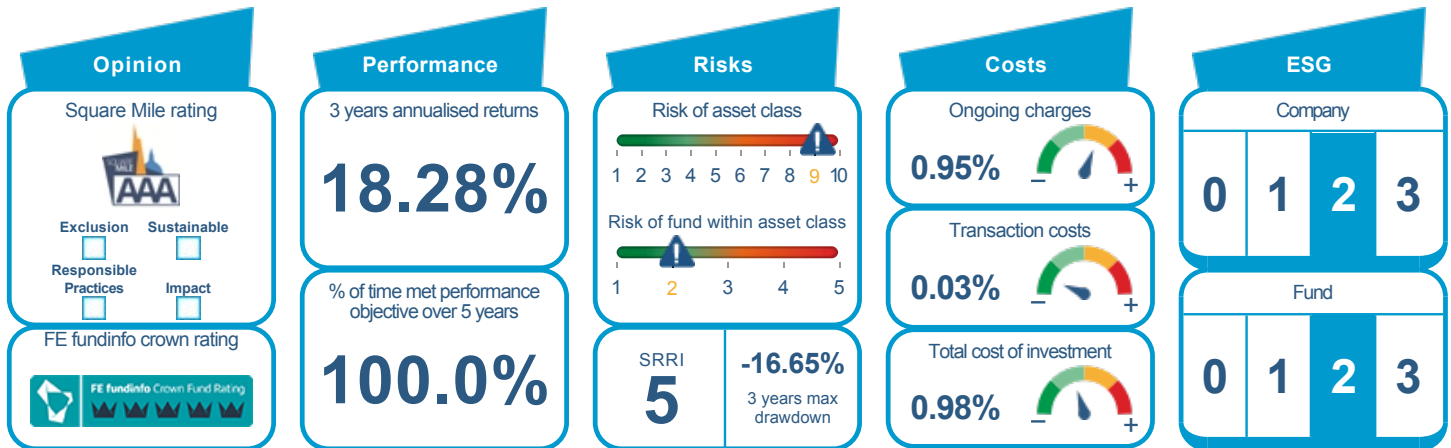


Fundsmith Equity I Acc

November 2021
Investment Research



Overview

Capital accumulation through a concentrated portfolio of global companies. The majority of holdings tend to be listed on UK, US and European exchanges. Whilst equities can lose money over short to medium time periods, over longer time periods, and particularly over multiple investment cycles, equities, in aggregate, have proved an extremely successful way of accumulating capital.

Capital Accumulation	Capital Preservation	Income	Inflation Protection
●			

Square Mile Expected Outcome

We believe a total return of 10% per annum over rolling five year periods is a reasonable expectation.

Active/Passive: Active	Domicile: United Kingdom
Asset Class: Equity	IA Sector: IA Global
Launch Date: 01/11/2010	Fund Size (as at 12 Nov 2021): £28109.5m
Yield: 0.29%	Distribution Pay Date: Jan 01 (Final), Jul 01
Fund Manager: Terry Smith	Ongoing Charge Figure: 0.95%
	Transaction Cost ex Ante: 0.03%



Fund Opinion

This fund has many qualities. In Terry Smith it benefits from a charismatic manager who together with Fundsmith's head of research, Julian Robins, has developed a product that has a clearly defined philosophy and process, and in our opinion, seeks to deliver an achievable objective. Equally, the types of companies held are those that many investors can relate to, for most will be household brands providing every day goods and services.

The philosophy is very straightforward, to invest in higher quality companies and hold them for the long term. Unit holders therefore should not consider this proposition for a short term foray into global equity markets. We would subscribe to the belief that over long term, the types of companies held would tend to outperform and whilst the fund has delivered a stellar set of returns since its launch, there may be periods in time when the fund will lag more cyclically sensitive peers and its benchmark.

Please note that this fund has seen a significant rise in assets under management in recent years, which can be a natural tail-wind for any investment strategy. Whilst we do not yet see this as an impediment to the investment process, especially given the low levels of turnover involved, it is something to remain conscious of when reviewing this proposition.

Fund Description

Fundsmith LLP was founded at the end of 2010 by Terry Smith. Mr Smith has a lengthy career within financial services and prior to setting up Fundsmith held a range of senior roles within leading stockbroking houses, including Collins Stewart. At Fundsmith, Mr Smith is both CEO and CIO and as lead manager of this fund is predominantly supported by head of research, Julian Robins. Mr Robins has over 30 years' industry experience and has worked with Mr Smith since 1999.

