Fundsmith

Assessment of Value 2022

Fundsmith

Buy good companies
Don't overpay
Do nothing

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Fundsmith

Introduction

The Management Committee of Fundsmith LLP ("Fundsmith" or "the Firm") has undertaken an annual Assessment of Value provided by the Firm's funds. The process has built on the foundations of previous years.

This report is aimed at individuals who invest in the Firm's UK funds and their advisers.

This Assessment of Value report complements other fund documents such as the Owner's Manual and the funds' regulatory documents, including the Prospectus, Factsheets and Key Investor Information Documents (KIIDs).

Summary & conclusions

This Assessment of Value covers the Fundsmith Equity Fund ("FEF") and the Fundsmith Sustainable Equity Fund ("FSEF") for 2022. Further information about these funds can be found on the relevant websites:

**www.fundsmith.co.uk
and www.fundsmith.co.uk/fsef**

In carrying out the Assessment of Value exercise for our funds we consider evidence against seven pillars in accordance with the requirements of the Financial Conduct Authority, our regulator. These pillars are:

1. **Quality of service**
2. **Performance**
3. **Costs**
4. **Economies of scale**
5. **Comparable market rates**
6. **Comparable service rates**
7. **Share classes**

A summary of our assessment under each of the seven pillars is reflected in the table below.

Pillar	Overall Rating	Constituents
Quality of Service		Investment Management Fund Operations Investor Interaction
Performance		Five year rolling excess returns and Sortino ratio
Costs		AMC Administration costs Transaction costs
Economies of Scale		AMC Administration costs Transaction costs
Comparable market rates		I and T share classes
Comparable Services		Other Funds Segregated Mandates
Share Classes		I, T and R classes

Overall, the Management Committee concluded that, in relation to both FEF and FSEF and each of their share classes, the payments out of the funds are justified in the context of the overall value delivered to investors. This conclusion was based on consideration of each of the pillars, both individually and together recognising that while each pillar has unique elements associated with it, the pillars do not operate independently of each other when considering value as a whole.

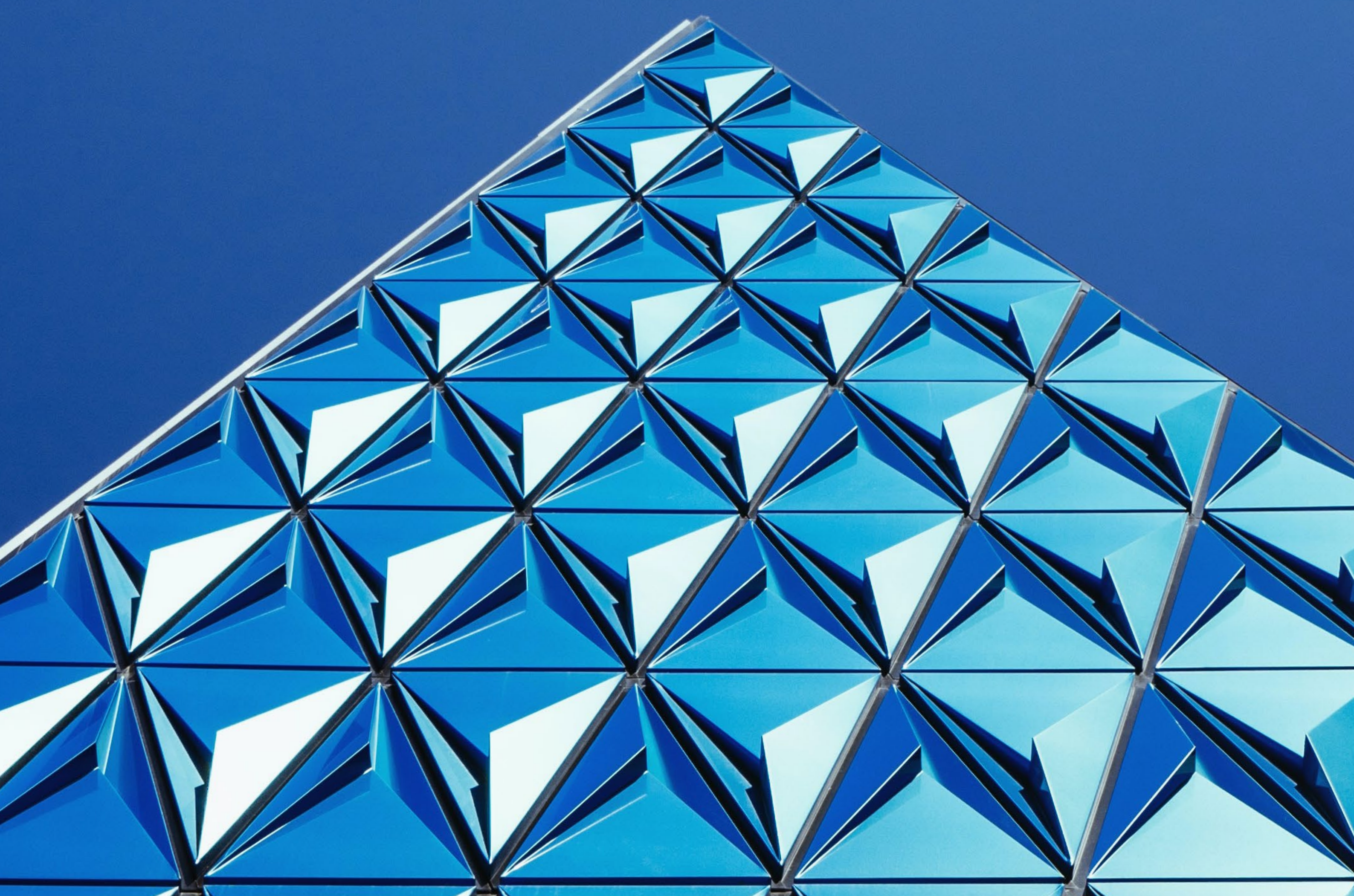
In reaching this conclusion the Management Committee noted, amongst other points:

