

Fundsmith Equity Fund

ALLAN GRAY ROADSHOW

October 2019

Greville Ward

Partner

Head of International Marketing

Fundsmith LLP

Disclaimer

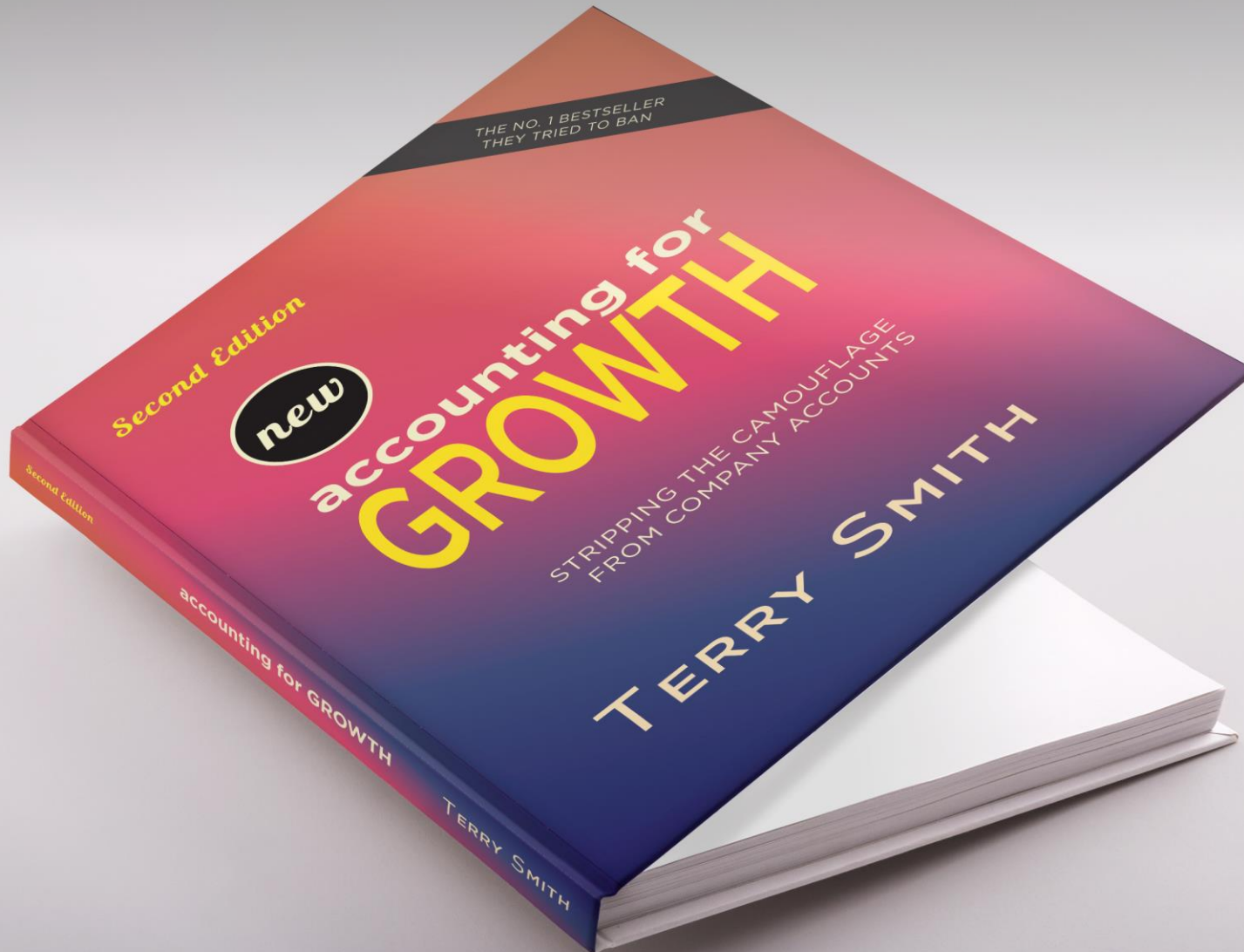
Collective Investment Schemes are generally medium to long-term investments. The value of participatory interests or the investment may go down as well as up. Past performance is not necessarily a guide to future performance. Collective Investment Schemes are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees and charges and maximum commissions is available on request from the Investment Manager. The Investment Manager does not provide any guarantee either with respect to the capital or the return of a portfolio. Fundsmith Equity Fund is authorised by the FSCA under section 65 of the Collective Investment Schemes Control Act 2002. A CIS may be closed to new investors in order for it to be managed more efficiently in accordance with its mandate.

