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July 2023

Dear Fellow Investor,

The table below shows the performance of the Fundsmith Equity Fund ('Fund') and other comparators during the first half of 2023 and since inception.

% Total Return	1st Jan to 30th June 2023	Inception to 30th June 2023	
		Cumulative	Annualised
Fundsmith Equity Fund[1]	+8.5	+527.1	+15.6
Equities[2]	+8.9	+288.5	+11.3
UK Bonds[3]	-3.4	+15.7	+1.2
Cash[4]	+2.0	+10.0	+0.8

The Fund is not managed with reference to any benchmark, the above comparators are provided for information purposes only.
[1]T Class Accumulation shares, net of fees priced at midday UK time, source: Bloomberg.
[2] MSCI World Index, £ Net, priced at close of business US time, source: www.msci.com.
[3] Bloomberg/Barclays Bond Indices UK Govt 5-10 year, source: Bloomberg.
[4] £ Interest Rate, source: Bloomberg.

Our Fund was up by 8.5% in the first six months of the year, marginally less than what is perhaps the most obvious comparator — the MSCI World Index (£ net).

What did well for us in the first six months of 2023? Here are the five biggest positive contributors to performance:

Stock	Attribution
Meta Platforms	+3.1%
Microsoft	+2.6%
L'Oréal	+1.5%
LVMH	+1.1%
Amadeus	+1.0%

Source: State Street

At this stage last year Meta was one of our largest detractors and we wrote, 'Meta's stock now trades on a FCF yield of 8.7%. At this level it is either cheap or a so-called value trap. We will let you know which when we find out, but we are inclined to believe it is the former.' We have now had at least a partial answer to that question, with the stock up 70% over the past year, although we are too paranoid to ever declare victory. What might this illustrate? Clearly that Meta's share price performance has been volatile, and here's the important point, it is much more volatile than its fundamental performance, which should be our primary focus. Plus, we all need to try to ignore the cacophony of noise from commentators which can be useless, or worse where they have an axe to grind.

Microsoft continued to perform well despite revenue growth slowing.

L'Oréal continues to impress with its execution, particularly in China and online, which are inextricably linked. This is in sharp contrast to Estée Lauder, of which more later. LVMH is similarly impressive.

Amadeus is staging a recovery from the pandemic along with travel and has almost certainly strengthened its market position during the crisis which we applaud.

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

Stock	Attribution
Waters	-1.2%
Estée Lauder	-1.2%
ADP	-0.6%
Mettler-Toledo	-0.4%
Philip Morris	-0.4%

Source: State Street

Waters and Mettler-Toledo have both been affected by the slowdown in laboratory expenditures post the pandemic. In neither case are we bothered by this. In fact, we hope it presents an opportunity for us to buy more.

Estée Lauder is the only one of the five which concerns us. It fell in response to poor figures occasioned by a build-up, and subsequent write-off, of stock accumulated in anticipation of a reopening of travel by the Chinese after the lockdown. Whilst domestic travel has returned, it seems that Chinese consumers are buying watches, handbags, and other luxury goods first which it was harder to shop for online during the lockdown. It has revealed some severe weakness in Estée Lauder's supply chain with no manufacturing capability in Asia.

We hold Estée Lauder as a complementary cosmetics company to L'Oréal, with strength in America, prestige and traditional distribution channels in contrast to L'Oréal's strengths in China, mass market and online. We await to see how the recent debacle is handled.

ADP has been affected by macroeconomic concerns about the labour market after a strong 2022.

Philip Morris had a sharp share price reaction to one quarter of flat figures which were not only almost certainly a blip but which management had also signalled in advance. I am not sure how this fits with the efficient market hypothesis.

On valuation, the free cash flow ('FCF') yield on the portfolio, which had ended 2022 at 3.2%, fell to about 2.8% at the end of June 2023 through a combination of the rise in share prices and continuing disruption in the conversion of profits into cash and consequent lack of free cash flow growth. It is impossible to be definitive with half year numbers, given seasonality and the fact that it is a short period, but our portfolio is more expensive than the S&P 500 Index on this measure although the S&P contains some extreme numbers such as major oil companies and some healthcare providers apparently on FCF yields of 20% or more.

Our portfolio turnover in the first half was 6.2%. Voluntary dealing (dealing not caused by redemptions or subscriptions) cost £1,192,657 during the half year (0.005% or a 0.5 of a basis point). The Ongoing Charges Figure for the T Class Accumulation shares was 1.04% and with the cost of all dealing added, the Total Cost of Investment was 1.06%.

The most noteworthy item of turnover was probably our sale of Amazon which we had begun purchasing only in July 2021. The immediate cause of the sale was our concern over potential capital misallocation. Relatively new CEO Andy Jassy enunciated some principles of investment which investment projects had to have, namely:

1. Be big and capable of delivering good returns on capital.
2. Serve an area of the market in which consumers are not already well served.
3. Amazon had to have a differentiated approach to competitors' and
4. Amazon had to have or be able to acquire the competence to execute.