- The simple transparent cost structure of the funds which is clear for investors to understand and compare against others. There are only three share classes and these are clearly explained to investors;
- The fee difference between the share classes reflects the broader range of services associated with the T class investors;
- The Total Cost of Investment ("TCI") of the funds (which includes transaction costs) remains close to the market median for both the T class and I class shares;
- The Funds' long-term performance is in excess of the MSCI World Index and above the average of the IA Global Sector;
- The performance has been achieved within an appropriate risk appetite, and with good quality of service; and
- Investors, both sophisticated professionals and retail, continuing to entrust their investments with us. We conducted our first annual individual investor survey in December 2022. Investor feedback in relation to the provision of value for money rated Fundsmith 4.1, compared to financial institutions generally which scored 3.2 (on a rating scale of 1 (poor) to 5 (excellent)).

1.

Quality of service

Approach and evidence



Approach

We have considered the various services provided to our investors, either directly or via a third-party, under three headings:

- **Investment management and responsible investing;**
- **Fund operations, including administration and depositary services; and**
- **Investor interaction, including relationship management, investor support and transfer agency.**

In assessing the services we have considered performance, quality and enhancements made during the year.

Given the nature of the services, which are delivered by the same teams using the same systems, this assessment applies equally to both funds, except where specifically highlighted in respect of the investment management process.

Investment management

The oversight of the investment process and investment risk management for each fund was robust and overseen by an effective governance process. Fundsmith LLP's Management Committee is supported by four sub-committees that oversee and challenge business areas in relation to the operation of the firm and the management of the funds.

The funds were managed in accordance with their prospectuses, particularly with reference to their investment objectives, policies and restrictions but also having regard to wider investor communications concerning what the fund will do and will not do. There were no mandate breaches during the year and no investments were held outside of risk tolerances. The liquidity profile of the funds continued to be appropriate for the nature of the funds, the investor profile and historic redemption levels.

The quality of trade execution was also good.

Responsible investing

As long-term investors we recognise the importance of understanding the sustainability of the business models of the companies in which we invest and the importance this holds in the delivery of long-term investment performance for our investors. Environmental, social and governance factors, and the risks associated with them, carry the potential to impact negatively the performance of our investments and, in turn, the value provided to our investors. The firm has a stewardship team comprising two investment professionals. Oversight is exercised via the Stewardship & Sustainability Committee.

In addition to the good company screen used by FEF, FSEF also applies a sector exclusion screen, removing companies that operate in highly socially and/or environmentally damaging sectors, such as metals and mining, oil, gas and consumable fuels, tobacco and alcohol, casinos and gaming, and utilities, among others; and a sustainability screen which assesses a company's net impact on the environment and society.

These processes were undertaken effectively with a number of companies being excluded from consideration for the Fundsmith Sustainable Equity Fund. As part of our value assessment, we consider that two external indicators are also relevant in that they recognise how Fundsmith engages with companies on behalf of investors, namely:

- Fundsmith received four '4 star' ratings and one '5 star' rating across the five modules we are assessed under by the UN Principles of Responsible Investment ("PRI"), reflecting the integration of ESG into the firm's investment process. UN PRI is one of the world's leading proponents of responsible investing, helping investors incorporate responsible investment principles into investment decisions.
- Fundsmith was amongst the first group of signatories to the Financial Reporting Council's UK Stewardship Code, achieving signatory status as part of the initial phase in September 2021. The Stewardship Code consists of 12 principles which are designed to evidence the signatory's responsible allocation, management and oversight of capital to provide long term value for investors, also leading to sustainable benefits for the economy, the environment and society. We renewed our signatory status as part of the 2022 reporting cycle and will re-submit our stewardship report in April 2023 as part of the 2023 reporting cycle.

Fund operations

Performance and quality across all areas of fund operations remained high during 2022 and oversight activities did not identify any areas of concern. An independent benchmarking project carried out in H2 2021 confirmed that the external fund administration services are charged at industry norms. We will repeat these exercises at periodic intervals.

Investor interaction

Individual investors can engage with us directly across a broad range of methods including the website and dedicated "myAccount" portal, webchat, email, phone and post. Large institutional investors may also use industry messaging services including EMX and Calastone to place deals.

In relation to investor interaction, the relationship management and investor support provided by Fundsmith has remained consistently strong, with the delivery of a financial guidance seminar series and enhancements to our websites, digital individual investor portal and investor documentation as well as our annual in person Annual Shareholder Meeting and letter to shareholders. During the year we introduced a net promotor score ("NPS") and an annual investor survey to give investors further opportunities to provide feedback on all aspects of the funds and service. The feedback has been very positive, with the "myAccount" portal rated highly absolutely and compared to other financial services providers. We continue to develop the website and "myAccount portal", which is now used by more than 80% of individual investors, to include further functionality and multi-lingual support.