Collective Investment Schemes prices are calculated on a net asset basis, which is the total value of all the assets in the portfolio including any income accruals and less any permissible deductions (brokerage, STT, VAT, auditor's fees, bank charges, trustee and custodian fees and the annual Management fee) from the portfolio divided by the number of participatory interests (shares) in issue. Forward pricing is used. Where foreign securities are included in a portfolio there may be potential constraints on liquidity and the repatriation of funds, macroeconomic risks, political risks, foreign exchange risks, tax risks, settlement risks; and potential limitations on the availability of market information. The investor acknowledges the inherent risk associated with the selected investments and that there are no guarantees either with respect to the capital or the return of a portfolio. Performance has been calculated using net NAV to NAV numbers, including all ongoing fees, with income reinvested on the reinvestment date.

The performance for each period shown reflects the return for investors who have been fully invested for that period in Sterling. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestments and dividend withholding tax. The return may increase or decrease if the investor is comparing the returns in a different currency. Full performance calculations are available from the manager on request. For any additional information such as fund prices, brochures, application forms and annual and interim report and accounts, please go ¹to www.fundsmith.co.za or contact Fundsmith LLP where they are available free of charge.

- Independent.
- Owned by key staff.
- Key staff have worked together for many years. Terry Smith (CIO) and Julian Robins (Director of Research) have worked together for over 20 years and have been through multiple market cycles.
- Offices in UK, USA and Mauritius.

