# Fundsmith Sustainable Equity Fund

## Short Form Report

**For the year ended 31 December 2020**

Fundsmith

# Profile of the Fund

## Investment objective and policy

The aim of Fundsmith Sustainable Equity Fund ("the Fund") is to achieve long term growth in value.

The Fund will invest in equities on a global basis. The Fund's approach is to be a long-term investor in its chosen stocks. It will not adopt short-term trading strategies.

The Fund has stringent investment criteria which the Authorised Corporate Director (ACD) and any appointed investment manager adhere to in selecting securities for the Fund's investment portfolio. These criteria aim to ensure that the Fund invests in businesses which in the opinion of the ACD and Investment Manager are those:

- that can sustain a high return on operating capital employed;
- whose advantages are difficult to replicate;
- which do not require significant leverage to generate returns;
- with a high degree of certainty of growth from reinvestment of their cash flows at high rates of return;
- that are resilient to change, particularly technological innovation; and
- whose valuation is considered by the Fund to be attractive.

The Fund will not invest in businesses which have substantial interests in any of the following sectors:

- aerospace and defence;
- brewers, distillers and vintners;
- casinos and gaming;
- gas and electric utilities;
- metals and mining;
- oil, gas and consumable fuels;
- pornography; and
- tobacco.

In addition, the ACD and the Investment Manager apply further criteria to screen investments in accordance with the ACD's sustainable investment policy.

## Risk profile

The Fund has no exposure to derivatives and no borrowings. Further, the investments are all in large publicly quoted companies where there is significant liquidity in the stock. The principal risk factor is the market price of the securities held by the Fund which is kept under review in the light of the Fund's objectives.

Currency risk: The Fund's portfolio is a global share portfolio and many of the investments are not denominated in Sterling. There is no currency hedging in place and the price may therefore rise or fall purely on account of exchange rate movements.

Concentration risk: The investment criteria adopted by the Fund significantly limits the number of potential investments. The Fund generally holds 20 to 30 stocks and so it is more concentrated than many other funds. This means that the performance of a single stock within the portfolio has a greater effect on the price of the shares of the Fund.

Operational risk: Failures or delays in operational processes may negatively affect the Fund. There is a risk that any company responsible for the safekeeping of the assets of the fund may fail to do so properly or may become insolvent, which could cause loss to the Fund.

## Risk warning

Any stock market investment involves risk. These risk factors are contained in the full Prospectus. Investors should be aware that the price of shares and the income from them can fall as well as rise and investors may not receive back the full amount invested. Past performance is not a guide to future performance.

### Risk and reward profile

Lower risk
Typically lower rewards

Higher risk
Typically higher rewards

| | | | | | | |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |

The risk category reflects the significance of the Fund's share price fluctuations based on historical data. Historical data may not be a reliable indication of the future risk profile of the fund. The risk category of the Fund is not guaranteed and may change over time. Further, the lowest category of risk does not mean risk free.

Generally, the higher the risk category, the greater the potential for higher returns but also the higher the risk of losing money. The Fund is in Category 5 reflecting the risks inherent in the Fund's investment portfolio, including that of capital losses. The underlying investments are, however, in large companies with shares that are highly liquid.

There are a number of other risks that are not covered by the indicator above. A full description is contained in the prospectus under the heading "Risk Factors". The most material are currency risk and concentration risk which are explained above.

# Performance Record

### As at 31 December 2020

| Change in net assets per share | Share Class T – Accumulation 31.12.20** (p) | Share Class T – Income 31.12.20** (p) |
|---|---|---|
| Opening net asset value per share | 100.00 | 100.00 |
| Return before operating charges | 24.18 | 24.09 |
| Operating charges | (1.02) | (0.99) |
| Return after operating charges | 23.16 | 23.10 |
| Distributions | (0.15) | (0.13) |
| Retained distributions on accumulation shares | 0.15 | |
| Closing net asset value per share | 123.16 | 122.97 |
| After direct transaction costs of: | 0.05 | 0.05 |
| **Performance** | | |
| Return after operating charges | 23.16% | 23.10% |
| **Other information** | **£** | **£** |
| Closing net asset value | 13,226,907 | 456,989 |
| Closing number of shares | 10,739,982 | 371,626 |
| Ongoing charge figure* | 1.07% | 1.07% |
| Direct transaction costs | 0.04% | 0.04% |
| **Prices** | **(p)** | **(p)** |
| Highest share price | 124.66 | 124.49 |
| Lowest share price | 88.84 | 88.84 |

