

Fundsmith Stewardship Report 2025

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Introduction

Welcome to Fundsmith's 2025 Stewardship Report. This document contains our 'Policy and Context Disclosure' and our 'Activities and Outcomes Report' for 2025, following the reporting requirements detailed in the Financial Reporting Council's (FRC) UK Stewardship Code 2026 (the Code). Our Policy and Context Disclosure provides information covering our organisation, our investment beliefs and our stewardship approach, as well as details regarding our governance and resources, our policies and process, management of conflicts of interest, and our dialogue with clients and beneficiaries. Our Activities and Outcomes Report, following the FRC's six Principles, details how we performed as stewards of our investors capital in 2025, including information on our engagement and proxy voting activities for the period.

The FRC defines stewardship for the updated Code as

“The responsible allocation, management and oversight of capital to create long-term sustainable value for clients and beneficiaries”¹

As a long-term, buy-and-hold investor in the companies we choose to own, stewardship is not only part of our fiduciary duty but an essential and implicit component of our investment strategy. Fulfilling our responsibility as stewards is a key contributor to ensuring the success of our investment approach. Reflecting our dedication to this, Fundsmith was among the first cohort of applicants to gain signatory status to the FRC's 2020 Stewardship Code in 2021 and has remained as a signatory since.

This report was discussed and approved by Fundsmith LLP's Management Committee.



Signed,

Terry Smith, CEO and CIO

¹https://media.frc.org.uk/documents/UK_Stewardship_Code_2026.pdf

Policy and Context Disclosure

Our Organisation and Investment Beliefs

Fundsmith was founded in 2010 as a fund management business responding to what the founding partners saw as failings in the investment industry. At the time, many of the equity funds available in the UK were consistently underperforming their benchmark. They held too many companies in their portfolios, making them indistinguishable from the market as a whole and sacrificed investment returns through expensive overtrading. Put simply, many equity funds were overpriced, underperforming, and offered little difference from an index tracker.

Fundsmith was created to offer investors something different to the options available at the time. Through being different, the founding partners aimed to offer something better, in line with Sir John Templeton's axiom "if you want to have a better performance than the crowd, you must do things differently from the crowd". We launched our first fund, the Fundsmith Equity Fund (FEF), with the intention of providing retail investors with the best fund they have ever owned. By "best", we mean the fund with the highest returns over the long term, adjusted for risk. Our focus on this has remained unchanged since our inception.

Our business model is derived from the desire to be better. We run funds that invest in high-quality companies with a long-term horizon. These high-quality companies grow and compound in value over the long term, generating value for our clients and beneficiaries. Most important to the success of our business model is ensuring we operate Fundsmith as the kind of high-quality company we look to invest in. We apply exacting standards to potential investments to produce portfolios of resilient businesses across a small number of equity funds. Minimising the costs we incur on behalf of our customers while implementing our strategy also sits at the heart of our business model. For example, we do not charge our investors entry or exit fees. Instead of the typical 'annual management charge', or 'ongoing charges figure' firms use to compare themselves, both of which fail to account for the incremental costs of trading, we use total cost of investment (TCI) as it recognises all the costs our investors incur whilst owning our products.

When Fundsmith was first established in 2010, we published an 'Owner's Manual' outlining our purpose, approach to investing, and strategy for the Fundsmith Equity Fund. The Manual remains essentially the same today as it was in 2010 and is available on our website. We have published respective versions of the

Owner's Manual for the Fundsmith Stewardship Fund (FSF) and Smithson Equity Fund (SEF). SEF was launched in March 2026 to replace Smithson Investment Trust which was liquidated. We want those investing with us to use these manuals to understand our investment beliefs and approach, and what we are trying to achieve with the funds we manage. Alongside our Owner's Manuals, we write an annual letter for each of our funds and publish them online for our investors. The letters, written by each fund's portfolio manager, discuss the performance of the fund and its underlying portfolio of companies and cover any key events that occurred during the period.

Our investment strategy is simple and builds from three basic principles: buy good companies, don't overpay and, finally, do nothing. We believe that the most important driver of a business' returns is whether it is, in fact, a good business. Of the over 80,000 listed equities in the world, we have identified fewer than 200 across our strategies that qualify as "good", according to our criteria.

Good Companies

The high-quality businesses we look to invest in are predictable, have defensive characteristics, and invest their capital at rates of return substantially above their cost of capital. These businesses make a high return on operating capital employed, in cash, over the long term. We are not just looking for a high rate of return but a sustainably high rate of return. This means we invest in businesses with a significant and distinct competitive advantage. An important factor is repeat business, usually from consumers. A company that sells many small items every day is better able to earn consistent returns over the years than a company whose business is cyclical, like a steel manufacturer, or lumpy, like a property developer. This approach rules out many businesses that do not sell directly to consumers or produce goods that are not consumed at short, regular intervals.

We look for businesses that typically have an advantage over the market via some form of intangible asset (brand, distribution network, technology etc.) that helps to sustain a high rate of return on the capital they employ. Further, we like businesses that can reinvest some of those returns at the same high rate. This approach comes from the belief that over the long term, a company's share price will compound at about the rate of return at which the underlying business invests its capital. Therefore, the key is the business's rate of return, not the share price.

There are many industries in which we don't believe a good company could ever exist. This is due to specific factors that make it impossible to generate a high return on capital employed or through little control over pricing, as with many commodity-based industries. For example, we can confidently say that we will never

invest in a mining or oil and gas company. Alongside this, our high-quality business screen removes some of the most environmentally and/or socially damaging sectors, such as materials, energy and utilities. We avoid these as we believe their business models are unsustainable and they will struggle to generate sufficiently high returns over the long term.

When assessing the sustainability of a company and its returns, we analyse the business in the widest possible sense. We consider any negative impacts it may have on the environment and society as well as any positive contributions through its products and services and via research and development. Sustainability-related factors have become increasingly important to all companies and have the potential to influence their performance over the long term. We view poor performance across any of these factors as taking profits from tomorrow to fund today. Companies with operations that damage the environment or society or who have poor quality corporate governance may struggle to sustain the high return on capital the high-quality companies we look for must have. As a long-term investor, we won't invest in companies that generate returns and profits unsustainably, as our aim is to own the businesses we invest in forever. We expect the management of investee companies to act like owners of the company, prioritising capital allocation that benefits the business over the long term.

Don't Overpay

Our research process is the most important component of our investment strategy. We believe that detailed research and developing a deep understanding of a business before investing is the best way to build a portfolio of companies that outperforms over the long term. When we identify a good company, we don't want to overpay if we choose to invest in its stock, but we also realise that to buy superior businesses, you may need to pay a higher valuation. As Warren Buffet said, "It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price". Our goal is to buy securities that will grow and compound in value over time. These securities must offer free cash flow yields that are high relative to long-term interest rates and to the investments already selected within our portfolios or the other investment candidates within the strategy's investible universe. The securities should also offer yields that are similar to, or better than, what we would get from a bond.

We calculate the free cash flow of every company after tax and interest, before dividends and other distributions, and after adding back any discretionary capital expenditure that is not needed to maintain the business. This avoids penalising companies for investing capital at high rates of return to grow their business, which is precisely what we want.

Do Nothing

Finally, once we have invested in a company, we aim to do nothing. We like to compare investing to competing in the Tour De France; the overall winner of the Tour (the 'yellow jersey') never wins every stage. Similarly, we don't expect to outperform every quarter, or even year, but we do expect the companies we invest in to compound in value by more than the average company over the long term which will, in turn, generate the superior risk-adjusted returns we seek.

Ironically, this is the part of the process when we are most active. In doing nothing, we try only to buy and sell a company based on its fundamentals, irrespective of its share price movement. This discipline means that we avoid the temptation of rebalancing our portfolios and keep trading to a minimum, reducing costs and, consequently, the charges for our investors. We constantly monitor our companies after investing and continue to evaluate whether there are any changes in approach or new factors that might affect the company's long-term performance.

It is in this stage of our investment process that stewardship is most visible. As a long-term shareholder in these high-quality companies, we want them to be able to sustain their operations for the long term as, ideally, we want to hold the shares of investee companies forever. Our fundamental approach to investing means that stewardship is not a "bolt-on" concern but a crucial aspect in ensuring the success of our value proposition to clients.

