



Fundsmith Equity Fund
Short Form Report

For the six months ended 30 June 2018 (unaudited)



Profile of the fund

Investment objective and policy

The aim of Fundsmith 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:

- 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.

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 →

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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.

Performance Record

As at 30 June 2018

Change in net assets per share	30.06.18 (p)	T Class (Accumulation shares)		
		31.12.17 (p)	31.12.16 (p)	31.12.15 (p)
Opening net asset value per share	360.93	294.75	231.35	199.97
Return before operating charges	28.26	69.71	66.24	33.65
Operating charges	(1.89)	(3.53)	(2.84)	(2.27)
Return after operating charges	26.37	66.18	63.40	31.38
Distributions	(1.81)	(2.01)	(2.21)	(2.34)
Retained distributions on accumulation shares	1.81	2.01	2.21	2.34
Closing net asset value per share	387.30	360.93	294.75	231.35
After direct transaction costs of:	0.12	0.12	0.13	0.13
Performance				
Return after operating charges	7.31%	22.45%	27.40%	15.70%
Other information				
	£	£	£	£
Closing net asset value	2,316,479,742	1,995,229,262	1,483,593,346	999,310,168
Closing number of shares	598,116,206	552,805,417	503,333,749	431,944,155
Ongoing charge figure*	1.05%	1.05%	1.06%	1.07%
Direct transaction costs	0.07%	0.04%	0.05%	0.06%
Prices				
	(p)	(p)	(p)	(p)
Highest share price	390.58	364.77	305.18	233.13
Lowest share price	338.79	293.66	221.51	196.44

Change in net assets per share	30.06.18 (p)	T Class (Income shares)		
		31.12.17 (p)	31.12.16 (p)	31.12.15 (p)
Opening net asset value per share	335.10	275.28	217.80	190.37
Return before operating charges	26.23	64.98	62.21	31.80
Operating charges	(1.75)	(3.29)	(2.66)	(2.15)
Return after operating charges	24.48	61.69	59.55	29.65
Distributions	(1.68)	(1.87)	(2.07)	(2.22)
Retained distributions on accumulation shares	-	-	-	-
Closing net asset value per share	357.90	335.10	275.28	217.80
After direct transaction costs of:	0.11	0.11	0.12	0.12
Performance				
Return after operating charges	7.30%	22.41%	27.34%	15.57%
Other information				
	£	£	£	£
Closing net asset value	178,906,941	169,761,429	139,644,464	109,730,718
Closing number of shares	49,987,360	50,659,894	50,727,913	50,382,100
Ongoing charge figure*	1.05%	1.05%	1.06%	1.07%
Direct transaction costs	0.07%	0.04%	0.05%	0.06%
Prices				
	(p)	(p)	(p)	(p)
Highest share price	362.63	338.89	285.76	220.17
Lowest share price	314.55	274.26	208.54	185.52

*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 29 June. 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 managers review and the factsheet as the fund could only be bought or sold at those prices.

Performance Record (continued)

As at 30 June 2018

Change in net assets per share	30.06.18 (p)	R Class (Accumulation shares)		
		31.12.17 (p)	31.12.16 (p)	31.12.15 (p)
Opening net asset value per share	348.24	285.82	225.47	195.86
Return before operating charges	27.20	67.46	64.42	32.85
Operating charges	(2.68)	(5.04)	(4.07)	(3.24)
Return after operating charges	24.52	62.42	60.35	29.61
Distributions	(0.88)	(0.93)	(0.88)	(1.25)
Retained distributions on accumulation shares	0.88	0.93	0.88	1.25
Closing net asset value per share	372.76	348.24	285.82	225.47
After direct transaction costs of:	0.11	0.12	0.12	0.12
Performance				
Return after operating charges	7.04%	21.84%	26.77%	15.12%
Other information				
	£	£	£	£
Closing net asset value	246,945,611	214,534,477	151,796,524	91,894,710
Closing number of shares	66,247,467	61,605,186	53,108,693	40,756,530
Ongoing charge figure*	1.55%	1.55%	1.56%	1.57%
Direct transaction costs	0.07%	0.04%	0.05%	0.06%
Prices				
	(p)	(p)	(p)	(p)
Highest share price	375.97	352.00	296.25	227.21
Lowest share price	326.50	284.62	215.83	191.78

