

FUNDSMITH LLP MIFIDPRU DISCLOSURE**31 March 2022**

The Firm is a MIFID investment firm and a Collective Portfolio Management Investment ('CPMI') firm. The capital requirements regime applicable to the Firm consists of three 'Pillars':

- Pillar 1 sets out the minimum capital and liquidity requirements that the Firm must satisfy;
- Pillar 2 involves the Firm making an assessment of whether its financial resources and liquid assets are adequate having considered business model planning and forecasting, recovery and wind down planning, and the identification, monitoring and mitigation of material harms that the Firm may face as part of its business; and
- Pillar 3 requires the Firm to make certain disclosures relating to its:
 - a. Risk management objectives and policies;
 - b. Governance arrangements;
 - c. Own funds
 - d. Own funds requirements;
 - e. Remuneration policy and practices; and
 - f. Investment policy.

This document is designed to meet the Firm's Pillar 3 obligations, as set out in MIFIDPRU 8.

MIFIDPRU came into effect on 1 January 2022 replacing BIPRU and GENPRU, and the transitional provisions relating to disclosure requirements are set out in MIFIDPRU TP 12.

The Firm's reference date to which the disclosures are prepared is 31 March 2022. Under the transitional provisions the Firm is not required to disclose information related to its risk management objectives and policies (a. above) and its investment policy (f. above), and the Firm's disclosures relating to its remuneration policy and practices are made in compliance with the previous requirements that were set out in BIPRU 11.5.

In accordance with MIFIDPRU 8.1.8 R the Firm provides a level of detail in its qualitative disclosures that is appropriate to its size and internal organisation, and to the nature, scope and complexity of its activities.

This disclosure document has been prepared by Fundsmith LLP ('the Firm') in accordance with the requirements set out above and has been reviewed and approved by the Firm's Management Committee.

The Firm's disclosures are issued on an annual basis after the year end and are published on at the same time as the Firm's Annual Report and Financial Statements.

GOVERNANCE ARRANGEMENTS

The Firm maintains a Governance Framework that sets out the governance structure operated the Firm.

The Management Committee is the ultimate governing body of the Firm and is responsible for all aspects of the Firm's business including setting the strategy and direction of the business, overseeing the day-to-day management of the business, setting the Firm's risk appetite, and for ensuring that the Firm fulfils all its regulatory obligations.

The requirements under MIFIDPRU 7.3 "Risk, remuneration and nomination committees" do not apply to the Firm.

The Management Committee delegates the day-to-day management of the business to individual senior managers, as set out in the business's organisation structure and job descriptions. The business's organisation structure chart sets out the line management responsibilities for Fundsmith's business activities. The Management Committee approves any changes to, the organisation structure.

The Management Committee delegates certain oversight activities and policy approval authorities to its executive sub-Committees, the Investment Risk Committee, the Stewardship and Sustainability Committee, and the Risk and Compliance Committee. Each sub-Committee is chaired by the Head of Research or the Chief Compliance Officer, and each sub-Committee reports on its activities to the Management Committee.

This structure allows the Management Committee to focus on the overall management of the business and on the oversight of the strategic risks faced by the Firm.

The Firm outsources a number of activities to third-party service providers. The Firm delegates certain investment management and related activities to Fundsmith Investment Services Limited (FISL), a company under common ownership.

The Management Committee holds the overall responsibility the determination of the risk appetite of the Firm and for the identification and management of risk. The Management Committee has responsibility for setting the 'tone at the top' and for ensuring that the Firm operates in a manner consistent with its risk principles.

The Management Committee is responsible for ensuring that the Firm operates in compliance with applicable legal and regulatory requirements, and regulatory guidance.

The Firm considers that appropriate policies are in place to ensure all staff, including the members of the Management Committee are 'fit and proper'. All senior personnel are experienced industry professionals, and any senior appointments are subject to the Management Committee's approval, with due consideration to the reputation, fitness and experience of the candidate as well as the long-term strategic goals of the business.

