



# **Fundsmith Equity Fund**

## Final Report and Accounts

**For the year ended 31 December 2019**



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\*The above information collectively forms the Authorised Corporate Director's report.

# Profile of the Fund

## Investment objective and policy

The aim of Fundsmith 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:

- 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 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



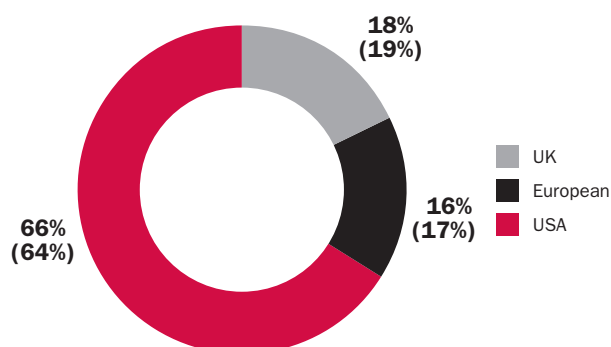
The risk category reflects the significance of the Fund's share price fluctuations based on historical data. Historical data may not be a reliable indication of the future risk profile of the fund. The risk category of the Fund is not guaranteed and may change over time. Further, the lowest category 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. The Fund is in Category 5 reflecting the risks inherent in the Fund's investment portfolio, including that of capital losses. The underlying investments are, however, in large companies with shares that are highly liquid.

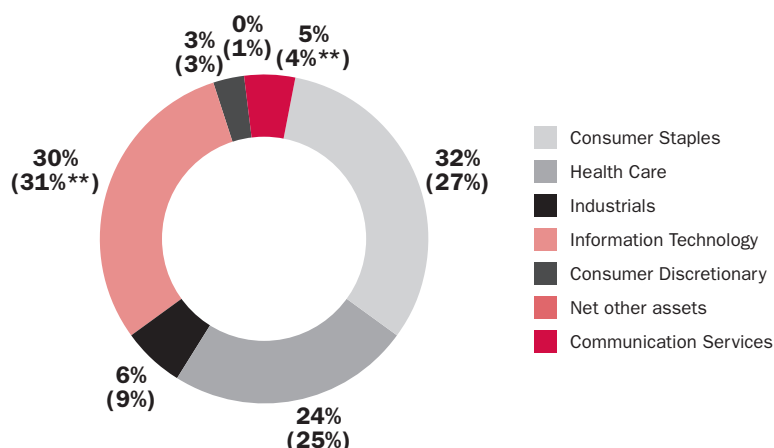
There are a number of other risks that are not covered by the indicator above. A full description is contained in the prospectus under the heading "Risk Factors". The most material are currency risk and concentration risk which are explained above.

## Information on the fund

**Breakdown by geography\***  
as at 31 December 2019



**Breakdown by sector**  
as at 31 December 2019



The figures in brackets show comparative figures at 31 December 2018.

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

\*\* Comparative figures have been restated, due to the reclassification of Facebook from Information Technology to Communication Services.

### Summary of significant changes

For the year 1 January 2019 to 31 December 2019		For the year 1 January 2018 to 31 December 2018	
Largest purchases	Cost (£)	Largest purchases	Cost (£)
McCormick	440,030,173	Facebook	767,051,580
Brown-Forman	396,237,298	Reckitt Benckiser	375,206,481
Philip Morris International	203,371,654	Philip Morris International	310,152,936
Clorox	120,490,089	Coloplast	271,672,558
L'Oréal	110,553,655	McCormick	270,269,295
<b>Total</b>	<b>1,270,682,869</b>	<b>Total</b>	<b>1,994,352,850</b>
<b>Total purchases for the year</b>	<b>1,998,529,680</b>	<b>Total purchases for the year</b>	<b>4,070,752,082</b>
Largest sales	Proceeds (£)	Largest sales	Proceeds (£)
3M	391,740,166	Dr Pepper Snapple	774,215,811
Colgate-Palmolive	74,387,143	Nestle	317,965,359
PayPal	20,004,934	Colgate-Palmolive	142,149,412
-	-	Waters	6,679,414
-	-	British American Tobacco	2,054,048
<b>Total</b>	<b>486,132,243</b>	<b>Total</b>	<b>1,243,064,044</b>
<b>Total sales for the year</b>	<b>486,132,243</b>	<b>Total sales for the year</b>	<b>1,250,749,615</b>