# Performance Record (continued)

### As at 31 December 2020

| Change in net assets per share | Share Class I – Accumulation Net 31.12.20 (p) | 31.12.19 (p) | 31.12.18*** (p) | Share Class I – Income Net 31.12.20 (p) | 31.12.19 (p) | 31.12.18*** (p) |
|---|---|---|---|---|---|---|
| Opening net asset value per share | 130.01 | 105.93 | 100.00 | 128.75 | 105.34 | 100.00 |
| Return before operating charges | 25.48 | 25.39 | 7.23 | 25.29 | 25.25 | 7.24 |
| Operating charges | (1.35) | (1.31) | (1.30) | (1.33) | (1.30) | (1.30) |
| Return after operating charges | 24.13 | 24.08 | 5.93 | 23.96 | 23.95 | 5.94 |
| Distributions | (0.63) | (0.54) | (0.54) | (0.74) | (0.54) | (0.60) |
| Retained distributions on accumulation shares | 0.63 | 0.54 | 0.54 | – | – | – |
| Closing net asset value per share | 154.14 | 130.01 | 105.93 | 151.97 | 128.75 | 105.34 |
| After direct transaction costs of: | 0.06 | 0.05 | 0.17 | 0.06 | 0.05 | 0.17 |
| **Performance** | | | | | | |
| Return after operating charges | 18.56% | 22.73% | 5.93% | 18.61% | 22.73% | 5.94% |
| **Other information** | £ | £ | £ | £ | £ | £ |
| Closing net asset value | 222,608,282 | 143,208,987 | 67,029,889 | 195,271,253 | 172,847,707 | 117,081,258 |
| Closing number of shares | 144,414,955 | 110,155,339 | 63,277,160 | 128,492,036 | 134,255,642 | 111,142,170 |
| Ongoing charge figure* | 0.97% | 1.05% | 1.05% | 0.97% | 1.05% | 1.05% |
| Direct transaction costs | 0.04% | 0.04% | 0.14% | 0.04% | 0.04% | 0.14% |
| **Prices** | (p) | (p) | (p) | (p) | (p) | (p) |
| Highest share price | 156.03 | 136.52 | 115.65 | 153.92 | 135.26 | 115.16 |
| Lowest share price | 111.05 | 103.83 | 94.30 | 109.97 | 103.25 | 94.31 |

The Fund launched on 1 November 2017.

*The Ongoing Charge Figure (OCF) is the ratio of the Fund's total disclosable costs (excluding overdraft interest) to the average net assets of the Fund.

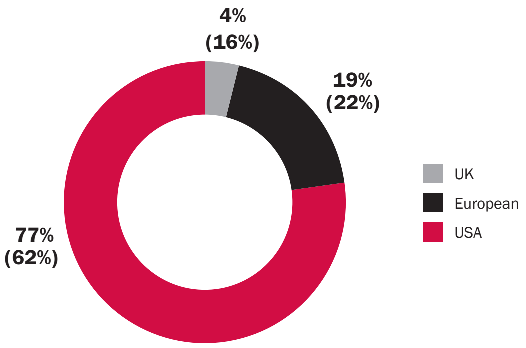
The prices in the above table are different from the published dealing prices that were available for investors on the 31 December. This is to comply with accounting rules that require us to publish the net asset value in this report based on close of day prices. The dealing prices were used in the investment manager's review and the factsheet as the fund could only be bought or sold at those prices.

**From inception 2 March 2020 to 31 December 2020.

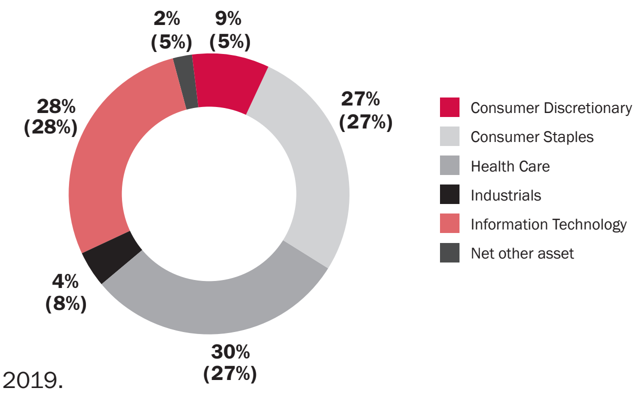
***From inception 1 November 2017 to 31 December 2018.

# Information on the fund

**Breakdown by geography* as at 31 December 2020**




**Breakdown by sector as at 31 December 2020**




The figures in brackets show comparative figures at 31 December 2019.

