



Fundsmith Sustainable Equity Fund

Short Form Report

For the period ended 30 June 2020 (unaudited)



Profile of the fund

Investment objective and policy

The aim of Fundsmith Sustainable 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 which in the opinion of the ACD and Investment Manager are those:

- 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.

The Fund will not invest in businesses which have substantial interests in any of the following sectors:

- aerospace and defence;
- brewers, distillers and vintners;
- casinos and gaming;
- gas and electric utilities;
- metals and mining;
- oil, gas and consumable fuels;
- pornography; and
- tobacco.

In addition, the ACD and the Investment Manager apply further criteria to screen investments in accordance with the ACD’s sustainable investment policy.

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



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 and concentration risk which are explained above.

Performance Record

As at 30 June 2020

Change in net assets per share	Share Class T – Accumulation		Share Class T – Income	
	30.06.20**		30.06.20**	
	(p)		(p)	
Opening net asset value per share	100.00		100.00	
Return before operating charges	11.67		11.64	
Operating charges	(0.38)		(0.37)	
Return after operating charges	11.29		11.27	
Distributions	(0.13)		(0.11)	
Retained distributions on accumulation shares	0.13		-	
Closing net asset value per share	111.29		111.16	
After direct transaction costs of:	0.02		0.02	
Performance				
Return after operating charges	11.29%		11.27%	
Other information				
	£		£	
Closing net asset value	5,410,250		409,478	
Closing number of shares	4,861,468		368,361	
Ongoing charge figure*	1.09%		1.09%	
Direct transaction costs	0.06%		0.06%	
Prices				
	(p)		(p)	
Highest share price	112.39		112.38	
Lowest share price	88.84		88.84	

Change in net assets per share	Share Class I – Accumulation			Share Class I – Income		
	30.06.20	31.12.19	31.12.18***	30.06.20	31.12.19	31.12.18***
	(p)	(p)	(p)	(p)	(p)	(p)
Opening net asset value per share	130.01	105.93	100.00	128.75	105.34	100.00
Return before operating charges	9.88	25.39	7.23	9.90	25.25	7.24
Operating charges	(0.64)	(1.31)	(1.30)	(0.63)	(1.30)	(1.30)
Return after operating charges	9.24	24.08	5.93	9.27	23.95	5.94
Distributions	(0.53)	(0.54)	(0.54)	(0.64)	(0.54)	(0.60)
Retained distributions on accumulation shares	0.53	0.54	0.54	-	-	-
Closing net asset value per share	139.25	130.01	105.93	137.38	128.75	105.34
After direct transaction costs of:	0.04	0.05	0.17	0.04	0.05	0.17
Performance						
Return after operating charges	7.11%	22.73%	5.93%	7.20%	22.73%	5.94%
Other information						
	£	£	£	£	£	£
Closing net asset value	188,962,101	143,208,987	67,029,889	155,508,019	172,847,707	117,081,258
Closing number of shares	135,696,489	110,155,339	63,277,160	113,198,236	134,255,642	111,142,170
Ongoing charge figure*	0.98%	1.05%	1.05%	0.98%	1.05%	1.05%
Direct transaction costs	0.06%	0.04%	0.14%	0.06%	0.04%	0.14%
Prices						
	(p)	(p)	(p)	(p)	(p)	(p)
Highest share price	140.51	136.52	115.65	139.14	135.26	115.16
Lowest share price	111.05	103.83	94.30	109.97	103.25	94.31

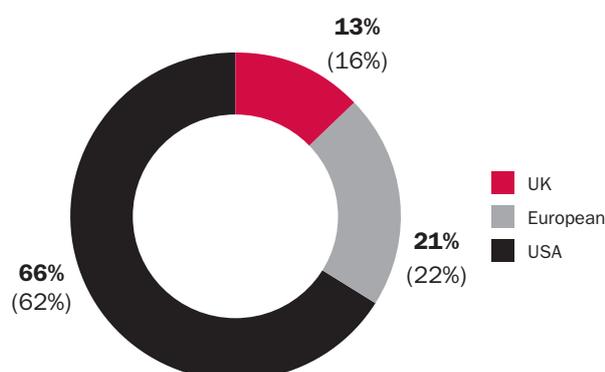
*The Ongoing Charge Figure (OCF) is the ratio of the Fund's total disclosable costs (excluding overdraft interest) to the average net assets of the Fund. The prices in the above table are different from the published dealing prices that were available for investors on the 30 June. This is to comply with 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.