We use engagement (and escalation where necessary) consistently during the time we own our companies to ensure that they and their management teams maintain their focus on the long term and prioritise the maintenance of high and sustainable returns on capital.

These investment beliefs are followed and complied with across the three investment funds we operate: Fundsmith Equity, Fundsmith Stewardship and Smithson Equity Fund. The same research process is followed by each strategy, which involves defining an investible universe of good companies all of whom meet our strict investment criteria. The resulting investible universe forms the basis for the respective fund portfolios.

We believe that our approach to stewardship is appropriate given our approach, size and resources, and investment strategy.

Our Investors

Fundsmith has a wide variety of investors in its funds. Across our products, 42% of our assets under management are from retail investors who invest in our funds directly through our website or an investment platform. The remaining 58% comes from institutional investors, such as wealth managers, fund of funds, and charities.

We also have investors from a variety of locations investing in our UK-listed funds. The geographic distribution of our investors across our funds is shown in the graph below.

All of our investments are in global equities, with a focus on developed markets and all our funds are actively managed and follow the same long-term, buy-and-hold approach to investing.

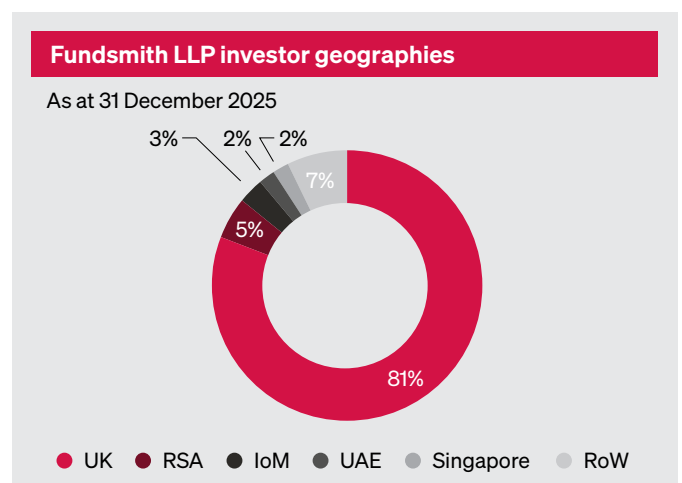


Figure 1: Fundsmith LLP investor geographies (as at 31 December 2025)

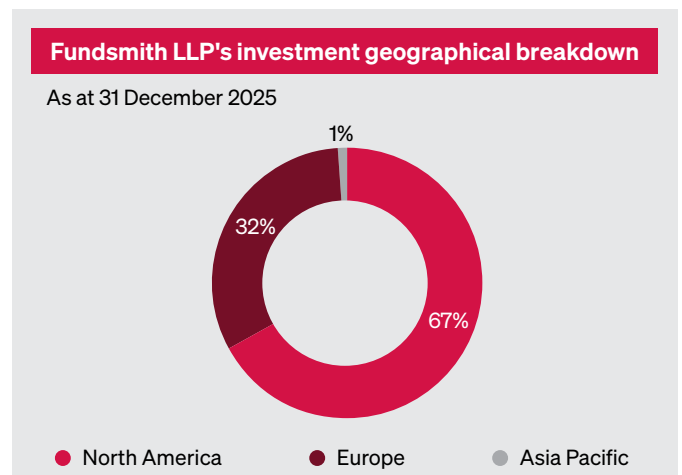


Figure 2: Fundsmith LLP's investment geographical breakdown (as at 31 December 2025)

Our Governance

Fundsmith continues to be wholly owned by its partners, all of whom are actively involved in the business on a day-to-day basis. As such, Fundsmith's ownership and governance structure is completely aligned with the long-term focus of our funds and the aim to ensure the long-term growth of the business. Fundsmith's Management Committee is the Firm's ultimate governing body and is responsible for all aspects of Fundsmith's business.

The Management Committee is designed to ensure that we are being run in compliance with applicable regulatory rules, that we act in the best interests of investors in our funds, and that we are operating with an appropriate risk management framework. The Committee is ultimately responsible for setting our approach to stewardship and for ensuring that the business adheres to the stewardship principles and policies it has set itself. The Management Committee comprises both executive and independent non-executive members.

The Management Committee delegates responsibility for the development and implementation of the Firm's strategy and for the day-to-day management of the business to Terry Smith, Fundsmith's CEO and CIO. To support Terry Smith in this, Fundsmith operates an Executive Committee as a sub-Committee of the Management Committee.

The Management Committee has also delegated certain oversight and management responsibilities to other sub-Committees. Oversight of stewardship and sustainability at Fundsmith is delegated to the Stewardship and Sustainability Committee. The Committee, established in 2020, reviews all relevant stewardship and sustainability-related regulatory developments and initiatives, sustainability related disclosure frameworks, the Fundsmith Stewardship Fund investible universe and its exclusions, the application of our [Responsible Investment Policy](#) and our engagement and proxy voting activities.

The Committee is chaired by Julian Robins, Fundsmith's Head of Research, with representatives from each portfolio management team, the Chief Compliance Officer, the Head of Sustainability, and our Stewardship Analyst. The structure of this Committee was chosen to ensure that all areas of the business involved with our stewardship activities meet regularly to ensure they are aware of any changes in the company's approach and updated on key issues and best practices. The actions and conclusions of the Committee's meetings are reported to the Management Committee. This reflects the importance of ensuring that we are acting as good stewards of our clients' capital and our management's commitment to appropriately resourcing our stewardship activities.



Figure 3: Fundsmith LLP's management structure.

Fundsmith Stewardship and Sustainability Committee	
Julian Robins	Head of Research, Founding Partner
Robert Parker	Chief Compliance Officer
Thomas Boles	Head of Sustainability
Simon Barnard	Portfolio Manager, Smithson Equity Fund
David Simpson	Stewardship Analyst

Table 1: Fundsmith's Stewardship and Sustainability Committee

Our investment beliefs are the same across the three investment products we operate. The same research process is followed by each strategy, which involves defining an investible universe (IU) of "good companies" that meet our strict investment criteria and the respective strategy's market capitalisation range and market classification. Before adding a new company to the IU, the research team produces a comprehensive report on all aspects of the business, looking at all factors that might affect its ability to sustain a high return on capital and grow over the long term. This is then put to the strategy's portfolio management team, which decides whether the company is an appropriate candidate for IU inclusion. All IU inclusions are reviewed and approved by the Chief Investment Officer (CIO). This ensures that we have a consistent approach and independent review of the process. The portfolio manager selects stocks from the relevant IU for inclusion in the relevant fund.

The Fundsmith Stewardship Fund's IU is created from the Fundsmith Equity Fund's and Smithson Equity Fund's investible universes. Each company is subject to two further screens to ensure they meet the criteria we have established for inclusion the FSF IU.

Stewardship is also generated through the ongoing oversight and management of our investments. As part of his role as Head of Research, Julian Robins oversees the monitoring of our existing investments. He decides when, in accordance with Fundsmith's Responsible Investment Policy, we might need to engage, escalate,

or consider divesting a portfolio company. While Julian, as chair of the Stewardship Committee, is accountable for our stewardship activities and processes, every member of Fundsmith's research team supports our stewardship activities and works to keep our decision-making appropriately informed.

The policies we use to guide our stewardship activities are subject to an annual review by the Stewardship and Sustainability Committee in accordance with the Committee's Terms of Reference.

Our Resources

Stewardship is an integrated component of our investment process and is considered explicitly by all employees. We rely on our Research department, including the Head of Research, to conduct the in-depth research and analysis of companies to identify those that can produce the long-term, sustainable growth our strategies rely on. The Research team, consisting of ten analysts, has a wealth of experience across the investment industry. The team comes from a diverse range of academic backgrounds, including degrees in history and economics to French and geography, and has achieved a range of qualifications, including four CFAs, an MBA, a variety of masters' degrees and a PhD. Their expertise and experience mean we have a team that fully understands and has the skills needed to implement Fundsmith's investment philosophy and process.