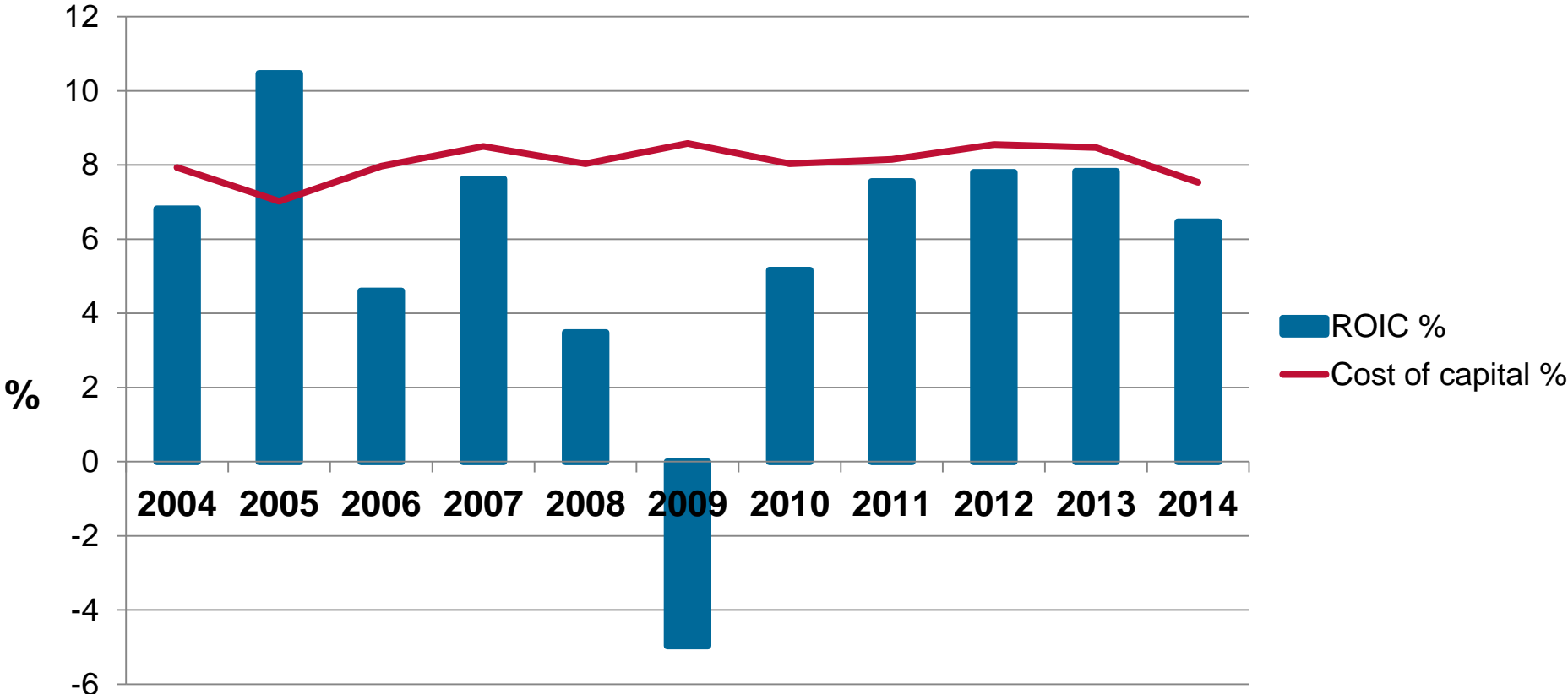
Terry Smith: It's in the numbers



Investment strategy