The basic premise of this fund is to invest in high quality companies that are viewed to be attractively valued, as measured by the free cash flow yield, with reliable growth prospects and holding them for the long term. In order to achieve this Mr Smith and Mr Robins have developed a robust investment process that focuses their research on companies that have some kind of intangible asset including (but not limited to) brand names, patents, licenses and excellent distribution networks. Initial filters greatly reduce the vast investment universe of over 60,000 listed global companies to under 100. These filters apply strict criteria seeking to highlight companies with enduring profitability, attractive free cash flow yields and low levels of operational and financial leverage. Consequently, the fund avoids companies in the more cyclically sensitive areas of the market such as banks, airlines and commodity related stocks. Conversely, there is a bias towards healthcare and consumer goods companies, franchisors and firms with an established and loyal customer base.

By focusing on a fairly small number of very high quality, well established companies with strong balance sheets the manager holds the belief that these firms will generate superior returns over the long term. Quite often these companies can demand a valuation premium versus the broader market, a fact that Mr Smith remains aware of. Though the team look at all of the industry's most commonly used valuation metrics, such as price to earnings (P/E), the favoured measure is free cash flow yield. This is used because the belief is that the financial health of a company should be considered by the amount of cash produced after replacement capital expenditure, and not earnings, for example, which can be manipulated.

The resulting portfolio of 20-30 positions is constructed without reference to the MSCI World benchmark. Given the types of companies sought, it can show sizeable deviations at both the geographic and sector levels. Indeed the only formal limits are the UCITS rules (i.e. a maximum of 10% can be held in a single stock and investments of more than 5% may not exceed 40% of the whole portfolio - this is commonly known as the 5/10/40 rule). Although many of the underlying firms have exposure to emerging markets, the fund tends not to invest in companies that are listed on emerging market exchanges, it also avoids stocks below \$2bn in size.

In keeping with the approach, portfolio activity is incredibly low. That is not to say the manager is complacent, positions will be exited if the investment case has fundamentally weakened, if valuations are deemed too expensive, a superior opportunity has been identified or a takeover has occurred.

Risk Summary

This fund invests in global equities and as such the main risk is that these, as higher risk assets, can be volatile instruments. Overseas listed companies are also exposed to currency movements and this can bring an additional level of risk.

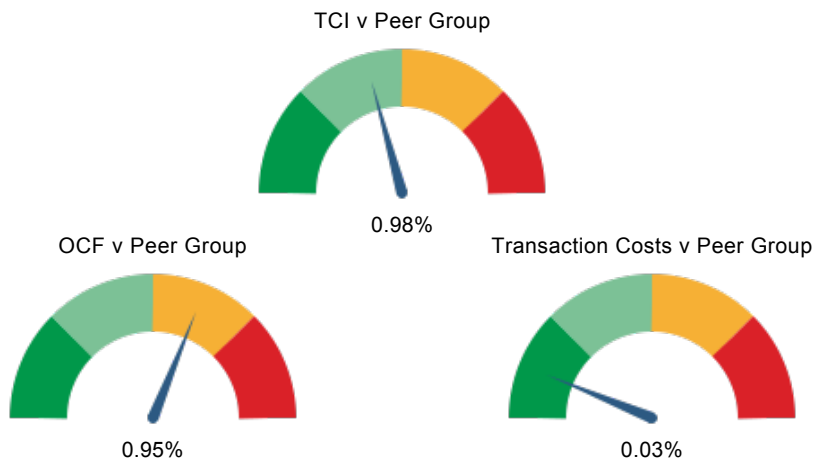
By investing in this fund, investors should be aware that they are essentially buying into the expertise of Mr Smith and Mr Robins. Although this represents, in our view, significant key person risk, we believe this is somewhat negated by both having equity within the business, and, in Mr Smith's case, being the controlling partner.

Furthermore, this fund has seen a significant rise in assets under management in recent years, which can be a natural tail-wind for any investment strategy. Funds which are large in size can be prone to liquidity restraints, though we are comforted that the fund predominantly invests in large and highly liquid stocks. Whilst we do not yet see this as an impediment to the investment process, especially given the low levels of turnover involved, it is something to remain conscious of when reviewing this proposition.