While we consider good stewardship to be a natural attribute of the entire research team, we also have a member of the team dedicated solely to stewardship activities. This extra resource helps ensure we are properly executing and correctly documenting, reporting and communicating our stewardship activities. Our Stewardship Analyst has an undergraduate degree in environmental science and a postgraduate degree in global politics and has also attained the CFA UK's Certificate in Sustainability Investing and Investment Management Certificate (IMC). He has specific responsibility for supporting the research team by keeping team members aware of sustainability-related regulations and considerations, best practices, and any changes in the way they approach stewardship activities.

We use various resources to support our analysts and their research process. We collect qualitative and quantitative information from a variety of publicly available sources such as earnings reports, sustainability reports, press releases, the CDP (previously the Carbon Disclosure Project) and Science Based Targets initiative (SBTi), and Bloomberg. We use Bloomberg to retrieve and calculate basic stats such as CO₂ emissions, water and energy use, and the amount of waste generated.

We use data provided by The Upright Project to help in our assessment of individual companies' and our portfolios' aggregated net impact across four sustainability factors: society, knowledge, health, and environment. We use Upright as it avoids the intra-industry approach that other rating services implement. We believe this intra-industry, or "best-in-class" approach, supports investment in fundamentally unsustainable companies on the basis that they are slightly more sustainable than the others operating in their damaging industry.

We use these sources in combination to support qualitative decisions on the companies that can be part of FSF's investible universe, to assess potential investments, and as part of our ongoing monitoring of the companies in which we are currently invested. We do not make investment decisions based on an individual score provided by Upright. Instead, we use it to supplement our fundamental research and analysis of a company during our decision-making process.

We do not engage proxy advisory firms, investment consultants or engagement service providers to assist with our stewardship activities. Nor do we use research provided by third-parties or rating agencies. All our proxy votes are submitted through the ProxyEdge and Proximity voting platforms. Our custodians register our holdings with the platforms which then inform us of when our companies' AGMs or EGMs are occurring, what voting rights we have, the details of each proxy and the voting deadline for each meeting.

Our Stewardship Policies and Processes

The principal policy that relates to our stewardship activities is our Responsible Investment Policy. The Policy details the processes and activities used to integrate sustainability into our investment process and our approach to engagement and proxy voting. The Responsible Investment Policy is approved by Fundsmith's Stewardship and Sustainability Committee. The Policy is updated to reflect any changes to our internal processes and to ensure we are up to date with best practices. The Committee reviews the Policy biannually to ensure it remains accurate.

Fundsmith's governance committees, with the support of the Compliance department, review all the Firm's policies and regulatory reporting. This is done to ensure we are consistently operating in line with our investment approach and values and complying with any regulatory requirements. We re-assess policies annually to ensure that they are appropriate and effective and that we are delivering consistency across the business, reflecting

new information, and continuously improving. Part of our review process includes horizon scanning for regulatory changes across the markets in which we operate. The sustainability-related regulatory landscape is evolving rapidly, and ensuring we remain compliant with these requirements is paramount.

The Stewardship and Sustainability Committee oversees the Firm's stewardship activities. One of the Committee's responsibilities is the ongoing assessment of current inclusions and exclusions and potential entrants to our funds' investible universes. This assessment includes reviewing companies' compliance with our Responsible Investment Policy. The Committee is also responsible for approving our UN PRI report and any other stewardship or sustainability-related reporting, as well as reviewing engagement activity and significant votes across all funds.

The Committee also reviews any investor feedback or external reviews we receive regarding stewardship and sustainability, such as those from fund-rating agencies. We meet with such bodies regularly to update them on our approach and respond to requests for information and due diligence questionnaires throughout the year. The feedback from these meetings and assessments is taken to the Stewardship and Sustainability Committee, which assesses what if any, points from the feedback we should act upon.

We also receive a level of external assurance on our integration of stewardship and sustainability through our participation with the UN Principles for Responsible Investment (PRI). The PRI assesses the quality of our strategy and governance, our integration of sustainability in our investment process, and the measures used to support the information used in their assessment, or 'Confidence building measures'.

Proxy voting is a key component of our stewardship approach, allowing us to represent the interests of our investors at the meetings of investee businesses. Reflecting its importance, Fundsmith has established processes to ensure that we are properly fulfilling our responsibilities. Proxy voting is now reviewed biannually by our Compliance Monitoring team, which is part of Fundsmith's Compliance function. Compliance Monitoring assesses whether it can be demonstrated that regulatory compliance requirements and expectations are being met and can be evidenced throughout our proxy voting process. The areas typically reviewed by Compliance Monitoring in relation to proxy voting include governance arrangements, a review of the end-to-end process from vote notification through to vote submission and conflict of interest considerations. Where enhancements have been identified, any associated actions are assigned to relevant individuals with agreed action dates. All reports on proxy voting

are circulated to the Stewardship and Sustainability Committee. This new review process was introduced in 2022 and has been in effect since.

We aim to report on all our stewardship activities in a fair, balanced, and understandable way as a core part of our approach to stewardship. Ensuring our investors understand how we behave and how we act on their behalf ensures that they understand what we are doing and why we are doing it. It also holds us responsible for ensuring stewardship activities are carried out as our investors expect. Our stewardship-related reporting is done by analysts in the Research team who are directly involved in the investment process and implementation of our responsibilities as stewards of investors' capital. All reports relating to our stewardship activities are checked by Fundsmith's Compliance team before being sent to the Stewardship and Sustainability Committee for approval. The Stewardship and Sustainability Committee is in place to monitor the overall reporting process and assess the output.

Conflicts of Interest

Fundsmith is under a regulatory duty to ensure that any conflicts of interest are managed in such a way so as to put the interests of clients first.

Fundsmith's investment criteria mean our investible universe, across each of our funds, totals less than 200 individual companies. This is significantly less than that of many fund managers with comparable assets under management. Similarly, our concentrated portfolios mean that we own fewer than 70 individual companies at any given time. The result of this is a very low chance of conflicts of interest arising between Fundsmith, its Partners and employees, and the companies we invest in. Regardless, we still strive to avoid any conflicts of interest in our investment activities. Should any potential or actual conflicts of interest be identified across our stewardship activities or more widely within the business, they will be recorded in our internal Conflicts of Interest Register. Fundsmith follows the procedure detailed in our internal Conflicts of Interest Policy, which outlines the steps we take to avoid, minimise and manage such potential conflicts. A summary of our Policy is available here.

Managing these potential conflicts is important. Failure to do so in the normal course of business could put us in a situation where the interests of clients and the interests of the Firm are at odds with one another. Given the range of investors in our products and the accompanying range of approaches to stewardship, we will not change our approach in any way under the pressure of a single investor.

However, should a situation arise where the majority of our investors are of a similar mind, we are prepared to adapt our approach. We communicate our investment beliefs and approach to stewardship to potential investors in our Owner's Manuals, product prospectuses and our Firm-wide Responsible Investment Policy to ensure all investors understand and are comfortable with our approach before investing, minimising the potential for this kind of conflict occurring.

Our Conflicts of Interest Policy follows three steps: identification, management and disclosure. Potential conflicts of interest relevant to us may occur between our Partners, employees, or any person directly or indirectly linked to Fundsmith by control (relevant persons) and a client of Fundsmith. There is also the potential for conflict between different clients. In our policy, we identify five scenarios where there is potential for conflicts of interest in our activities. These arise when the firm or a relevant person:

- Is likely to make a financial gain or avoid a financial loss at the expense of a client;
- has an interest in the outcome of a service provided to the client or of a transaction carried out on behalf of the client, which is distinct from the client's interest in that outcome;
- has a financial or other incentive to favour the interest of one client over the interests of another client;
- carries on the same business as the client; or
- receives or will receive from a person other than the client an inducement in relation to a service provided to the client, in the form of money, goods or services, that is not the standard commission or fee for that service.

Fundsmith's Management Committee, assisted by Compliance, have considered various situations arising from the day-to-day business of the Firm from which a conflict of interest may occur, given the services and activities that Fundsmith undertakes. These are documented in the Conflicts of Interest Register, which is reviewed and approved annually by Fundsmith's Management Committee. The potential for additional conflicts of interest will be considered each time Fundsmith takes on a new client, considers launching a new fund, develops a new investment strategy, or undertakes a new line of business.

