Fundsmith Equity I Acc

September 2024

Opinion

Square Mile rating

SQUARE MILE AAA

Performance

3 years annualised returns

2.57%

% of time met performance objective over 5 years

87.6%

Risks

Risk of asset class

1 2 3 4 5 6 7 8 9 10

Risk of fund within asset class

1 2 3 4 5

-21.88%

3 years max drawdown

Costs

Ongoing charges

0.94%

Transaction costs

0.02%

Total cost of investment

0.96%

Responsible

What type of investor are you?

Ethical Exclusion

Sustainable Solutions

Responsible Practices

Impact Investor

Source: Square Mile and Refinitiv, Data as at: 31st July 2024.

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.

Square Mile's Expected Outcome

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

Square Mile's 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 Manager's Formal Objective

The fund's objective is to achieve long-term (over five years) growth in value, investing in shares of companies on a global basis.

Outcome: Capital Accumulation	**Domicile:** UK
Active/Passive: Active	**Benchmark:** MSCI WORLD
Asset Class: Equity	**IA Sector:** IA Global
Yield: 0.39%	**Fund size:** £23,974 M
Fund Manager: Terry Smith	**Distribution Pay Date:** February, August
Fund Price: 7.0 Pounds	**Dividend Frequency:** Semi-annual
Currency of Share Class: GBP	**Share Class Launch Date:** 01/11/2010

Source: Square Mile and Refinitiv, Data as at: 31st July 2024

Asset Manager Overview

Fundsmith LLP was founded at the end of 2010 by Terry Smith. The firm is responsible for over £35bn of assets under management (as at 31 December 2022) across a small sample of strategies, all subscribing to one underlying philosophy. The business is owned and controlled by its partners, and is headquartered in the UK with offices in the USA and Mauritius.

Fund Manager/Team Overview

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 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. Mr Robins has over 30 years' industry experience and has worked with Mr Smith since 1999. In addition, they are supported by a small team of analysts and investment managers.

Investment Philosophy & Process Overview

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 their 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 index. 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.

ESG Integration

Fund ESG Integration

Whilst the Fundsmith team does not screen or necessarily use a third party to analyse whether a company has a clean bill of health on environmental, social or governance (ESG) grounds, it does take into account many of these factors in the natural course of business. As such, they record and highlight if a company has, or is having, an impact on society or the environment. In essence, it is fair to say that a business that is operating in a manner that causes harm to the environment or with poor working practices, could ultimately see its value fall in the event that these aspects influence the material success of the company. Therefore, the firm, in the interests of their investors would want to avoid these situations. The company is also happy to be an active shareholder and will vote and engage with companies on management remuneration or board construction for example, especially if decisions are potentially being made that are not good for the company and/or will not benefit investors.

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.

Additional Information

Annualised Return: 2.57%
Annualised Volatility: 13.42%
Max Drawdown: -21.88%
Max Gain: 10.77%
Max Loss: -11.61%
Sharpe Ratio: 0.11
Sortino Ratio: 0.10

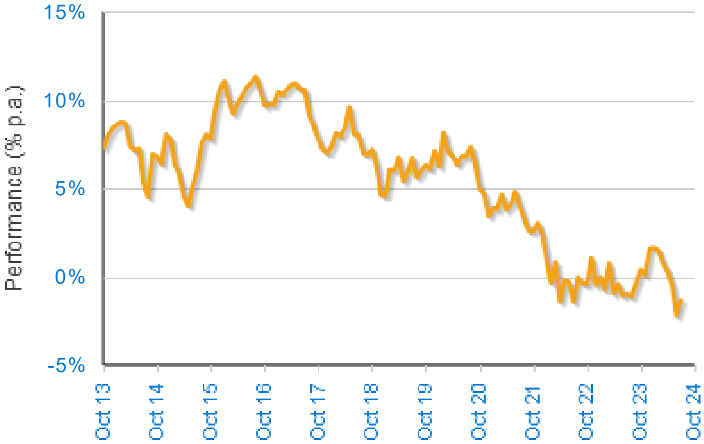
(3 years data to last month end unless otherwise stated)

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	●		

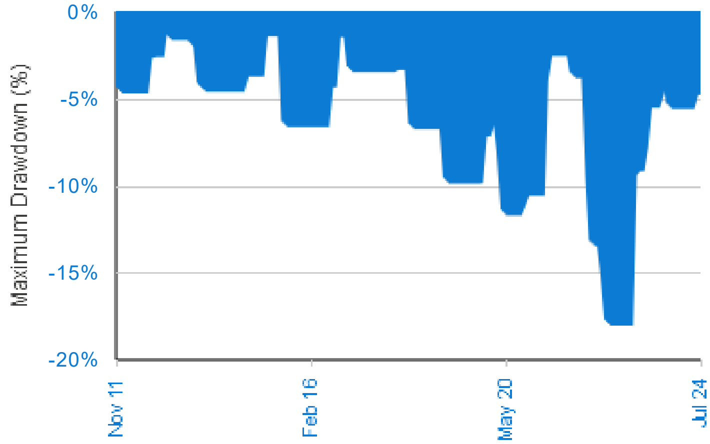
For the full summary of the risks, click here

3 Year Rolling Sector Outperformance



Source: Square Mile and Refinitiv, Data as at: 6th September 2024. Share price total return.

Maximum Drawdown (Rolling 12 Months)



Source: Square Mile and Refinitiv, Data as at: 6th September 2024

Calendar Year Performance To Quarter End

Period	Fund (%)	Sector (%)
2023	12.5	12.5
2022	-13.7	-11.1
2021	22.2	18.2
2020	18.4	15.1
2019	25.8	22.3

Source: Square Mile and Refinitiv, Data as at: 14th September 2024

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.

OCF v Peer Group

0.94%

Transaction Costs v Peer Group

0.02%

TCI v Peer Group

0.96%

Source: Square Mile and Refinitiv, Data as at: 31st July 2024.

The Square Mile ratings are reviewed every 6 months. For full details on the methodologies, click here.

For a full list of all Square Mile rated funds, click here.

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