# Portfolio statement

As at 31 December 2019	Holdings	Market Value £	Percentage of Net Assets (%)
<b>Communication Services 4.46% (3.88%*)</b>			
Facebook	5,404,672	839,117,835	4.46
		<b>839,117,835</b>	<b>4.46</b>
<b>Consumer Discretionary 3.08% (3.32%)</b>			
InterContinental Hotels	11,132,256	579,433,925	3.08
		<b>579,433,925</b>	<b>3.08</b>
<b>Consumer Staples 31.78% (26.75%)</b>			
Brown-Forman	7,863,502	402,253,861	2.14
Clorox	1,041,923	121,072,640	0.64
Diageo	13,063,741	418,039,712	2.22
Estée Lauder	5,519,554	862,428,179	4.58
L'Oréal	1,290,834	289,110,917	1.54
L'Oréal Loyalty shares	1,353,227	303,085,214	1.61
McCormick	5,880,027	755,603,252	4.01
PepsiCo	6,871,081	710,620,710	3.77
Philip Morris International	13,785,803	887,326,535	4.71
Reckitt Benckiser	11,548,504	707,692,325	3.76
Unilever	12,140,293	528,163,447	2.80
		<b>5,985,396,792</b>	<b>31.78</b>
<b>Health Care 24.46% (25.48%)</b>			
Becton Dickinson	3,170,739	652,535,519	3.47
Coloplast	4,517,483	425,560,503	2.26
IDEXX Laboratories	3,735,973	738,002,858	3.92
Johnson & Johnson	4,436,240	489,602,109	2.60
Novo Nordisk	17,773,137	783,859,682	4.16
Stryker	4,889,156	776,772,539	4.12
Waters	4,184,831	740,242,490	3.93
		<b>4,606,575,700</b>	<b>24.46</b>
<b>Industrials 5.59% (8.62%)</b>			
Intertek	8,928,388	522,132,130	2.77
Kone	10,734,601	531,581,506	2.82
		<b>1,053,713,636</b>	<b>5.59</b>
<b>Information Technology 30.36% (30.85%*)</b>			
Amadeus IT	12,879,303	796,961,269	4.23
Automatic Data Processing	5,097,552	657,792,581	3.49
Intuit	3,795,123	752,215,689	4.00
Microsoft	10,135,300	1,208,348,799	6.42
PayPal	12,713,609	1,041,036,196	5.53
Sage	71,294,086	533,564,940	2.83
Visa	5,113,026	727,026,327	3.86
		<b>5,716,945,801</b>	<b>30.36</b>
<b>Portfolio of investments</b>		<b>18,781,183,689</b>	<b>99.73</b>
<b>Net other assets</b>		<b>50,237,713</b>	<b>0.27</b>
<b>Total net assets</b>		<b>18,831,421,402</b>	<b>100.00</b>

Comparative figures shown in brackets relate to 31 December 2018.

Unless otherwise stated the above securities are ordinary shares or common stock and admitted to an official stock exchange listings.

\* Comparative figures have been restated, due to the reclassification of Facebook from Information Technology to Communication Services.

# Investment Manager's review

This report reproduces, as you will be used to by now, in part, the Annual letter that was sent out in mid-January. The full version of the Annual letter is available on our website.

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 1.1.19 to 31.12.19 %	Inception to 31.12.19 Cumulative %	Annualised %
<b>Fundsmith Equity Fund<sup>1</sup></b>	+25.6	+364.4	+18.2
Equities <sup>2</sup>	+22.7	+180.3	+11.9
UK Bonds <sup>3</sup>	+3.8	+40.9	+3.8
Cash <sup>4</sup>	+0.8	+6.0	+0.6

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

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

<sup>3</sup>Bloomberg/Barclays Bond Indices UK Gov. 5–10 yr., source: Bloomberg.

<sup>4</sup>3 Month £ LIBOR Interest Rate, source: Bloomberg.

The table shows the performance of the T Class Accumulation shares, the most commonly held Class and one in which I am invested, which rose by +25.6% in 2019 and compares with a rise of +22.7% for the MSCI World Index in sterling with dividends reinvested. The Fund therefore beat this comparator in 2019, and our Fund remains the No.1 performer since its inception in the Investment Association Global sector by a cumulative margin of 233 percentage points above the average for the sector which has delivered +131.8% over the same timeframe.