* Breakdown by geography is by country listing and not reflective of breakdown by operations.

## Summary of significant changes

| For the year 1 January 2020 to 31 December 2020 | | For the year 1 January 2019 to 31 December 2019 | |
|---|---|---|---|
| **Largest purchases** | **Cost (£)** | **Largest purchases** | **Cost (£)** |
| Church & Dwight | 15,960,091 | Church & Dwight | 11,915,181 |
| Starbucks | 14,949,506 | Clorox | 11,862,972 |
| Automatic Data Processing | 11,729,877 | Amadeus IT | 6,034,836 |
| Zoetis | 11,223,134 | Reckitt Benckiser | 5,900,275 |
| Waters | 10,997,305 | Johnson & Johnson | 4,970,720 |
| **Total** | **64,859,913** | **Total** | **40,683,984** |
| **Total purchases for the year** | **151,407,395** | **Total purchases for the year** | **98,254,835** |
| **Largest sales** | **Proceeds (£)** | **Largest sales** | **Proceeds (£)** |
| Clorox | 16,420,115 | Church & Dwight | 9,846,105 |
| Reckitt Benckiser | 14,344,282 | 3M | 6,966,288 |
| Sage | 10,245,545 | Colgate-Palmolive | 2,446,726 |
| Intertek | 10,035,056 | – | – |
| Waters | 4,650,373 | – | – |
| **Total** | **55,695,371** | **Total** | **19,259,119** |
| **Total sales for the year** | **86,615,372** | **Total sales for the year** | **19,259,119** |

# Investment Manager's review

This report reproduces in part, as you will be used to by now, the Annual letter that was sent out in mid-January. The full version of the Annual letter is available on our website.

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

| | Total Return 1.1.20 to 31.12.20 % | Inception to 31.12.20 Cumulative % | Inception to 31.12.20 Annualised % | Sharpe ratio[5] % | Sortino ratio[5] % |
|---|---|---|---|---|---|
| **Fundsmith Sustainable Equity Fund[1]** | +18.0 | +53.3 | +14.4 | 0.92 | 0.78 |
| Equities[2] | +12.3 | +35.9 | +10.2 | 0.53 | 0.49 |
| UK Bonds[3] | +4.6 | +11.0 | +3.4 | n/a | n/a |
| Cash[4] | +0.3 | +1.9 | +0.6 | n/a | n/a |

[1] *I Class Acc shares, net of fees, priced at noon UK time, source: Fundsmith LLP*
[2] *MSCI World Index, £ net, priced at US market close, source: Bloomberg*
[3] *Bloomberg/Barclays Bond Indices UK Gov. 5–10 yr., source: Bloomberg*
[4] *3 Month £ LIBOR Interest Rate, source: Bloomberg*
[5] *Sharpe & Sortino ratios are since inception on 1.11.17 to 31.12.20, source: Financial Express Analytics*

The table shows the performance of the I Class Accumulation shares which rose by +18.0% in 2020 and compares with a rise of +12.3% for the MSCI World Index with dividends reinvested.

However, I realise that many or indeed most of our investors do not use these as the natural comparator for their investments. Those of you who are based in the UK may look to the FTSE 100 Index ('FTSE 100') as the yardstick for measuring your investments and may hold funds which are benchmarked to this index and often hug it. The FTSE 100 delivered a total return of -11.5% in 2020 so our Fund outperformed this by a margin of 29.5 percentage points.

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

| | |
|---|---|
| PayPal | +4.5% |
| IDEXX | +3.2% |
| Microsoft | +2.4% |
| Starbucks | +1.8% |
| Intuit | +1.8% |

Microsoft and Intuit are making their third consecutive appearance whilst IDEXX is putting in an appearance for the second time. Someone once said that no one ever got poor by taking profits. This may be true but I doubt they got very rich by this approach either. Starbucks, which we discuss below, was purchased after sharp falls in March.

The bottom five were:

| | |
|---|---|
| Marriott International | -1.0% |
| Sage | -0.9% |
| Amadeus | -0.8% |
| Intertek | -0.4% |
| Becton Dickinson | -0.3% |

We hardly need to discuss the reasons for the poor performance of Amadeus and Marriott International. Airline and travel reservations and hotel management have not been happy places to be in the past year, although it is worth noting nowhere near as bad as investing in actual airlines or hotels. In both cases whilst they face a difficult situation, we are pleased that management has spent its time and effort managing liquidity and costs in an effort to ensure that they survive these events rather than pointlessly speculating about the likely timescale and course of recovery. In both cases we believe that they should not only survive but also strengthen their competitive position.