We continued to see high levels of investor interactions in 2022, with circa 1,800 calls, 800 emails, 1,200 letters, and 900 webchats received each month on average by our individual investor contact centre. Service levels at our contact centre improved compared with 2021, with the majority of investor queries answered within our set timescales.

While our error and complaint rates remain relatively low, we continue to believe that the quality of service can be improved. We have again spent considerable effort during the year to address the cause of errors and complaints, enhance our communications with investors and generally create less friction in the servicing arrangements. Despite our concerns, investors rated our contact centre as above average compared to wider financial services cost centres in our annual investor survey (4.4 vs 3.2 out of 5). Service quality will, none the less remain an area of focus in 2023.

2.

Performance

Approach and evidence

Approach

We have considered the performance of each fund separately.

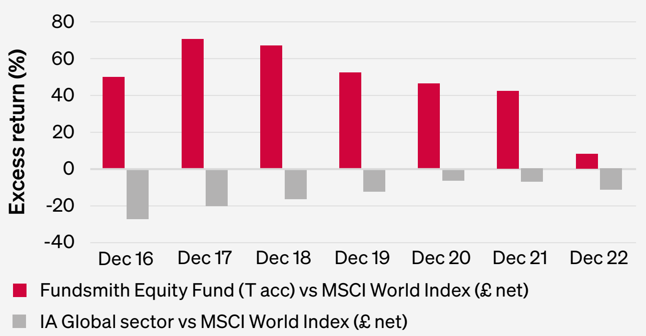
Fundsmith Equity Fund

At the inception of FEF the aim was to run the best fund you have ever owned. By best fund, we mean the one with the highest return over a long period of time, adjusted for risk. The long-term nature of the fund is important and we consider five years to be the minimum holding or assessment period.

Whilst performance in 2022 underperformed the MSCI World Index (£ net), since inception on 1st November 2010, FEF is still the number one performing fund in the IA Global sector of peer group funds by some considerable margin, with a return 299 percentage points above the sector average which has delivered 179.1% over the same timeframe.

The five-year rolling returns versus the MSCI World Index have been positive, between just over 8 percentage points and as high as 70 percentage point over all five-year rolling periods since inception. The IA Global sector on average has failed to produce a five-year rolling period of returns in excess of the MSCI World Index – as reflected in the table below.

Five Year Rolling Excess Return

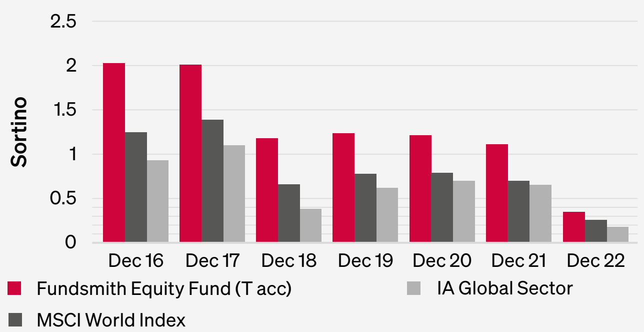


Data from FE fundinfo 2023

Whilst the return that FEF has provided is good, so is the amount of risk assumed in producing those returns. For this, there are various numbers we could suggest by way of evidence and, in our view, the most relevant of these is known as the Sortino Ratio which takes the portfolio's rate of return, subtracts the risk-free rate, and then divides this number by the standard deviation of the downside volatility. Afterall it is this downside volatility that most concerns investors and can cause long-term investors to panic and sell at the wrong moments.

Below we show the rolling five-year charts for the Sortino ratio relative to the MSCI World Index and the IA Global Sector. In both cases it shows FEF to have a superior Sortino ratio.

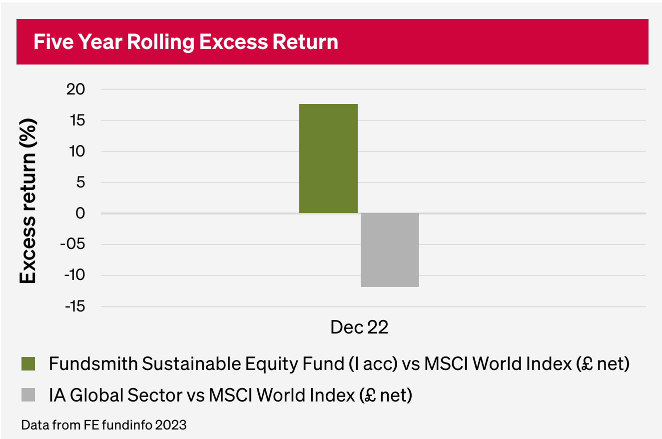
Sortino Ratios



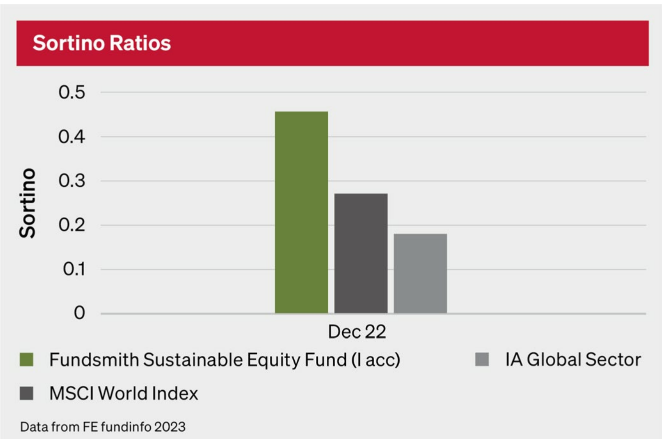
Data from FE fundinfo 2023

Fundsmith Sustainable Equity Fund

FSEF was launched on 1st November 2017 and has also performed well, being 12th out of 340 funds in the IA Global sector since inception. The 5 years ending December 2022 is the first 5 year period (our minimum recommended holding period over which to measure returns) for the fund. It is pleasing to note that for this period Fundsmith Sustainable Equity Fund (I Class Acc) returned 17.8 percentage points over the MSCI World Index whereas the average fund in the IA Global Index made a return 12.8 percentage points below the MSCI World Index.