However, I realise that many or indeed most of our investors do not use these as the natural comparator for their investments. Those of you who are based in the UK may look to the FTSE 100 Index ('FTSE 100') as the yardstick for measuring your investments and may hold funds which are benchmarked to this index and often hug it. The FTSE 100 delivered a total return of +17.3% in 2019 so our Fund outperformed this by a margin of 8.3 percentage points.

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

Microsoft	+2.7%
Estée Lauder	+2.1%
Facebook	+2.0%
PayPal	+1.8%
Philip Morris Intl.	+1.4%

Microsoft makes its fifth appearance whilst PayPal is putting in an appearance for the third year running. Someone once said that no one ever got poor by taking profits. This may be true but I doubt they got very rich by this approach either. We are not the sort of people who ever declare victory — we invest with a strong sense of paranoia — but it is nonetheless pleasing to note the contribution of Facebook which was certainly our most controversial stock purchase and led to more questions (and demands for its sale) from some of our investors than any other company. We had similar views expressed to us when we purchased Microsoft.

The bottom five were:

3M	−0.2%
Colgate Palmolive	0.0%
Clorox	0.0%
Brown-Forman	0.0%
Reckitt Benckiser	+0.2%

We sold our stakes in 3M and Colgate Palmolive during the year and began buying Brown-Forman, the distiller of Jack Daniel's Tennessee Whiskey, and Clorox, the US household products and personal care products company. With 3M we were acting on growing doubts about the current management's capital allocation decisions, and in the case of Colgate Palmolive we grew tired of waiting for an effective growth strategy to emerge. As is often the

## Investment Manager's review (continued)

case, our buying of Brown-Forman has coincided with a period of share price weakness caused in this case mainly by the impact of EU tariffs on American spirits.

As you hopefully know by now, we have 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 of those — whether we own good companies — by giving you the following table which shows what Fundsmith 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 Index and the S&P 500 Index ('S&P 500'). We not only show you how the portfolio compares with the major indices but also how it has evolved over time.

Year ended	Fundsmith Equity Fund Portfolio								S&P 500	FTSE 100
	2012	2013	2014	2015	2016	2017	2018	2019	2019	2019
ROCE	29%	31%	29%	26%	27%	28%	29%	29%	17%	17%
Gross margin	58%	63%	60%	61%	62%	63%	65%	66%	45%	39%
Operating margin	23%	24%	25%	25%	26%	26%	28%	27%	15%	17%
Cash conversion	101%	108%	102%	98%	99%	102%	95%	97%	84%	86%
Leverage	44%	40%	28%	29%	38%	37%	47%	39%	53%	41%
Interest cover	18x	16x	15x	16x	17x	17x	17x	16x	7x	10x

Source: Fundsmith LLP/Bloomberg.

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.

As you can see, not much has changed, which is how we like it. Our portfolio companies remain superior to those in the main indices on any of the financial measures of returns, profitability, cash flow, or balance sheet strength.

As we indicated last year, we are going to remove the leverage calculation from the table in future as it can be close to meaningless. As you can see, we are not planning to remove it just because it looks bad. On the contrary, this year it is at 39% for our Fund's portfolio versus 53% for the S&P 500 and 41% for the FTSE 100. But it gives a sense of how little meaning it has that the values for the companies that comprise the median number are 26% and 53%. Nor is a mean (average) number much better as eight stocks in the portfolio have net cash on their balance sheets.

The average year of foundation of our portfolio companies at the year end was 1925.

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 2019? The weighted average free cash flow (the cash the companies generate after paying for everything except the dividend, and our preferred measure) grew by 9% in 2019.

This leads onto the question of valuation. The weighted average free cash flow ('FCF') yield (the free cash flow generated by the companies divided by their market value) of the portfolio at the outset of the year was 4.0% and ended it at 3.4%, so they became more highly rated. Whilst this is a good thing from the viewpoint of the performance of their shares and the Fund, it makes us nervous as changes in valuation are finite and reversible, although it is hard to see the most likely source of such a reversal — a rise in interest rates — in the near future.



## Investment Manager's review (continued)

The year-end median FCF yield on the S&P 500 was 4.2%. The year-end median FCF yield on the FTSE 100 was 5.5%. More of our stocks are in the former index than the latter and I will not repeat the explanation which I gave in my 2017 annual letter on why I think the FTSE 100 is not an appropriate benchmark or investment proxy for our investors to use. Our portfolio consists of companies that are fundamentally a lot better than the average of those in either index and are valued more highly than the average FTSE 100 company and a bit higher than the average S&P 500 company but with significantly higher quality. It is wise to bear in mind that despite the rather sloppy shorthand used by many commentators, highly rated does not equate to expensive any more than lowly rated equates to cheap.

