

# Fundsmith Equity Fund

## Fundsmith Equity Fund

### **Short Form Report**

For the year ended 31 December 2025



## Profile of the Fund

### Investment objective and policy

The investment objective of the Fundsmith Equity Fund (the "Fund") is to achieve long-term growth (over 5 years) 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 the 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

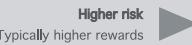
The Fund has no exposure to derivatives and no borrowings. Further, the investments are all in large publicly quoted companies where there is significant liquidity in the stock. The principal risk factor is the market price of the securities held by the Fund which is kept under review in light of the Fund's objective.

#### Risk and reward profile



Lower risk  
Typically lower rewards

1	2	3	4	5	6	7
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Higher risk  
Typically higher rewards

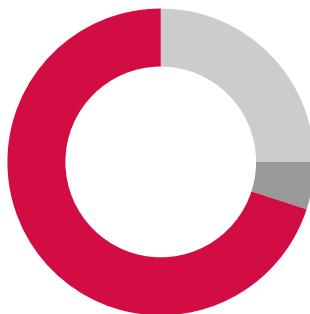
The risk category reflects the significance of the Fund's share price fluctuations based on historical data. Historical data may not be a reliable indication of the future risk profile of the Fund. The risk category of the Fund is not guaranteed and may change over time. Further, the lowest category 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. This fund is ranked at 5 because funds of this type have experienced medium to high rises and falls in value in the past. The underlying investments are, however, in large companies with shares that are, in most cases, highly liquid.

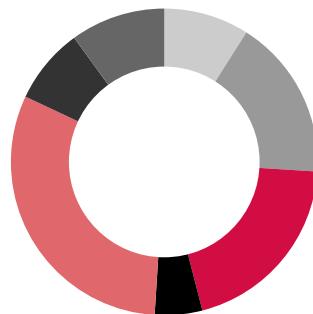
There are a number of other risks that are not covered by the indicator above. A full description is contained in the prospectus under the heading "Risk Factors". The most material are currency risk, concentration risk and operational risk which are explained above.

# Information on the Fund

## Breakdown by geography\* as at 31 December 2025



## Breakdown by sector as at 31 December 2025



The figures in brackets show comparative figures at 31 December 2024.

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

## Summary of Significant Changes

For the year 1 January 2025 to 31 December 2025		For the year 1 January 2024 to 31 December 2024	
<b>Largest purchases</b>	<b>Cost (£)</b>	<b>Largest purchases</b>	<b>Cost (£)</b>
Zoetis	443,616,344	Texas Instruments	211,429,769
Intuit	288,474,822	Atlas Copco	210,588,760
EssilorLuxottica	244,762,697	Fortinet	185,134,808
Texas Instruments	141,417,429	Unilever	78,427,622
Atlas Copco	120,845,928	Mettler-Toledo International	45,118,922
<b>Total</b>	<b>1,239,117,220</b>	<b>Total</b>	<b>730,699,881</b>
<b>Total purchases for the year</b>	<b>1,393,532,386</b>	<b>Total purchases for the year</b>	<b>790,785,214</b>
<b>Largest sales</b>	<b>Proceeds (£)</b>	<b>Largest sales</b>	<b>Proceeds (£)</b>
Meta Platforms	1,698,846,481	McCormick	834,716,546
Microsoft	1,453,341,979	Novo Nordisk	545,927,308
PepsiCo	668,899,811	Microsoft	517,091,066
Alphabet	646,109,174	Diageo	490,027,416
Philip Morris International	624,440,130	Philip Morris International	294,212,809
<b>Total</b>	<b>5,091,637,575</b>	<b>Total</b>	<b>2,681,975,145</b>
<b>Total sales for the year</b>	<b>7,687,556,990</b>	<b>Total sales for the year</b>	<b>3,701,644,422</b>

## Investment Manager's review

***This report reproduces the Annual Letter that was sent to investors and published on the website in mid-January.***

January 2026

Dear Fellow Investor,

This is the sixteenth annual letter to owners of the Fundsmith Equity Fund ('Fund').

The table below shows performance figures for the last calendar year and the cumulative and annualised performance since inception on 1st November 2010 and various comparators.

% Total Return	1 <sup>st</sup> Jan to 31 <sup>st</sup> Dec 2025	Inception to 31 <sup>st</sup> Dec 2025		Sortino Ratio <sup>6</sup>
		Cumulative	Annualised	
<b>Fundsmith Equity Fund<sup>1</sup></b>	+0.8	+612.9	+13.8	0.75
Equities <sup>2</sup>	+12.8	+467.6	+12.1	0.48
IA Global Sector <sup>3</sup>	+10.8	+290.8	+9.4	0.42
UK Bonds <sup>4</sup>	+6.1	+31.2	+1.8	n/a
Cash <sup>5</sup>	+4.2	+23.5	+1.4	n/a

*The Fund is not managed with reference to any benchmark, the above comparators are provided for information purposes only.*

<sup>1</sup> T Class Accumulation shares, net of fees, priced at noon UK time, source: Bloomberg.

<sup>2</sup> MSCI World Index, £ net, priced at US market close, source: Bloomberg.

<sup>3</sup> Source: Financial Express Analytics.

<sup>4</sup> Bloomberg Series-E UK Govt 5-10 yr Bond Index, source: Bloomberg.

<sup>5</sup> £ Interest Rate, source: Bloomberg.

<sup>6</sup> Sortino Ratio is since inception to 31.12.25, 3.5% risk free rate, source: Financial Express Analytics.

The table shows the performance of the T Class Accumulation shares, the most commonly held share class and one in which I am invested, which rose by 0.8% in 2025.

This compares with a rise of 12.8% for the MSCI World Index ('Index') in sterling with dividends reinvested. The Fund therefore underperformed this comparator in 2025. A longer-term perspective may be useful and is certainly more consistent with our investment aims and strategy. Since inception, the Fund has returned 1.7% p.a. more than the Index and has done so with significantly less downside price volatility as shown by the Sortino Ratio of 0.75 versus 0.48 for the Index. This simply means that the Fund has returned about 56% more than the Index for each unit of price volatility, of which more later.

Our Fund is the third best performer in the Investment Association Global sector of 155 funds since its inception in

November 2010, with a return 322 percentage points above the sector average.