Whilst the return that FSEF has provided is good, so is the amount of risk assumed in producing those returns. As with Fundsmith Equity Fund we monitor risk using the Sortino Ratio and below we show the rolling five-year charts for the Sortino ratio relative to the MSCI World Index and the IA Global Sector. In both cases it shows FSEF to have a superior Sortino ratio.



Fund strategies

The performance of each fund has been achieved by each of them being managed in accordance with their prospectuses, specifically with reference to their investment objectives, policies and restrictions. There were no mandate breaches during the year and no investments were held outside of the firm's risk tolerances. The funds have not engaged in activities or instruments contrary to the fund strategies as consistently outlined to investors in fund literature and communications.

3.

Costs

Approach and evidence

Approach

We have considered the annual management charges, the administration costs and the transaction charges borne by each fund.

Overview of costs and charges borne by the funds

Each fund bears:

- An annual management fee (which varies by share class) which is paid to the investment manager. This charge is calculated daily reflecting the net asset value of each share class.
- Administration costs which are paid to the third party providing the service and which relate to the operation of the fund. These costs are incurred at the 'fund level' and are allocated to each share class according to the relative NAV of each share class.
- Transaction costs arising on the portfolio activity (investment purchases and sales).

The annual management fee per share class plus the administration costs allocated to that share class are added together to determine the "ongoing charges figures" (OCF) for each share class, which is expressed as a percentage of the average net asset value of that share class.

Transaction costs are incurred at the fund level and are added to the OCF to give the "total cost of investment" (TCI).

Fundsmith has a simple charges structure, with the charges applicable to each fund and share class disclosed to investors in each fund's Prospectus and Owner's Manual. These are available at the time of investing and on our website. They are also shown on our annual letter to shareholders.

We do not charge entry or exit fees as we do not like to impose a barrier to an investor's choice to invest or sell their holding. We have also worked hard to ensure investors are able to invest directly with Fundsmith should they wish, thereby avoiding the costs associated with investing via third parties, such as platform fees. We do not charge performance fees.

This means that investors incur only the management charge, the administration charges, and the transaction charges, with each clearly and separately identified.

The summary of the costs borne by each share class, and the transaction costs borne by the fund, expressed as a percentage of average net asset value, are shown below.

	2022				2021			
Fundsmith Equity Fund	**Total**	I Class	T Class	R Class	Total	I Class	T Class	R Class
Management charge		0.90%	1.00%	1.50%		0.90%	1.00%	1.50%
Administration charges		0.04%	0.04%	0.04%		0.04%	0.04%	0.04%
OCF		**0.94%**	**1.04%**	**1.54%**		**0.94%**	**1.04%**	**1.54%**
Transaction costs	0.01%				0.01%			

	2022			2021		
Fundsmith Sustainable Equity Fund	**Total**	I Class	T Class	**Total**	I Class	T Class
Management charge		0.90%	1.00%		0.90%	1.00%
Administration charges		0.05%	0.05%		0.06%	0.06%
OCF		**0.95%**	**1.05%**		**0.96%**	**1.06%**
Transaction costs	0.01%			0.03%		

Annual Management Charge (AMC)

The annual management charges are paid to Fundsmith LLP. The management fee paid is in return for services provided to the funds - as Authorised Corporate Director (ACD), as promoter and distributor and as investment manager.

The net income earned by Fundsmith, for its role as ACD and as promoter and distributor, is considered reasonable having regard to the costs borne in delivering the service, the investment in the business and in customer services, the remuneration of the executives (for which they do not receive a salary or bonus) and an appropriate return on equity for the providers of capital.

The fee income related to the investment management services reflects the value attributed to Terry Smith's investment and research experience and includes the implicit cost of the lifetime of learning and knowledge required to be capable of delivering the best global equity fund that an investor could wish to own. The value of such expertise and experience is difficult to quantify and does not compare in simple terms against the costs of providing the service.

The investment management service received continues to deliver the objectives of the Funds in an effective and value-adding manner. There is a clear 'active management' value-added delivered for investors (without charging any additional performance fees), reflecting a risk appetite that is appropriate for a fund which has a significant retail investor cohort within the Fund's stated objectives and parameters, and in particular reflecting the Fund's investment approach of buying good companies, not overpaying, and holding for the longer term, all of which require deep expertise and confidence in investment decision making. We do not consider that another investment manager could provide a similar quality service within an equivalent risk appetite for materially less cost.

Share Classes

The difference in costs between the three share classes is considered reasonable. The I class is benchmarked on large, sophisticated investors and segregated account clients which choose to take our services and recognise the value delivered. Discussions with I class investors affirm their continued support of the charging framework. The additional services received by the T class holders are considered to fully support the extra 10bps charge of the share class. The R class only exists for FEF to support a specific advisory remuneration model and has not been made available to UK retail investors since implementation of FCA's rules in 2012 in response to its earlier Retail Distribution Review.