**From inception 2 March 2020 to 30 June 2020.

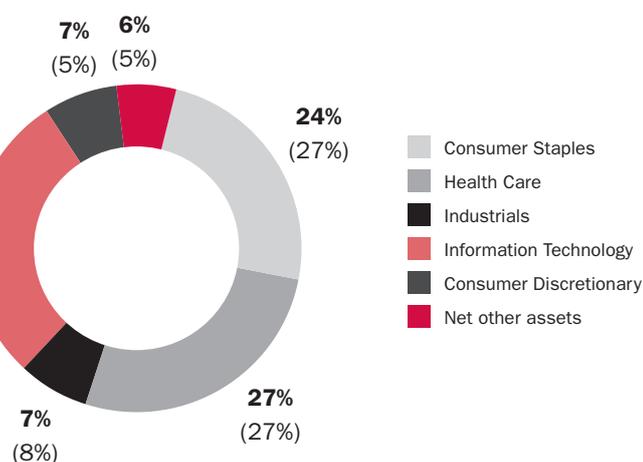
***From inception 1 November 2017 to 31 December 2018.

Information on the fund

Breakdown by geography* as at 30 June 2020



Breakdown by sector as at 30 June 2020



The figures in brackets show comparative figures at 31 December 2019.

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

Summary of significant changes

For the six months to 30 June 2020		For the six months to 30 June 2019	
Largest purchases	Cost (£)	Largest purchases	Cost (£)
Starbucks	13,947,633	Reckitt Benckiser	5,193,159
Becton Dickinson	8,418,201	Amadeus IT	5,033,669
Stryker	6,097,550	Visa	3,999,271
L'Oréal	6,046,929	McCormick	3,998,468
Automatic Data Processing	4,739,514	Waters	3,997,490
Total	39,249,827	Total	22,222,057
Total purchases for the six months	67,875,649	Total purchases for the six months	60,502,335
Largest sales	Proceeds (£)	Largest sales	Proceeds (£)
Clorox	16,420,115	Colgate-Palmolive	2,446,726
Waters	4,650,373	L'Oréal	194,126
Coloplast	4,004,362	-	-
Reckitt Benckiser	3,041,648	-	-
L'Oréal	3,031,385	-	-
Total	31,147,883	Total	2,640,852
Total sales for the six months	58,047,312	Total sales for the six months	2,640,852

Investment Manager's review

The table below shows the performance of the Fund during the first half of 2020 and since inception and other comparators:

	01.01.20 – 30.06.20 %	Since Inception Cumulative %	Annualised %
Fundsmith Sustainable Equity Fund	+7.2	+39.3	+13.3
MSCI World	+1.0	+22.2	+7.8
FTSE100	-16.9	-8.1	-3.1
UK Gilts	+4.5	+10.9	+4.0
Cash	+0.3	+1.9	+0.7

Our Fund outperformed what is perhaps the most obvious comparator - the MSCI World Index - by a bit over 6% during the first half of 2020. It outperformed the FTSE100 Index which is relevant to many of our UK investors by over 24%.

This was obviously a tumultuous period in the world economy and stock markets and we are pleased that our Fund performed in the way we would have hoped and expected in such conditions.

The main contributors to our performance in the first half of 2020 were:

TOP FIVE	% Contribution
PayPal	+2.91
Microsoft	+2.11
Coloplast	+1.56
IDEXX Laboratories	+1.56
Clorox	+1.38

PayPal and Microsoft both find themselves in ideal positions to benefit from the digital transformation which the pandemic has accelerated.

