



Fundsmith Equity Fund
Short form report

For the period ended 30 June 2012



Fundsmith



Profile of the fund

Investment objective and policy

The aim of the Company is to achieve long-term growth in value.

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

The Company has stringent investment criteria which the ACD, as investment manager, adheres to in selecting securities for the Company's investment portfolio. These criteria aim to ensure that the Company invests in businesses:

- 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 Company to be attractive.

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 which the ACD reviews in the light of the fund 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.

Risk warning

Any stockmarket 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

▶

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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.

Net asset value and Ongoing charge figure (“OCF”) as at 30 June 2012

	30.06.12	31.12.11
T Class (Accumulation shares)		
Total net asset value (£)	160,861,215	110,094,759
Net asset value per share (p)	123.57	114.98
Number of shares in issue	130,173,740	95,752,314
Performance since launch*	23.6%	15.0%
Ongoing charge figure**	1.19%	1.20%
T Class (Income shares)		
Total net asset value (£)	21,423,067	14,883,839
Net asset value per share (p)	120.99	113.52
Number of shares in issue	17,706,790	13,110,685
Performance since launch*	22.1%	14.0%
Ongoing charge figure**	1.19%	1.20%
R Class (Accumulation shares)		
Total net asset value (£)	26,117,323	10,178,969
Net asset value per share (p)	122.56	114.32
Number of shares in issue	21,309,122	8,903,889
Performance since launch*	22.6%	14.4%
Ongoing charge figure**	1.69%	1.69%
R Class (Income shares)		
Total net asset value (£)	25,336,362	7,992,264
Net asset value per share (p)	120.92	113.46
Number of shares in issue	20,952,245	7,044,357
Performance since launch*	21.8%	13.7%
Ongoing charge figure**	1.69%	1.69%
I Class Net (Accumulation shares)		
Total net asset value (£)	46,854,053	26,625,935
Net asset value per share (p)	123.77	115.09
Number of shares in issue	37,858,209	23,133,905
Performance since launch*	23.8%	15.1%
Ongoing charge figure**	1.09%	1.10%
I Class Net (Income shares)		
Total net asset value (£)	170,351,551	61,173,345
Net asset value per share (p)	120.98	113.51
Number of shares in issue	140,812,950	53,891,499
Performance since launch*	22.2%	14.0%
Ongoing charge figure**	1.09%	1.10%

*The Fund launched on 1 November 2010; therefore, five-year performance data are not available.

The performance is quoted using mid prices, net of costs, for the period from 1 January 2012 to 30 June 2012. Source: Fundsmith LLP.

**The Ongoing charge figure (“OCF”) is the ratio of Fund’s total disclosable costs (excluding overdraft interest) to the average net assets of the Fund. As prior period figures have not been recalculated the TER will be retained as a comparative figure. The main implications of this change are the inclusion of transaction costs and exclusion of performance fees.

The OCF will fluctuate as the average net assets and costs change.

Portfolio turnover rate (“PTR”)

The PTR has been calculated in accordance with the methodology laid down by the FSA.

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

For the 6 months ending 30 June, the PTR was (0.19%).

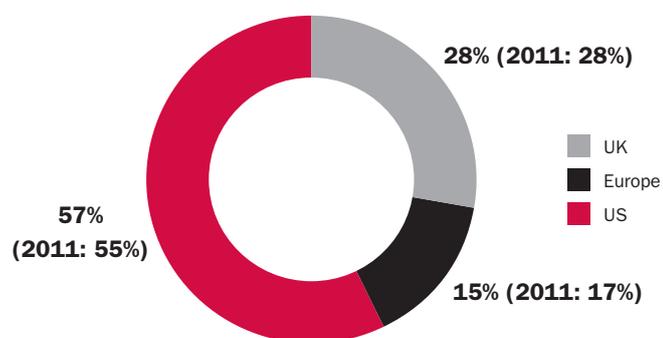
Price and revenue records

Calendar year all figures in pence (unless otherwise stated)	2012 (up to 30 June)	2011	2010 (from 30 November)
T Class (Accumulation shares)			
Accumulation share high	123.85	115.47	107.52
Accumulation share low	114.73	100.47	98.98
Net revenue per accumulation share	1.5354*	0.9862	-
T Class (Income shares)			
Income share high	122.35	114.51	107.52
Income share low	113.34	99.64	98.99
Net revenue per income share	1.4859*	0.9862	-
R Class (Accumulation shares)			
Accumulation share high	122.98	115.10	107.46
Accumulation share low	114.06	100.12	98.97
Net revenue per accumulation share	0.9393*	0.6960	-
R Class (Income shares)			
Income share high	122.13	114.44	107.45
Income share low	113.27	99.54	98.97
Net revenue per income share	0.9593*	0.6960	-
I Class Net (Accumulation shares)			
Accumulation share high	124.00	115.54	107.53
Accumulation share low	114.84	100.55	98.99
Net revenue per accumulation share	1.6491*	1.0737	-
I Class Net (Income shares)			
Income share high	122.36	114.49	107.53
Income share low	113.32	99.63	98.98
Net revenue per income share	1.6120*	1.0737	-