Outperforming the market or even making a positive return is not something you should expect from our Fund in every year or reporting period, and outperforming the market was challenging once again in 2025.

Before I turn to the reasons for the performance I should explain that contrary to the suggestion of some commentators I am not seeking to 'blame' anyone or anything for our Fund's relative performance. What I am seeking to do is explain it so that our investors have a clear understanding of what has happened and why. An explanation is not an excuse. I wonder how those commentators or our investors would view it if we offered no explanation. I see three main issues at play.

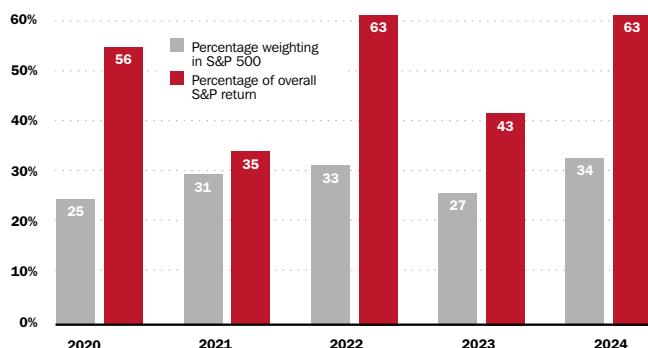
## Investment Manager's review (continued)

### 1. Index Concentration

The domination of returns by a small group of major 'technology' stocks became so pronounced by 2023 that it gave rise to one of those snappy descriptors that market commentators favour with the so-called Magnificent Seven: Alphabet (Google), Amazon, Apple, Meta (Facebook), Microsoft, Nvidia, and Tesla. This continued in 2024 after Jensen Huang, the CEO of Nvidia, made several public appearances at which he extolled the upcoming transformation of computing by artificial intelligence ('AI'), powered of course by Nvidia's chips. The result was akin to firing the starting gun in a race in which capital expenditure on semiconductor chips and data centers by the major tech companies — the so-called hyperscalers — spiralled upwards in an arms race matched only by the performance of their shares.

The result of this can be seen in these charts:

#### Concentration of Performance From Top 10 Stocks in S&P 500

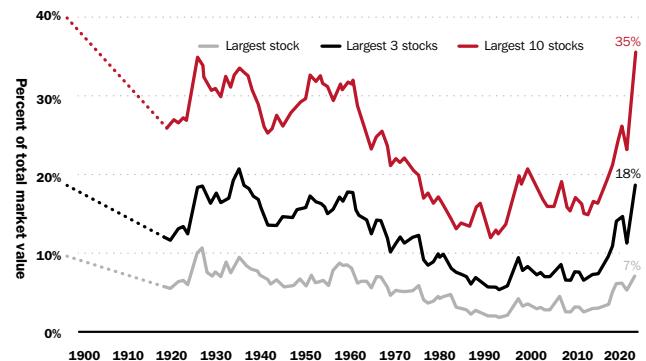


Source: UBS Global Investment Returns Yearbook 2025

It continued in 2025 and as a consequence, the top ten stocks were 39% of the value of the S&P 500 Index ('S&P') at the end of 2025 and provided 50% of the total return it delivered in USD.

Is this different to the past?

#### US Market Concentration Over Last 125 years



Source: UBS Global Investment Returns Yearbook 2025

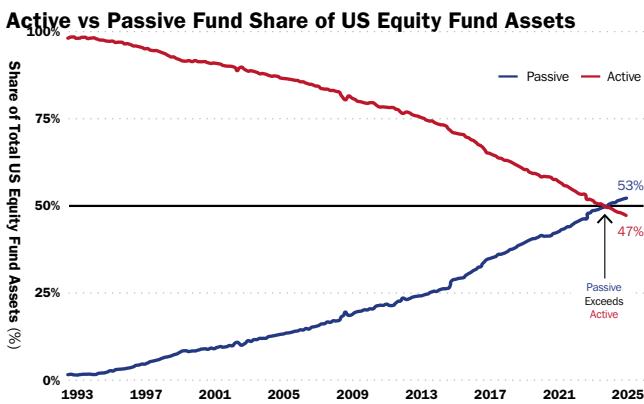
This second chart shows that the last time the US market value was this concentrated was in 1930. What happened next? It took until 1954 for the S&P to regain its 1930 high. Although this is regarded as prehistoric by most investors today it is wise to remember that the S&P (not the NASDAQ) did not regain its 2000 high until 2007 and then promptly lost it again in the Credit Crisis until 2013. When bubbles burst they can cause many lost years or even decades.

It was difficult to even perform in line with the index in recent years if you did not own most of these stocks in their market weightings, and we would not do so even if we became convinced that they were all good companies of the sort we seek to invest in, which we are not. It would in our view represent too much of a portfolio risk to own them all, just as we would not own all five of the drinks companies we have in our Investible Universe even if we thought that prospects for the sector were good. Our Fund is a portfolio, not a sectoral bet.

## Investment Manager's review (continued)

### 2. The Growth of Assets in Index Funds

The rise of the Magnificent Seven and the AI stocks also had a strong tailwind from the increase in assets held in index funds. In 2023 the proportion of US equities fund assets held in index tracking funds passed 50% for the first time.



Source: Research Affiliates, Data as at 31st Dec 2024

The financial services industry sometimes does not aid understanding with the labels it employs. Index funds and index ETFs are often labelled 'passives' in contrast with 'active' funds, like Fundsmith Equity Fund, which have a fund manager making investment decisions. The 'passives' mostly track the index they invest in by holding the stocks in proportion to their market value. Far from being passive in any normally accepted sense of the word, this makes them a momentum strategy.

A momentum investment strategy is one in which the investor buys stocks which are performing strongly. If you redeem money from an active fund like Fundsmith Equity Fund and invest it in an S&P 500 Index tracker fund your new fund will buy the index stocks in proportion to their market value. Currently about 7% of it will go into Nvidia which we do not own. About 35% will go into the Magnificent Seven of which we own only three stocks – Alphabet, Meta and Microsoft. This gives added momentum to those stocks we do not own which are a major part of the index.

John Bogle, the pioneer of index investing who founded Vanguard, the index fund manager, was asked at the 2017 Berkshire Hathaway annual meeting if there was a level of assets in index funds which would distort markets and he agreed that there was, although he had no method of determining that level. We may already have reached it.

