Fundsmith Equity Fund

Interim Short Report

For period ended 30 June 2011

Fundsmith

Profile of the fund

Investment objective

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;
- 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. Whilst the fund is invested on a global basis, there is no currency hedging. The principle risk factor is the market price of the securities which the ACD reviews in the light of the fund objectives above.

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 this period, the PTR was 12.9%. This is higher than we would normally expect, partly because of the takeover of Del Monte, which contributed 4.4% to the PTR and partly because the fund has grown significantly during the period so the average fund size is significantly below the period end fund size.

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.

Net Asset Value and TER as at 30 June 2011

	30 June 2011
T Class (Accumulation shares)	
Total net asset value (£)	86,964,669
Net asset value per share (p)	111.87
Number of shares in issue	77,735,193
Total expense ratio	1.17%
T Class (Income shares)	
Total net asset value (£)	8,852,231
Net asset value per share (p)	110.90
Number of shares in issue	7,982,307
Total expense ratio	1.17%
R Class (Accumulation shares)	
Total net asset value (£)	5,676,219
Net asset value per share (p)	111.53
Number of shares in issue	5,089,444
Total expense ratio	1.66%
R Class (Income shares)	
Total net asset value (£)	1,910,258
Net asset value per share (p)	110.85
Number of shares in issue	1,723,219
Total expense ratio	1.66%
I Class Net (Accumulation shares)	
Total net asset value (£)	13,716,834
Net asset value per share (p)	111.93
Number of shares in issue	12,254,721
Total expense ratio	1.06%
I Class Net (Income shares)	
Total net asset value (£)	20,397,464
Net asset value per share (p)	110.87
Number of shares in issue	18,396,986
Total expense ratio	1.06%

The Total Expense Ratio (“TER”) is the total expenses paid by the sub–fund for the period from 1 November 2010 to 30 June 2011, annualised, against its average net asset value.

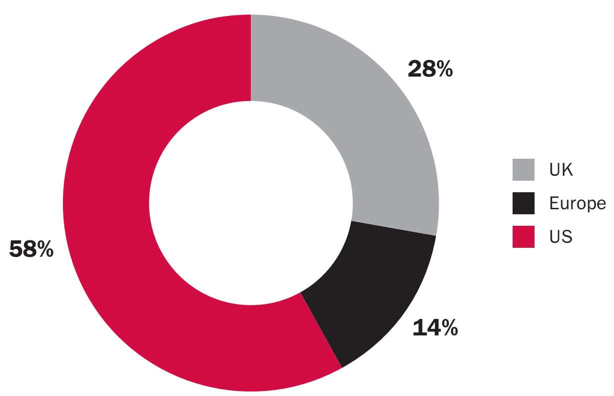
Price and performance

Figures in pence (unless otherwise stated)	2011 (up to 30 June)	2010 (from 1 November)
T Class (Accumulation shares)		
Accumulation share high	112.85	107.52
Accumulation share low	101.27	98.98
Net revenue per accumulation share	0.9862	-
Performance since launch	11.91%	
T Class (Income shares)		
Income share high	112.85	107.52
Income share low	101.27	98.99
Net revenue per income share	0.9862	-
Performance since launch	11.91%	
R Class (Accumulation shares)		
Accumulation share high	112.57	107.46
Accumulation share low	101.10	98.97
Net revenue per accumulation share	0.6960	-
Performance since launch	11.57%	
R Class (Income shares)		
Income share high	112.56	107.45
Income share low	101.09	98.97
Net revenue per income share	0.6960	-
Performance since launch	11.58%	
I Class Net (Accumulation shares)		
Accumulation share high	112.91	107.53
Accumulation share low	101.30	98.99
Net revenue per accumulation share	1.0737	-
Performance since launch	11.98%	
I Class Net (Income shares)		
Income share high	112.91	107.53
Income share low	101.30	98.98
Net revenue per income share	1.0737	-
Performance since launch	11.98%	