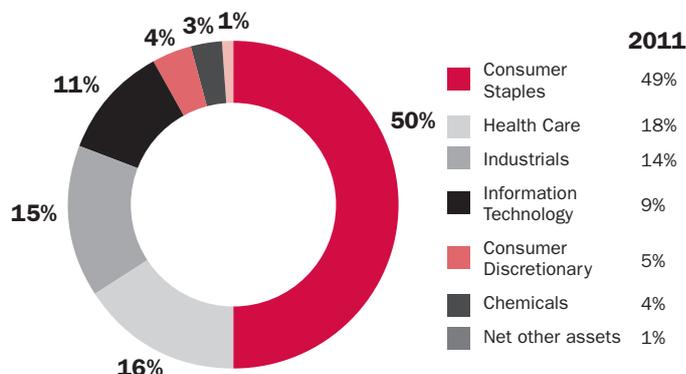
* distribution calculated to 30 June 2012, payable 31 August 2012.

Information on the fund

Breakdown by geography*
as at 30 June 2012



Breakdown by sector
as at 30 June 2012



Summary of significant changes

Largest purchases

	Cost (£)
Unilever	15,773,222
Procter & Gamble	12,537,842
Serco	12,494,493
Automatic Data Processing	12,487,335
Dr Pepper Snapple	10,983,674
Total purchases for the period	197,743,861
	(2011: £132,896,511)

There were no sales in the period. (2011: £6,173,955)

Top five holdings	30 June 2012	31 December 2011
Unilever	6.21%	Becton Dickinson 5.39%
L'Oreal	5.19%	L'Oreal 5.34%
Dr Pepper Snapple	5.04%	Nestle 5.30%
Microsoft	4.84%	Intercontinental Hotels 5.30%
Procter & Gamble	4.83%	Microsoft 5.17%

*The geographical breakdown is shown by the companies' country of listing, not by where the companies operate. We invest in companies that operate globally, or at least across a significant number of countries, and the split by revenue may well differ from this.

Investment Manager's review

	01.01.12 to 30.06.12
Fundsmith Equity Fund	7.5%
MSCI World £	5.1%
MSCI EAFE £	2.2%
FTSE 100	2.6%
UK Long Gilt (UK TSY 4% 2022)	3.5%

Source: Bloomberg

We consider the performance of The Fundsmith Equity Fund during the half year as satisfactory.

The table shows the performance of the T Class Accumulation units and compares that with the Morgan Stanley Capital International Index ("MSCI") in Sterling with dividends reinvested, the EAFE (Europe Australia and Far East i.e. excluding the USA and Canada) version of that Index, the FTSE 100 Index and the UK Long Gilt:

The Fund outperformed all of these benchmarks. This was a little surprising given that we do not even aim to outperform the market in every reporting period, let alone one as short as six months. Moreover, the first three months were a "risk on" period in which a strong equity market rally was induced by yet more false hopes that a solution had been found to the Eurozone crisis as a result of two main developments: 1. The Long Term Refinancing Operations ("LTRO") which the European Central Bank commenced in December 2011 which injected €489bn of liquidity into the Eurozone banking system; and 2. The agreement in February of the second bailout package for Greece.

Of course, neither of these developments provided any solution for the fundamental ills of the Eurozone and by the second quarter, the market was much less buoyant. Nonetheless the bullish conditions of the first quarter are not the type of conditions in which we expect our Fund to perform well, so that its performance in these conditions was pleasing.

Just to be clear, we do not attempt to do any market timing the Fund is always fully invested in equities of the type we seek to own. Macro events, whilst they may be fascinating and affect the performance of the Fund take no part in our decisions which are all about seeking to buy good companies at a fair price or even cheaply and then hold them with the minimum of activity in order to allow their wonderful returns to produce performance for our investors with the least interference, including minimising dealing costs.

In this respect, we hit a new standard in terms of portfolio turnover in the half year when our turnover was in fact negative at - 0.19%. You might well wonder what this means. Portfolio turnover is defined as any buying or selling of shares we undertake over and above the amount investors invested in or redeemed from the Fund. During the period, all we did was to invest the money you invested in our Fund except for a small increase in our cash. We sold no shares. As the money flowing into the fund was slightly greater than the shares we bought, we end up, curiously, with a negative portfolio turnover. We apologise for the technical explanation but wear this outcome as a badge of pride.