The members of the Management Committee during the year to 31 March 2022 are set out in the following table, together with the number of additional directorships held by each member, excluding directorships held: (i) in organisations which do not pursue predominantly commercial objectives; (ii) in entities within the legal group and related parties; and (iii) in entities whose primary purpose is to hold personal investments.

Name	Number of additional directorships (executive and non-executive)
Terry Smith	None
International Value Investments Limited (represented by Terry Smith)	Not applicable
Mark Laurence	1
Paul Mainwaring	None

Initial and ongoing assessments of the competence of staff are conducted, and all staff holding Senior Manager Functions and other SMCR Certificated persons are formally assessed on an annual basis to ensure that they remain competent to fulfil their job functions and prescribed responsibilities. All staff, including the Partners, undergo training on a variety of regulatory topics each year.

The Firm is committed to promoting diversity and equal opportunities for staff throughout the Firm, including the Management Committee, and this informs the Firm's recruitment and retention strategies across the organisation.

OWN FUNDS

The Firm determines its own funds in accordance with MIFIDPRU 3.

The Firm is a Limited Liability Partnership and its capital arrangements are established in its Partnership Agreement. The Firm's regulatory capital resources ("own funds") comprise the aggregate balance of the Members' Capital accounts. The nature and terms of the Members' capital accounts allow these balances to be treated as tier one capital.

At 31 March 2022 the Firm's regulatory capital resources totalled £8.0 million. As there are no adjustments required to determine the Firm's regulatory capital resources from the amount shown on the face of the balance sheet, the template set out in MIFIDPRU 8 Annex 1R has not been deployed.

OWN FUNDS REQUIREMENT

The Firm determines its Pillar 1 own funds requirement in accordance with MIFIDPRU 4, and in accordance with IPRU-INV 11.

The Firm must at all times meet the Pillar 2 Overall Financial Adequacy Rule.

Under MIFIDPRU 4

The Firm's own funds requirement is the higher of the K-factor requirement and the Fixed Overhead Requirement (FOR).

The Firm's K-factor requirement comprises the K-AUM requirement only. The Firm's K-AUM requirement at 31 March 2022 was £0.142 million.

The Firm's FOR at 31 March 2022 was £4.375 million.

The Firm's own funds requirement under MIFIDPRU 4 at 31 March 2022 was £4.375 million.

Under IPRU-INV 11

The Firm's own funds requirement is the higher of the Funds under Management (FuM) requirement and the FOR, plus the professional indemnity insurance (PII) requirement.

The FuM requirement is the sum of the base own funds requirement (€125,000) plus 0.02% (2 bps) of FuM in excess of €250m.

The FOR is 25% of the Firm's fixed overheads of the preceding year.

The PII requirement is 0.01% (1 bp) of the value of the portfolios of the alternative investment funds (AIFs) managed.

The relevant FuM at 31 March 2022 was £30.8 billion, resulting in a FuM requirement of £6.276 million.

The FOR at that date was £4.375 million.

As the FuM requirement is higher than the FOR, under IPRU-INV the Firm's own funds requirement is £6.736 million (the FuM requirement plus the PII requirement of £0.460 million).

Overall Financial Adequacy Rule

The Firm must at all times meet the Overall Financial Adequacy Rule. This requires the Firm to have own funds and liquid assets which are adequate, both as to amount and quality to ensure that:

- (a) The Firm remains financially viable throughout an economic cycle, with the ability to address potential harms from its ongoing operations; and
- (b) Its business can be wound down in an orderly manner, minimising harm to consumers or other market participants.

The Overall Financial Adequacy Rule comprises:

- The Own Funds Threshold Requirement; and
- The Liquid Assets Threshold Requirement.

Both threshold requirements involve consideration of the impact on own funds and liquid assets associated with ongoing operations and a potential wind down of the Firm's business. The potential material harms, business model planning and forecasting and wind down planning feed into these assessments.