The Conflicts of Interest Register also summarises the approach Fundsmith takes to manage and mitigate these conflicts. Where the potential for a conflict of interest has been identified, Fundsmith will seek to organise its business activities in a manner that prevents such a conflict from arising.

Where conflicts are unavoidable, Fundsmith will seek to provide measures for their mitigation and management. These management arrangements are designed to ensure that Fundsmith always acts in the best interests of its clients and puts their interests ahead of our own. Where a conflict arises between two clients, Fundsmith will seek to treat both clients fairly.

Currently, there are no conflicts of interest considered to exist at Fundsmith which we are unable to prevent or manage in such a way as to ensure the interests of our clients and beneficiaries are not impacted. Potential conflicts may exist in relation to aspects of our business that are not material in nature, and that we believe are being effectively prevented or managed.

While executing our responsibilities as stewards of our investors' capital, conflicts of interest could occur in the execution of proxy votes. Conflicts of interest are most likely to occur here if an employee involved in the proxy voting process holds an interest or has a relationship with the company in question.

We actively manage the risk of this conflict via a variety of methods. First, Fundsmith's employees are prohibited from investing in any of the companies in our funds' investible universes. We also log and monitor the outside business interests of any Fundsmith employee and their connected persons with any IU company to identify any potential conflict.

All proxy voting decisions are made by the relevant portfolio manager, executed by our Stewardship Analyst and monitored by Compliance. Our Stewardship Analyst checks our voting decisions' compliance with our Proxy Voting Policy. Compliance also monitors the proxy voting process biannually to ensure compliance with the Policy.

Our Management Committee has separate allocated responsibilities for supervising different areas of business, such as client relationship management, business development, portfolio management, investment research, risk management, operations, and compliance. Fundsmith ensures that the risk management function does not carry out any portfolio management or investment research tasks and is supervised and remunerated independently from those functions to minimise any potential conflicts further. As part of Fundsmith's risk and compliance framework, the firm has a Compliance Monitoring Plan to ensure the requirements of this and various other policies are followed. The Compliance team is responsible for ensuring that appropriate measures exist to mitigate and manage conflicts. The Management Committee is responsible for reviewing and approving these management measures. Where Fundsmith is not reasonably confident that it is able to manage conflicts to ensure that the risk of detriment to the interests of a client or investors in a fund will be avoided, this will be reported to Compliance. They are responsible for taking any decisions necessary to ensure that Fundsmith acts in the best interest of the client or investors in the fund.

The Management Committee reviews and updates our Conflicts of Interest Policy on an annual basis. Our legal advisors provide guidance as required in relation to our conflict management arrangements.

Communicating with Investors

We make a concerted effort to clearly communicate our investment philosophy with investors prior to investment via our Owner's Manuals and Responsible Investment Policy. We do this to ensure they have a clear idea of the way in which we operate our funds and so they can identify whether our approach is suited to their investment and stewardship policies and preferences.

We believe this is the appropriate approach given the diverse range of our investor base and, in particular, the mix between retail and institutional investors and the resources we have available as a small firm. Adapting our approach based on the preferences of a particular individual or group risks disenfranchising our other investors and would be contrary to our aim of building a group of like-minded investors.

Most importantly, we want those who wish to invest with us to understand the long-term nature of all our strategies. Our research team spends a great deal of time identifying and researching the type of companies that we believe will provide the best long-term, risk-adjusted returns. It is important to us that investors understand

why we believe the types of companies we invest in will compound in value and outperform over the long term. Providing investors with the information that supports this will enable them to have confidence in investment decisions during more volatile periods for the market and our funds. Reflecting this, our recommended holding period for investors is at least 5 years.

Unlike many other investment managers, we hold an Annual Shareholders Meeting (ASM) for the Fundsmith Equity Fund and the Fundsmith Stewardship Fund, to which all our direct investors, retail and institutional, are invited to attend in person. The ASM has grown each year and now has over a thousand of our investors in attendance. The meeting gives those attending an opportunity to submit questions to our CIO & CEO, Terry Smith, and Head of Research, Julian Robins, with the most recent ASM seeing hundreds of questions submitted. While there is only time to address a few of these during the ASM itself, we make a commitment to answer every question following the event. The ASM provides an effective format for us to collect feedback from our investors, both retail and institutional, as anyone in attendance may submit a question.

This allows us to receive views from a variety of investors in an efficient manner, which is particularly helpful given the small size of the Firm. It allows us to assess how successfully we are meeting our investors' needs by assessing key themes that emerge from the questions submitted. Each meeting is recorded and made available to all our investors on our website, which is available here.

Outside the ASM, we encourage questions from our clients and consider any issues brought to our attention in this way. Individual investors can engage with us directly across a broad range of methods including our website and dedicated "myAccount" portal, webchat, email, phone, and post.

We have a sales and relationships team that engages with a variety of our investors, typically larger institutional investors. Analysts from the Research team frequently take part in these engagements, allowing our investors to engage directly with those involved in the investment and stewardship decision-making process. We meet with these investors regularly and respond to the requests for information and due diligence questionnaires sent throughout the year. Our meetings typically follow on from the questions sent to us, but we also frequently engage to receive feedback on various areas and to provide updates on the performance of the fund and our various stewardship activities.

We also have a Client Operations team largely dedicated towards supporting our investors, escalating where necessary and reporting feedback to the sales and relationships team. Our sales and relationships and Client Operations teams compile reports detailing the level of engagement they have with investors of all levels, including complaints, recurring issues, and suggestions for members of senior management.

In December 2022, we sent out our first customer survey to our retail investors. The purpose of the survey was to ensure we were providing a high level of service and value for money to our customers. We asked for feedback on the quality of our customer service and written communications, our website functionality, our fund's performance, and if we provided our investors with value for money. Alongside each of these questions, we also asked how Fundsmith compared to its industry peers. Participants had the opportunity to provide individual written feedback if they had experienced specific issues with our Firm or our service providers, as well as to put forward any suggestions. We have repeated the survey every year since, ensuring that we are improving in areas identified in earlier surveys and maintaining the standards our investors expect across all others.

We periodically publish updates for all our products on their respective websites. These updates ensure that investors are kept informed about a variety of information relevant to the respective fund. Our monthly factsheets provide data and a short description of key activity within the fund over the previous month. All our funds publish both an annual and semi-annual letter, written by their respective portfolio manager. The letters are designed to provide each fund's investors with a commentary on the performance and a discussion of the key themes for the first half of the year and for the year as a whole. These are all published on the fund websites. For institutional investors, there are also regular fund updates from the respective portfolio manager.

We remain committed to providing our investors with better and more insightful sustainability-related information. We publish a quarterly 'Sustainability Factsheet' for the Fundsmith Stewardship Fund. This Factsheet gives us the opportunity to discuss key environmental, social, governance, and innovation-related matters and data for the quarter. We also publish an annual sustainability summary document for FEF and FSF, which are available on the funds' websites.

These summaries are designed to provide details on key sustainability and governance-related information, as well as examples of sustainability-related innovation made by portfolio companies during the year. Since 2024, we have published an annual, firm-wide Task Force on Climate-Related Financial Disclosures (TCFD) aligned report.

The Stewardship Code and the reporting it entails is also an effective method of communicating the outcomes of our stewardship and investment activities to our investors. The Activities and Outcomes section of this report is one of our primary formats for communicating our engagement and proxy voting activity to our investors.

Activities and Outcomes

Principle 1:

Signatories integrate stewardship and investment to deliver long-term sustainable value for their clients and beneficiaries.

Fundsmith's approach to the responsible allocation, management and oversight of capital is the same across all the funds we operate. Across all our funds, our goal is to create value for our clients by allocating capital to high-quality companies that will grow and compound in value over the long term. Our investment approach is discussed in detail in the Policy and Context section of this report.

Stewardship, in the form of engagement, escalation, and proxy voting, plays an essential role in our investment process after we have invested in the high-quality businesses we seek. Fundsmith's approach to engaging with companies is available as part of our [Responsible Investment Policy](#). Our approach comes directly from our desire to be a long-term shareholder in the businesses we own. We use engagement to encourage sustainable business decisions that will benefit the long-term performance of the company. Practically, this means we generally support changes and investments that promote long-term growth and oppose the establishment of unrealistic short-term targets and activities that negatively impact the ability to sustain high returns.