Administration costs

Administration costs are invoiced to the fund and comprise either:

- Net Asset Value (NAV) based costs – where the costs are determined using a basis points rate on NAV (often in a tiered structure with lower rates applying at higher NAV) on a periodic (daily or month end) basis: or
- Activity based costs – where the costs reflect a specific service being provided, and in the case of transfer agency costs are driven by the number of unitholders and the volume of interaction.

These costs are allocated to each share class according to the relative NAV of each share class.

All the costs borne by our Funds are the actual amounts charged by the third-party; Fundsmith does not add a mark up to the third-party costs that are charged to the funds. Fundsmith does not include any internal costs associated with the management and oversight of service providers in the costs charged to the funds.

We have assessed the material elements of the administration costs and concluded that the costs negotiated are both appropriate for the service received and reflect current market rates.

Transaction costs

Transaction costs are a function of the value of purchases and sales of investments in the fund and the rates charged and we consider that we have negotiated the best possible rates for our investors. Purchases and sales are initiated by investor activity (entry, top-up and exit) and by the investment manager as part of fund management activities.

For activity initiated by the investment manager as part of fund management activities, Fundsmith's investment approach, as set out in our investor literature, is to invest in a small number of high quality, resilient, global growth companies which we intend to hold for a long time. This means that transactions costs associated with fund management activities are kept low, by design. Our Portfolio Turnover Rate was 7.4% in 2022.

Fundsmith

4.

Economies of scale

Approach and evidence

Approach

We have considered whether the Firm is able to achieve savings and benefits from economies of scale in three areas: the annual management charge, administration costs and transaction costs.

Annual management charge

Since the launch of the fund, Fundsmith has made available to direct investors the T class shares at 1% and I class shares at 0.9%. Fundsmith's fee structure at launch was pioneering in its simplicity, transparency, and the level at which it was set for an active UK retail fund manager. Other active fund managers have reduced their fees in recent years, in many cases bringing their fees more into line with those charged by Fundsmith, meaning that, whilst we have not adjusted our fees, we remain competitive in the active management sector, as evidenced in the peer comparison.

Economies of scale exists for Fundsmith in relation to the element of the management fees relating to the firm's role as ACD and as promoter and distributor, in that the costs for the firm (which do not include remuneration for senior management) have not increased in line with revenue. However, our analysis concludes that the absolute level of profit earned by the firm is justified and that it is appropriate that the increased profit accrues to the senior management of the firm in return for the services they provide, and as the providers of capital for the firm.

We have concluded that the management fees relating to the provision of investment management services reflect the value of the service and that we do not consider that another investment manager could provide a similar quality service within an equivalent risk appetite for a materially lower cost.

We have assessed whether there are economies of scale in the provision of investment management services. We have concluded that investment management activities are cognitive and are priced according to the value delivered, not the cost of delivering the service, and that the value of high performing active investment management, at an acceptable and appropriate risk level, increases as a fund grows.

Administration costs and Transaction costs

Economies of scale are inherent in our funds' administration costs because certain fee agreements, such as for depositary and fund administration are on a tiered basis, with the basis points charge reducing as assets under management increase. Unlike some other firms in the industry we do not seek to profit from these costs by charging a set ad valorem fee to the fund whilst driving down the underlying charges.

Regardless of whether charges are pre-agreed to fall as assets under management rise, or a flat fee such as custody charges, the Firm seeks to negotiate periodically lower rates for these services, and thereby ensure that investors benefit from the increasing scale of the funds. The most recent renegotiation was in the second half of 2021 and was supported by the Firm commissioning a benchmarking study to allow the Firm to assess the rates the funds are charged against the range of market charges.

The NAV driven administration costs, expressed as a percentage of NAV, for each fund have fallen in 2022 compared with 2021 reflecting the benefit of negotiating lower rates for some services, and the benefit of the tiering of the rates, with lower rates charged as the funds increase in size.

The funds benefit from economies of scale in the transaction costs through the Firm's negotiations with its outsourced dealing services provider, reflecting their scale. The commission rate applicable to investment transactions by the funds in 2021 and 2020 of 3.5 bps was reduced to 3 bps for 2022.

5.