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

BOTTOM FIVE	% Contribution
Marriott	-2.08
Amadeus	-1.56
Waters	-0.75
Stryker	-0.66
Sage	-0.57

Our dialogue with the management of Amadeus and Marriott suggests that both are correctly focused on survival in a position to continue operating for 18 months to two years even if there is no improvement in the travel and hospitality industry. Moreover, they believe that their market positions may be strengthened by these events.

We sold our position in Clorox, the US consumer goods company which largely operates in the household cleaning products segment. This was unusual for us as we had only purchased the shares in 2019 but the rise in demand for disinfectant products produced such a strong share price performance that we thought this presented an opportunity to switch our investment into another company which we wished to own and whose share price has been significantly reduced by events - Starbucks, the world's leading coffee retailer. We believe that it has better growth prospects than Clorox and is likely to emerge from the pandemic with a strengthened market position.

Our portfolio turnover for the period was 1.8%. We spent just £98,587 or 0.031% of FSEF's Net Asset Value or 3.1 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. Hopefully, this illustrates that we have the same long term, low turnover approach for FSEF which we believe is one of the keys to good investment performance. This compares to 0.1bps last year so you can see that the broking community should still not be ordering fast cars or yachts based upon our largesse.

The Ongoing Charges Figure of OCF for our Fund was just 8bps over the Annual Management Charge. This is lower than the full year 2019 and the first half 2019. If you add the costs of all

Investment Manager's review (continued)

dealing to this in order to derive the Total Cost of Investment or TCI this rises to 1.04%. This compares to 1.09% for the whole of 2019 and 1.12% for the comparable period last year.

We monitor many statistics in order to assess the sustainability of our portfolio. As at 30th June they showed the following:

RepRisk Indicators (RRI)	FSEF	S&P 500
Environmental	3.1	4.7
Social	8.5	12.3
Governance	11.3	11.3
Total RRI	22.9	28.3
1 month RRI Change	+0.0	-0.5
Peak 24 Month RRI	36	41
RepRisk Rating (RRR)	BBB	BB

Innovation	FSEF	S&P 500
R&D as % of sales	5.6%	4.6%
Organic Growth	6.9%	n/a
Capital Impact	0.59	0.21

Environmental	FSEF	S&P 500
Waste (tonnes/£m of FCF)	27	3,423
Hazardous waste (tonnes/£m of FCF)	1.5	25
Water (m3/£m of FCF)	3,284	351,759
GHG/CO2 emissions (tonnes/£m of FCF)	220	8,698
Energy (MWh/£m FCF)	772	44,428

Social	FSEF	S&P 500
Women Executives	37%	18%
Women Directors	32%	26%

Governance	FSEF	S&P 500
UN Global Compact Signatories	41%	14%
Independent Directors	78%	85%

The sustainability of the companies in the FSEF portfolio on these measures was markedly better than the main index for which we can get comparable data - the S&P 500 Index-on every count with the sole exception of the percentage of independent directors which was 78% versus 85% for the Index. This arises because some of the companies we invest in have controlling stakes held

by founding families or their foundations and the directors they appoint are not regarded as independent. However, this type of shareholding can be a positive influence which enables management of companies to take a genuinely long term view to the benefit of all shareholders so not only are we prepared to live with this but we positively embrace it.

Some of these statistics are not ostensibly monitored by almost all other sustainability funds, namely those which measure fundamental aspects of business sustainability which we label "Innovation" such as:

- R&D as % of sales-how much of sales revenue is spent on product development
- Organic growth-sales revenue growth excluding M&A and FX
- Capital impact-this is a proprietary measure Fundsmith devised which uses the formula of capital expenditure ("capex") /depreciation multiplied by return on capital. Thus, an average company might have capex roughly in line with depreciation so capex/depreciation = 1.0 and a return on capital of some 15% currently, which is why the number for the S&P 500 is 0.15 (1.0 x 0.15). As you can see from the FSEF portfolio's Capital Impact of 0.59, the companies in our portfolio are investing more than the average for the Index and at better rates of return.