The decision to engage with a company is made on a case-by-case basis and is prompted by various factors, both internal and external. We only engage with companies regarding topics relevant to their operations and when we deem the risk to be material and detrimental to long-term performance. Engaging with a company can be an effective way to generate change that reduces risk, but we do not always engage with the goal of changing the company. We use engagement to reassure ourselves and better understand the company's perception of the potential risk. Companies are often aware of the risks we identify and either have plans to or are already mitigating them or have deemed them immaterial. We view these engagements as equally successful as those that force change within a company. Of course, if the company is unaware or not doing enough to address the risk, engagement can then be used to generate the change needed.

We also want to encourage companies to integrate sustainability into their business model and give due diligence to environmental, social and governance factors. As we have previously discussed, poor sustainability performance might not impact profits immediately, but it has the potential to negatively impact growth over the longer term.

We engage with our companies with the aim of promoting their long-term performance and growth and to discuss any activities that we believe may limit their ability to sustain growth and returns over the long term. However, engagement may not always produce the results we desire. Some companies fail to act on the issues highlighted, or their response fails to address them adequately. Should our engagement with a company fail to generate change, we will escalate our activities to help the company understand our position or to get a more comprehensive statement about why it cannot or will not make the change we seek.

Our decision to escalate our stewardship activities, as with our engagement decision-making process, is done on a case-by-case basis. If our initial engagement fails to generate the changes we want, we will not automatically escalate the engagement. This decision is largely, but not exclusively, based on the scale of the potential impact and the length of time before the impact is felt, supported by our Research team's knowledge of the company in question. If the severity is lower and the time frame long, we are likely to continue our engagements with the company without escalation. Conversely, if the potential impact is high and the time frame is short, we will escalate our stewardship activities as necessary.

Generally, we escalate our stewardship activities by taking the issue to the company's board of directors, sending a letter to the CEO, or exercising our right to vote against management's recommendations at its annual general meeting. Typically, we will inform management that we intend to vote against a proposal at the AGM so that they have an opportunity to engage with us to exchange points of view before the meeting. When we feel the issue is particularly significant, we may collaborate with other shareholders to support our cause. While we prefer to keep our dealings with companies private, in some instances, we may deem it necessary to express our concerns publicly should we feel that it increases the chances of a constructive dialogue.

Should previous engagements or escalation efforts prove ineffective, our final escalation step is the sale of our shareholding in the company. We would likely do this because of consistently poor capital allocation by company management and the lack of an adequate incentive structure to encourage management to fix it. We may also sell a holding if we believe there is an issue that will seriously impact the company's ability to make and sustain a high return on capital over the long term. Reaching the point of exiting our investments is rare; most of our escalations are resolved through voting against management, on multiple occasions if necessary, and continuing our engagement with company executives.

Examples of our stewardship activities for the reporting period are provided as part of this 'Activities and Outcomes' report under Principles 3 and 4.

Principle 2:

Signatories identify and respond to market-wide and systemic risks to promote well-functioning financial markets.

At Fundsmith, we believe that there are more systemic and potentially market-wide risks that we cannot identify than those we can. As ex-US Secretary of Defence Donald Rumsfeld said: “There are known knowns; there are things we know we know. We also know there are known unknowns; that is to say we know there are some things we do not know. But there are also unknown unknowns - the ones we don’t know we don’t know. And if one looks throughout the history of our country and other free countries, it is the latter category that tends to be the difficult ones”.

We take a proactive approach to risk, minimising it as much as possible during the construction of our investible universes and portfolios. We minimise the risks we face by investing in high-quality companies with defensive characteristics. The companies we look to invest in benefit from repeat business in the form of small, everyday transactions. This is usually, but not exclusively, from consumers. We look for companies whose product or service offerings are resilient to technological change and are difficult to replicate. These characteristics allow a business to generate consistent returns over the years. We want to invest in companies that use these characteristics to generate a high return on the capital they invest and who reinvest these returns to support long-term growth. Picking companies with defensive characteristics helps us build portfolios that are more resilient to market-wide and systemic risks, such as changes to interest and currency rates and other macroeconomic/geopolitical issues.

There are numerous industries we will never invest in as we believe it is impossible for the high-quality businesses we prefer to operate within them. For example, it is highly unlikely that we would ever invest in a traditional bank. Banks typically rely upon leverage to generate profits and, at some point, that leverage is withdrawn. We are also unlikely to ever invest in a business reliant upon commodities, such as utility companies, as they have no control over the changing price of the materials upon which they depend.

Across all our strategies, we invest in businesses that have an established track record of success. We look for companies with a dominant market share in their product or service niche or that have brands or patents that are challenging, if not impossible, to

replicate. Our desire to invest in long-term winners is reflected in the age of the companies we invest in; the companies owned by Fundsmith Equity Fund at the end of 2025 had an average age of 126 years and a median market capitalisation of £77bn, Fundsmith Stewardship Fund an average age of 99 years and median market capitalisation of £64bn, and Smithson Equity Fund companies had an average age of 44 and a median market cap of £7bn. These companies have experienced numerous economic cycles, World Wars, and technological advances and have persisted throughout. We invest in these companies with the intention of holding that investment forever.

Our long-term investment horizon means we encourage our companies to focus on long-term capital allocation with the goal of generating sustainable growth. We also support sustainable practices to ensure they are managing the risks they face in both the day-to-day and long-term operation of the business. Our approach is fundamentally opposed to the myopic obsession held by some parts of the market. This myopia forces companies to post growth after every quarter, often pushing businesses into unsustainable short-term profit maximisation to meet these expectations. We regularly engage with companies to remind them of how little significance we put on short-term guidance or any small changes in it. This, we believe, directly contributes to a more efficient and well-functioning financial system by reminding management that not every shareholder is focused on the short term.

We spend a great deal of time researching prospective companies and want to get to know them very well before deciding whether to invest, identifying and assessing a variety of risks. There are, of course, unforeseen risks that we may not have accounted for, or a company’s approach to risk may change during the period in which we own the stock. Our response to this is to engage with the company, aiming to understand company management’s perspective of the risk and their response to it, should it be present and material.

Fundsmith’s risk management process is overseen by the Management Committee, which holds the overall responsibility for the identification and management of risk and for the determination

of the Firm's risk appetite. The Management Committee is responsible for setting the 'tone at the top' and for ensuring that the Firm operates in a manner consistent with its risk principles.

The Management Committee has delegated responsibility for the oversight of certain risks and authority for the approval of the policies related to the management of those risks to its subcommittees. These committees report to the Management Committee on their activities and their conclusions as to whether the risks are being managed within the Firm's appetite.

Market-wide and systemic risks

There are, of course, events during the short term that impact the operations of the businesses in which we invest. While we are confident that the quality of our companies makes them resilient to this, monitoring the impact of these events is important. Over the past few years, there have been a series of unpredictable events that have influenced global markets, including a pandemic, a global supply chain crisis, the resurgence of inflation and a corresponding increase of interest rates, and increasing instances of conflict and political instability. We believe our approach to investing means our companies and therefore portfolios are relatively resilient to these risks.

War and wider geopolitical unrest

Over recent years armed conflict and geopolitical unrest have emerged as major global themes, presenting a variety of challenges and risks to the market as a whole. The war in Ukraine entered its fourth year and unrest continued to grow in the Middle East. Most notable was the outbreak of war between Israel and Iran in what is being called the Twelve-Day War.

These events, and the wider instability they cause, disrupt various components of the global financial system. As geopolitical risk grows and investors' appetite for risk decreases financial markets experience increased volatility, as was experienced following Russia's invasion of Ukraine. Not only did the invasion send shock waves through stock markets, it forced many Western companies to sell their operations in Russia and disrupted their supply chains.

The main way we reduce this geopolitical and macro risk is by focusing on creating portfolios of globally diversified companies, not in terms of domicile, but in their revenue generation and risk exposure. We avoid companies generating high proportions of their profits from jurisdictions we deem to have high exposure to the themes discussed.