In 2021 the National Bureau of Economic Research ('NBER') in Cambridge, Massachusetts published research entitled '*In search of the origins of financial market fluctuations: the inelastic markets hypothesis*'. You may not have heard of this as it is not the sort of thing to take for a read on a long flight. However, it has some startling revelations which are relevant to the current market.

It starts with the seemingly uncontroversial assertion that \$1 (or \$1m or \$1bn) switched between either stocks or bonds (or any other switch) does not affect the intrinsic value of either. If you redeem funds from an active fund like Fundsmith Equity Fund to place them in an index fund it does not alter the valuation of the stocks we have to sell to fund the redemption or the stocks that the index fund buys. However, the NBER paper shows that in reality such a switch has a multiplier effect of anything from 3:1 to 8:1, an average of about 5.5:1. The inflow from such switches pushes up the value of the stocks purchased by an average of five times the amount invested. To say this flies in the face of fundamental investment theory would be a masterly understatement.

The NBER paper attributes this to the inelasticity of demand and supply for equities. Over 50% of equities are in index funds which have no discretion over what they buy. Moreover, some portion of the so-called active funds which are left are managed in a way that makes them unlikely to bet against what is happening in the index. Apart from any mandate restrictions, fund managers have long realised the career preserving nature of so-called closet indexation in which they do not stray far from the index weightings. Given our experience in recent years, who can blame them?

## Investment Manager's review (continued)

The NBER research could in one sense be regarded as a statement of the blindingly obvious impact of the rise of index funds, but what is far from obvious is the scale of that impact. Nor does the fact that something may seem obvious, once it is explained, mean that it should then be ignored.

It may make no fundamental sense to buy Tesla shares on a Price Earnings Ratio ('PE') of 327 (which is its current rating) but it is the ninth largest company in the S&P 500 Index by value so not holding it is a perilous position to take when money is flowing into index funds.

John Bogle was right. The increasing proportion of equities held by index funds are invested without any regard to the quality or valuation of the shares bought which produces dangerous distortions.

Contrary to popular belief, the stock market is not a substitute for online casinos but rather a mechanism for valuing companies, raising capital and providing liquidity. When this becomes distorted the result is often a major misallocation of capital.

Sir John Templeton, who founded the eponymous investment management group, once said, 'The four most dangerous words in investing are: This time it's different'. He was pointing out that there are always people who are willing to rationalise outbursts of investment mania but they are always proven wrong when the bubble bursts and investment fundamentals reassess themselves.

We have seen this before, not only in the Dotcom boom and bust, but in other examples such as the Japanese market in the late 1980s. Then we were told that the PE of over 50 on the Nikkei Index was okay because Japanese accounting was conservative. In fact the market was just over-valued. After the subsequent fall in the Nikkei it took until 2024 for the index to regain the peak it attained in 1989.

When companies and/or investors are encouraged by soaring share prices and valuations to believe that capital is almost free, some disastrous investment decisions follow. They seem to act as though the cost of the capital that companies are investing is to some degree the reciprocal of their PE ratio. So, a PE of 50 equates to a cost of capital of 2% ( $100 \div 50$ ). This is utter nonsense.

The cost of equity does not vary inversely with the valuation and is perhaps best estimated by the cost of so-called risk-free capital, being the yield on long-dated government bonds plus

what is called an equity risk premium. It is not a bad starting point when trying to estimate a cost of equity capital to look at the long-term return on equities as it is in effect an opportunity cost: what return should an investor expect from equity investment over the long term? That is what they should demand as a cost of supplying equity by owning shares – the cost of equity capital. US equities have averaged a return of about 9% p.a. over the past century. It certainly isn't 2%.

If companies or investors start making decisions which deviate much from that assumption based upon soaring share valuations the outcome will be disastrous. In 2000 Vodafone, the UK based mobile phone operator which was one of the leaders in the Dotcom boom, bid for Mannesmann, the German mobile operator. At the time Vodafone was on a PE of 54 and Mannesmann was on a PE of 56. That points to another fallacy – managements often justify what they are paying for assets in booms and bubbles by the fact that they are paying by issuing over-valued or highly-valued shares. Hang on a minute, what does that imply for investors? We can see the results insofar as Vodafone's shares peaked at a value of 570p in 2000 when it bid for Mannesmann and they are now trading at 99p. When value is destroyed by bad capital investment decisions there is always a reckoning.

Perhaps the executives running some of the leading AI companies have a clear view of the future and can foresee that AI will produce not just a transformation in our lives and the way we work but also incremental cash flows such that the returns on the humongous amounts of capital they are investing will be adequate or better than adequate. But if not, we can expect Sir John Templeton's adage to be proven to be right once again, albeit maybe after a longer period and larger scale of irrational exuberance than we have seen in the past, driven by the momentum of index investing.

However, even if we are right in diagnosing this move to index funds as one of the causes of our recent underperformance and it is laying the foundations of a major investment disaster, I have no clue how or when it will end except to say badly.

With sincere respect to the late Sir John Templeton whom I quoted earlier, I think this time it may be different. Not in the sense that the Magnificent Seven/AI boom is different but rather in the scale it may attain and how long it may persist. When we had the Dotcom boom the proportion of AUM which was in index funds was under 10%. The dominance of index funds now makes the rise of these large stocks a self-fulfilling prophecy.

## Investment Manager's review (continued)

### 3. Dollar weakness

Just to add to the headwinds, the US dollar fell against the pound from about \$1.25/GBP at the start of the year to \$1.35 at year end:

**USD vs GBP Exchange Rate**



Source: Bloomberg

I doubt this reflects relative strength of the UK economy or satisfaction with government policy. The Trump administration is obviously keen to see interest rates lower and to reduce the trade deficit. Neither of these aims is compatible with a strong dollar.

Dollar weakness can also be seen in the price of gold which is at a 50 year high of \$4,319 per ounce. There is lots of speculation about the reasons for the strength of the gold price but to some extent I view it as an expression of weakness in the currency in which gold is priced.

This affects the GBP value of our Fund since the majority of the companies are listed in the United States and more importantly that is their biggest single source of revenue.

I hope that all of this may go some way towards explaining what we have been facing in terms of competition from index funds and the performance of large tech companies in particular in recent years with the added handicap of dollar weakness.