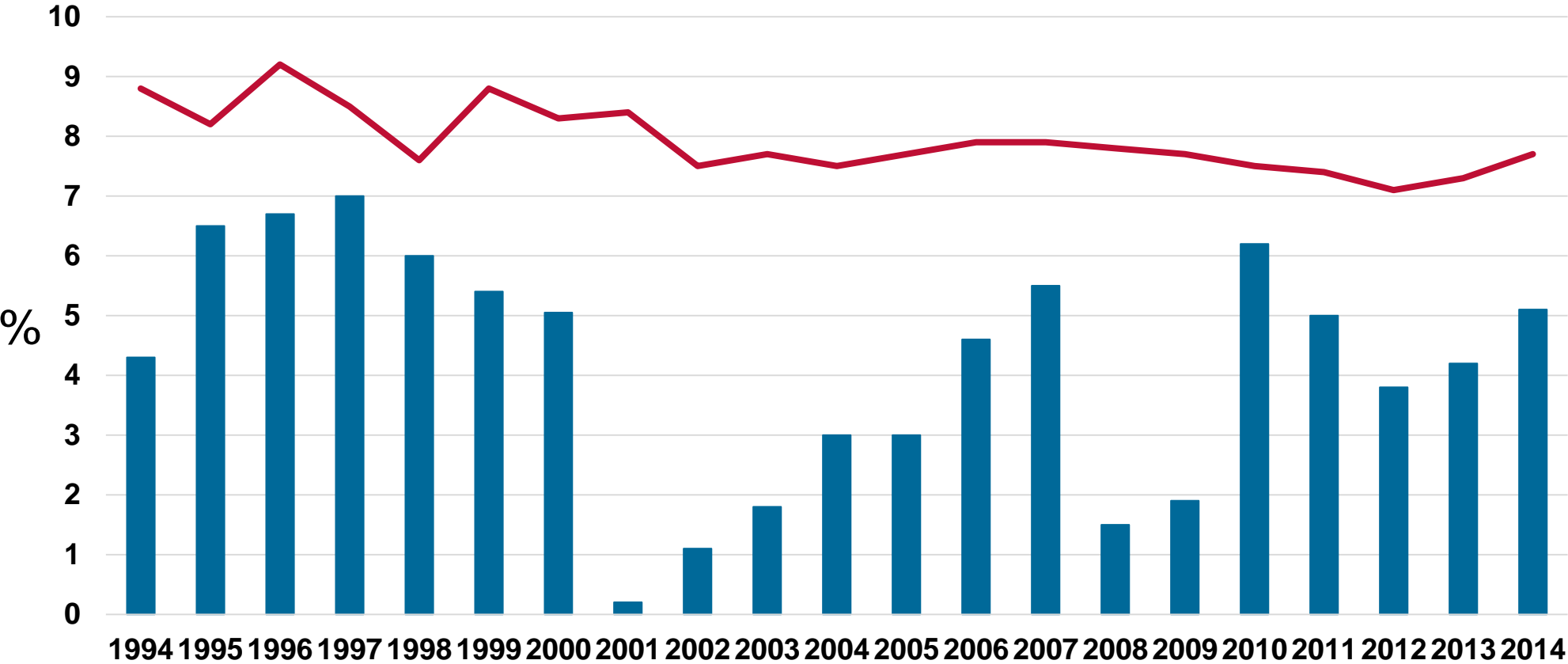
1. Only invest in good companies
2. Don't overpay
3. Do nothing