Inflation and interest rates

Inflation has been a persistent theme in markets since the COVID-19 pandemic. As the world emerged from lockdowns demand from consumers increased rapidly, coinciding with a period of material and labour shortages which caused significant bottle necks in global supply chains. With supply struggling to keep up with demand, prices for materials increased quickly across most regions of the world resulting in inflation. Russia's invasion of Ukraine in 2022 significantly exacerbated this and moved it from being what many saw as a transitory trend to something far more stubborn. The invasion caused commodity prices to increase sharply, exacerbating the inflation that businesses and consumers were already experiencing. In an attempt to manage this inflation and prevent it from taking hold, central banks around the world started increasing their interest rates. Despite continued progress made in reducing inflation throughout 2025, inflation remained above the target level for many central banks meaning interest rates remained high relative to recent periods. In 2025, the sweeping tariffs introduced by the USA renewed concerns that inflation was here to stay. The average effective tariff rate on US imports rose from 2.5% to an estimated 27%. This had the potential to significantly increase the costs of doing business with the US on countries around the world and potentially hit the American consumer with a steep increase in the cost of their staple and discretionary purchases.

The companies we invest in are well-placed to deal with inflation due to the nature of the industries they operate within. As we have explained, we look for companies that generate their revenues from a large number of everyday repeat transactions. These businesses sell many small items every day rather than a few very large items less frequently. These small items are usually price inelastic, meaning producers can increase the price consumers pay for the goods without seeing a significant change in demand, making their revenue streams resilient to inflation. Further, we invest in companies with high gross margins, which means their raw material costs are a lower proportion of profits and hence increase by less than companies with lower gross margins, further increasing their resilience.

The companies we own are also well-placed to deal with high interest rates. We do not invest in companies that rely on leverage to generate a high return on invested capital. We have long held the belief that, at some point, this leverage will be withdrawn, which can put the solvency of the business at risk. Instead, we look for businesses that create high returns on capital rather than just equity. This is not to say that the companies we invest in do not use leverage as part of their business. Where our companies do use leverage, we look for businesses that have high interest cover and healthy balance sheets to ensure servicing the loans they do have does not impact their ability to operate should credit become more expensive.

Market Concentration and the rise of passive investing

In our Annual Letters for investors in the Fundsmith Equity and Fundsmith Stewardship funds we discussed the impacts of increasing concentration in global markets, in particular the dominance of companies exposed to AI, and the growing influence passive investing strategies. In 2025, the top ten stocks in the S&P 500 Index accounted for 39% of the index's value and provided 50% of its total return. So-called "passive" investment approaches, such as index tracking ETFs, now represent 53% share of US Equity fund assets. These funds hold stocks in proportion to their market capitalisation, which creates a self-reinforcing dynamic: as money flows into index tracking funds, it is automatically directed towards the largest, most highly valued stocks, inflating their price further, increasing their index weight and in turn attracting more passively invested capital.

This dynamic carries material risks to for markets as a whole. Growing proportions of capital are allocated mechanically rather than on the basis of valuations or fundamentals, which can erode the process of price discovery; stocks rise not because they are "cheap" or that their prospects have improved, but because they are large. The benefits of diversification are also impacted as previously unrelated stocks move together. Active investors building what they believe to be diversified portfolios may in practice be running funds with concentrated exposures to stocks all moving in a similar way.

This system has only ever been tested during a period of sustained inflows for passive strategies. A sustained shock, for example the reassessment of the valuation of AI-related businesses, a macro deterioration, or a large shift in investor sentiment, could trigger large redemptions across passive strategies resulting in the indiscriminate selling of stocks. The process that has inflated valuations may end up accelerating their decrease on the way down.

Climate change

The impact of climate change continues to be a market-wide and systemic risk to the financial system. Our investment approach means we are unlikely to ever invest in or have exposure to the industries that contribute most to climate change, such as oil & gas, mining, and utilities. However, we are still exposed to the risks and opportunities both the transition to a low carbon economy and the physical impacts of climate change entails. We typically invest in companies that the Global Industry Classification Standard (GICS) would classify as Consumer Staples, Consumer Discretionary, Health Care, and Information Technology. The industries we focus on are significantly more carbon efficient compared to those we avoid. As a result, the companies we own across our portfolios are relatively less exposed to climate-related risks than those operating in carbon-intense sectors such as utilities, materials, and energy.

Despite our lower exposure to these risks, it is important to ensure that the companies we invest in are reducing their contribution to climate change and managing its potential impact on their operations. As part of this assessment, we look at our companies' commitments to reducing their greenhouse gas emissions. We use data collected from the Science Based Targets initiative (SBTi), the CDP, and directly from the companies themselves to assess the emissions profile of a business and their alignment with the Paris Agreement (keeping global warming below 2°C), the Business Ambition for 1.5°C, and their commitment to net zero carbon emissions (covering at least their direct operations, or scope 1 & 2 emissions). Our Taskforce for Climate-related Financial Disclosures Report details our Firm's and our funds' climate-related performance.

We are engaging with the companies that we feel lag the rest of the portfolio in terms of their stated commitments. However, we have found these companies to be the ones with the lowest emissions and, therefore, lowest exposure to the risks resulting from climate change. We believe the way in which we construct our investible universes and portfolios helps build resilience to the risk climate change poses. Our approach to assessing the long-term sustainability of a company's returns means our research team must identify any risk that may affect its ability to achieve this. Companies with excessively high greenhouse gas emissions will find themselves increasingly exposed to negative consumer sentiment, fines and increasing taxation as society continues to shift towards a low-carbon economy. Hence, we want to see the companies we invest in take the steps necessary to reduce their emissions and protect their returns.

Industry initiatives

One way to counter these market-wide risk is through working with initiatives of like-minded investors to establish standards and increase transparency in areas that are relatively opaque. One such initiative is the UN's Principles for Responsible Investment, of which Fundsmith is a signatory. This UN-supported network of investors works to promote sustainable investment practices through incorporating sustainability factors into the investment process. The initiative encourages investors and, through investor engagement, companies, to think about the longer-term impacts their capital allocation decisions have. We believe this process will lead to more efficient capital markets.

We also engage with our investor base and the wider community on a range of topics, including the dangers of market timing and the benefits of investing with a long-term investment horizon, amongst a variety of other issues that influence the functioning of global markets. Our CEO and CIO contributes to the investment community through various interviews and articles, discussing the misunderstandings and risks that occur within investments and assessing ongoing market events and trends. We hope that by illuminating such issues, we can encourage wider discussion around these risks and more sustainable capital allocation and management.

During volatile periods, falling markets, or the inevitable periods of underperformance, outflows become a risk for open-ended investment funds such as ours. Ensuring we have enough liquidity to be able to return investors' cash when they want it is essential. We have long been aware of this risk and are highly unlikely to ever invest in unlisted companies within our funds. We monitor and publish a liquidity measure for our open-ended funds on our factsheets and have done since 2012. Our funds are typically invested in companies with large market capitalisations that are highly liquid, meaning the risk of not being able to exit investments quickly is low.

Principle 3:

Signatories engage to maintain or enhance the value of assets.

As detailed in our Policy and Context section, our decision to engage with a company is made on a case-by-case basis. We want to be long-term investors in the companies we buy in each of our funds and we use engagement to support this goal. We use targeted engagements to talk to our companies about topics that are relevant to their operations and to deal with matters that we think have the potential to materially influence their long-term performance. We do not engage under a pre-defined set of themes as we do not think this is an efficient use of the resources we have.

This approach, combined with the quality of the companies we invest in, means that we do not expect to use engagement to address a concern at an investee company in every reporting period. The vast majority of our engagements with companies are used as part of our routine monitoring process, used to reassure ourselves that the management teams of our companies remain focused on the long-term and are running the company sustainably.

Our approach to engagement differs slightly between our funds given the varying sizes of the businesses they invest in. As at the end of 2025, the companies in FEF and FSF had a median market capitalisation of £77bn and £64bn respectively, while Smithson had a much smaller average of £7bn. Due to the size of the companies held in FEF and FSF, our access to top-level decision-makers is limited. For example, Microsoft (held in both funds) had a market capitalisation of approximately £2.7tn at the end of 2025. FEF and FSF's combined holdings accounted for less than 0.1% of the company, making it challenging for us to access the company's leadership and exert influence, should we deem it necessary.