For the first six months of the year, the top five contributors to the Fund's were:

- Intercontinental Hotels
- Microsoft
- L'Oreal
- Diageo
- Sigma Aldrich

Top five detractors were:

- Procter & Gamble
- Schindler
- Becton Dickinson
- McDonald's
- Automatic Data Processing

To focus on the detractors, Procter& Gamble has clearly managed to engineer some problems at least in part related to the premium pricing of some of its products in areas such as detergents and shaving which is at odds with the trends prevailing in consumer products in their straitened times. However, the activist investor Pershing Square has now taken a stake in the company and we can hope to see some action as a result. We just hope it is action which is likely to enhance the long term value of the company and

Investment Manager's review (continued)

its brands and not a short term fix based upon financial engineering or mergers and acquisitions.

McDonald's had relatively poor quarterly sales for the second quarter. As it happens we only have about 0.5% of the fund invested in McDonald's but we regard it as an undoubtedly good business and do not take much notice of a single quarter's performance, so we may get the opportunity to buy a more substantial holding as a result. As the Lex column of the Financial Times observed when reporting on the poor quarter's sales 'If McDonald's is suffering, most other industries will be hurting more.

We have had mixed results with our investments in medical stocks as you can see from the fact that one of them (Sigma Aldrich) is one of our top five contributors, and another (Becton Dickinson) is one of the top five detractors. In general the sector has suffered from concerns about its ability to deliver sales growth at the rate expected as a result of cutbacks in spending on research and development by pharmaceutical companies and worries about government finances as large purchasers of healthcare services and products. Our review suggests that whilst the market may have to cope with the likelihood that revenue growth at these companies will be lower than they expected, they are still good companies of the sort we seek and not over-valued. In any event, the market may have to come to terms with worse outcomes from companies than it expected in many cases and often more severely than in the case of the medical equipment producers.

The Fund reached £553m as at 16 August 2012.

Terry Smith

Fundsmith LLP

16 August 2012

General information

Report and accounts

Each year, you will be sent final and interim reports discussing investment activity during the period and providing management commentary.

Shareholders will be sent the short report for the Company automatically and the long report will be available, free of charge, upon request from the ACD.

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 Equity Fund in detail, is available from the ACD, which is responsible for the management and administration of the Funds. Also available are the Key Information Document (KIID) and the Supplementary Information Document (SID). The ACD for Fundsmith Equity Fund is Fundsmith LLP located at 33 Cavendish Square, London W1G 0PW.

Minimum investment

The company has three different types of share classes:

I shares, R shares and T shares.

The T 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 T shares.

Minimum initial lump sum subscription	£2,500
Minimum monthly investment	£100
Minimum holding	£2,500
Minimum subsequent investment size	£250
Minimum redemption size	£250

Publication of prices

The most recent share prices will be published daily in the Daily Telegraph or Financial Times and the website www.fundsmith.co.uk.

Dealing Charges

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

Stamp Duty Reserve Tax

The ACD may also levy an SDRT charge on the redemption or transfer of shares. The SDRT charge will be paid into the Company. This charge is paid for directly by the investor and will be deducted from the redemption proceeds before being paid to the investor.

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.

Report and Distribution Payment Dates

Interim accounts period ended
30 June

Interim pay date
31 August

Final accounts period ended
31 December

Final pay date
28 February

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FSA Registration Number 186237

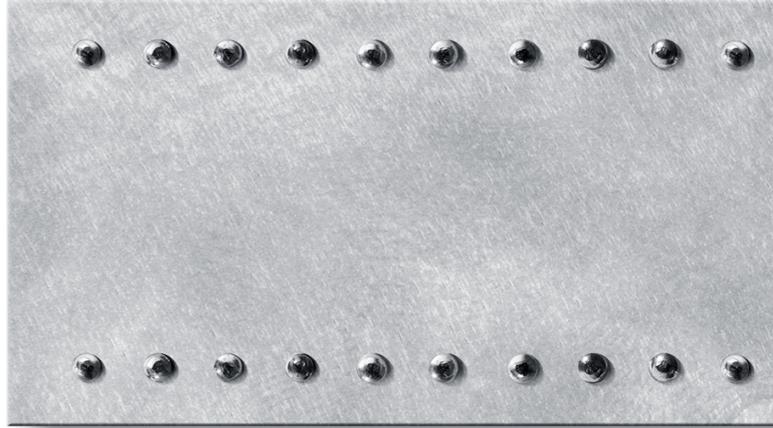
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