Automotive Industry Cost of Capital vs ROIC



Source: No Light at the end of the Tunnel: Investing in Bad Businesses. Aswath Damodaran, Stern NYU, May 2015

Airline Industry Cost of Capital vs ROIC

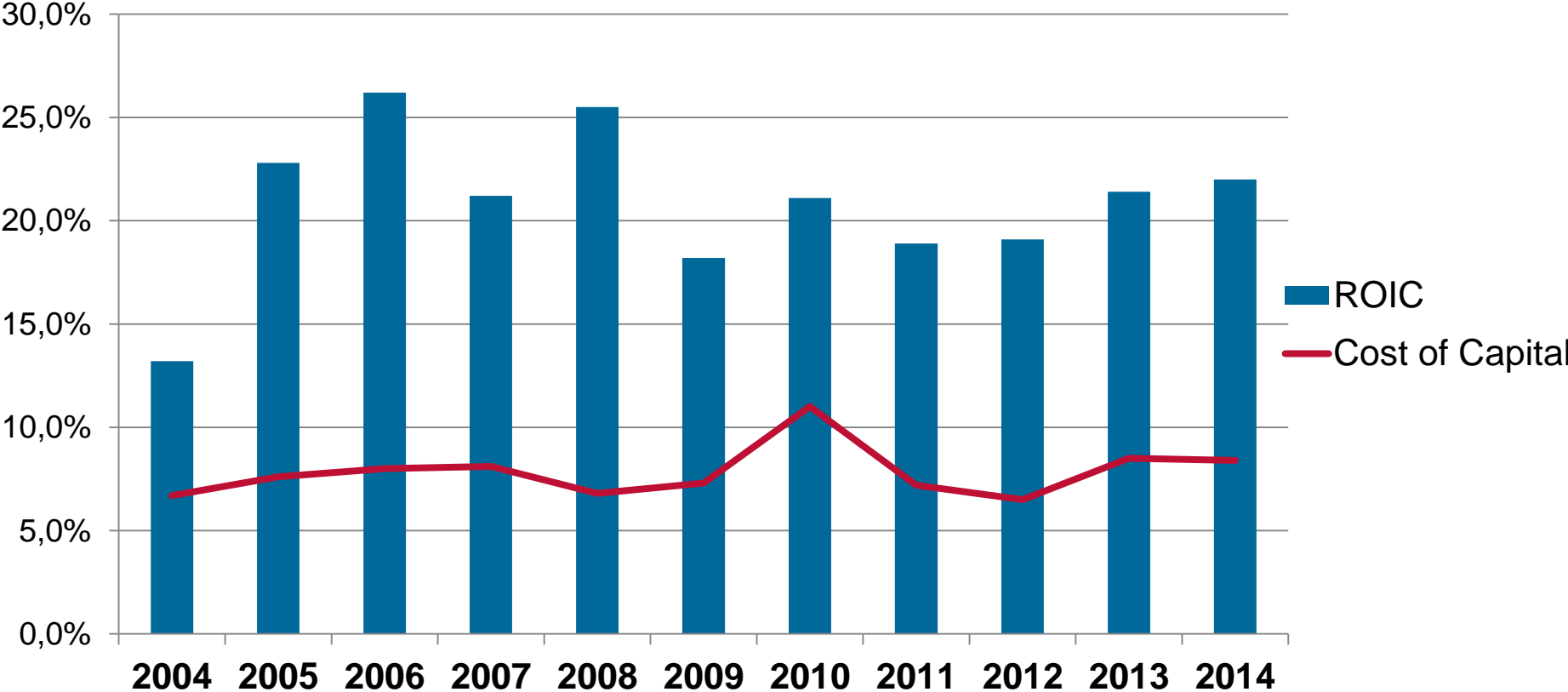


Source: IATA, McKinsey 2015

■ ROIC % — Cost of capital %

What a good company looks like

Unilever



Source: Unilever Report and Accounts, Fundsmith Research 2015

Examples of good and bad businesses

"Best" businesses (2013-2017)				
Industry name	Number of firms	ROCE	WACC	ROCE-WACC
Tobacco	62	46.6%	7.0%	39.5%
Information Services	193	36.4%	9.0%	27.4%
Advertising	258	32.3%	8.7%	23.7%
Healthcare Support Services	355	31.0%	8.1%	22.9%
Household Products	531	25.5%	8.2%	17.3%
Aerospace/ Defense	229	24.5%	8.9%	15.7%
Computer Services	931	23.2%	8.4%	14.8%
Business & Consumer Services	834	21.7%	8.0%	13.7%
Entertainment	374	22.3%	8.8%	13.5%
Beverage (Soft)	101	19.6%	7.4%	12.2%

"Worst" businesses in (2013-2017)				
Industry name	Number of firms	ROCE	WACC	ROCE-WACC
Oil/Gas (Production and Exploration)	928	1.9%	9.9%	-8.0%
Precious Metals	961	4.2%	10.2%	-5.9%
Brokerage & Investment Banking	555	0.1%	5.6%	-5.5%
Banks (Regional)	853	0.0%	5.0%	-4.9%
Bank (Money Center)	615	0.0%	4.9%	-4.9%
Financial Svcs. (Non-bank & Insurance)	1030	0.4%	4.3%	-3.8%
Oil/Gas (Integrated)	48	6.3%	9.8%	-3.4%
Shipbuilding & Marine	342	4.4%	7.6%	-3.3%
Steel	735	4.7%	7.7%	-3.0%
R.E.I.T.	714	2.8%	5.6%	-2.9%

Source: Aswath Damodaran, Professor of Finance at Stern School of Business at New York University, Jan 2018 data

Stock selection & portfolio construction

- Investible universe of 73 stocks.
- Updated models on entire investible universe.
- Portfolio of 20-30 stocks.
- Subject to OEIC concentration rules.
- Value-based selection process.
- Sector & Sub sector limits.
- Ideal holding period is indefinite.

Sector split

Fundsmith sector	%
FMCG	31.7
Installed Base – Software	24.6
Medical Equipment	12.5
Payment Processors	9.6
Testing	7.0
Installed Base – Hardware	6.7
Pharmaceuticals	4.0
Franchisors	3.0
Cash	0.9

MSCI sector	%
Consumer Staples	31.7
Technology	30.0
Healthcare	24.9
Industrials	5.3
Communication Services	4.1
Consumer Discretionary	3.0
Cash	0.9

Geographic split

By country of listing	%
USA	65.7
UK	17.5
Denmark	6.1
Spain	4.0
France	3.2
Finland	2.7
Cash	0.9

By revenue	%
North America	46
Europe	24
Asia Pacific	19
Eurasia, Middle East, Africa	6
Latin America	5