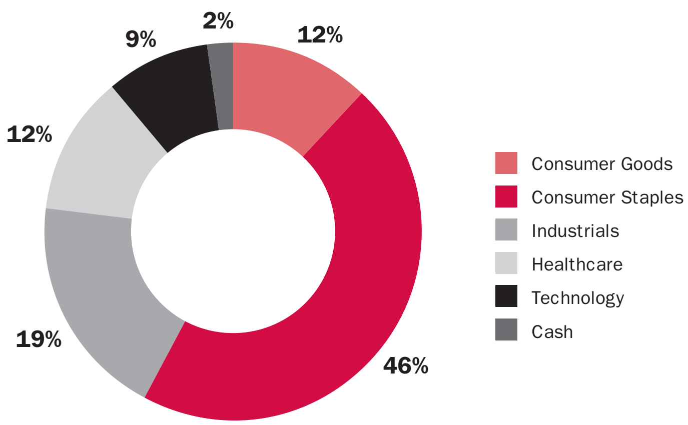
The performance is quoted, net of costs.

Information on fund

Breakdown by geography



Breakdown by sector



Top ten holdings	% of Fund
Intercontinental Hotels	6.03
Domino's Pizza	5.85
Dr Pepper Snapple	5.11
Imperial Tobacco	4.86
Automatic Data Processing	4.80
Schindler	4.71
Microsoft	4.70
Philip Morris International	4.64
3M	4.62
Becton Dickinson and Company	4.61

Investment Manager's review

1 November 2010 to 30 June 2011	Returns %*
FEF Fund T Class Acc	11.9
MSCI	10.7
MSCI EAFE	8.1
FTSE 100	7.6
LONG GILT 10YR (UK3.75 07/20)	1.6

*All returns in Sterling

From inception on 1st November 2010 to the 30th June 2011 the Fund's T Class Accumulation shares, through which I hold my investment in the Fund, rose in value by 11.9%. The MSCI World Index which we take as the best benchmark for the Fund was up by 10.7%.

Other benchmarks which may be of interest to investors performed as shown above.

The Fund therefore outperformed its main benchmarks during a reasonably bullish period for equities. Frankly this exceeded our expectations. Our portfolio has excellent defensive characteristics but we do not normally expect it to outperform the market in bull runs. It is also in my view far too short a period to make any useful assessment of the merits or otherwise of the Fund's investment strategy.

However as we write this in August, the market is experiencing much more testing conditions. The "rescue" package for Greece was swiftly followed by a surge in the borrowing costs of Italy and Spain as the market seeks to test the resolve of politicians not to extend the bail outs which have been applied to Greece, Ireland and Portugal. This comes hard on the heels of an agreement to raise the US debt ceiling in return for a package of spending "cuts". These cuts are at best a reduction in the expected rate of increase in government spending. What this fudge relies upon is economic growth sufficient to make the more modest growth in government spending fall as a percentage of GDP or national income. To date this has been capped by a downgrade by Standard & Poor's of the United States AAA debt rating. We strongly suspect that such growth will not be forthcoming- possibly at all, and certainly not in sufficient strength to make any significant impact on the sovereign debt problems of the US, most of the Eurozone or the UK. Consequently, we expect these periods of volatility and bearish sentiment to continue for some time.

This activity has naturally led to a reduction in the Net Asset Value ("NAV") of the Fund. The only good news about this is that we continue to monitor the fundamental performance of the portfolio companies and have not detected any decline in their intrinsic value as measured by the free cash flows they generate and the prospects for growth in that cash flow over the next few years.

Moreover, we have continued to invest cash inflows throughout the downturn so that the Fund owns considerably more shares per unit in the good companies it owns than it did when the NAV was previously at this level. Plus the share prices of many of the stocks we seek to invest in have fallen to levels which make their valuations look attractive so that we are confident of our ability to deploy further inflows into investments which should compound value for us as investors over time.