These events have convinced me that Tommy Docherty was an optimist. In the week when he was fired as manager of Manchester United and his wife filed for divorce he said, 'In life when one door closes, another slams in your face'. I think I know how he felt.

Perhaps a more pertinent question is what are we going to do about it?

We could:

1. Start buying stocks in all the large companies which dominate the indices, and/or
2. Become momentum investors who buy shares which are performing strongly irrespective of their fundamental merits.

We are not going to do either. If you want an index fund you can buy one with much lower costs than we or any other active investment manager apply. Nor are we momentum investors and there are better exponents of this investment strategy than us. I would just offer one note of caution if you are thinking of taking this approach. Good momentum investors in my experience buy shares which are going up and sell them when they start going down. They do not convince themselves, for example, that because they have bought Nvidia shares when they are going up, they know what is going to happen with AI or GPUs.

We won't be buying shares in companies simply because they are large and dominate the index weightings and performance unless we become convinced that they are good businesses of the sort we wish to own which have long term relatively predictable sources of growth and more than adequate returns on the capital they invest.

Whilst we are going to stick to our investment strategy we will of course seek to do it better. We are fans of many of the late Charlie Munger's pronouncements but the one which best applies here is 'Any year that you don't destroy one of your best-loved ideas is probably a wasted year.' More to follow.

Looking at individual stock contribution to performance in 2025 as usual I prefer to start with the problems. The bottom five detractors from the Fund's performance in 2025 were:

## Investment Manager's review (continued)

Stock	Attribution
Novo Nordisk	-3.0
Automatic Data Processing	-0.9
Church & Dwight	-0.7
Coloplast	-0.7
Fortinet	-0.7

Source: State Street

Novo Nordisk managed to reaffirm my belief that you should never say 'Things can't get any worse'. The company has parlayed a market leading position in what is probably the most exciting drug development for about three decades into a secondary position and has failed to prevent illegal generic competition in its core US market.

One of our mantras has been that we should always invest in businesses which could be run by an idiot so that performance is not heavily reliant upon management. We have been made painfully aware that the range of businesses which can be run by an idiot is much more limited than we thought and hereafter we will aim to be more aware of the impact that poor management can have. Our experience also suggests that when we encounter poor management, engagement to change it is less effective than selling the shares. Meanwhile Novo Nordisk has appointed a new CEO and made wholesale board changes and the present rating (a PE of 13) appears to us to be expecting very little. If we did not already own it I suspect we would contemplate buying it as a good business which has been depressed by a 'glitch', albeit a rather large glitch.

ADP as a provider of payroll and HR software has suffered from weakness in the US jobs market. In view of the outlook for this core market we hope — with some nervousness — that the guidance management has given on future revenues is conservative. Not because we rely on it, but the market does.

Church & Dwight, the consumer staples business, seems to be suffering from the fact that the mixed fortunes of different groups of consumers in the US economy, far from driving consumers towards its discount products, is instead impoverishing those consumers who naturally gravitate towards them.

Coloplast is another Danish medical company — this time in devices rather than drugs. A couple of significant acquisitions have been followed by a loss of control on operational matters which has resulted in a poor bottom line performance. Once again, the CEO has been ejected and we await a replacement.

Perhaps there is something in the water in Denmark.

We bought Fortinet after its shares had suffered from a fall as it came down from the Covid related highs of revenue growth when its FortiGate firewall systems were deployed so that we could work from home. More recently it has suffered from some disappointment that it may have over-hyped the potential revenue from a renewal cycle.

In an age in which analysts rely on spoon fed forecasts in the form of 'guidance' and there is limited liquidity as the NBER paper suggests, results which fall short of optimistic guidance can produce spectacularly bad share price movements.

For the year, the top five contributors to the Fund's performance were:

Stock	Attribution
Alphabet	+2.6
IDEXX	+2.3
Philip Morris	+1.5
Meta Platforms	+1.1
Microsoft	+1.0

Source: State Street

Alphabet makes its first appearance.

IDEXX, the veterinary diagnostic equipment business, makes its sixth appearance having resurrected its position from being a detractor last year when it was suffering from the ebbing of the Covid era mania for pet adoption.

Philip Morris makes its fifth appearance as it continues to show the benefits of its industry leading move into reduced-risk products ('RRPs') such as 'heat-not-burn' tobacco products and its nicotine pouch business.

## Investment Manager's review (continued)

Year ended	Fundsmith Equity Fund Portfolio								S&P 500	FTSE 100
	2018	2019	2020	2021	2022	2023	2024	2025	2025	2025
ROCE	29%	29%	25%	28%	32%	32%	32%	31%	17%	17%
Gross Margin	65%	66%	65%	64%	64%	63%	64%	62%	45%	43%
Operating Margin	28%	27%	23%	26%	28%	29%	30%	28%	18%	17%
Cash Conversion	95%	97%	101%	95%	88%	91%	85%	94%	89%	99%
Interest Cover	17x	16x	16x	23x	20x	20x	27x	29x	9x	8x

Source: Fundsmith LLP/Bloomberg.

ROCE (Return on Capital Employed), Gross Margin, Operating Margin and Cash Conversion are the weighted mean of the underlying companies invested in by the Fundsmith Equity Fund and mean for the FTSE 100 and S&P 500 Indices. The FTSE 100 and S&P 500 numbers exclude financial stocks. Interest Cover is median. 2018–2019 ratios are based on last reported fiscal year accounts as of 31st December and for 2020–25 are Trailing Twelve Months and as defined by Bloomberg. Cash Conversion compares Free Cash Flow per Share with Net Income per Share.

Meta makes its fifth appearance in this list of top contributors while Microsoft appears for the tenth time.

We continue to apply a simple three step investment strategy:

- Buy good companies
- Don't overpay
- Do nothing

I will review how we are doing against each of those in turn.

As usual we seek to give some insight into the first and most important of these — whether we own good companies — by giving you the above table which shows what Fundsmith Equity Fund would be like if instead of being a fund it was a company and accounted for the stakes which it owns in the portfolio on a 'look-through' basis, and compares this with the market, in this case the FTSE 100 and the S&P 500. This also shows you how the portfolio has evolved over time.

In 2025 return on capital, gross margins and operating profit margins were all high and steady.