However, the size of the Fundsmith Equity Fund's assets (£16bn as of 31/12/2025) makes us significant shareholders in some of the smaller companies the Fund invests in. Waters Corporation, a company owned by FEF since 2015, had a market capitalisation of around £17bn at the end of 2025. At that point, according to Bloomberg data, FEF and FSF's combined shareholdings made us the company's third largest shareholder. This position means we are more likely to be given access to the company's senior management, should we request it.

We engage with companies using a variety of methods. Before the coronavirus pandemic, the dominant method of engaging with investees was to meet them physically; in 2019, 92% of our meetings were held in-person. However, the pandemic has resulted in a significant shift in the way we meet with our companies. During 2020 and 2021, the years most impacted by the pandemic, virtual meetings dominated, at 87% and 85% of all meetings, respectively. In the 'post-pandemic' years, we have been able to meet our companies in-person again, meaning the proportion of our meetings held virtually has fallen. Virtual meetings still represent a significant proportion of our engagements. In 2025, 50% of our company engagements were held virtually.

Fundsmith Engagements summary 2025 & 2024

Fund	Total Number of Engagements		% of Portfolio Engaged	
	2025	2024	2025	2024
FEF	52	43	66%	53%
FSF	77	36	66%	57%
SEF	58	57	60%	46%

Last year, the majority of our engagements were general updates regarding the company's performance, introduction to new executives, discussions over their long-term strategy and capital allocation plans and general risk management. Some examples of our engagements from 2025 are provided below.

Company:	Napco Security Technologies
Sector:	Information Technology
Fund(s):	Smithson
Context:	Tariff impact
Objective:	Napco operates a manufacturing facility in the Dominican Republic where it assembles its finished products before shipping them into the United States. We engaged with the company after the introduction of the US's global tariffs in February to understand how they would impact the company and how it was planning to manage the impact.
Activity:	We met with the company's chief operating officer and president, chief financial officer, and the investor relations team to discuss the tariffs. While the Dominican Republic avoided the higher rates applied countries such as China and Mexico, the country was still subject to the 10% tariff applied to almost all countries, increasing the costs Napco is exposed to when importing its products into the US. Napco introduced an 8.5% tariff surcharge, designed to offset the additional costs imposed by the tariffs and protect the company's margins. Management added that their focus was to manage their own costs, rather than worrying about the response of Napco's competitors. The company were confident that the location of its manufacturing centre was a competitive advantage as it was insulated from higher tariff rates they may otherwise have been subjected to.
Outcome:	Our engagement with Napco reassured us that management was acting effectively to manage the impact of the tariffs on the company's operations. We were also confident that the company were capitalising on the opportunity that it presented to generate growth.

Company:	Waters Corporation
Sector:	Health Care
Fund(s):	FEF, FSF
Context:	Merger
Objective:	Last year, Waters announced it was merging with Becton Dickinson's Biosciences & Diagnostic Solutions business. We engaged with Waters to understand the rationale for the deal and the opportunities it presented to the company.
Activity:	We met with Waters' chief executive officer and chief financial officer after the merger was announced. The transaction delivers two particular businesses, reagents and flow cytometry, that Waters had sought for a while but hadn't been able to access in a single step, alongside a diagnostics franchise that supports Waters' push to extend mass spectrometry into clinical settings. The acquired assets also hold number one positions in flow cytometry and microbiology. Management was particularly positive on the microbiology business, with c.90% recurring revenue underpinned by four-to five-year contracts. Management was confident that they could successfully integrate the new businesses and generate growth and margin improvements over time.
Outcome:	We were impressed with the depth and granularity of Waters' analysis and its focus on the potential cost savings and revenue opportunities. The level of granularity will make it significantly easier for us to track the progress of the merger. The meeting also provided us with important context on the strategic and commercial rationale of the merger. We were satisfied that Waters could turn the underperforming aspects of the business around and that it had acquired a higher-quality business than the market appeared to recognise. We intend to continue monitoring Waters' execution of the merger.

Company:	L'Oreal
Sector:	Consumer Staples
Fund(s):	FEF, FSF
Context:	Board composition
Objective:	Despite being a globally diversified beauty company, L'Oreal's board is comprised of European nationals only. We engaged with the company to understand the reasoning for this and if it presented any risk to the business over the long term.
Activity:	We met with L'Oreal's management team to discuss governance and board structure. The company highlighted the range of experience on its board, the benefits of that experience and how this was appropriate for a global beauty company. They also highlighted that they held board meetings in different parts of the world, including emerging markets, to improve the board's understanding of regions that will become increasingly important to L'Oreal's customer base over the next few decades. We put it to L'Oreal that the entire board was composed of European nationals and that taking someone to Shanghai and staying in a luxury hotel for a meeting is very different from understanding how the Chinese consumer makes beauty purchases on social media, for example.
Outcome:	L'Oreal noted our feedback and passed it back to the board. We will continue engaging on the topic until we are satisfied that company is managing the potential risks the lack of representation presents.

Company:	L'Oreal
Sector:	Consumer Staples
Fund(s):	FEF, FSF
Context:	Executive remuneration
Objective:	We have voted against L'Oreal's CEO remuneration policy consistently and have engaged with management on multiple occasions to discuss remuneration. We engaged with the company to understand its remuneration policy for 2025 and to outline our thoughts on the company's approach to remuneration.
Activity:	We met with members of L'Oreal's Remuneration Committee ahead of the company's 2025 AGM. We voted against its CEO remuneration policy in 2024 as it did not contain a metric for returns as part of its long-term incentive plan (LTIP). We explained our reasoning for voting against the policy to the Committee and detailed our preferred approach to remuneration, namely the use of both growth and returns based metrics in long-term incentive plans. We believe that using both metrics is the most effective way to align management's, in this case the CEO's, incentives with the long-term success of the business. L'Oreal explained the company's approach to remuneration and the reasons it believed its approach was effective. While the company took our feedback on board they ultimately did not agree that a returns-based metric was a necessary component of the LTIP.
Outcome:	While L'Oreal justified its approach to remuneration we did not agree that the company's approach to CEO remuneration was the most effective approach for the company. As such, we voted against the policy at the company's AGM and will continue to engage with management.

Principle 4:

Signatories actively exercise their rights and responsibilities.

As a long-term shareholder and as part owners of our funds, we take our voting rights seriously. It is key for us to vote in a way that supports the long-term, sustainable growth of our investments. We will exercise voting rights in nearly all circumstances; however, in some instances, we may abstain from voting when we consider it appropriate. Our full voting records for 2025 are available [here](#).

Our approach to proxy voting is laid out in our Responsible Investment Policy and our [Proxy Voting Policy](#). Our portfolio managers assess matters subject to a shareholder vote on a case-by-case basis, accounting for the specific context of the company and the topic of the vote in question. All our analysis is completed in-house and set down in writing by the relevant analyst, with the final voting decision made by the portfolio manager.

When we exercise voting rights, we will do so in a manner that is consistent with the best interests of our funds and their investors. We ensure that the exercising of voting rights is consistent with the investment objectives and policies of the relevant fund. When we vote, we always do so with the aim of supporting the long-term sustainable performance of the company and subsequently creating value for our clients and beneficiaries.

Table 3 details our voting activity in 2025 and compares it to 2024. As in 2024, we voted 100% of the proxies available last year. We see voting on every available proxy as our responsibility as stewards of our investors' capital, ensuring that we represent their best interests at every opportunity.

Across our funds, we voted against 7% of the recommendations made by company management teams during the year, a 2-percentage point increase versus 2024. We choose to vote against the recommendations made by company management teams if we believe that their recommendations are not in the best interests of the company's long-term growth.

As shown in Figure 4, the majority of our votes against management related to remuneration. As a firm, we voted against 71% of all remuneration-related proxies in 2024. We categorise a proxy as a remuneration vote if it relates to executive remuneration reports

and policies, say-on-pay and say-on-pay frequency votes, the remuneration of directors, and the approval of employee stock incentive schemes.