Look-through ratios

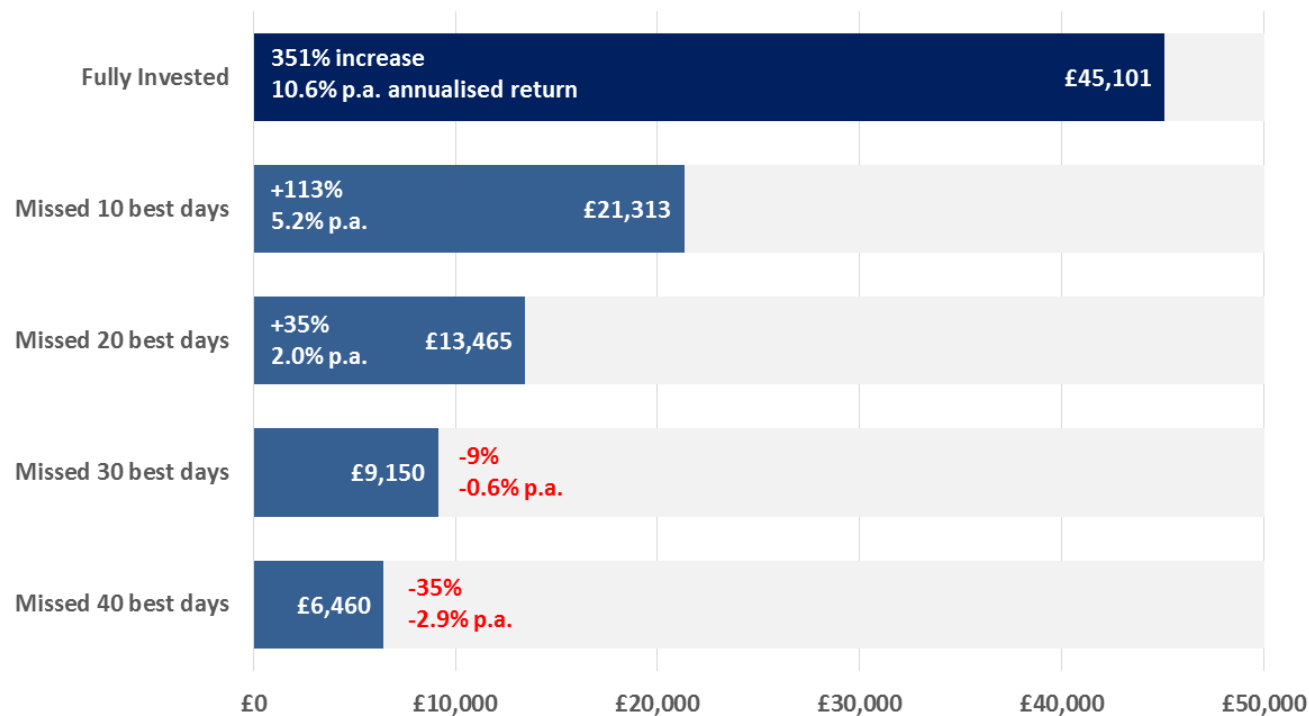
	Fundsmith Equity Fund							S&P 500	FTSE 100
	2012	2013	2014	2015	2016	2017	2018	2018	2018
ROCE	29%	31%	29%	26%	27%	28%	29%	16%	17%
Gross Margin	58%	63%	60%	61%	62%	63%	65%	45%	39%
Operating Profit Margin	23%	24%	25%	25%	26%	26%	28%	15%	16%
Cash Conversion	101%	108%	102%	98%	99%	102%	95%	84%	96%
Leverage	44%	40%	28%	29%	38%	37%	47%	46%	39%
Interest Cover	18x	16x	15x	16x	17x	17x	17x	7x	9x

Source: Bloomberg 2019.

ROCE, Gross Margin, Operating Profit 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. The Leverage and Interest Cover numbers are both median. All ratios are based on last reported fiscal year accounts as at 31st December and as defined by Bloomberg. Cash Conversion compares Free Cash Flow per Share with Net Income per Share.

Do nothing

£10,000 invested in the S&P 500 (with dividends reinvested) for 15 years (31-Dec-02 to 31-Dec-17)



Being fully invested for 15 years would give you over twice the money (or an extra £23,788) than someone missing the 10 best days in the market.

Source: Bloomberg, Fundsmith Research 2018. Data compiled using S&P 500 net total return index in GBP.