We sold our stakes in Clorox and Reckitt Benckiser and one as yet undisclosed position and purchased stakes in Starbucks, Colgate, Zoetis, Procter & Gamble and an as yet undisclosed position. Clorox

# Investment Manager's review (continued)

and Reckitt Benckiser traded strongly due to the rush to purchase increased quantities of household cleaning products, personal cleaning products and OTC medicines. We felt that in both cases the ratings achieved did not reflect the pedestrian nature of these businesses in more normal circumstances or the issues they face which may come back into focus if or when the COVID related boost fades. Moreover, at the same time as these two stocks were enjoying an unusually good performance, Starbucks, which we admire, saw share price falls of over 40% at the height of the panic over COVID. They are probably familiar to you as the world's leading coffee shop brand. Starbucks has high returns on capital and a good growth rate — two characteristics which we seek.

After the COVID lockdowns we also purchased a stake in Colgate-Palmolive, Procter & Gamble and Zoetis. Colgate-Palmolive is the leader in oral care and liquid soap and has a speciality pet food business (Hills Scientific). Procter & Gamble is the world's largest Fast Moving Consumer Goods ('FMCG') business with leading positons in laundry and cleaning products, baby and feminine care, beauty and grooming. Zoetis is the leading animal drug company which is also developing a business in diagnostic testing.

We continue to apply a simple three step investment strategy:

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

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

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

| | Fundsmith Sustainable Equity Fund Portfolio | | | | S&P 500 | FTSE 100 |
|---|---|---|---|---|---|---|
| **Year ended** | **2017** | **2018** | **2019** | **2020** | **2020** | **2020** |
| ROCE | 28% | 29% | 29% | 23% | 11% | 10% |
| Gross margin | 63% | 65% | 65% | 61% | 44% | 39% |
| Operating margin | 26% | 28% | 26% | 21% | 12% | 9% |
| Cash conversion | 102% | 95% | 99% | 102% | 94% | 95% |
| Interest cover | 17x | 17x | 17x | 16x | 6x | 6x |

*Source: Fundsmith LLP/Bloomberg.*

*ROCE, Gross Margin, Operating Profit Margin and Cash Conversion are the weighted mean of the underlying companies invested in by the Fundsmith Sustainable Equity Fund and mean for the FTSE 100 and S&P 500 Indices. The FTSE 100 and S&P 500 numbers exclude financial stocks. The Interest Cover number is median. 2017-2019 ratios are based on last reported fiscal year accounts as at 31st December and for 2020 are Trailing Twelve Months and as defined by Bloomberg. Cash Conversion compares Free Cash Flow per Share with Net Income per Share. Percentage change is not calculated if the TTM period contains a net loss.*

Returns on capital and profit margins were lower in the portfolio companies in 2020. This is hardly surprising in light of events in the economy, but the scale of the falls were hardly disastrous. When people have said to us, 'You invest in non-cyclical businesses' I always reply that I have never found one. It is the degree of cyclicality in our portfolio which we seek to control through our stock selection. As a group our stocks still have excellent returns, profit margins and cash generation even in poor economic conditions. As you can see the same cannot be said for the major indices even though they have the benefit of including our good companies.

The average year of foundation of our portfolio companies at the year-end was 1926. They are just under a century old collectively.

Consistently high returns on capital are one sign we look for when seeking companies to invest in. Another is a source of growth — high returns are not much use if the business is not able to grow and deploy more capital at these high rates. So how did our companies fare in that respect in 2020? The weighted average free cash flow (the cash the companies generate after paying for everything except the dividend, and our preferred measure) grew by 9% in 2020.

# Investment Manager's review (continued)

The second leg of our strategy is to employ both negative Environmental, Social and Governance ('ESG') screening (not investing in high ESG risk sectors such as aerospace and defence, brewers, distillers and vintners, casinos and gaming, gas and electric utilities, metals and mining, oil, gas and consumable fuels, pornography and tobacco) and screening for sustainability in the widest sense, taking account of not only the companies' ESG policies and practices but also their policies and practices on research and development, new product innovation, dividend payments and the adequacy and productivity of capital investment.

One of the key metrics we use to assess ESG risk is RepRisk data which provides a measure of the current reputational risk for each company based on ESG factors and current "hot topics". At the end of December 2020, the weighted average RepRisk indicator for our portfolio was 25.8, higher than it was at the start of the year but still well below the S&P 500 index score of 29.1.