Comparable market rates

Approach and evidence

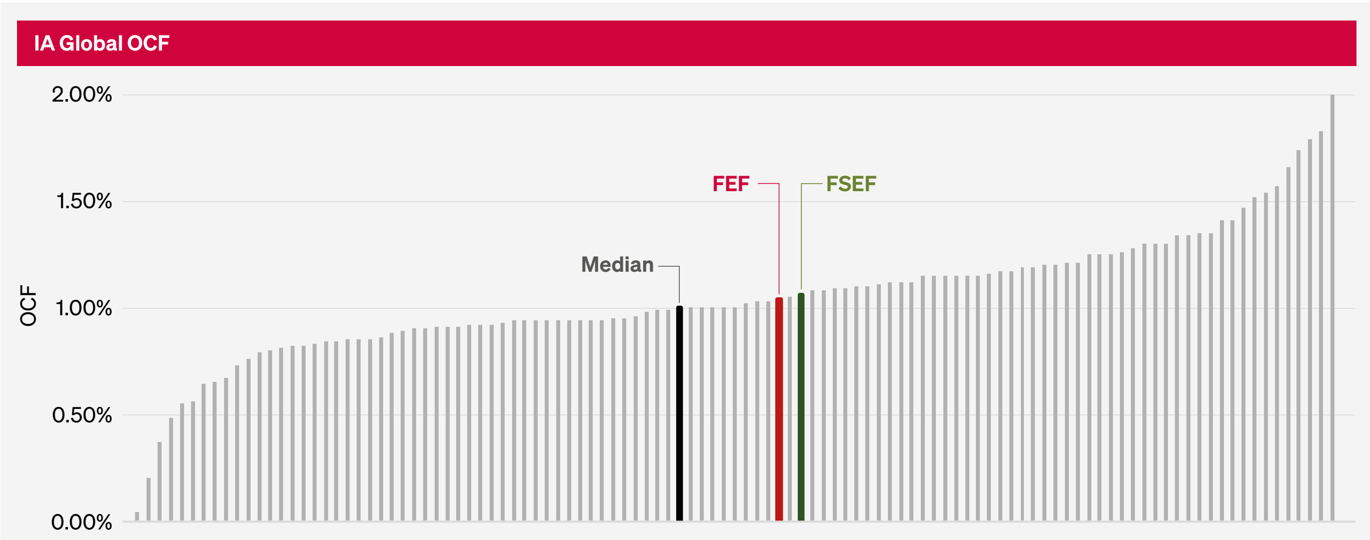
Approach

FEF and FSEF are both active global equity funds and the best available comparator for market rates is considered to be the Investment Association 'IA' Global Sector which includes 330 similar funds.

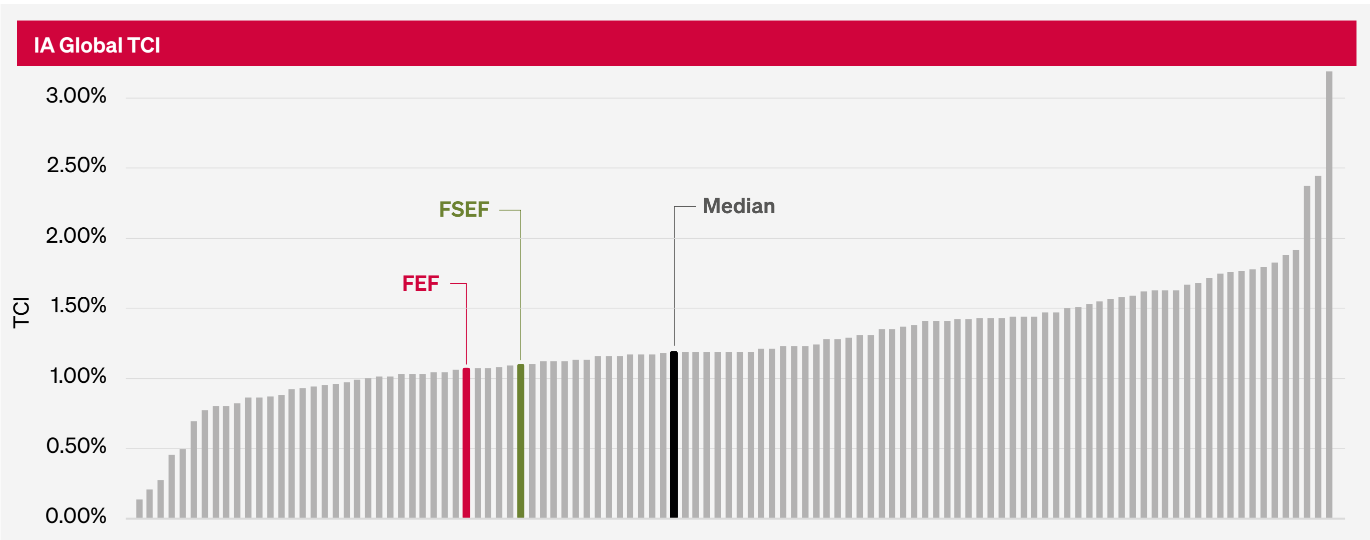
We have compared the OCF and the TCI for the T and I share classes in the funds with the the charges for similar share classes in the funds in the IA Global Sector.

Below we show how the Ongoing Charges Figure ("OCF") and Total Cost of Investment ("TCI" = OCF plus transaction costs) of both the retail (T) share class and the institutional (I) share class of each fund compared with other funds in the IA Global Sector over the past reporting period. Fundsmith does not uplift any administration costs in respect of internal services and oversight, rather it covers such expenses through the management fee. Industry practices vary and hence we consider that comparison at the aggregate level is the most appropriate so that fund buyers can draw meaningful conclusions.