Based on its modelling, the Firm holds sufficient own funds and liquid assets to meet the OFAR.

REMUNERATION POLICY AND PRACTICES

In accordance with the MIFIDPRU transitional provisions the Firm's disclosures relating to remuneration policy and practices in respect of the year to 31 March 2022 are made with regard to the requirements of the BIPRU sourcebook.

The Firm is a UK UCITS Management Firm, an AIFM, and provides additional designated investment services. For the year to 31 March 2022 the Firm was subject to the FCA's Rules on remuneration set out in chapters 19B and 19E of the SYSC Sourcebook in the FCA's Handbook (the Remuneration Codes).

The Firm's Remuneration Policy applicable for the year to 31 March 2022 was designed to ensure that it complies with the Remuneration Codes, and that its compensation arrangements:

1. are consistent with and promote sound and effective risk management;
2. do not encourage excessive risk taking, or risk-taking which is inconsistent with the risk profiles or instruments of incorporation of the funds managed by the Firm;
3. include measures to avoid conflicts of interest; and
4. are in line with the Firm's business strategy, objectives, values and long-term interests.

Application of the requirements

The Firm is required, subject to the application of proportionality, to disclose qualitative and quantitative information on at least an annual basis relating to remuneration. The Firm was not a significant BIPRU firm, and makes disclosure that are appropriate to the size, internal organisation and the nature, scope and complexity of its activities, in accordance with the general guidance on proportionality applicable to remuneration disclosures.

The Firm may omit required disclosures where we believe that the information could be regarded as prejudicial to our compliance with the UK retained law version of the General Data Protection Regulation (GDPR) on the protection of individuals with regard to the processing of personal data and on the free movement of such data.

Disclosures

1. Summary of information on the decision-making process used for determining the Firm's remuneration policy:

- The Firm's policy has been approved by the Management Committee in line with the Remuneration principles laid down by the FCA in SYSC 19B and SYSC 19E.
- Due to the size, nature and complexity of the Firm, the Management Committee has concluded that it is not necessary to appoint an independent remuneration committee.
- The Firm's policy is reviewed as part of the annual process or following a significant change to the business.
- The Management Committee determines the partners and staff who are Remuneration Code Staff.

2. Summary of how the Firm links pay and performance:

The Firm distinguishes the approach to remuneration between the founding partners, the new partners, and other staff.

- founding partners are allocated a share of the profit of the Firm reflecting their ownership interests, and do not receive any form of variable remuneration from the Firm.
- new partners are remunerated in the same way as other staff, and as they have an ownership interest in the Firm, they also receive a share of the profit of the Firm reflecting their ownership interests.
- other staff receive a salary, certain benefits, and are eligible for an award of a discretionary bonus.

Staff salaries are set at a competitive level and aim to be sufficiently high to allow for a fully flexible approach to the award of a discretionary bonus.

The award of any discretionary bonus is entirely at the Management Committee's discretion and will depend on both the financial position of the Firm and the outcome of the individual's performance review which is undertaken at the end of each financial year. The performance review process takes into account a range of factors including the individual's performance and their broader contribution to the business. Those employees working in control functions such as risk management or compliance have their personal objectives set by reference to their specific functions and will be rewarded according to the achievement of those objectives, rather than the performance of the business more generally.

3. Aggregate quantitative information on remuneration, broken down by business area:

The Firm takes a proportionate approach to its Remuneration disclosure in line with the nature, scale and complexity of the Firm and as such has chosen not to disclose remuneration broken down by business area.

4. Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the Firm (Remuneration Code Staff):

The Management Committee has determined that its Remuneration Code Staff are those individuals undertaking Senior Management Functions that require approval by the FCA and any employee who is the lead investment manager of a fund.

For the year to 31 March 2022 the only Remuneration Code Staff who are not Founding Members are the two portfolio managers of the investment trusts and the CFO. The Firm has chosen not to disclose their aggregate remuneration on the basis of confidentiality.