Change in net assets per share	30.06.18 (p)	R Class (Income shares)		
		31.12.17 (p)	31.12.16 (p)	31.12.15 (p)
Opening net asset value per share	333.98	274.90	217.60	190.21
Return before operating charges	26.08	64.80	61.93	31.74
Operating charges	(2.57)	(4.83)	(3.79)	(3.14)
Return after operating charges	23.51	59.97	58.14	28.60
Distributions	(0.83)	(0.89)	(0.84)	(1.21)
Retained distributions on accumulation shares	-	-	-	-
Closing net asset value per share	356.66	333.98	274.90	217.60
After direct transaction costs of:	0.11	0.11	0.12	0.12
Performance				
Return after operating charges	7.04%	21.81%	26.72%	15.03%
Other information				
	£	£	£	£
Closing net asset value	13,950,859	21,617,959	18,124,119	43,076,791
Closing number of shares	3,911,584	6,472,856	6,592,971	19,796,535
Ongoing charge figure*	1.55%	1.55%	1.58%	1.57%
Direct transaction costs	0.07%	0.04%	0.05%	0.06%
Prices				
	(p)	(p)	(p)	(p)
Highest share price	360.56	337.59	285.01	219.46
Lowest share price	313.13	273.75	208.29	185.24

*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 29 June. 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 managers review and the factsheet as the fund could only be bought or sold at those prices.

Performance Record (continued)

As at 30 June 2018

Change in net assets per share	I Class (Accumulation shares)			
	30.06.18 (p)	31.12.17 (p)	31.12.16 (p)	31.12.15 (p)
Opening net asset value per share	363.51	296.56	232.53	200.78
Return before operating charges	28.47	70.17	66.64	33.82
Operating charges	(1.72)	(3.22)	(2.61)	(2.07)
Return after operating charges	26.75	66.95	64.03	31.75
Distributions	(2.00)	(2.36)	(2.50)	(2.56)
Retained distributions on accumulation shares	2.00	2.36	2.50	2.56
Closing net asset value per share	390.26	363.51	296.56	232.53
After direct transaction costs of:	0.12	0.12	0.13	0.13
Performance				
Return after operating charges	7.36%	22.58%	27.54%	15.81%
Other information				
	£	£	£	£
Closing net asset value	7,560,178,548	6,420,742,471	4,038,574,367	1,665,042,251
Closing number of shares	1,937,230,064	1,766,325,585	1,361,786,758	716,047,119
Ongoing charge figure*	0.95%	0.95%	0.96%	0.97%
Direct transaction costs	0.07%	0.04%	0.05%	0.06%
Prices				
	(p)	(p)	(p)	(p)
Highest share price	393.56	367.36	306.99	234.32
Lowest share price	341.30	295.49	222.66	197.37

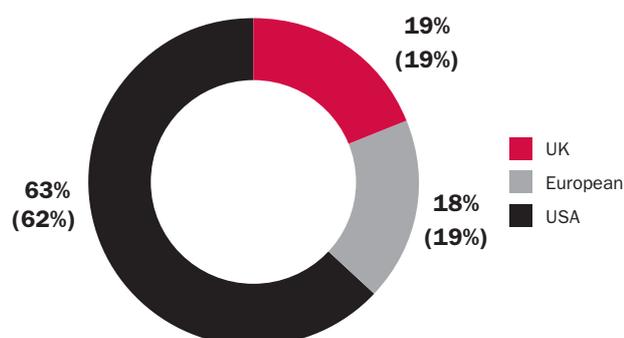
Change in net assets per share	I Class (Income shares)			
	30.06.18 (p)	31.12.17 (p)	31.12.16 (p)	31.12.15 (p)
Opening net asset value per share	335.15	275.31	217.81	190.38
Return before operating charges	26.24	65.01	62.26	31.80
Operating charges	(1.59)	(2.98)	(2.43)	(1.95)
Return after operating charges	24.65	62.03	59.83	29.85
Distributions	(1.84)	(2.19)	(2.33)	(2.42)
Retained distributions on accumulation shares	-	-	-	-
Closing net asset value per share	357.96	335.15	275.31	217.81
After direct transaction costs of:	0.11	0.11	0.12	0.12
Performance				
Return after operating charges	7.36%	22.53%	27.47%	15.68%
Other information				
	£	£	£	£
Closing net asset value	5,256,208,196	4,589,257,018	3,231,524,070	1,645,010,538
Closing number of shares	1,468,359,699	1,369,331,709	1,173,767,633	755,248,320
Ongoing charge figure*	0.95%	0.95%	0.96%	0.97%
Direct transaction costs	0.07%	0.04%	0.05%	0.06%
Prices				
	(p)	(p)	(p)	(p)
Highest share price	362.85	339.10	285.88	220.29
Lowest share price	314.67	274.32	208.56	185.56

*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.