Consistently high returns on capital are one sign we look for when seeking companies to invest in. Another is a source of growth — high returns are not much use if the business is not able to grow and deploy more capital at these high rates. So how did our companies fare in that respect in 2025? The weighted average free cash flow (the cash the companies generate after paying for everything except the dividend, and our preferred measure) grew by 16%.

From a fundamental perspective, which is what we seek to focus on, we are confident that our portfolio companies will continue to perform well over the business and market cycles. The quality of our portfolio companies is as high as it has ever been and

collectively they continue to grow free cash flow quicker than the historical average of the portfolio. The underlying business performance remains our primary focus. If we get that right then our Fund will emerge with the intrinsic value of its investments maintained or enhanced, as sooner or later, share prices reflect fundamentals, not the other way around.

Encouragingly, the average year of foundation of our portfolio companies at the year-end was 1919. Collectively they are over a century old.

The only metric which continues to lag its historical performance is cash conversion — the degree to which profits are delivered in cash. Although this recovered slightly to 94% in 2025, this is still below its historical level of around 100%. This was due to a sharp rise in capital expenditure at a small group of companies: Alphabet, Microsoft and Meta. The tech companies are in a race to build capacity for AI in the form of GPU chips and data centres. Whether this arms race produces adequate profits and returns for the amounts expended remains an open question.

As we can see, our tech companies are ramping up capital expenditure along with Amazon:

### Capex For Major Tech Companies

\$bn	2020	2021	2022	2023	2024	2025E	2026E
Alphabet	22.3	24.6	31.5	32.3	52.5	85.3	91.8
Amazon	40.1	61.1	63.6	52.7	83.0	113.8	124.1
Meta	15.2	18.7	31.4	27.3	37.3	68.5	96.3
Microsoft <sup>1</sup>	15.4	20.6	23.9	28.1	44.5	64.6	86.0
<b>Total</b>	<b>93.0</b>	<b>125.0</b>	<b>150.4</b>	<b>140.4</b>	<b>217.3</b>	<b>332.2</b>	<b>398.2</b>

<sup>1</sup>Microsoft year to June

Source: Fundsmith

## Investment Manager's review (continued)

And this table does not include some companies which have major capex commitments like Oracle which has announced it will spend some \$50 billion in 2025/6 or CoreWeave which is predicting around \$25 billion of capex in 2026.

When commentators discuss the future of artificial intelligence and whether there is a bubble in AI investments they often seem to miss the point. AI may have a profound effect on our lives and employment but that does not guarantee that investment in it will attain an adequate return or that returns will gravitate to the present incumbents.

One company which intrigues us in this respect is Apple. Depending upon your point of view it has either been left behind in the scramble to build Large Language Models ('LLMs') and hyperscale to provide AI infrastructure or it has opted out of the race. As a result, its capital expenditure in 2025 was a mere \$12 billion which pales into insignificance in comparison with the companies in the table above.

It may be making a virtue of necessity but maybe Tim Cook the CEO is working on an old adage, 'You don't have to own a cow to sell milk'. Apple has its devices and about a billion mostly high-end consumers locked into them and increasingly into its services. It seems unlikely that there will be a shortage of LLMs that the hyperscalers will want to offer Apple for iPhone users. If this is indeed the business model Apple is relying on it may not bode well for the LLM developers and/or hyperscalers' profitability.

The second leg of our strategy is about valuation. The weighted average free cash flow ('FCF') yield (the free cash flow generated as a percentage of the market value) of the portfolio at the outset of 2025 was 3.1% and ended the year at 3.7%. The year-end FCF yield of the S&P 500 was 2.8% and MSCI World was 3.1%. Our portfolio stocks have become a lot more lowly valued than the S&P as the free cash flow of many of the major stocks which now dominate the index has shrunk or disappeared in the face of massive capex spending on AI.

Our portfolio consists of companies that are fundamentally a lot better than the average of those in the S&P 500, and in the past we have explained that it is no surprise if they are valued more highly than the average S&P 500 company. In itself this does not necessarily make the stocks expensive, any more than a lowly rating makes a stock cheap but they are now significantly cheaper than the S&P. But it also raises an obvious concern about what will happen to the market.

Turning to the third leg of our strategy, which we succinctly describe as 'Do nothing', minimising portfolio turnover remains one of our objectives and this was again achieved with a portfolio turnover of 12.7% during the period. It is perhaps more helpful to know that we spent a total of just 0.008% (just under one basis point) of the Fund's average value over the year on voluntary dealing (which excludes dealing costs associated with subscriptions and redemptions as these are involuntary). We sold two companies, purchased four and received a holding in Magnum Ice Cream which was spun out from Unilever. As last year this may seem like a lot of names for what is not a lot of turnover as in some cases the size of the holding sold or bought was small. We have held three of the portfolio's 27 companies since inception in 2010, 10 for more than 10 years and 16 for over five years.

Why is this important? It helps to minimise costs and minimising the costs of investment is a vital contribution to achieving a satisfactory outcome as an investor. Too often investors, commentators and advisers focus on, or in some cases obsess about, the Annual Management Charge ('AMC') or the Ongoing Charges Figure ('OCF'), which includes some costs over and above the AMC, which are charged to the Fund. The OCF for 2025 for the T Class Accumulation shares was 1.04%. The trouble is that the OCF does not include an important element of costs — the costs of dealing. When a fund manager deals by buying or selling, the fund typically incurs the cost of commission paid to a broker, the bid-offer spread on the stocks dealt in and, in some cases, transaction taxes such as stamp duty in the UK. This can add significantly to the costs of a fund, yet it is not included in the OCF.

We provide our own version of this total cost including dealing costs, which we have termed the Total Cost of Investment ('TCI'). For the T Class Accumulation shares in 2025 the TCI was 1.06%, including all costs of dealing for flows into and out of the Fund, not just our voluntary dealing. We are pleased that our TCI is just 0.02% (2 basis points) above our OCF when transaction costs are taken into account. However, we would again caution against becoming obsessed with charges to such an extent that you lose focus on the performance of funds. It is worth pointing out that the performance of our Fund tabled at the beginning of this letter is after charging all fees which should surely be the main focus.

We sold our stakes in Brown-Forman and PepsiCo and started purchasing stakes in Zoetis, EssilorLuxottica, Intuit and Wolters Kluwer during the year.