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 negative portfolio turnover during the period. It is perhaps more helpful to know that we spent a total of just 0.005% (half a basis point or one two hundredth of one percent) of the Fund's average value over the year on voluntary dealing (which excludes dealing costs associated with fund subscriptions and redemptions as these are involuntary). We have held ten of our portfolio companies since inception in 2010.

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 2019 for the T Class Accumulation shares was 1.05%. 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 2019 this amounted to a

TCI of 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 only 1% 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 report is after charging all fees which should surely be the main focus.

The Fund's performance for the year was adversely affected by a couple of poor months in September and October which cost the Fund about 6%. This was caused by two factors: 1) a rally in the sterling exchange rate from the recent lows which it had plumbed after the Brexit referendum result in 2016 and on subsequent hard Brexit fears; and 2) a 'rotation' from the high quality and relatively highly rated stocks of the sort which our Fund owns into lower quality and more lowly rated 'value' stocks.

If you read the breathless commentary on this in much of the press without knowing the actual performance of our Fund you might be surprised to find that, notwithstanding these events, it ended the year up by 25.6% which was our second best year since inception and outperformed the MSCI World Index by 2.9%.

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

Yours sincerely,

Terry Smith  
CEO  
**Fundsmith LLP**  
25 February 2020

# Report of the Authorised Corporate Director of Fundsmith Equity Fund

## For the year ended 31 December 2019

The Authorised Corporate Director ("ACD") of Fundsmith Equity Fund (the "Company") is Fundsmith LLP. The ACD is the sole director of the Company. The Depositary is State Street Trustees Limited and the Independent Auditors are Deloitte LLP.

The Company is an authorised open-ended investment company with variable capital under Regulation 12 (Authorisation) of the OEIC regulations and the shareholders are not liable for the debts of the Company. The Company is structured as an umbrella company ("Fund") having the investment powers equivalent to those of a securities Company.

The investment objective of the Fund, the Company's policy for pursuing that objective and a review of the Fund's investment activities for the relevant period are set out in the Fund review contained in this Annual Report and Financial Statements.

### Statement of Authorised Corporate Director's Responsibilities

The Authorised Corporate Director of Fundsmith Equity Fund is responsible for preparing the Annual Report and the financial statements in accordance with the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228) ("the OEIC Regulations"), the Financial Conduct Authority's Collective Investment Scheme's Sourcebook ("COLL") and the Company's Instrument of Incorporation.

The OEIC Regulations and COLL require the ACD to prepare financial statements for each annual accounting period which: are in accordance with United Kingdom Generally Accepted Accounting Practice ("United Kingdom Accounting Standards and applicable law"), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the Statement of Recommended Practice: "Financial Statements of Authorised Funds" issued by the Investment Association ("IA") (formerly known as the Investment Management Association (IMA)) in May 2014; and give a true and fair view of the financial position of the Company as at the end of that period and the net revenue and the net capital gains or losses on the property of the Company for that period.

In preparing the financial statements, the ACD is required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;

- state whether applicable UK Accounting Standards and the IMA SORP have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in operation.

The ACD is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the IMA SORP and applicable United Kingdom Accounting Standards and applicable law. The ACD is also responsible for the system of internal controls, for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Semi Annual and Annual Report and the financial statements are published and maintained by the ACD ("www.fundsmith.co.uk"). The ACD is responsible for the maintenance and integrity of the information included on the ACD's website, so far as it relates to the Company. The work carried out by the auditors does not involve consideration of the maintenance and integrity of the ACD's website. Visitors to the ACD's website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The ACD confirms that they have complied with the above requirements in preparing the financial statements.

In accordance with COLL 4.5.8BR, the Annual Report and the financial statements were approved by the Partners of the ACD of the Company and authorised for issue on 25 February 2020.