Do Nothing

2019	
Purchases	Sales
Brown-Forman	Colgate-Palmolive
	3M

2018	
Purchases	Sales
Coloplast	Dr Pepper Snapple [#]
Facebook	Nestlé
McCormick	

[#] Dr Pepper Snapple was bought by Keurig Green Mountain

2017	
Purchases	Sales
Intuit	JM Smucker
	Imperial Brands
	CR Bard [*]

^{*} CR Bard was bought by Becton Dickinson effective 31.12.17.

Valuation

	Average Historic Free Cash Flow Yield %
Fundsmith Equity Fund	3.6
FTSE 100 Non-Financials	4.9
S&P 500 Non-Financials	4.3

Source: Bloomberg & Fundsmith. Fundsmith Equity Fund is portfolio weighted average excluding cash, FTSE 100 & S&P 500 are median average. All data as at 6.8.19 in local currency .

- As at 30th June 2019 last reported TTM portfolio free cash flow grew by 12%.

Performance

Fundsmith Equity Fund

Fund Size: £18.8bn

Best Year₆: +42% (To September 2018)

Fund Inception: 1/11/10

Worst Year₆: +2.2% (To December 2019)

	2019 to 30.9	2018	2017	2016	2015	2014	2013	2012	Since Inception to 30.9.19	Annualised ₅ since inception to 30.9.19
Fundsmith Equity Fund₁	+25.7	+2.2	+22.0	+28.2	+15.7	+23.3	+25.3	+12.5	+364.8	+18.8
Equities ₂	+21.5	-3.0	+11.8	+28.2	+4.9	+11.5	+24.3	+10.7	+177.6	+12.1
Bonds ₃	+6.1	+1.2	+1.4	+6.5	+1.0	+10.0	-4.3	+4.1	+44.0	+4.2
Cash ₄	+0.6	+0.7	+0.4	+0.5	+0.6	+0.5	+0.5	+0.8	+5.8	+0.6

₁ T Class Acc Shares, net of fees, priced at midday UK time. Inception 1.11.10. Source: Fundsmith. As at 30.09.19

₂ MSCI World Index (£ Net) priced at close of business US EST. Source: www.msci.com As at 30.09.19