At the end of 2020, the four companies with the highest RepRisk Indicator scores were:

| | |
|---|---|
| Microsoft | (54) |
| Johnson & Johnson | (53) |
| Unilever | (49) |
| Visa | (49) |

Microsoft's and Johnson & Johnson have switched positions in this year's ranking despite the RepRisk Indicator of both falling from 57 to 54 and from 58 to 53 respectively. Unilever has kept its position at third, although its score has increased from 46 to 49. Visa, replacing Marriott, is a new and somewhat questionable entrant into the list. It's RepRisk increased by 15 in December after news it was suspending the use of its cards on Mindgeek's site Pornhub, amid allegations of rape scenes, child abuse and private videos being shown on the website without participants' consent. This is something that we would consider a positive impact, which reduces the investment risk of Visa.

At the end of 2020, the four companies with the lowest RepRisk Indicator scores were:

| | |
|---|---|
| Kone | (0) |
| IDEXX | (0) |
| Waters | (1) |
| Undisclosed Position | (4) |

Kone and IDEXX (which also appeared last year) are an elevator & escalator business and animal diagnostic testing business respectively, and therefore have unsurprisingly low scores. Waters makes liquid chromatography and mass spectronomy and other equipment used for testing by the food and drug industry.

Those of you who read the fund's monthly ESG factsheet will have noted that we report environmental statistics per million pounds of FCF for the portfolio and S&P 500. For non-reporting companies we estimate their environmental statistics by applying the average statistics for the company's respective subsector in proportion to their total assets.

Over the past few months, we have been refining our estimation model to make it more accurate and expanding it so that it can produce comparable numbers for the MSCI World Index, which contains significantly more companies than the S&P 500. This has meant that for a few statistics which most companies produce – how much waste and greenhouse gases they produce and how much water and energy they use – we can compare the negative impact on the environment of FSEF to an easily investable index.

These weighted average statistics are shown in the table below:

| Metric | Unit | FSEF | MSCI World | Equivalent no. of UK households |
|---|---|---|---|---|
| Total waste produced | Thousand metric tonnes | 197 | 8,628 | 188k |
| Hazardous waste produced | Thousand metric tonnes | 14.3 | 609 | n/a |
| Water withdrawn | Millions meters cubed | 61 | 420 | 110k |
| Energy use | Thousand megawatt hours | 3,036 | 26,352 | 804k |
| Greenhouse gas emissions | Thousand metric tonnes | 886 | 5,876 | 43k |

*Weighted average is weight of a company in fund multiplied by environmental stat of a company.*

# Investment Manager's review (continued)

As you can see from the table above, owning units in FSEF has a significantly lower impact on the environment than owning the MSCI World. As the numbers by themselves can be fairly hard to imagine in real terms, I've converted the FSEF numbers into the number of average UK households it would take to emit this amount over a year, which is also shown in the table above.

Social impacts, however, are much more difficult to measure quantitatively because they are far more dependent on an individual company and what it is capable of doing, in either a positive or negative way, and can rarely be quantified. It is so dependent on the context of individual companies that it is almost impossible to compare them against one another. This is one of the reasons why the majority of reported social statistics focus on diversity statistics, as they can easily be measured and tracked over time. However, this ignores a loof the nuance and detail of the good and bad impact companies have, which we will try to demonstrate through some of the positive impacts FSEF companies have had on society in response to the COVID-19 pandemic.

Initially as the pandemic began, the companies in FSEF were quick to preserve cash by delaying dividends, cutting non-essential expenses and arranging additional debt facilities from banks. They were also quick to make their offices and factories safe for workers, while supporting those who were now working from home.

Post the initial outbreak, numerous companies in FSEF contributed positively in the fight against COVID-19 in more ways that just donating money and equipment, although many also did that. There were numerous initiatives to support FSEF company employees, local communities and businesses. Other FSEF companies had the expertise and resources to directly help the fight with innovation or R&D.

Overall, FSEF portfolio companies donated over $150m to support their local communities and employees through these difficult times. FSEF companies also provided support for local businesses, both big and small, which were affected by the crisis. Overall, FSEF portfolio companies offered over $900m in grants to small businesses. Some FSEF companies had the expertise and resources to directly support the fight against the COVID-19 pandemic.

At Fundsmith, we find the idea that one could reduce the wide variety of positive impacts made by FSEF portfolio companies in response to the pandemic to a single rating number fallacious. It overly simplifies something to the point that its meaning is lost. There is no way for anyone to quantify how much "better" it is for society for Johnson & Johnson to actually be producing a COVID vaccine compared to PayPal helping small businesses reopen faster.