Simon Godwin  
Partner

**Fundsmith LLP**

as Authorised Corporate Director of Fundsmith Equity Fund  
25 February 2020

# Report of the Depositary to the Shareholders of Fundsmith Equity Fund

**For the year ended 31 December 2019**

**Statement of the Depositary's Responsibilities in Respect of the Scheme and Report of the Depositary to the Shareholders of the Fundsmith Equity Fund (the "Company") for the Year Ended 31<sup>st</sup> December 2019.**

The Depositary must ensure that the Company is managed in accordance with the Financial Conduct Authority's Collective Investment Schemes Sourcebook, the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228), as amended, the Financial Services and Markets Act 2000, as amended, (together "the Regulations"), the Company's Instrument of Incorporation and Prospectus (together "the Scheme documents") as detailed below.

The Depositary must in the context of its role act honestly, fairly, professionally, independently and in the interests of the Company and its investors.

The Depositary is responsible for the safekeeping of all custodial assets and maintaining a record of all other assets of the Company in accordance with the Regulations.

The Depositary must ensure that:

- the Company's cash flows are properly monitored and that cash of the Company is booked into the cash accounts in accordance with the Regulations;
- the sale, issue, repurchase, redemption and cancellation of shares are carried out in accordance with the Regulations;
- the value of shares of the Company are calculated in accordance with the Regulations;
- any consideration relating to transactions in the Company's assets is remitted to the Company within the usual time limits;
- the Company's income is applied in accordance with the Regulations; and
- the instructions of the Authorised Fund Manager ("the AFM") which is the UCITS Management Company, are carried out (unless they conflict with the Regulations).

The Depositary also has a duty to take reasonable care to ensure that Company is managed in accordance with the Regulations and Scheme documents in relation to the investment and borrowing powers applicable to the Company.

Having carried out such procedures as we consider necessary to discharge our responsibilities as Depositary of the Company, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the Company, acting through the AFM:

- (i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Company's shares and the application of the Company's income in accordance with the Regulations and the Scheme documents of the Company; and
- (ii) has observed the investment and borrowing powers and restrictions applicable to the Company.

State Street Trustees Limited  
Edinburgh  
25 February 2020

# Independent Auditor's report to the Shareholders of Fundsmith Equity Fund

## Report on the audit of the financial statements

### Opinion

In our opinion the financial statements:

- give a true and fair view of the financial position of Fundsmith Equity Fund (the 'Company') as at 31 December 2019 and of the net revenue and the net capital gains on the property of the Company for the year ended 31 December 2019; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", the Statement of Recommended Practice "Financial Statements of UK Authorised Funds", the rules in the Collective Investment Schemes Sourcebook and the Instrument of Incorporation.

We have audited the financial statements of the Company which comprise:

- the Statement of Total Return;
- the Statement of Change in Net Assets Attributable to Shareholders;
- the Balance Sheet;
- the related notes 1-20; and
- the Distribution Tables.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice), the Statement of Recommended Practice: "Financial Statements of UK Authorised Funds" issued by the Investment Association in May 2014, the Collective Investment Schemes Sourcebook and the Instrument of Incorporation.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the authorised corporate director's (ACD's) use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the ACD has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

### Other information

The ACD is responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material

# Independent Auditor's report to the Shareholders of Fundsmith Equity Fund (continued)

misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

## **Responsibilities of Depositary and ACD**

As explained more fully in the Statement of Depositary's Responsibilities and the Statement of ACD's Responsibilities, the Depositary is responsible for the safeguarding the property of the Company and the ACD is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the ACD determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the ACD is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the ACD either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

## **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## **Report on other legal and regulatory requirements**

### **Opinion on other matters prescribed by the Collective Investment Schemes Sourcebook**

In our opinion:

- proper accounting records for the Company have been kept and the financial statements are in agreement with those records;
- we have received all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit; and
- the information disclosed in the Annual Report for the year ended 31 December 2019 for the purpose of complying with Paragraph 4.5.9R of the Collective Investment Schemes Sourcebook is consistent with the financial statements.