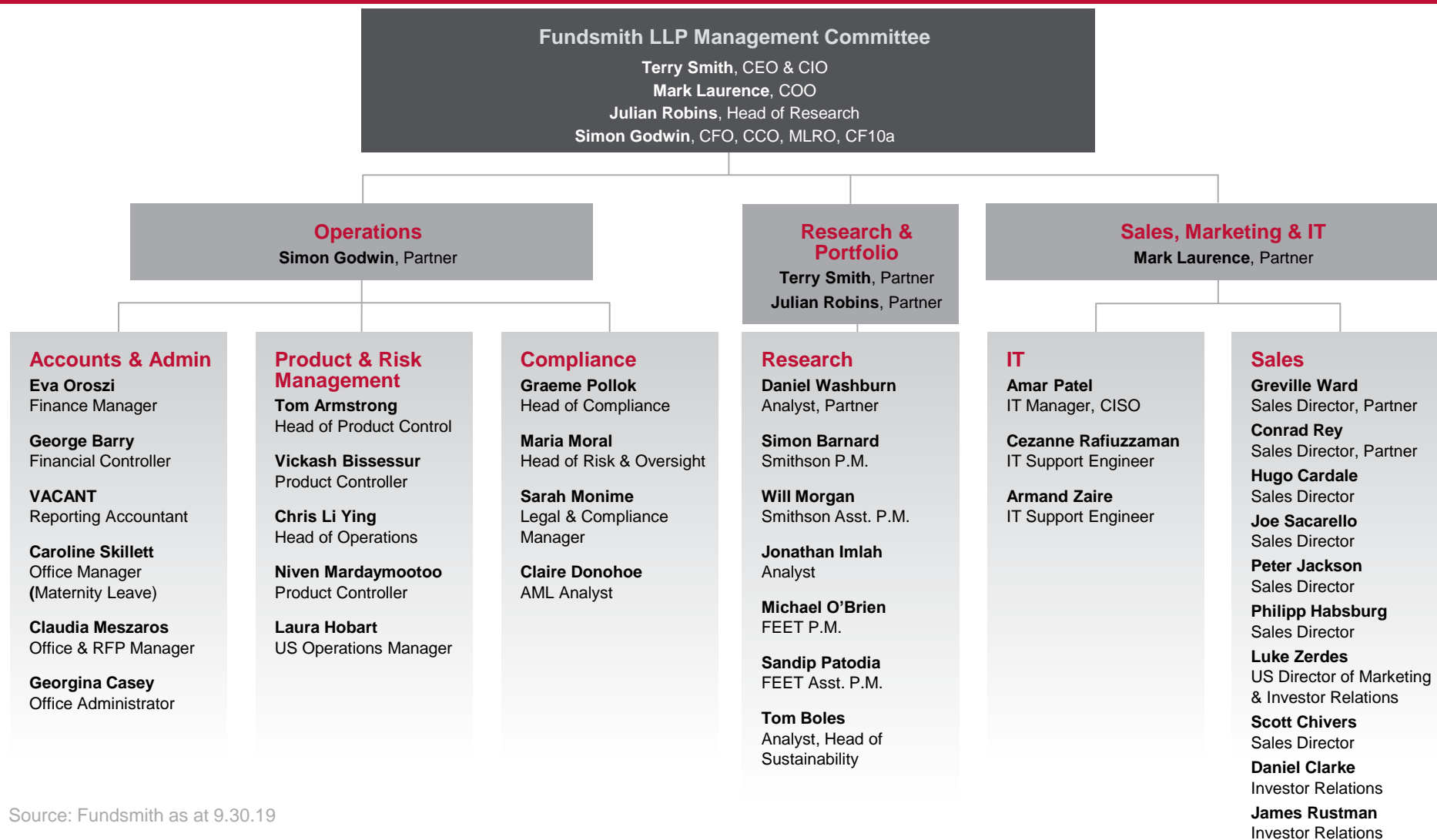
₃ Bloomberg/EFFAS Bond Indices UK Govt 5-10yr. Source: Bloomberg As at 30.09.19

₄ 3m £ LIBOR Interest Rate. Source: Bloomberg As at 30.09.19

₅ Annualised performance shows longer term performance rescaled to a 1-year period. Annualised performance is the average return per year over the period. Actual annual figures are available to the investor on request.

₆ The highest and lowest returns for any 1 year over the period since inception

Organisational chart



Fundsmith Equity Products

Small & Mid Cap Developed World	Large Cap Developed World		Emerging & Frontier Market
<p>Smithson Investment Trust</p> <p>Launch: October 2018 Investable Universe: 83 Market Cap Range: £0.5 - 15bn Portfolio Av. Mkt Cap: £6bn Fund Size: £1bn Benchmark: MSCI World SMID Fund Type: UK listed investment trust</p>	<p>Fundsmith Equity Fund</p> <p>Launch: November 2010 Investable Universe: 73 Market Cap Range: £3 - 620bn Portfolio Av. Mkt Cap: £96bn Fund Size: £18bn Benchmark: MSCI World Fund Type: UK OEIC, Luxembourg SICAV feeder, Mauritian feeder, Delaware L.P.</p>	<p>Fundsmith Sustainable Equity</p> <p>Launch: November 2017 Investable Universe: 61 Market Cap Range: £3 - 620bn Portfolio Av. Mkt Cap: £87bn Fund Size: £0.2bn Benchmark: MSCI World Fund Type: UK OEIC, Delaware L.P.</p>	<p>Fundsmith Emerging Equities Trust</p> <p>Launch: June 2014 Investable Universe: 87 Market Cap Range: £0.1 - 62bn Portfolio Av. Mkt Cap: £3bn Fund Size: £0.3bn Benchmark: MSCI Emerging & Frontier Fund Type: UK listed investment trust</p>

Source: Fundsmith LLP, as at 31.12.18