Returning to the performance of the Fund for the period to June, the top five contributors to performance and detractors were:

Top 5	Returns 1 November 2010 – 30 June 2011
Domino's Pizza	£2,932,107
Dr Pepper Snapple	£615,441
Kone	£560,962
Nestle	£529,607
Colgate Palmolive	£509,289

Bottom 5	
Microsoft	-£323,313
Serco	-£179,805
Procter & Gamble	-£52,305
Imperial Tobacco Group	£19,518
Kimberley Clark	£58,049

It is interesting to note that in this bullish period, even two of the detractors made small positive contributions to the rise in NAV.

It is probably wisest to focus on our problems rather than our successes. Microsoft and Serco are probably the two stocks in the portfolio about which there is most "noise" in terms of commentary.

Microsoft is regularly criticised for its lack of success in mobile devices and internet search-for not being Apple or Google. In our view, this ignores its continuing success in the Business, Servers and Tools and Windows divisions and the advantages of the installed base of Microsoft users. During the period, Microsoft announced the acquisition of Skype using some of its $52bn of cash. We would prefer other uses for the cash – perhaps the purchase of shares in a company which it knows better than Skype and which trades on an 11% free cash flow yield i.e. its own shares and an end to the loss-making Online search engine business. Nonetheless we believe that Microsoft is a cheap stock in a company with an impressive installed base of users for its core products.

Serco is an outsourcing business which is subject to concerns about the possible impact on its business of the UK government's austerity measures. Leaving aside my views on whether the UK government's measures represent an actual cut in spending or are sufficient, these concerns seem to us to fail to appreciate the sheer breadth of its operations by type and geography and the visibility of its order book and revenues.

Procter & Gamble is the world's largest consumer products company with fantastically powerful brands (23 have revenues of more than $1bn pa) and wonderful returns on operating capital in cash.

Imperial Tobacco suffered during the period from a short-lived price war in the Spanish market where it is a key operator.

Kimberley Clark was the only voluntary portfolio change during the period when we sold our holding in the face of deteriorating returns on incremental capital employed. The stock nonetheless netted us a small gain.

On the subject of turnover, portfolio turnover was 12.9% which is somewhat higher than we aim for although it is still materially lower than most mutual fund managers. This was caused by three factors: a) turnover is measured against average portfolio size for the period. As our Fund grew significantly in size, this tended to exaggerate the turnover percentage; b) a cash takeover bid for Del Monte Foods, which we held for its pet food operations, by KKR; and c) the sale of Kimberley Clark. Whilst we still aim for low turnover, some events are outside our control and since 30th June we have also received a bid approach for Clorox, the US consumer products business which makes the eponymous bleach.

We remain confident that over the long term our portfolio will deliver good compounding of value for our partner investors despite the near term uncertainty about how badly stock markets will react to the ongoing debt crisis.

General information

Valuation point

The valuation point is 12 noon on each dealing day (which is a business day in London).

Buying and selling shares

Generally, you may buy by post or online via the our website or by telephone:

- By post – Simply complete the relevant application form and post it to the address on the form or pass it to your independent financial adviser
- Online – go to www.fundsmith.co.uk and follow the instructions
- By telephone – call us on 0330 123 1815 on any dealing day between 9.00am and 5.00pm

You can sell your investment in the Company by writing to us at Fundsmith LLP, PO Box 10846, Chelmsford, Essex, CM99 2BW or calling us on 0330 123 1815.

Prices

The prices for each sub-fund will be posted on our website and will be published in the Financial Times and Telegraph.

Annual report

The annual report will normally be published within two months of the end of each accounting period. The period ends are: Interim accounts to 30 June; Final accounts to 31 December.

The long form of these accounts is also available upon request.

Taxation

A general summary of the UK taxation with respect to individual holders is included in the Prospectus which is available on our website.

Other information

The Instrument of Incorporation, Prospectus, Simplified Prospectus and most recent interim reports may be inspected at the offices of the ACD and copies may be obtained upon application.

Shareholders who have any complaints about the operation of the Company should contact the ACD or the Depository in the first instance. In the event that the shareholder finds the response unsatisfactory, they may make a complaint direct to the Financial Ombudsman Service at South Quay Plaza, 183 Marsh Wall, London E14 9SR.

Contact details

Dealing and enquiries

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