### **Use of our report**

This report is made solely to the Company's Shareholders, as a body, in accordance with Paragraph 4.5.12R of the Collective Investment Schemes Sourcebook of the Financial Conduct Authority. Our audit work has been undertaken so that we might state to the Company's Shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's Shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte LLP  
Statutory Auditor  
Edinburgh, United Kingdom  
25 February 2020

# Performance Record

As at 31 December 2019

Change in net assets per share	Share Class T – Accumulation			Share Class T – Income		
	31.12.19 (p)	31.12.18 (p)	31.12.17 (p)	31.12.19 (p)	31.12.18 (p)	31.12.17 (p)
Opening net asset value per share	371.46	360.93	294.75	342.82	335.10	275.28
Return before operating charges	97.68	14.51	69.71	90.11	13.53	64.98
Operating charges	(4.65)	(3.98)	(3.53)	(4.27)	(3.69)	(3.29)
Return after operating charges	93.03	10.53	66.18	85.84	9.84	61.69
Distributions	(2.81)	(2.28)	(2.01)	(2.59)	(2.12)	(1.87)
Retained distributions on accumulation shares	2.81	2.28	2.01	–	–	–
Closing net asset value per share	464.49	371.46	360.93	426.07	342.82	335.10
After direct transaction costs of:	0.06	0.16	0.12	0.06	0.15	0.11
<b>Performance</b>						
Return after operating charges	25.04%	2.92%	22.45%	25.04%	2.94%	22.41%
<b>Other information</b>	£	£	£	£	£	£
Closing net asset value	3,092,139,869	2,303,460,161	1,995,229,262	233,484,538	178,131,608	169,761,429
Closing number of shares	665,708,093	620,116,294	552,805,417	54,799,379	51,960,169	50,659,894
Ongoing charge figure*	1.05%	1.05%	1.05%	1.05%	1.05%	1.05%
Direct transaction costs	0.01%	0.04%	0.04%	0.01%	0.04%	0.04%
<b>Prices</b>	(p)	(p)	(p)	(p)	(p)	(p)
Highest share price	487.25	412.58	364.77	447.54	381.27	338.89
Lowest share price	364.87	338.79	293.66	336.75	314.55	274.26
Change in net assets per share	Share Class R – Accumulation			Share Class R – Income		
	31.12.19 (p)	31.12.18 (p)	31.12.17 (p)	31.12.19 (p)	31.12.18 (p)	31.12.17 (p)
Opening net asset value per share	356.61	348.24	285.82	341.21	333.98	274.90
Return before operating charges	93.63	14.03	67.46	89.57	13.44	64.80
Operating charges	(6.57)	(5.66)	(5.04)	(6.28)	(5.38)	(4.83)
Return after operating charges	87.06	8.37	62.42	83.29	8.06	59.97
Distributions	(1.12)	(0.88)	(0.93)	(1.07)	(0.83)	(0.89)
Retained distributions on accumulation shares	1.12	0.88	0.93	–	–	–
Closing net asset value per share	443.67	356.61	348.24	423.43	341.21	333.98
After direct transaction costs of:	0.06	0.15	0.12	0.06	0.15	0.11
<b>Performance</b>						
Return after operating charges	24.41%	2.40%	21.84%	24.41%	2.41%	21.82%
<b>Other information</b>	£	£	£	£	£	£
Closing net asset value	356,739,479	260,349,983	214,534,477	19,830,762	17,692,621	21,617,959
Closing number of shares	80,406,670	73,006,152	61,605,186	4,683,340	5,185,301	6,472,856
Ongoing charge figure*	1.55%	1.55%	1.55%	1.55%	1.55%	1.55%
Direct transaction costs	0.01%	0.04%	0.04%	0.01%	0.04%	0.04%
<b>Prices</b>	(p)	(p)	(p)	(p)	(p)	(p)
Highest share price	466.39	396.77	352.00	445.13	379.62	337.59
Lowest share price	350.28	326.50	284.62	335.14	313.13	273.75

# Performance Record (continued)

**As at 31 December 2019**

Change in net assets per share	Share Class I – Accumulation			Share Class I – Income		
	31.12.19 (p)	31.12.18 (p)	31.12.17 (p)	31.12.19 (p)	31.12.18 (p)	31.12.17 (p)
Opening net asset value per share	374.49	363.51	296.56	342.87	335.15	275.31
Return before operating charges	98.50	14.61	70.17	90.07	13.53	65.01
Operating charges	(4.24)	(3.63)	(3.22)	(3.82)	(3.34)	(2.98)
Return after operating charges	94.26	10.98	66.95	86.25	10.19	62.03
Distributions	(3.28)	(2.68)	(2.36)	(2.98)	(2.47)	(2.19)
Retained distributions on accumulation shares	3.28	2.68	2.36	-	-	-
Closing net asset value per share	468.75	374.49	363.51	426.14	342.87	335.15
After direct transaction costs of:	0.06	0.16	0.12	0.05	0.15	0.11
<b>Performance</b>						
Return after operating charges	25.17%	3.02%	22.58%	25.16%	3.04%	22.53%
<b>Other information</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Closing net asset value	10,695,659,299	7,750,488,126	6,420,742,471	4,433,567,455	5,347,487,079	4,589,257,018
Closing number of shares	2,281,756,847	2,069,631,156	1,766,325,585	1,040,390,315	1,559,619,238	1,369,311,709
Ongoing charge figure*	0.95%	0.95%	0.95%	0.95%	0.95%	0.95%
Direct transaction costs	0.01%	0.04%	0.04%	0.01%	0.04%	0.04%
<b>Prices</b>	<b>(p)</b>	<b>(p)</b>	<b>(p)</b>	<b>(p)</b>	<b>(p)</b>	<b>(p)</b>
Highest share price	491.51	415.80	367.36	447.65	381.40	339.10
Lowest share price	367.85	341.30	295.49	336.80	314.67	274.32