Ongoing charges figures in IA Global Sector vs T Share Class of Fundsmith Funds

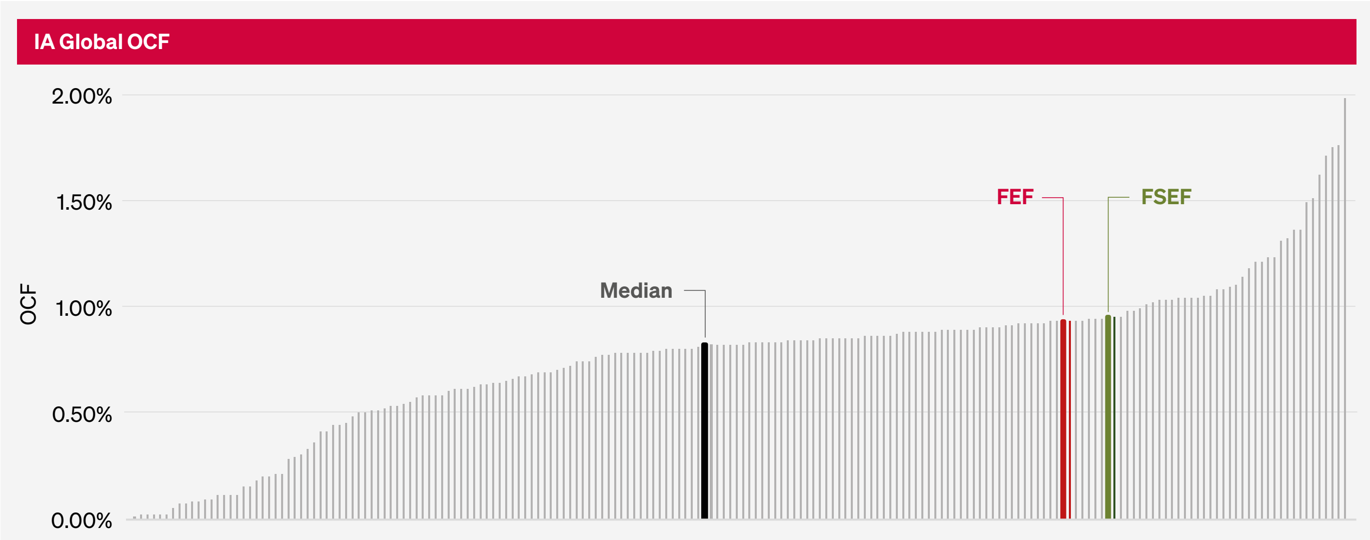


Total cost of investment figures in IA Global Sector vs T Share Class of Fundsmith Funds

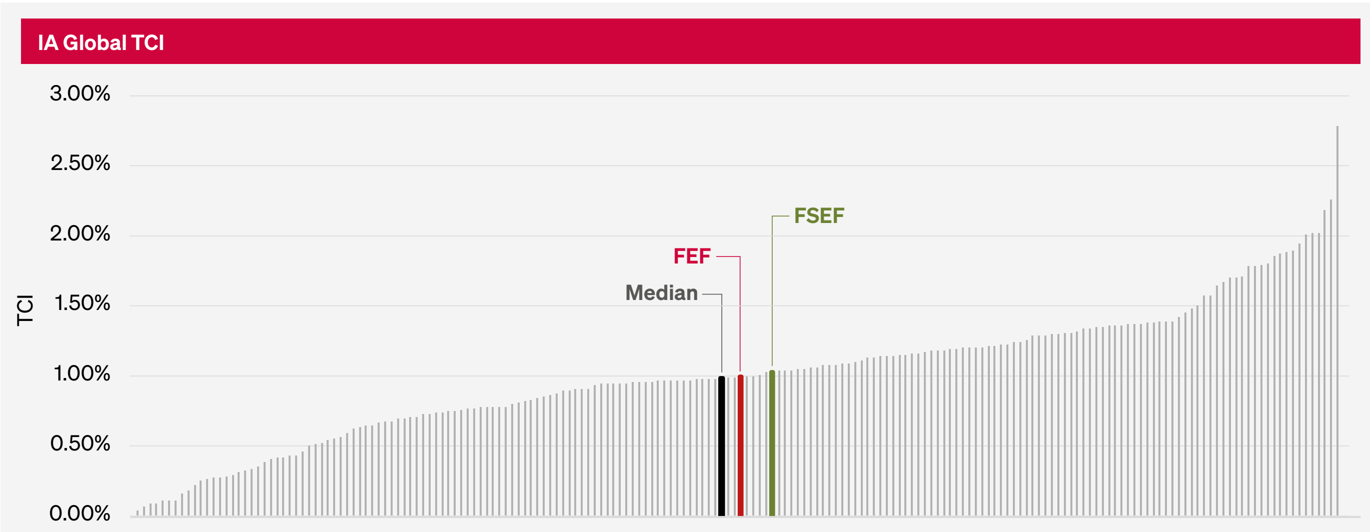


As can be seen in the above tables, both FEF and FSEF retail T classes are slightly more expensive than the median fund when comparing the OCF but are considerably cheaper when comparing the Total Cost of Investment. Fundsmith was one of the original advocates of disclosure of transaction costs so fund buyers could properly compare all costs being incurred by fund managers and we have been voluntarily releasing the figures long before it became mandatory to do so.

