely the requirements detailed in 'ESG 5.4' and 'ESG 5.6' of the FCA's Environmental, Social and Governance sourcebook. The report details how Fundsmith integrates sustainability-related risks and opportunities into its governance, strategy, and risk management processes. The report also details the metrics and targets used to monitor these risks and opportunities.

Sustainability-related factors have the potential to be material to every business. The growing focus on sustainability, by both regulators and consumers, means that failing to meet the expected standards, or failing to capitalise on the opportunities presented can hurt both the short- and long-term performance of a business. Fundsmith is no exception to this. However, as a small business based in a single location with fewer than 50 employees, our degree of exposure to these risks across our operations is low.

The investment funds we manage on behalf of our investors own shares in businesses which have a greater degree of exposure to sustainability-related risks and opportunities. As such, much of this report is focused on how we manage these risks and opportunities to ensure that we deliver the performance our investors expect over the long term.

Fundsmith's funds do not use UK sustainable investment labels as they do not have sustainability goals. Sustainable investment labels help investors find products that have a specific sustainability goal.

This report was considered and approved by Fundsmith's Stewardship and Sustainability Committee on 26/03/2026.

Julian Robins

Signed,

Julian Robins, Chair of the Stewardship & Sustainability Committee and Head of Research

[1]https://www.handbook.fca.org.uk/handbook/ESG.pdf

Governance

Fundsmith LLP's Management Committee is the Firm's ultimate governing body and is responsible for all aspects of Fundsmith's business. The Management Committee exercises oversight of the activities of the Firm. The intended outcome is to ensure that the Firm is being run in compliance with applicable regulatory rules, that it is acting in the best interests of investors in its funds, and that it operates within an appropriate risk management framework. The Management Committee comprises executive and independent members.

The Management Committee has delegated responsibility for overseeing stewardship and engagement risk and responsible investment risk to the Firm's Stewardship and Sustainability Committee (S&S Committee). The S&S Committee is chaired by the Head of Research and its members comprise representatives from portfolio management, the Chief Compliance Officer, the Head of Sustainability, and the Firm's Stewardship Analyst. The Committee meets twice a year, and its conclusions are reported to the Management Committee.

The S&S Committee was established in 2020 to provide a forum to discuss stewardship and sustainability matters relevant to Fundsmith and its funds, including our current and potential investments' sustainability-related risks and opportunities and the development and application of our firm-wide Responsible Investment Policy which is applied to all funds. The Policy is in place to ensure that the risks resulting from sustainability-related factors are integrated into our pre-investment research and investment monitoring processes. The Committee also has specific responsibility for reviewing and ensuring that the investment strategy for the Fundsmith Stewardship Fund has been executed appropriately.

Responsible investment has always been a component of our investment strategy. We look to invest in high-quality businesses and hold those investments for the long term, ideally forever. Integrating the assessment of a company's performance in the widest possible sense is key to achieving this goal, including the analysis of a business's sustainability-related performance, as this can significantly impact long-term performance. Our research team is responsible for applying our responsible investment approach during our research and investment monitoring process. That is identifying and assessing material sustainability-related risks and opportunities for each company admitted to our funds' investible universes and monitoring those companies throughout the time they remain within our investible universes.

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As part of its responsibility in relation to the Responsible Investment Policy, the S&S Committee is informed of any potentially material sustainability-related risks relevant to any company within our investible universes. The S&S Comittee is also informed of any material sustainability-related events or concerns the research team has identified within existing investments, which can influence the relevant portfolio manager's decision to engage with the company if they deem the risk material.

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Strategy

Fundsmith LLP was founded in 2010 and launched its first Fund, the Fundsmith Equity Fund, in the same year. At the time, we said that we aimed to run the best fund there has ever been and provide retail investorsith the best fund they have ever owned. By "best fund," we mean the one with the highest return over a long period of time, adjusted for risk. Our aim remains the same today.

Fundsmith's investment strategy is designed to help us achieve our aims. Our funds follow the same investment approach, focused on identifying and buying high quality companies. We have strict criteria for what we classify as "high quality" companies. We are only interested in investing in businesses that can deliver consistent performance and growth over the long term. Our approach to responsible investing is laid out in full in our Responsible Investment Policy.

The companies we seek to invest in are predictable businesses with defensive characteristics. We look for companies that invest their capital at rates of return substantially above their cost of capital and make a high return on that invested capital. The good companies we want can sustain these high returns over the long term, which is a rare quality; across the universe of over 94,000 investible companies, fewer than 200 qualify as "good", according to our criteria. We seek sustainable high returns as, over the long term, a company's share price should compound at around the same rate of return at which it invests its capital. This generates the long-term value we aim to provide our investors with.