## Investment Manager's review (continued)

Brown-Forman and PepsiCo's snack business seem to us to be directly in the crosshairs of the impact of reduced appetites from weight loss drugs. Whether or not our Novo Nordisk investment finally comes good, we believe that weight loss drugs and their impact are here to stay. In addition, the alcoholic drinks business faces headwinds from the impact of Generation Z's drinking habits (lack of) and the legalisation of cannabis.

Zoetis is the leading veterinary pharmaceutical company. Apart from tapping into the long term growth in pet healthcare spend, it has the advantage that multi-billion dollar sales blockbuster drugs do not exist in veterinary care and so they attract less generic competition. Zoetis's share price had a poor period caused by concerns over side effects associated with Librela, its drug for chronic pain from osteoarthritis (my lurcher has it). Our veterinary consultant tells me she still prescribes it as the benefits outweigh the potential side effects.

EssilorLuxottica arose from the merger of French and Italian companies which dominate the market for eyeglasses, both frames and lenses. There is a tailwind for this business from people who do not yet have access to vision correction. In addition, it has some interesting innovations such as the Stellest lenses which help prevent deterioration for children with myopia and of course the Meta AI glasses.

We previously sold a position we held in Intuit, the accounting and tax software company, after it acquired Mailchimp in 2021 because we felt that Mailchimp fell outside its circle of competence and they paid about three times the right price, something which they attempted to justify by pointing out that half the consideration paid was in Intuit shares. What this implied

about their valuation seemed obvious to us. For a while after we sold the shares AI hype drove the price but latterly the poor performance of the Mailchimp acquisition has become evident and reflected in the share price. We have started to rebuild a stake in the hope that the management has learned from the debacle.

Wolters Kluwer is the leader in technical publishing used by professionals in health, tax, accounting, risk & compliance and legal. It seems to have become viewed as an AI disruption victim but this seems about as true as the now discredited view that Adobe and Intuit were AI beneficiaries. This view has driven the PE to <19x and it is still growing at c5% p.a. with a ROIC of 18% and ROE of about 50%.

We intend to continue holding a portfolio of good businesses in the hope and expectation that their strong fundamental returns will shine through into superior share price and fund performance over the long term and that in the interim our fund will prove relatively immune from any shocks which arise if or when the present extraordinary market conditions unwind.

Finally, once more I wish you a happy New Year and thank you for your continued support for our Fund.

Yours sincerely,

*Terry Smith*

Terry Smith

CEO

**Fundsmith LLP**

**Disclaimer:** A Key Investor Information Document and an English language prospectus for the Fundsmith Equity Fund are available via the Fundsmith website or on request and investors should consult these documents before purchasing shares in the fund. Past performance is not necessarily a guide to future performance. The value of investments and the income from them may fall as well as rise and be affected by changes in exchange rates, and you may not get back the amount of your original investment. Fundsmith LLP does not offer investment advice or make any recommendations regarding the suitability of its products. This document is a financial promotion and is communicated by Fundsmith LLP which is authorised and regulated by the Financial Conduct Authority.

The views and opinions expressed herein are those of Fundsmith as of the date hereof and are subject to change based on prevailing market and economic conditions and will not be updated or supplemented.

Sources: Fundsmith LLP, Bloomberg and FE Analytics unless otherwise stated.

Data is as at 31st December 2025 unless otherwise stated.

Portfolio turnover is a measure of the fund's trading activity and has been calculated by taking the total share purchases and sales less total creations and liquidations divided by the average net asset value of the fund.

P/E ratios and Free Cash Flow Yields are based on trailing twelve month data and as at 31st December 2025 unless otherwise stated. Percentage change is not calculated if the TTM period contains a net loss.

The MSCI World Index is a developed world index of global equities across all sectors and, as such, is a fair comparison given the fund's investment objective and policy.

The Investment Association Global Sector in Sterling is representative of funds that invest at least 80% of their assets globally in equities. This facilitates a comparison against funds with broadly similar characteristics.

The Bloomberg Series-E UK Govt 5-10 yr Bond Index shows what you might have earned if you had invested in UK Government Debt.

The £ Interest Rate shows what you might have earned if you had invested in cash.

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# Performance Record

The per share net asset values in the table below are different from the published dealing prices that were available to investors. This is to comply with accounting rules that require the net asset values in this report to be based on close of day bid prices. The investment manager's review and factsheet use dealing prices as the Fund could only be bought or sold at these prices.

	Share Class T - Accumulation		
	12 months to 31.12.25 (p)	12 months to 31.12.24 (p)	12 months to 31.12.23 (p)
<b>Change in net asset value per share</b>			
Opening net asset value per share	704.08	646.74	575.03
Return before operating charges*	13.66	64.65	78.13
Operating charges	(7.31)	(7.31)	(6.42)
Return after operating charges*	6.35	57.34	71.71
Distributions	(2.13)	(1.56)	(1.82)
Retained distributions on accumulation shares	2.13	1.56	1.82
Closing net asset value per share	710.43	704.08	646.74
*after direct transaction costs of:	0.13	0.05	0.08
<b>Performance</b>			
Return after operating charges	0.90%	8.87%	12.47%
<b>Other information</b>			
Closing net asset value	3,268,395,488	3,867,566,513	3,917,358,730
Closing number of shares	460,056,049	549,305,593	605,709,570
Ongoing charges figure	1.04%	1.04%	1.04%
Direct transaction costs	0.02%	0.01%	0.01%
<b>Prices</b>			
Highest share price	757.55	736.40	649.72
Lowest share price	618.03	636.23	581.80

The Ongoing Charges Figure (OCF) is the share class's total annualised operating costs (excluding overdraft interest) expressed as a percentage of the average net assets of the share class.

## Performance Record (continued)

The per share net asset values in the table below are different from the published dealing prices that were available to investors. This is to comply with accounting rules that require the net asset values in this report to be based on close of day bid prices. The investment manager's review and factsheet use dealing prices as the Fund could only be bought or sold at these prices.