We seek to view sustainability in holistic fashion insofar as we see little point in assembling a portfolio of companies which do well in assessments of environmental impact, governance and reputational risk but which are not implementing basic business disciplines to ensure their longevity.

Fund liquidity is a subject which has attracted a lot of attention recently and I thought I should offer some observations about our Fund in an effort to answer any queries you might have. The Fundsmith Sustainable Equity Fund never invests, nor will it ever invest, in unquoted companies. Nor does it own any small or mid cap companies. The smallest companies from a market value perspective that the Fundsmith Sustainable Equity Fund invests in are all members of the FTSE 100 Index and the average market capitalisation of our portfolio companies at the end of June was £129.6bn. We have published a liquidity measure on our monthly

Investment Manager's review (continued)

factsheet since inception, as we have always regarded this as an important subject, and at the end of June it showed that we could liquidate 100% of our Fund (c.£351m) in 7 days (based on trading 30% of the trailing 20 day average volume). It is hard to conceive of an equity fund which could be significantly more liquid.

We face an uncertain outlook given recent events, but 'twas ever thus. We have no crystal ball unlike the commentators who tell us that the recovery from the pandemic and resulting closure of economic activities deemed non-essential will be shaped like a V, a U, a W, a bathtub or the Nike swoosh (I'm not making this up). No one knows-as the economist J K Galbraith said 'The only function of economic forecasting is to make astrology look respectable'. However, what we know is that we have assembled a portfolio of high quality companies which have to date proven to be resilient. If you are a long term investor that is the most certain determinant of your future returns.

Terry Smith
Fundsmith LLP
28 August 2020

Further information

Reports and accounts

Each year, we will publish on our website (www.fundsmith.green) 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 Sustainable 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 Sustainable Equity Fund is Fundsmith LLP located at 33 Cavendish Square, London W1G 0PW.

All documents are available on the website.

Minimum investment

The Fund has two different types of share classes:

I 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.

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 Fund of making investments (when additional cash is available following new investment into the Fund) 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

Dealing and enquiries

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

Telephone: 0330 123 1815
www.fundsmith.green

Registered office

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

Authorised and regulated by The Financial Conduct Authority.
FCA Registration Number 784191

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
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

Depository

State Street Trustees Limited
Quartermile 3
10 Nightingale Way
Edinburgh
EH3 9EG
United Kingdom

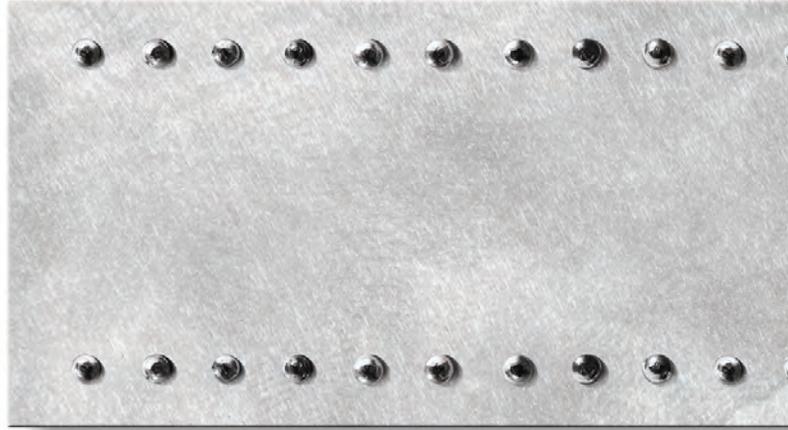
Authorised and regulated by The Financial Conduct Authority.
FCA Registration Number 186237

Independent auditors

Deloitte LLP
2 New Street Square
London
EC4A 3BZ
United Kingdom

Financial Conduct Authority

12 Endeavour Square
London
E20 1JN
United Kingdom
Telephone: 0845 606 1234
Website: www.fca.org.uk



Fundsmith

33 Cavendish Square
London
W1G 0PW
UK

T 0330 123 1815
E enquiries@fundsmith.green
W www.fundsmith.green