Our view was that there was a lot to like about that statement, and it gave us some comfort in purchasing a stock we had shied away from before. However, it is always easier to talk the talk than it is to walk the walk and the CEO's pronouncement that he wanted Amazon to seek routes to get bigger in grocery retail ran counter to all these principles. In our view grocery retail has none of these characteristics and Amazon has already stubbed its toe in this sector with the Whole Foods acquisition.

Moreover, our recent experience of engagement with companies which we believe are making capital allocation and other mistakes has produced a much longer list of those who have ignored us than of those who have listened and so we are likely to be more active in exiting such situations where we disagree with the manner in which our investors' capital is being allocated. Where companies choose to invest outside a powerful core franchise in which they already have expertise we believe they are likely to destroy value, and especially so where they are entering a sector which already has poor returns.

A similar thought process led us to exit Adobe.

Whilst I suspect that the Fund price performance is and will remain the primary focus of our investors, we try to remain focused on what is happening with the fundamental performance of these businesses.

At this time last year, we noted that despite the generally poor share price performances, the revenue growth of our portfolio was strong, bordering on very strong at some of our companies, albeit we noted prophetically that we might well be concerned about their ability to replicate this performance over the next couple of years.

Where are we now?

The past six months have seen a slowdown in revenue growth from our technology companies, a resilient performance from our healthcare stocks and continued pressure on the profitability of our consumer businesses.

Large technology companies have in a sense become victims of their own success. Their growth over the past decade means that they are now such a large part of the economies in which they operate that they have become inevitably more cyclical. At the time of the 2008-2009 recession, Apple, Microsoft, Alphabet and Meta had combined sales of $125bn. Today, Apple generates three times that number on its own and the combined sales of these four companies are as near as makes no difference $1 trillion. As a result, the economic slowdown means that where Microsoft grew sales at 18% last year, we are looking at more like 7% this year. Meta is growing at about 8% where growth was previously well over 20%. Apple and Alphabet will almost certainly have down years in 2023 but we expect a decent bounce back in 2024.

In the healthcare sector, businesses like Stryker continue to benefit from pent-up demand after Covid which drove revenue growth in the company's most recent quarterly results of 13%, several points above its historical run rate. Others like Coloplast or IDEXX remain metronome-like in their reliability and generated revenue growth of 8% and 10% respectively. Novo Nordisk meanwhile was also an extremely reliable business growing at around 10% that has now been transformed into one growing at 25%, courtesy of its weight loss drug Wegovy.

Our consumer companies in the main continue to generate decent top line growth, albeit mostly price led. Estée Lauder was unfortunately the exception with sales down 8% in its most recent report, but we saw outstanding performances from LVMH which grew 17%, PepsiCo which grew 14% and L'Oréal which grew 13%. However rising input costs have put pressure on margins, particularly gross margins or the difference between what it costs a company to make its products and what they can sell them for. Thus Procter & Gamble used to 'make things' for $0.50 and 'sell them' for $1.00 but now it costs $0.53 to make them. McCormick used to make things for $0.58 and sell them for $1.00, but now it makes them for $0.63. Estée Lauder used to make things for $0.20 and sell them for $1.00, now it costs $0.28 to make them. This still leaves our companies' gross margins way above those of the market average which means their bottom lines are better protected but they cannot completely offset these headwinds.

Of our stocks which don't fall into the above three sector categories, Waters 'only' grew sales at 3% where more recently we have benefited from two to three times this level of increase, and this meant that the stock had a poor first half. Sales patterns at this type of business can be lumpy and we expect better in the second half. ADP also had a forgettable first half from a stock price perspective but this was presumably a function of how well the shares did in 2022 since from a business perspective, top line growth of 10% remains bang in line with the historic run rate.

To sum up, conditions are tougher and our companies are mostly having to cope with slower revenue growth and/or higher input costs. However, that's what happens from time to time so we are mostly sanguine about it. We have a few more worries as a result but not a wholesale concern about what is happening.

Turning from company fundamentals to the macro environment, what level of interest rates will be required to tame inflation? We don't know. Will there be a recession? Of course, but we have no idea when. What will happen in Ukraine? We haven't a clue. Will China take action over Taiwan and how will the United States respond? We have no view. Even if we had we are not sure how markets would react.

Fortunately, it continues to be the case that we do not invest on the basis of our predictions about macroeconomics and geopolitics.

Whilst we await the outcome of these economic and geopolitical conundrums we will seek to continue to do what we set out to do. Which is to assemble a portfolio of high-quality companies and hold onto them so that their inherent ability to compound in value will determine how we perform over the long term.

Yours sincerely,

Terry Smith

Terry Smith
CEO
Fundsmith LLP

Disclaimer: A Key Investor Information Document and an English language prospectus for the Fundsmith Equity 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 product. This document is communicated by Fundsmith LLP which is authorised and regulated by the Financial Conduct Authority.

Sources: Fundsmith LLP & Bloomberg unless otherwise stated.

Portfolio turnover compares the total share purchases and sales less total creations and liquidations with the average net asset value of the fund.

The MSCI World Index is a generic portfolio of global equities across all sectors and, as such, is a fair comparison given the Fund is also global and sector agnostic.