Value for Money

The fund's ongoing charge figure (OCF) is marginally ahead of the peer group median. However, its ultra-low turnover approach and sizeable level of assets mean that the costs associated with trading are very low. Overall, we feel that given the quality of the investment proposition the funds represents good value for money.

In line with the MiFID II regulations, asset management firms are required to disclose all of the costs and charges related to the running and administration of their funds, including items outside of the OCF, such as research costs. As a result, Fundsmith will be absorbing the costs associated with its external research, although in practice, the team rarely use it.



ESG Integration

Company Assessment	0	1	2	3
ESG factors are considered formally but are not instrumental within all of the company's investment processes.				
UN PRI Strategy & Governance Rating	A+			
Fund Assessment	0	1	2	3
ESG factors are actively considered by the fund's manager as an important part of the investment process, but do not drive the final investment decision.				

Responsible Investing Approach

Exclusion	Responsible Practices	Sustainability	Impact
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Additional Information

Annualised Return	18.28%
Annualised Volatility	15.41%
Max Drawdown	-16.65%
Max Gain	18.96%
Max Loss	-9.88%
Sharpe Ratio	1.14
Sortino Ratio	0.96

(3 years data to last month end unless otherwise stated)

Currency of Share Class

GBP

Fund Price (as at 12 Nov 2021)

663.5 pence

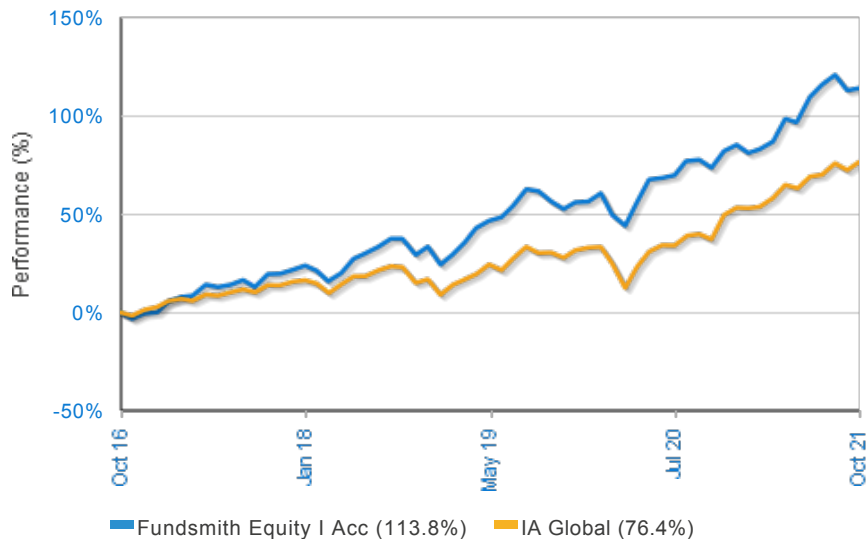
Benchmark

MSCI WORLD

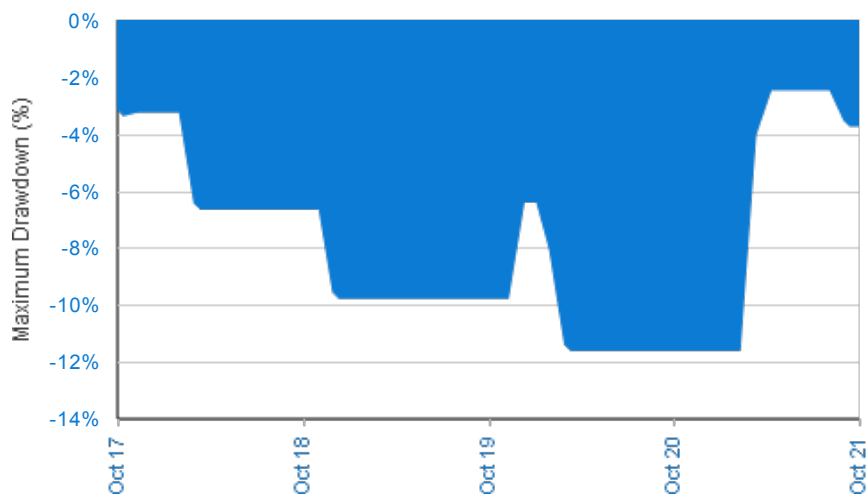
Discrete Annual Performance to Last Quarter End