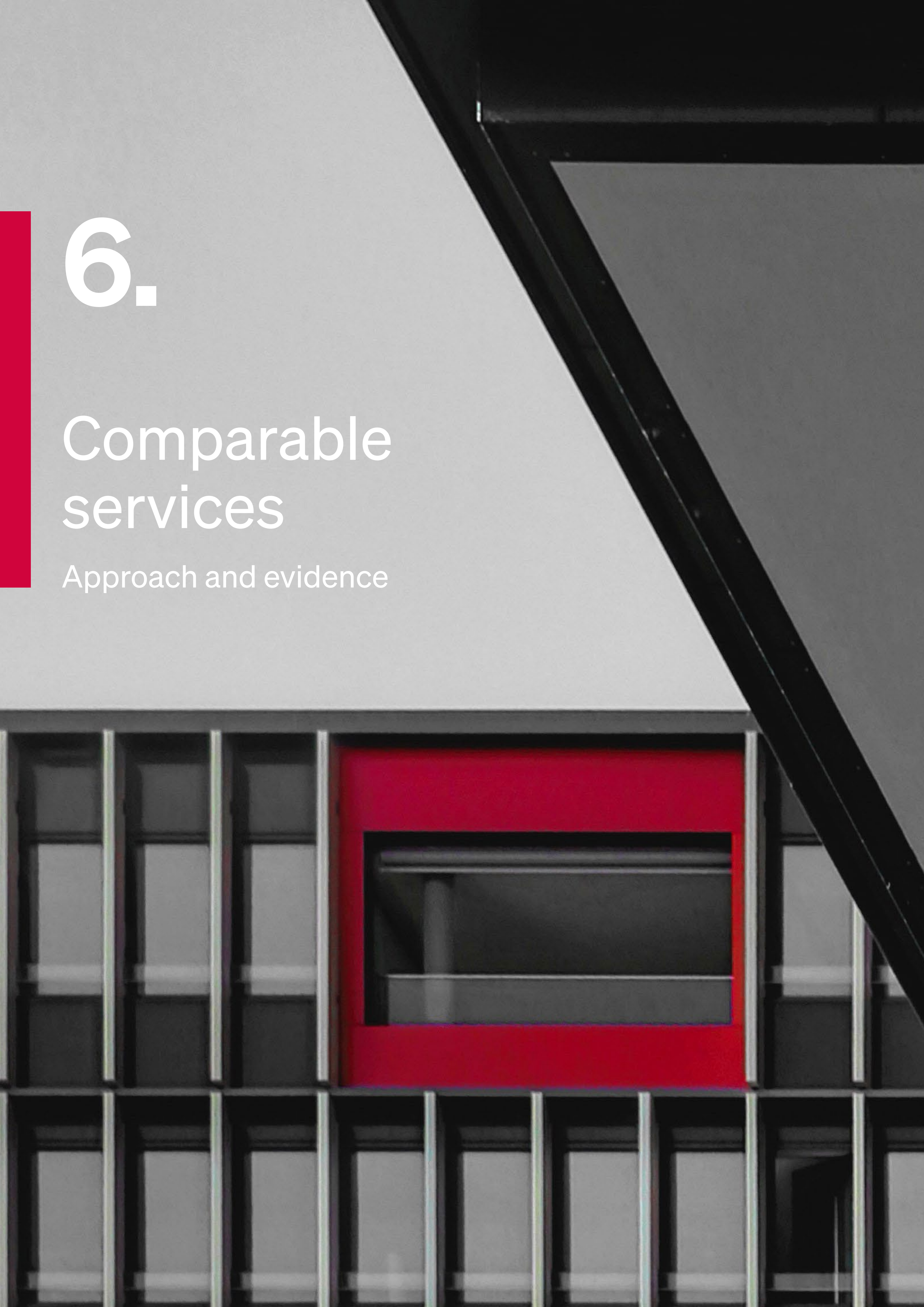
Ongoing charges figures in IA Global Sector vs I Share Class of Fundsmith Funds



Total cost of investment figures in IA Global Sector vs I Share Class of Fundsmith Funds



In the case of the I class chares for FEF and FSEF they are more expensive than other institutional share classes when comparing OCFs but only marginally above the median when comparing the total cost of investment. We are comfortable that the I class AMC (which represents the significant part of the OCF) is reasonable based on what sophisticated investors are prepared to pay for the service and from direct investor feedback. While the OCF is marginally higher than the median of the IA Global sector, we consider that value is being provided.



6.

Comparable services

Approach and evidence

Approach

The purpose of this pillar is to assess whether the Firm follows the relatively common practice of charging different fees for managing funds and segregated accounts or other pools of money.

Our position has not changed since last year's report. All of our segregated accounts, which represent highly sophisticated large investors, are at a management fee of 90bps, which is the same as the rate charged by the funds' I class shares.

7.

Classes of units

Approach and evidence

Approach

This pillar looks to address the differential between share classes rather than the absolute level.

We provide three different share classes in FEF and two in FSEF, they are:

- I Class – 90bps
- T Class – 100bps
- R Class – 150bps (FEF only)

The difference between the classes is solely around the AMC. The rationale for the difference between the classes are:

- I Class for investments over £5m;
- T Class for investments under £5m;
- R Class for where an investor is advised and the method of paying that adviser is through us rebating 60bps to the adviser. This method used to be the default method for the UK market until 2012. Since then, it is mostly used by overseas investors. As such, this structure is seen as "legacy" and that is why we have not launched an R Class for FSEF.

As a business, we do not believe that it is our place to interfere in the relationship that our customers have with their adviser. Particularly in overseas markets this remains a common way of paying your adviser. As such, we continue to have this option.

It is not uncommon for fund management companies to charge more for smaller investors. This is because a degree of the costs we bear are the same regardless of the size of the investment, for example the costs of executing the transaction (particularly banking charges), anti-money laundering checks and other investor support functions. These costs are clearly higher, on a relative basis, where the investor is investing a smaller amount of money.

In addition to those costs, we also provide a number of other benefits to the smaller shareholder including the opportunity to invest via an ISA wrapper and Regular Saving and Income Facilities. These benefits are provided at no additional cost. It is worth noting that we have over 20,000 people who are ISA investors with us. Further, the holders in the T Class also benefit, generally, from the Financial Services Compensation Scheme for which Fundsmith has to contribute.

We estimate that the costs involved in servicing the T Class shareholders exceeds the aggregate additional fee that Fundsmith receives as a result of the additional 10bps charge on the share class.

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