	Share Class T - Income		
	12 months to 31.12.25 (p)	12 months to 31.12.24 (p)	12 months to 31.12.23 (p)
<b>Change in net asset value per share</b>			
Opening net asset value per share	638.45	587.76	524.06
Return before operating charges*	12.37	58.75	71.20
Operating charges	(6.62)	(6.64)	(5.85)
Return after operating charges*	5.75	52.11	65.35
Distributions	(1.93)	(1.42)	(1.65)
Closing net asset value per share	642.27	638.45	587.76
*after direct transaction costs of:	0.12	0.04	0.07
<b>Performance</b>			
Return after operating charges	0.90%	8.87%	12.47%
<b>Other information</b>			
Closing net asset value	196,781,646	229,870,327	256,192,351
Closing number of shares	30,638,338	36,004,285	43,588,115
Ongoing charges figure	1.04%	1.04%	1.04%
Direct transaction costs	0.02%	0.01%	0.01%
<b>Prices</b>			
Highest share price	686.94	668.54	591.65
Lowest share price	560.43	578.20	530.24

The Ongoing Charges Figure (OCF) is the share class's total annualised operating costs (excluding overdraft interest) expressed as a percentage of the average net assets of the share class.

## Performance Record (continued)

The per share net asset values in the table below are different from the published dealing prices that were available to investors. This is to comply with accounting rules that require the net asset values in this report to be based on close of day bid prices. The investment manager's review and factsheet use dealing prices as the Fund could only be bought or sold at these prices.

	Share Class R - Accumulation		
	12 months to 31.12.25 (p)	12 months to 31.12.24 (p)	12 months to 31.12.23 (p)
<b>Change in net asset value per share</b>			
Opening net asset value per share	655.93	605.54	541.09
Return before operating charges*	12.66	60.49	73.36
Operating charges	(10.05)	(10.10)	(8.91)
Return after operating charges*	2.61	50.39	64.45
Distributions	-	-	-
Closing net asset value per share	658.54	655.93	605.54
*after direct transaction costs of:	0.12	0.05	0.08
<b>Performance</b>			
Return after operating charges	0.40%	8.32%	11.91%
<b>Other information</b>			
Closing net asset value	471,604,931	576,483,129	557,410,151
Closing number of shares	71,613,498	87,887,910	92,051,376
Ongoing charges figure	1.54%	1.54%	1.54%
Direct transaction costs	0.02%	0.01%	0.01%
<b>Prices</b>			
Highest share price	705.37	686.21	608.33
Lowest share price	574.98	595.62	547.31

The Ongoing Charges Figure (OCF) is the share class's total annualised operating costs (excluding overdraft interest) expressed as a percentage of the average net assets of the share class.

## Performance Record (continued)

The per share net asset values in the table below are different from the published dealing prices that were available to investors. This is to comply with accounting rules that require the net asset values in this report to be based on close of day bid prices. The investment manager's review and factsheet use dealing prices as the Fund could only be bought or sold at these prices.

	Share Class R - Income		
	12 months to 31.12.25 (p)	12 months to 31.12.24 (p)	12 months to 31.12.23 (p)
<b>Change in net asset value per share</b>			
Opening net asset value per share	625.76	577.70	516.22
Return before operating charges*	12.10	57.70	69.95
Operating charges	(9.65)	(9.64)	(8.47)
Return after operating charges*	2.45	48.06	61.48
Distributions	-	-	-
Closing net asset value per share	628.21	625.76	577.70
*after direct transaction costs of:	0.12	0.04	0.07
<b>Performance</b>			
Return after operating charges	0.39%	8.32%	11.91%
<b>Other information</b>			
Closing net asset value	4,729,795	15,447,660	17,395,029
Closing number of shares	752,902	2,468,606	3,011,091
Ongoing charges figure	1.54%	1.54%	1.54%
Direct transaction costs	0.02%	0.01%	0.01%
<b>Prices</b>			
Highest share price	672.93	654.65	580.36
Lowest share price	548.53	568.23	522.15

The Ongoing Charges Figure (OCF) is the share class's total annualised operating costs (excluding overdraft interest) expressed as a percentage of the average net assets of the share class.

## Performance Record (continued)

The per share net asset values in the table below are different from the published dealing prices that were available to investors. This is to comply with accounting rules that require the net asset values in this report to be based on close of day bid prices. The investment manager's review and factsheet use dealing prices as the Fund could only be bought or sold at these prices.

	Share Class I - Accumulation		
	12 months to 31.12.25 (p)	12 months to 31.12.24 (p)	12 months to 31.12.23 (p)
<b>Change in net asset value per share</b>			
Opening net asset value per share	714.10	655.28	582.05
Return before operating charges*	13.87	65.52	79.11
Operating charges	(6.71)	(6.70)	(5.88)
Return after operating charges*	7.16	58.82	73.23
Distributions	(2.87)	(2.29)	(2.46)
Retained distributions on accumulation shares	2.87	2.29	2.46
Closing net asset value per share	721.26	714.10	655.28
*after direct transaction costs of:	0.13	0.05	0.08
<b>Performance</b>			
Return after operating charges	1.00%	8.98%	12.58%
<b>Other information</b>			
Closing net asset value	9,729,723,880	13,670,761,344	14,396,580,306
Closing number of shares	1,348,992,710	1,914,406,892	2,197,009,381
Ongoing charges figure	0.94%	0.94%	0.94%
Direct transaction costs	0.02%	0.01%	0.01%
<b>Prices</b>			
Highest share price	768.40	746.84	658.30
Lowest share price	627.00	644.65	588.93

The Ongoing Charges Figure (OCF) is the share class's total annualised operating costs (excluding overdraft interest) expressed as a percentage of the average net assets of the share class.

## Performance Record (continued)

The per share net asset values in the table below are different from the published dealing prices that were available to investors. This is to comply with accounting rules that require the net asset values in this report to be based on close of day bid prices. The investment manager's review and factsheet use dealing prices as the Fund could only be bought or sold at these prices.

	Share Class I - Income		
	12 months to 31.12.25 (p)	12 months to 31.12.24 (p)	12 months to 31.12.23 (p)
<b>Change in net asset value per share</b>			
Opening net asset value per share	638.93	588.20	524.43
Return before operating charges*	12.39	58.80	71.28
Operating charges	(5.99)	(6.01)	(5.29)
Return after operating charges*	6.40	52.79	65.99
Distributions	(2.56)	(2.06)	(2.22)
Closing net asset value per share	642.77	638.93	588.20
*after direct transaction costs of:	0.12	0.05	0.07
<b>Performance</b>			
Return after operating charges	1.00%	8.97%	12.58%
<b>Other information</b>			
Closing net asset value	2,359,658,288	4,003,505,598	4,430,073,025
Closing number of shares	367,110,241	626,591,440	753,161,164
Ongoing charges figure	0.94%	0.94%	0.94%
Direct transaction costs	0.02%	0.01%	0.01%
<b>Prices</b>			
Highest share price	687.54	669.46	592.48
Lowest share price	561.02	578.65	530.65

The Ongoing Charges Figure (OCF) is the share class's total annualised operating costs (excluding overdraft interest) expressed as a percentage of the average net assets of the share class.