This is why we report the good and the bad which FSEF portfolio companies do each month in the commentary on our FSEF ESG factsheet so that you and we can assess particular instances. Over time we find that these tend to give us a clear picture of a company's stance on sustainability, but it is one based upon informed judgment rather than box ticking or spurious precision.

We also, rather than relying on external rating providers, perform our own analysis of both the positive and negative impacts our portfolio companies have in the widest possible sense, accepting that in many cases the impact isn't going to be tangible. In contrast, the majority of the asset management industry rely on external rating providers to simplify their assessment of what they can and can't invest in. However, in doing so, a lot of the actual net impact companies have is lost.

Further issues that arise from this need for simplified ratings is that it forces asset managers to look for things they can measure accurately (board and employee diversity) or whether a company has a policy towards social issues such as animal testing, human rights or modern slavery. These are, of course, good things to have and are signs of good transparent corporate governance, but just because a company has a policy toward something doesn't mean they actually behave in that way, and conversely, if they don't have a policy, it doesn't mean that they don't behave in a way that we would approve of. A policy does not equate to action, and reducing a company's net impacts on society down to a single metric overly simplifies the issue and too many of the good impacts that companies have are ignored or lost in the process.

This leads onto the question of valuation. The weighted average free cash flow ('FCF') yield (the free cash flow generated by the companies divided by their market value) of the portfolio at the outset of the year was 3.3% and ended it at 2.9%, so they became more highly rated. Whilst this is a good thing from the viewpoint

# Investment Manager's review (continued)

of the performance of their shares and the Fund, it makes us nervous as changes in valuation are finite and reversible, although it is hard to see the most likely source of such a reversal — a rise in interest rates — in the near future.

The year-end median FCF yield on the S&P 500 was 3.7%. The year-end median FCF yield on the FTSE 100 was 4.2%. More of our stocks are in the former index than the latter and I will not repeat the explanation which I gave in my 2017 annual letter on why I think the FTSE 100 is not an appropriate benchmark or investment proxy for our investors to use. Moreover, the valuation disparity with the FTSE 100 has been widened by the portfolio's 30% outperformance of the FTSE 100 during the year. It's hard to outperform by such a wide margin without becoming relatively more highly valued unless the portfolio's cash flows have grown at a similar differential rate. What the market seems to be rewarding is consistency of performance which has been emphasised by economic conditions in 2020.

Our portfolio consists of companies that are fundamentally a lot better than the average of those in either index and are valued much more highly than the average FTSE 100 company and higher than the average S&P 500 company. It is wise to bear in mind that despite the rather sloppy shorthand used by many commentators, highly rated does not equate to expensive any more than lowly rated equates to cheap.

Turning to the third leg of our strategy, which we succinctly describe as 'Do nothing', minimising portfolio turnover remains one of our objectives and this was again achieved with negative portfolio turnover of -2.6% during the period. It is perhaps more helpful to know that we spent a total of just 0.038% (3.8 basis points) of the Fund's average value over the year on voluntary dealing (which excludes dealing costs associated with fund subscriptions and redemptions as these are involuntary). We have held 17 of our portfolio companies since inception in 2017.

Why is this important? It helps to minimise costs and minimising the costs of investment is a vital contribution to achieving a satisfactory outcome as an investor. Too often investors, commentators and advisers focus on, or in some cases obsess about, the Annual Management Charge ('AMC') or the Ongoing Charges Figure ('OCF'), which includes some costs over and above the AMC, which are charged to the Fund. The OCF for 2020 for the I Class Accumulation shares was 0.97%. The trouble is that the OCF does not include an important element of costs — the costs of dealing. When a fund manager deals by buying or selling, the fund typically incurs the cost of commission paid to a broker, the bid-offer spread on the stocks dealt in and, in some cases, transaction taxes such as stamp duty in the UK. This can add significantly to the costs of a fund, yet it is not included in the OCF.

We provide our own version of this total cost including dealing costs, which we have termed the Total Cost of Investment ('TCI'). For the T Class Accumulation shares in 2020 this amounted to a TCI of 1.11%, including all costs of dealing for flows into and out of the Fund, not just our voluntary dealing. We are pleased that our TCI is just 0.04% (4 basis points) above our OCF when transaction costs are taken into account. However, we would again caution against becoming obsessed with charges to such an extent that you lose focus on the performance of funds. It is worth pointing out that the performance of our Fund tabled at the beginning of this letter is after charging all fees which should surely be the main focus.

It is impossible for me to report on 2020 without mentioning COVID. I hope you agree that our portfolio performed well, both in terms of the share price performance and the fundamental performance of the companies, which is just as important.