Period	Fund (%)	Sector (%)	Quartile Ranking
0-12m	19.8	23.2	3
12-24m	13.5	7.2	1
24-36m	13.8	6.0	1
36-48m	21.7	11.6	1
48-60m	15.7	14.9	2

Capital Growth



Maximum Drawdown (Rolling 12 Months)



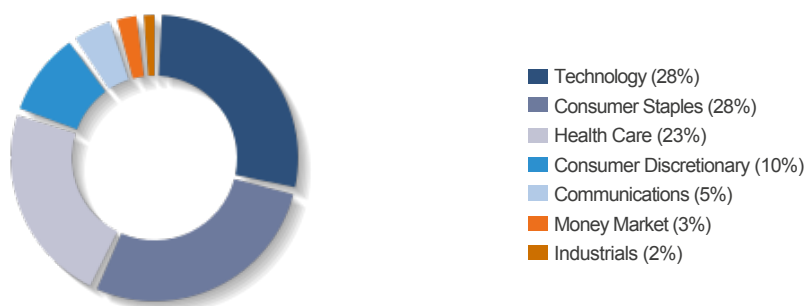
Top Ten Holdings

(Data as at 31 Aug 2021)

Company Name	%
ESTEE LAUDER COMPANIES INC	n/a
IDEXX LABORATORIES INC	n/a
INTUIT INC	n/a
L'OREAL	n/a
META PLATFORMS INC	n/a
MICROSOFT CORP	n/a
NOVO-NORDISK AS	n/a
PAYPAL HLDGS INC	n/a
PHILIP MORRIS INTERNATIONAL INC	n/a
STRYKER CORP	n/a

Sector Breakdown

(Data as at 31 Aug 2021)

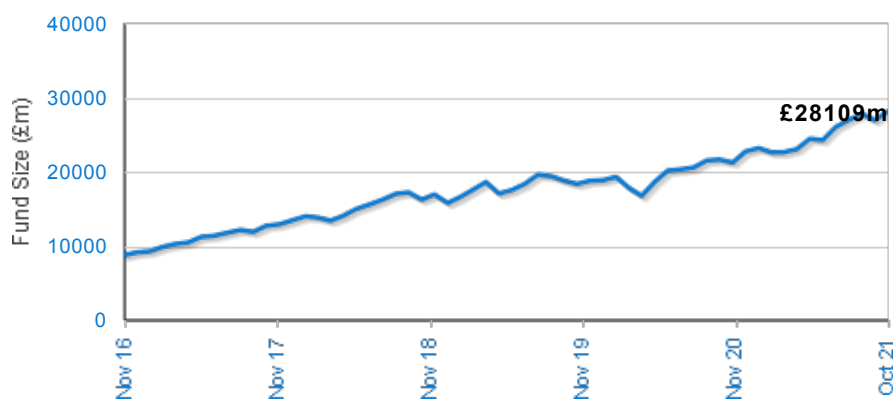


Geographic Breakdown

(Data as at 31 Aug 2021)



Assets Under Management



Qualitative Risk Assessment

	Significant	Potentially Significant	Not Significant
Equity Risk	●		
Interest Rate Risk		●	
Credit Risk			●
Exchange Rate Risk	●		
Liquidity Risk		●	
Emerging Markets Risk			●
Derivative Risk			●
Manager Risk	●		

Equity Risk

The fund is predominately invested in shares. Shares are volatile investments and this volatility is typically heightened at times of economic stress.

Interest Rate Risk

The fund is an equity fund. Higher interest rates may adversely affect valuations of shares.

Credit Risk

This fund does not have exposure to corporate debt.

Exchange Rate Risk

The fund predominately invests abroad and it is exposed to foreign currencies. Currency markets may move sharply.

Liquidity Risk

The fund invests in liquid assets and most sales should be possible at close to the prevailing market price. However, the fund's size could be a headwind in unfavourable market conditions.

Emerging Markets Risk

The fund predominantly invests in securities listed by organisations operating in developed markets.

Derivative Risk

The portfolio is predominantly invested in underlying cash securities.

Manager Risk

The manager is seen as a critical element in Square Mile's rating of the fund. Square Mile is likely to downgrade the fund if the manager(s) were to leave.

FE Risk Rating: 78.00

SRRI: 5

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