Our investment strategies' focus on high and sustainable returns means that we start from a strong position in terms of our exposure to sustainability-related risks. Our approach means we avoid investing in some of the most damaging environmental or social, or both, sectors as the companies operating in these sectors are typically unable to make and sustain a high return on the capital they invest. That is usually due to their reliance on commodities, or due to the cyclical nature of their business models. Our desire to invest in high quality businesses means that we invest in companies that are aware of the wider impact their operations are having, both directly and via their supply chain, and are acting to reduce any negative impacts but also investing to take advantage of the opportunities sustainability offers. This is most visible through our companies' investments into researching and developing more sustainable products and services to offer both consumers and businesses.

The Fundsmith Stewardship Fund follows this approach but takes two additional steps, designed to remove companies that have an excessive net impact on the environment and/or society. This is achieved through the use of an exclusionary screen, removing a selection of industries and sub-industries that we believe have a significantly negative impact on the environment and/or society. We then make our own assessment on a company's net impact on the world, excluding companies that we conclude to have an unmitigated excessively net negative impact. More detail is available in our Responsible Investment Policy.

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Risk Management

Fundsmith LLP's principal exposure to sustainability-related risks comes from our funds and their underlying investments. The sustainability-related risks our investments and prospective investments are exposed to are identified and assessed as part of the fundamental, bottom-up research process conducted by our research team. Every company that enters our funds' investible universes is subject to this assessment. Our research process uses publicly available information collected directly from the company itself. If a company does not report sustainability-related data, we use estimates calculated internally or, if necessary, collected from Bloomberg. We may also engage with a company during the research process to understand why it doesn't report sustainability-related data and assess its approach to sustainability-related risk. Given that we are focused on high-quality companies and, for the majority of our assets under management (AUM), large- to mega-market cap stocks, it is increasingly rare that material sustainability-related data is not reported.

We make a concerted effort to minimise our exposure to sustainability-related risk as part of our investment research process. It is unlikely that we would invest in a business that had exposure to unmitigated sustainability-related risk as this would be identified during our research process and integrated into our initial assessment of the sustainability of returns. Regardless, we continually monitor every company admitted to our funds' investible universes to ensure our initial assessment remains accurate. We monitor sustainability-related news published by the company and about the company from reputable news sources and integrate this into our qualitative assessment. We also update our quantitative sustainability assessment of the company as and when the latest data is published.

Should we identify something in the data, quantitative or qualitative, that we deem to be a material risk, we would follow the engagement approach we detail in our Responsible Investment Policy. This response is the same for any potential risk we identify at an investee business. After identifying the risk, our first response would be to initiate an engagement with the company. We would meet with management to understand their assessment and response. Usually, the company has a significantly better understanding of the issue than us and is already acting to manage the risk. Should we be unsatisfied with management's response, we may escalate our engagement by speaking to increasingly senior members of company management or by voting against items at the company's AGM. If management ignores our engagement and fails to mitigate a material climate-related risk we have drawn attention to, we may ultimately choose to divest our holding. Our annual Stewardship Report provides more detail on our stewardship activities.

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Metrics and Targets

The most material sustainability-related factor for Fundsmith LLP is climate change. We make disclosures in accordance with the recommendations made by the Task Force on Climate-related Financial Disclosures (TCFD) in our TCFD Report, which includes reporting at the product and entity-level.

Sustainability-related factors, as discussed, are most material to the investment funds we run as a firm. We make a range of sustainability-related disclosures in relation to our funds which are available on our funds' respective websites. This includes annual sustainability summaries, our product-level sustainability reports as required by the SDR, our Stewardship Report, and our Fundsmith Stewardship Fund's quarterly Sustainability Factsheet.

The table below outlines the sustainability metrics applicable to Fundsmith under the SDR framework. The table details the proportion of our in-scope assets under management that integrate sustainability as part of our investment and risk management process and the proportion that have sustainability characteristics. By "sustainability characteristics" we are referring to our funds that go beyond risk management and make investment decisions based on sustainability-related factors.

Fundsmith LLP	2025 (£m)
Products with sustainability characteristics	431
Products with sustainability integration	17,829
In-scope AUM	18,260

Data

We source data from a range of publicly available data sources to calculate our funds' characteristics and exposure to sustainability-related factors. Our assessment of sustainability uses the most recently available data for every company, and our research team ensure that our assessment of a company is updated as and when new data becomes available. The data we use is collected directly from the companies in question and we expect to see high levels of assurance given to the data they report. Where data is not provided by a company, we use estimates calculated internally. We calculate our estimates using companies operating in the same industry or sub-industry, creating averages and scaling based on the asset base of the company.

We do not use sustainability ratings provided by third parties. We do use some third-party data to bias-check our internal assessments but do not rely on it as part of our assessment of sustainability and investment process. Any third-party providing us with sustainability data is subject to an internal due diligence process and review by Fundsmith's Stewardship and Sustainability Committee before approval.

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