It is also important to note that our operations were not impaired by the lockdowns and travel restrictions. Whilst the performance of the fund is important, it is also important that if you wish to contact us you can and are dealt with promptly and efficiently. You should be able to get any information you reasonably require which should be accurate and up to date. Perhaps most importantly, if you wish to deal — including redeeming your investment ¬— we can execute for you. All of these vital functions continued seamlessly throughout the depths of the lockdowns. We have long been managing the dealing, operations, portfolio management and research across a number of widespread geographies, much to the amazement of some people who felt this could only be accomplished in a few London postcodes. So the need to Work From Home and an inability to travel were not major obstacles for us.

# Investment Manager's review (continued)

Imagine if you had been told this time last year that there would be a pandemic and that the measures taken to contain it would so affect the world economy that US GDP would fall by 9% in the second quarter of the year and the hospitality and travel sectors would be devastated by the measures as would large segments of traditional retail activity. Considering this would you have predicted that the MSCI World Index would deliver a return of 12.3%, slightly above its ten year average? Hopefully this illustrates the dangers of forecasting and market timing even when you know what major events will occur.

I will leave you with this thought: What are the similarities between a forecaster and a one-eyed javelin thrower? Answer: Neither is likely to be very accurate but they are typically good at keeping the attention of the audience.

Finally, may I wish you a happy New Year, a COVID free 2021 and thank you for your continued support for our Fund.

Yours sincerely,

Terry Smith
CEO
**Fundsmith LLP**
1 March 2021

# Remuneration disclosure

We are required to make this remuneration disclosure to the Funds' investors in accordance with the Undertakings for Collective Investment in Transferable Securities (UCITS) Directive as amended by Directive 2014/91/EU (UCITS V Directive).

During the year ending 31 March 2020, Fundsmith LLP ('Fundsmith') had 27 members of personnel in total, including employees and Partners. The total amount of remuneration paid to Fundsmith personnel during this period was £58,468,366. Out of this figure, the total amount of remuneration paid to the Partners of Fundsmith LLP was £48,483,057 whilst the total amount of remuneration paid to the employees of Fundsmith LLP was £9,985,309.

Of the £9,985,309 paid to Fundsmith employees, £7,315,835 was variable remuneration and £2,669,474 was fixed remuneration.

The partners of Fundsmith LLP are not paid a bonus. All of their remuneration is fixed as it is based on a fixed proportion of Fundsmith LLP's net profits.

Overall, therefore, of the £58,468,366 of total remuneration, £51,152,531 was fixed remuneration and £7,315,835 was variable remuneration.

The financial year of Fundsmith Equity Fund (FEF) runs from1 January to 31 December, whereas the financial year of Fundsmith LLP runs from 1 April to 31 March. The above figures are taken from the financial report and accounts of Fundsmith LLP for the period 1 April 2019 to 31 March 2020. These figures have been independently audited and filed with Companies House.

The rules require us to disclose both the amount of remuneration paid in total, and the amount paid to "Identified Staff" (broadly, senior management and/or risk takers). Fundsmith's only Identified Staff are the Partners. The Partners all fall within the category of "senior management"; two of the Partners also fall within the category of risk-takers and also one in the category of control staff. To avoid duplication all Partners' remuneration is disclosed within the category of senior management. The total remuneration therefore paid to senior management is £48,483,057.

The information above relates to Fundsmith LLP as a whole, and we have not broken it down by reference to FEF or the other funds that we manage. Nor have we shown the proportion of remuneration which relates to the income we earn from our management of FEF. We have not provided such a breakdown because this does not reflect the way we work or the way we are organised at Fundsmith. All of the Partners and most of our employees are involved in the management of FEF. We have not included information relating to remuneration paid by Fundsmith Investment Services Limited, to whom Fundsmith LLP delegates certain portfolio management activities.

Remuneration at Fundsmith LLP is deliberately straightforward. Our employees are paid a competitive salary. At the end of each financial year, our employees' performance is reviewed by the Partners in order to determine whether or not a bonus should be paid. All bonus decisions are agreed unanimously by the Partners.

The Partners are each paid a fixed proportion of Fundsmith LLP's net profits. We consider that this is the best way to ensure that our Partners' interests are completely aligned with our investors' interests over the long term. This alignment of interest is reinforced by the fact that Fundsmith Partners have invested a significant amount in FEF.

The Management Committee of Fundsmith LLP has reviewed the Remuneration Policy and considers that it meets all regulatory requirements and is satisfied that no irregularities occurred during the period.