The most material of these proxies to the long-term performance of a business are the so-called 'say-on-pay' votes. These are the votes that allow shareholders to approve or reject (although they are typically advisory votes) a company's incentives structure for executives. Ensuring that remuneration is used effectively to align management's interests with the long-term success of the business is important and is an area we monitor closely across all our portfolio businesses. We believe that the best way to do this is to use metrics that incentivise the growth of the business and the sustainability of its underlying returns in the long-term incentive plan (LTIP) component of executives' remuneration.

2025 Summary	No. of shareholder meetings	No. of votable proxies	% Voted		% Against Management	
			2025	2024	2025	2024
FEF	26	464	100%	100%	9%	6%
FSF	25	442	100%	100%	8%	5%
SEF	33	385	100%	100%	3%	3%
Total	84	1291	100%	100%	7%	5%

Table 3: Fundsmith's voting activity 2024 & 2025

In 2025, FEF voted against 89%, FSF against 80%, and SEF against 41% of the say-on-pay votes presented their companies' AGMs. We are seeing an increasing number of remuneration policies that do not do enough to align management's incentives with the long-term success of the business. A growing majority of the executive remuneration policies presented at AGMs use metrics that we feel management teams have too much control over and can manipulate, such as earnings per share (EPS), or little to no control over, such as total shareholder return (TSR). Further, some companies then 'adjust' EPS, or use 'relative' TSR. These are metrics which have no benefit to a business's long-term, sustainable growth.

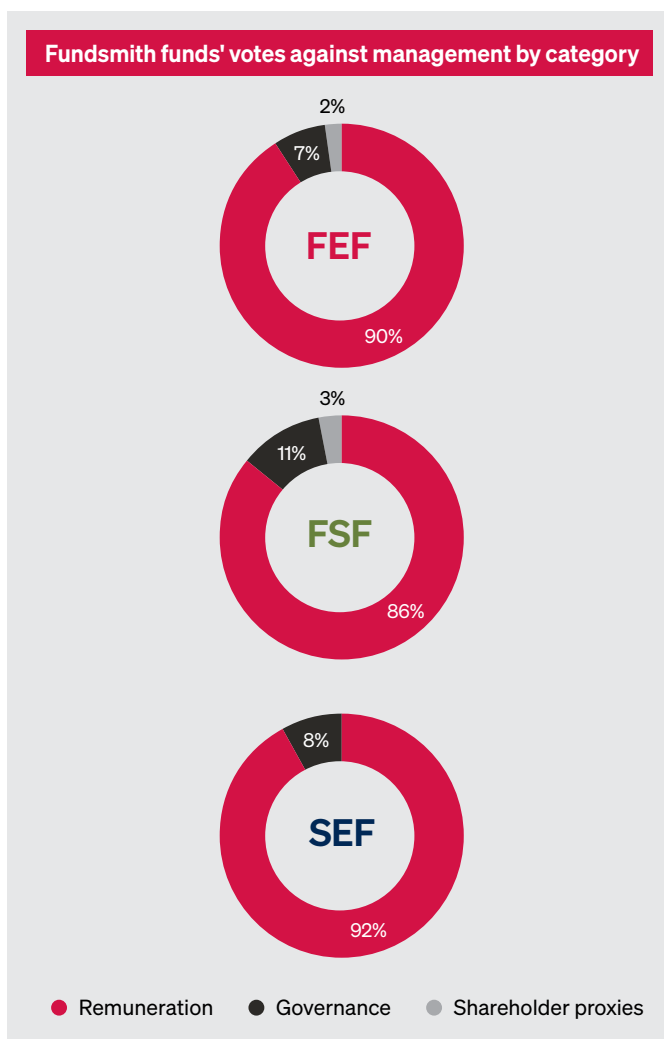


Figure 4: Fundsmith's votes against management 2025

Significant Votes

We define significance in various ways. A vote may be significant due to the size of our holding in the company or the weighting of the company in our portfolio. It may be significant if we feel that the vote can bring about substantial, positive change in the company or that failing to vote could result in large, negative impacts on ourselves and our clients. A vote can also be significant if it varies from our typical approach to voting on a particular issue or results from previous engagement with the investee company regarding the issue.

Given the proportion of executive remuneration policies FEF and FSF voted against in 2025, any vote in favour of a policy is deemed significant. Between the two funds, we voted in favour of five say-on-pay proxies during the reporting period. That is not to say that any of these approaches were perfect, but we aim to support the companies that are heading in the right direction and where we think engagement can promote continued development of their approach to executive remuneration.

We supported say-on-pay votes for Atlas Copco, IDEXX, Greggs, Home Depot, and Unilever as each company included a returns-based metric (or similar) within their executive compensation plans. Greggs, Home Depot, and Unilever all use returns-based metrics in the long-term incentive component of their policies which we supported. However, Greggs also uses EPS growth and Unilever relative TSR and as such we will continue to engage with these companies to understand this approach and move towards the use of a growth-based metric to support returns. We voted in favour of IDEXX and Atlas Copco's executive remuneration despite the fact neither use growth or returns metrics in their long-term incentives. Atlas Copco do not have a long-term component in its remuneration plans. However, the company does use economic value added (a returns metric) in its bonus plan, which we approve of. Similarly, IDEXX uses a returns-based metric in its bonus plan and uses growth metrics in its LTIP.

Principle 5:

Signatories integrate stewardship considerations into their selection and oversight of external managers.

We does not use external managers. All our portfolio management and stewardship activities are conducted in-house and 100% of our assets under management are managed internally. As Principle 5 addresses the integration of stewardship considerations into the selection, appointment and ongoing oversight of external managers, it has no application to our organisation during the reporting period.

Principle 6:**Signatories monitor and hold to account stewardship service providers.**

We use very few service providers to assist our stewardship related activities. For example, we do not use any proxy voting advisory services, all our voting decisions are made internally and independently. We use internal analysis of the vote topic and company in question to inform our decision. Service providers are only used when we feel they are necessary and offer a material improvement to the outcome of the stewardship activity than we could produce internally.

We use various quantitative and qualitative data to assess potential and monitor existing investments. Our Research team does all our analysis in-house using data collected directly from company websites, publications, and via Bloomberg. Data for prospective investee companies is collected from company websites through their publications of annual reports and other public documentation. We meet management, attend conferences, and read industry publications to help build the profiles of the companies and industries in all our respective investment universes. We also collate data on environmental emissions, diversity, corporate governance, and innovation from data that companies provide themselves or through initiatives such as the CDP and SBTi. It is important to note that we don't rely on any single service provider for any part of our investment process. Data from each provider is used as part of our assessment of a company's investment proposition and is never relied on exclusively.

We check the quality and accuracy of the data by cross-referencing it against other freely available sources. For example, we reconcile company-reported greenhouse gas emissions against those provided by the CDP, which are calculated and reported separately. We also use our relationships with investment banks for access to company management teams and for information on companies that can sometimes be more difficult to access, particularly within Smithson's market capitalisation range. However, we place little value on any recommendations, opinions or advice that research by these institutions provides.

We don't use dedicated resources for sustainability-related data or the 'sustainability ratings' provided by some institutions for our analysis. We have doubts about the methodologies used and the consistency of ratings given across different providers. Our main aim when analysing a company, as mentioned throughout this report, is to assess its ability to sustain a high return on capital employed across the business cycle and its capacity to invest more capital at these high rates of return. Evaluating their ability to do this relies on an understanding of the company's net impact on the world, which is assessed through the variety of metrics we collect and analyse. Integrating the subjective assessments these sustainability ratings offer contributes nothing to our understanding of a company's ability to do this.

To help us assess these net impacts, we use a net impact assessment provided by The Upright Project. We think this acts as a strong proxy for negative impacts on the world and is better suited to our approach compared to the sustainability ratings we looked at. Upright's net impact assessment uses a combination of scientific studies and proprietary modelling to calculate the positive and negative impacts of over 150,000 products and services across four dimensions: society, knowledge, health, and environment. Upright then aggregates the positive and negative impacts of all the products/services sold by a company, proportional to revenue, to calculate the net impact of that business. We have regular contact with Upright to check the data we are receiving, help improve their systems and provide feedback on any issues we have had. However, if any specific issues emerge between these meetings, we have a designated customer service representative we can engage with to address them. During 2025, we had no issues with our service providers, with our needs being met throughout the year.

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