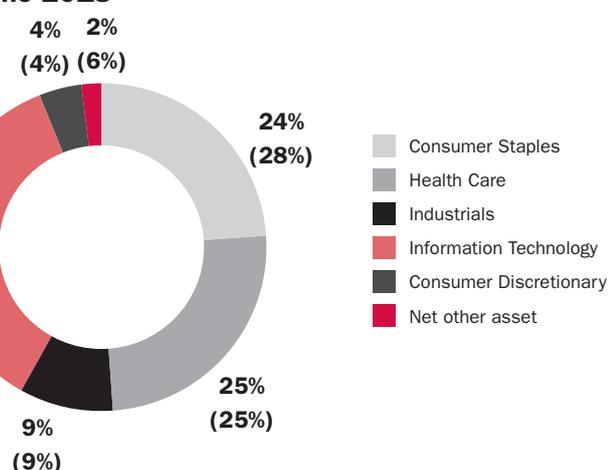
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Information on the fund

Breakdown by geography*
as at 30 June 2018



Breakdown by sector
as at 30 June 2018



The figures in brackets show comparative figures at 31 December 2017.

Summary of significant changes

For the six months to 30 June 2018		For the six months to 30 June 2017	
Largest purchases	Cost (£)	Largest purchases	Cost (£)
Facebook	687,036,932	Novo Nordisk	250,633,332
Reckitt Benckiser	233,118,548	Intuit	109,941,712
Philip Morris International	189,987,857	Automatic Data Processing	99,973,922
PepsiCo	140,223,883	Waters	93,003,605
Sage	136,368,343	Intertek	65,919,040
Total	1,386,735,563	Total	619,471,611
Total purchases for the six months	2,738,685,453	Total purchases for the six months	1,074,829,345
Largest sales	Proceeds (£)	Largest sales	Proceeds (£)
Dr Pepper Snapple	774,215,811	JM Smucker	140,182,067
Nestlé	317,965,358	Reckitt Benckiser	18,679,638
British American Tobacco**	2,054,047		-
Procter & Gamble**	1,598,718		-
Davide Campari-Milano**	1,037,781		-
Total	1,096,871,715	Total	158,861,705
Total sales for the six months	1,101,920,788	Total sales for the six months	158,861,705

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

**During the period there was an in specie transfer of a broadly similar portfolio, however a small number of positions were not held in the Fundsmith Equity Fund and were subsequently sold.

Investment Manager's review

The table below shows the performance of the Fund during the first half of 2018 and since inception compared with a number of benchmark indices:

	01.01.18 –	Since inception	
	30.06.18	Cumulative	Annualised
	%	%	%
Fundsmith Equity Fund	+7.0	+287.0	+19.3
MSCI World	+2.9	+142.4	+12.3
FTSE100	+1.6	+79.6	+7.9
UK Gilts	-0.4	+33.6	+3.9
Cash	+0.3	+4.7	+0.6

Our Fund outperformed what is perhaps the most obvious benchmark - the MSCI World Index - by a bit over 4% during the first half of 2018. It outperformed the FTSE100 Index which is relevant to many of our UK investors by a bit more.

The main contributors to our performance in the first half of 2018:

TOP FIVE	% Contribution
Idexx Laboratories	+1.56
Intuit	+1.09
Microsoft	+1.06
Dr Pepper Snapple	+0.90
Paypal	+0.83

Dr Pepper Snapple was bid for by Keurig Green Mountain and we decided to exit our position.

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

BOTTOM FIVE	% Contribution
Philip Morris International	-0.96
Sage	-0.68
Novo Nordisk	-0.58
3M	-0.52
Johnson & Johnson	-0.33

In addition to the sale of Dr Pepper Snapple, we also sold our holding in Nestlé following its acquisition of the rights to the Starbucks products, other than Ready To Drink products, not sold in Starbucks shops.

We acquired a holding in Facebook, viewing the furore over the use of users' data as a typical glitch of the type which has sometimes enabled us to find a favourable valuation entry point in the past for companies such as IDEXX. We may of course be wrong, as inevitably we sometimes are, but we bought Facebook on about the same valuation as the average S&P 500 company. Facebook has been growing at about 50% pa and whilst this growth rate must slow, it would have to fall a long way to make the shares look expensive.

Our portfolio turnover was 16.5% which is unusually high by our own glacial standard of dealing. The Dr Pepper Snapple and Nestlé deals and consequent trades gave this a boost early in the year. As ever, it would be wise to see where the full year trading figures come out before reaching any conclusions.