Any investor who would like more information on how we adhere to the Principles of the Remuneration Code may request a summary of our Remuneration Policy.

# Further information

## Reports and accounts

Each year, we will publish on our website (www.fundsmith.co.uk) annual and semi-annual reports discussing investment activity during the period and providing management commentary.

## UCITS IV

The Fund is an Undertaking for Collective Investment in Transferable Securities ("UCITS IV") for the purpose of the Council Directives 2001/107/EC ("the Management Directive") and 2001/108/EC ("the Product Directive").

## Prospectus

The Fund Prospectus, an important document describing Fundsmith Sustainable Equity Fund Fund in detail, is available from the ACD, which is responsible for the management and administration of the Funds.

Also available are the Key Investor Information Document (KIID) and the Supplementary Information Documents (SID).

The ACD for Fundsmith Sustainable Equity Fund is Fundsmith LLP located at 33 Cavendish Square, London W1G 0PW.

All documents are available on the website.

## Minimum investment

The company has two different types of share classes:

I shares and T shares.

The I share class has been used as the representative share class.

There are two types of share available in each class - Income shares or Accumulation shares.

The following table summarises the investment levels for I shares.

| | |
|---|---|
| **Minimum lump sum investment level** | **£1,000** |
| **Minimum regular sum investment level** | **£100** |
| **Minimum top-up investment amount** | **£250** |
| **Minimum holding level** | **£1,000** |

## Publication of prices

The prices of Shares are published daily on the ACD's website at www.fundsmith.green. Shareholders can also obtain the current price of their Shares by calling the ACD on 0330 123 1815.

## Dealing Charges

There are no dealing charges on the purchase, sale or switching of shares.

## Dilution Adjustment

The ACD may impose a dilution adjustment to the share price. The dilution adjustment aims to mitigate the costs to the Company of making investments (when additional cash is available following new investment into the Company) or selling investments in order to meet redemption requests.

Further information regarding the circumstances in which a dilution adjustment may be applied is set out in the full Prospectus.

Fundsmith

# Contact details

## Dealing and enquiries

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**PO Box 10846**
**Chelmsford**
**Essex**
**CM99 2BW**
**United Kingdom**

**Telephone: 0330 123 1815**
**Website: www.fundsmith.co.uk**

## Registered office

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

Authorised and regulated by The Financial Conduct Authority.
FCA Registration Number 529093

## Authorised Corporate Director

Fundsmith LLP
33 Cavendish Square
London
W1G 0PW
United Kingdom

Authorised and regulated by The Financial Conduct Authority.
FCA Registration Number 523102

## Registrar

SS&C Financial Services International Limited
SS&C House
St Nicholas Lane
Basildon
Essex
SS15 5FS
United Kingdom

## Administrator

State Street Bank and Trust Company
20 Churchill Place
London
E14 5HJ
United Kingdom

## Depositary

State Street Trustees Limited
Quartermile 3
10 Nightingale Way
Edinburgh
EH3 9EG
United Kingdom

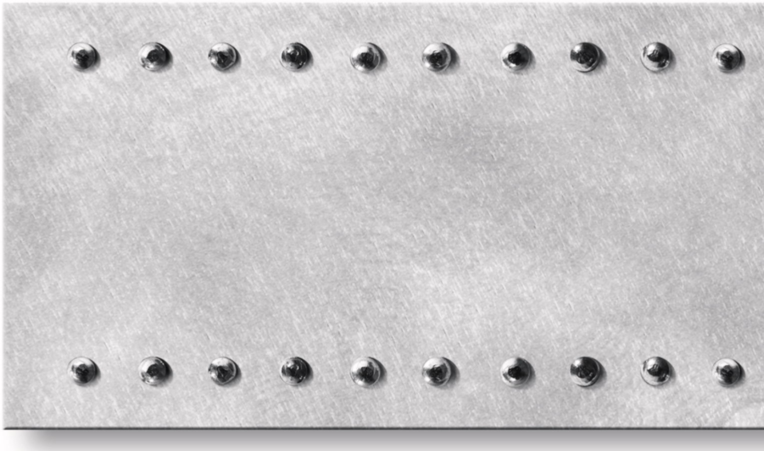
Authorised and regulated by The Financial Conduct Authority.
FCA Registration Number 186237

## Independent auditors

Deloitte LLP
2 New Street Square
London
EC4A 3BZ
United Kingdom

## Financial Conduct Authority

12 Endeavour Square
London
E20 1JN
United Kingdom
Telephone: 0800 111 6768
Website: www.fca.org.uk



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