# Remuneration Disclosure

## Remuneration Disclosure

The ACD is required to make this remuneration disclosure to investors in Fundsmith Equity Fund in accordance with COLL 4.5.7 R (7) in the FCA Handbook.

The financial year of Fundsmith Equity Fund runs from 1 January to 31 December, whereas the financial year of the ACD, Fundsmith LLP (Fundsmith, or the Firm), runs from 1 April to 31 March. The latest financial year of Fundsmith is the year to 31 March 2025 and the remuneration figures below relate to that period. The Fundsmith Report and Accounts for the year to 31 March 2025 have been independently audited and filed with Companies House.

Under Fundsmith LLP's remuneration policy staff receive a basic salary, certain benefits (primarily pension contributions which are capped) and are eligible for an award of an annual discretionary bonus which is based on performance.

Fundsmith employed an average of 46 staff in the year, with total remuneration, including pension contributions, for those staff of £13.4 million comprising fixed remuneration (salaries and pension contributions) of £6.5 million and variable remuneration of £6.9 million.

The amount of profit awarded to the one Executive Member of the Firm which is treated as remuneration for the purposes of the Remuneration Codes is not included in the quantitative disclosures above and the ACD has not disclosed this amount for individual privacy reasons.

Amounts due to Members of the Firm because of their investment of capital and their ownership of the business are not related to individual or Fund performance and cannot be varied, and therefore are not variable remuneration under the Remuneration Codes and are not included in the quantitative disclosures above.

Fundsmith is subject to the UCITS (SYSC 19E), AIFM (SYSC 19B) Remuneration Codes. The Management Committee of Fundsmith considers which staff are Material Risk Takers under these codes and are therefore within the definition of Remuneration Code Staff.

There are only two Remuneration Code staff whose remuneration is included in the quantitative disclosures above. These two individuals are in different categories of Code Staff, and the ACD has not disclosed the amount of remuneration broken down by category of UCITS Remuneration Code Staff for individual privacy reasons.

The information above relates to Fundsmith as a whole, is not broken down by reference to Fundsmith Equity Fund or the other funds managed by Fundsmith and does not show the proportion of remuneration which relates to the income Fundsmith earns from the management of this fund, as this would not reflect the way Fundsmith is organised.

The Management Committee of Fundsmith has reviewed the Remuneration Policy and its implementation and is satisfied that no irregularities occurred during the period.

There have been no material changes made to the Remuneration Policy applicable for the Firm's financial year to 31 March 2025 compared with the policy applicable for the year to 31 March 2024.

# Further Information

## Reports and accounts

Each year, the ACD will publish on its website ([www.fundsmith.co.uk](http://www.fundsmith.co.uk)) Annual and Interim Reports and Accounts for the Company discussing investment activity during the period and providing management commentary.

## UK UCITS

The Company is an authorised Collective Investment Scheme constituted as a UK UCITS in accordance with the FCA rules.

## 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 Fund.

Also available are the Key Investor 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.

All documents are available on the ACD's website.

## Minimum investment

The Company has three different share classes:

I shares, R shares and T shares.

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.

<b>Minimum lump sum investment level</b>	<b>£1,000</b>
<b>Minimum regular sum investment level</b>	<b>£100</b>
<b>Minimum top-up investment amount</b>	<b>£250</b>
<b>Minimum holding level</b>	<b>£1,000</b>

## Publication of prices

The prices of shares are published daily on the ACD's website at [www.fundsmith.co.uk](http://www.fundsmith.co.uk). 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 Prospectus.

## Task Force on Climate-Related Financial Disclosures (TCFD)/Sustainability Reporting

The TCFD product report prepared by the ACD is published on the ACD's website at [fundsmith.co.uk/documents](http://fundsmith.co.uk/documents)

The relevant public product-level sustainability report prepared by the ACD will be published here when due.

# Contact details

## Dealing and enquiries

**Fundsmith LLP**  
**PO Box 10846**  
**Chelmsford**  
**Essex**  
**CM99 2BW**  
**United Kingdom**

**Telephone: 0330 123 1815**  
**Website: [www.fundsmith.co.uk](http://www.fundsmith.co.uk)**

## Registered office

Fundsmith Equity Fund  
33 Cavendish Square  
London  
W1G 0PW  
United Kingdom

Authorised and regulated by The Financial Conduct Authority.  
ICVC Registration Number IC000846  
FCA Reference Number 529093

## Authorised Corporate Director

Fundsmith LLP  
33 Cavendish Square  
London  
W1G 0PW  
United Kingdom

Authorised and regulated by The Financial Conduct Authority.  
FCA Registration Number 523102

## Registrar

SS&C Financial Services International Limited and SS&C  
Financial Services Europe Limited  
SS&C House  
St Nicholas Lane  
Basildon  
Essex  
SS15 5FS  
United Kingdom

## Administrator

State Street Bank and Trust Company  
20 Churchill Place  
London  
E14 5HJ  
United Kingdom

## Depositary

State Street Trustees Limited  
20 Churchill Place  
London  
E14 5HJ  
United Kingdom

Authorised and regulated by The Financial Conduct Authority.  
FCA Registration Number 186237

## Independent auditors

Deloitte LLP  
110 Queen Street  
Glasgow  
G1 3BX  
United Kingdom

## Financial Conduct Authority

12 Endeavour Square  
London  
E20 1JN  
United Kingdom  
Telephone: 0800 111 6768  
Website: [www.fca.org.uk](http://www.fca.org.uk)



# Fundsmith

33 Cavendish Square

London

W1G 0PW

UK

T 0330 123 1815

E [enquiries@fundsmith.co.uk](mailto:enquiries@fundsmith.co.uk)

W [www.fundsmith.co.uk](http://www.fundsmith.co.uk)

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