Perhaps more meaningful is the question of how much we spent on dealing. Voluntary dealing - in which we made a decision to buy or sell a stock rather than deploying flows into the Fund - cost £2,332,957 in the first half of 2018 which is 0.02% or 2 basis points (a basis point or bp or "bip" as it is pronounced being one hundredth of a percent) of the average value of the Fund. This compares to 0.3bps for the comparable period last year so you can see that the broking community should still not be ordering fast cars or yachts based upon our largesse.

Investment Manager's review (continued)

The Ongoing Charges Figure or OCF for our Fund was just 5bps over the Annual Management Charge in the first half of 2018. If you are paying 1% AMC, then the OCF is 1.05%. This is the same number as for the full year 2017 and the first half 2017. If you add the costs of all dealing to derive the Total Cost of Investment or TCI this rises to 1.11%. This compares to 1.09% for the whole of 2017 and 1.06% for the comparable period last year. However, these numbers may drop over the next six months, getting closer to the full year number for 2017 for full year 2018 if events do not cause us to be active by our own glacial standards in the second half of the year.

We eagerly await the outcome of the Financial Conduct Authority's ("FCA") recently published Asset Management Market Study because we are confident that the TCI on the Fundsmith Equity Fund will compare favourably with any disclosure of "all-in fees" including dealing costs by the remainder of the active asset management industry.

This is an important subject but more heat than light is generated by the discussion of fees. In order to maximise your returns you need to maximise the returns you can attain after the total cost of investment. Investors often seem to focus simply on the AMC or at most the OCF, which includes administrative costs charged to the fund, and work on the basis that minimising that is their primary goal. However, this is only part of the picture of what you pay before you get the benefit of the performance of the shares in your fund. You need to also take into account the costs of dealing as well as any fees paid to any intermediaries. Moreover, some investors focus on the fees but ignore the performance. There is not much point in minimising fees whilst accepting poor performance. I accept that a low fee poorly performing fund is better than one with high fees but that is a bit like saying it's better to be run over by a small car than by a lorry. Whilst it's hard to disagree, surely it's best to cross the road carefully and avoid getting hit at all.

We are confident that the TCI on the Fundsmith Equity Fund is very competitive partly because we deal so infrequently but we will have to await the fuller disclosure from the broader market in order to demonstrate that.

And finally, on 13 July, the price of the Fundsmith Equity Fund I Class Accumulation shares in which the majority of our investors' money is placed and the T Class Accumulation shares which are most popular with our direct investors, including me, both went through £4 compared with their issue price of £1 on 1 November 2010.

It is said that Albert Einstein said: "Compound interest is the eighth wonder of the world."

If you had invested £1,000 on the day our Fund opened and just left it in the T Class Accumulation shares, it would now be worth £4,011.70, a return of 19.78% pa. However, in order to gauge what Einstein was saying consider this: the amount you had invested in the Fund would have increased over May, June and July to date by 12.37%, but in nominal terms, that means your investment increased from £3,570 to £4,011.70. That is almost £441.70, or 44.17% of your original investment. That's the power of compound interest.

Terry Smith
Fundsmith LLP
30 August 2018

Further information

Reports and accounts

Each year, we 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 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 Investor Information Document (KIID) and the Supplementary Information Documents (SID).

The ACD for Fundsmith Equity Fund is Fundsmith LLP located at 33 Cavendish Square, London W1G 0PW. The documents are also available from the website.

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 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.

Contact details

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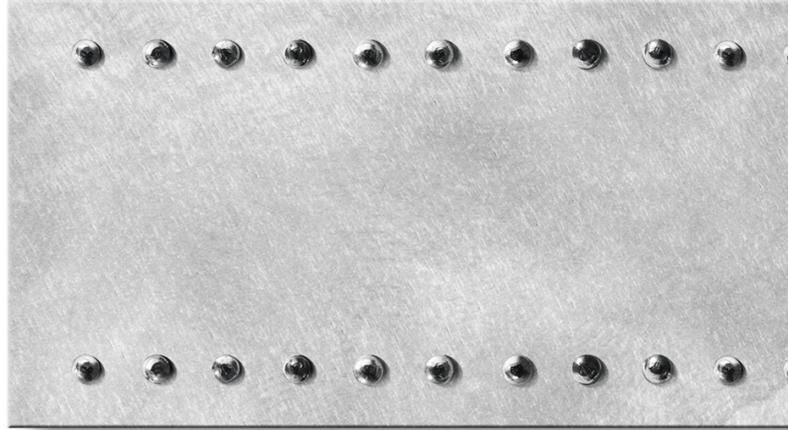
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