\*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 31 December. 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 manager's review and the factsheet as the fund could only be bought or sold at those prices.



# Statement of Total Return

For the year ended 31 December 2019

	Note	31.12.19 £	31.12.18 £
<b>Income</b>			
Net capital gains	4	3,757,489,261	250,826,647
Revenue	6	329,711,752	274,608,111
Expenses	7	(177,350,752)	(149,787,522)
Interest payable and similar charges	8	(5,305)	(112,437)
Net revenue before taxation		152,355,695	124,708,152
Taxation	9	(21,884,244)	(22,849,788)
Net revenue after taxation		130,471,451	101,858,364
<b>Total return before distributions</b>		<b>3,887,960,712</b>	<b>352,685,011</b>
Distributions	10	(130,939,483)	(102,211,478)
<b>Change in net assets attributable to shareholders from investment activities</b>		<b>3,757,021,229</b>	<b>250,473,533</b>

# Statement of Change in Net Assets Attributable to Shareholders

For the year ended 31 December 2019

	31.12.19 £	31.12.18 £
<b>Opening net assets attributable to shareholders</b>	<b>15,857,609,578</b>	<b>13,411,142,616</b>
Inspecie transfer	(2,176,196,795)	19,876,925
Amounts receivable on issue of shares	2,243,049,113	2,671,984,788
Amounts payable on cancellation of shares	(942,651,491)	(563,114,917)
	1,300,397,622	2,108,869,871
Change in net assets attributable to shareholders from investment activities	3,757,021,229	250,473,533
Retained distribution on accumulation shares	92,587,796	67,246,216
Unclaimed distributions	1,972	417
<b>Closing net assets attributable to shareholders</b>	<b>18,831,421,402</b>	<b>15,857,609,578</b>

Notes to the Financial Statements are on pages 18 to 28.



# Balance Sheet

**As at 31 December 2019**

<b>Assets</b>					
	Note	£	31.12.19 £	31.12.18 £	£
<b>Fixed assets</b>					
Investments			18,781,183,689		15,683,788,353
<b>Current assets</b>					
Debtors	11	53,844,560		100,835,980	
Cash and bank balances	12	35,863,061		114,175,877	
Total current assets			89,707,621		215,011,857
<b>Total assets</b>			<b>18,870,891,310</b>		<b>15,898,800,210</b>
<b>Liabilities</b>					
	Note	£	31.12.19 £	31.12.18 £	£
<b>Creditors</b>					
Bank overdrafts	12	-		2,394,282	
Distribution payable on income shares		8,391,640		9,989,606	
Other creditors	13	31,078,268		28,806,744	
Total other liabilities			39,469,908		41,190,632
<b>Total liabilities</b>			<b>39,469,908</b>		<b>41,190,632</b>
<b>Net assets attributable to shareholders</b>			<b>18,831,421,402</b>		<b>15,857,609,578</b>

Notes to the Financial Statements are on pages 18 to 28.

# Notes to the financial statements

## For the year ended 31 December 2019

### 1. Accounting policies

#### a) Basis of accounting

The financial statements have been prepared in accordance with FRS 102 under the historical cost basis, as modified by the revaluation of investments, and in accordance with the revised Statement of Recommended Practice (SORP) for Authorised UK Funds issued by the Investment Management Association (the IMA) (now known as the Investment Association) in May 2014.

The ACD is confident that the Fund will continue in operation for at least the next twelve months from the approval of these Financial Statements. The Fund has adequate financial resources and its assets consist of securities which are readily realisable. As such, the financial statements have been prepared on the going concern basis.

#### b) Valuation of investments

The dealing prices of the Fund are valued at mid prices mid-day on the last business day. If they are materially different from the closing market prices the SORP requires the Fund to be revalued at close of business market value in the report and accounts.

Market value is defined by the SORP as fair value which is generally the bid value. In the report and accounts for the year ended 31 December 2019, the Fund was valued at close of business bid prices.

#### c) Exchange rates

Transactions in foreign currencies, during the period, are translated into sterling at the rate of exchange ruling on the transaction date. Assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at noon on the last day of the period. Exchange rate differences arising on translation of investments and capital assets and liabilities other than investments are recognised in the Statement of Total Return as part of Net capital gains. Exchange differences arising on translation of other assets or liabilities are recognised within net revenue.

#### d) Recognition of revenue

Dividends and scrip (stock) dividends on quoted equity shares are recognised when the securities are quoted ex-dividend net of any attributable tax credits. Interest on bank deposits and interest from interest-bearing securities are recognised on an accruals basis. Revenue from interest-bearing securities are recognised on the effective yield basis which takes account of the amortisation of any discounts or premiums arising on the purchase price, compared to the final maturity value, over the remaining life of the security. Interest included in the value of purchases and sales of interest-bearing securities is excluded from the capital cost of these securities and is treated as revenue.

#### e) Expenses

Expenses are charged against revenue except for the stamp duty reserve tax and costs associated with the purchase and sale of investments which are charged to capital.

#### f) Taxation

A provision is made for corporation tax at current rates on the excess of taxable revenue over expenses.

# Notes to the financial statements (continued)

## **1. Accounting policies (continued)**

### **g) Deferred taxation**

Deferred taxation arises from, and is recognised in respect of all, timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more or less tax in the future have occurred at the balance sheet date. Timing differences are differences that arise from the different treatment of certain transactions for taxation purposes in the Fund's annual tax returns and for accounting purposes in the Fund's financial statements. Deferred tax is provided for using the liability method on all timing differences, calculated at the rate at which it is anticipated that the timing differences will reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax liabilities are recognised to the extent that it is possible that an actual liability will crystallise. Deferred tax assets are recognised only when, on the basis of available evidence, it is more likely than not that there will be taxable profits in the future against which the deferred tax asset can be offset. Deferred tax assets and liabilities are measured on a non-discounted basis.

## **2. Distribution policies**

### **a) Basis of distribution**

Revenue earned by the Fund investments accumulates during each accounting period. If at the end of the accounting period, revenue exceeds expenses, the net revenue after taxation of the Fund is available to be distributed to its shareholders. In order to conduct a controlled dividend flow to shareholders, interim distributions will be at the ACD's discretion, up to a maximum of the distributable revenue available for the period. At the end of the year, all remaining net revenue available for distribution are distributed in accordance with the Regulations.

Distributions are paid semi annually by reference to net revenue arising in the periods ended 30 June and 31 December.

Any deficit of revenue after taxation will reduce the capital of the Fund.

Distributions on accumulation shares are retained by the Fund and increase the value of the accumulation shares.

### **b) Apportionment to multiple share classes**

The allocation of revenue and non class specific expenses is based on the proportion of the Fund assets attributable to each share class, on the day the income is earned or expense is suffered. Equalisation and annual management charges are specific to each share class.

### **c) Stock dividends**

Ordinary scrip dividends are treated as revenue and will form part of any distribution. A transfer is made from capital to revenue to compensate for the amount of dividend foregone. In the case of enhanced scrip dividends, any enhancement is taken to capital.

### **d) Expenses**

Management expenses are charged against revenue.

# Notes to the financial statements (continued)

## 2. Distribution policies (continued)

### e) Equalisation

Equalisation takes account of the distributable revenue in the share price that is received on the creation of shares and paid on cancellation of shares and is allocated to the distribution account to equalise the distribution payable to Shareholders.

## 3. Risk management policies

### Risk management

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. Whilst the Fund is invested on a global basis, there is no currency hedging. The principal risk factor is the market price of the securities which the ACD reviews in the light of the Fund objectives.

### General risks

The investments of the Fund are subject to market fluctuations and other risks inherent with investment in stocks and shares. As such, the price of Shares in the Fund and the income from them can go down as well as up and an investor may not get back the amount they have invested. There is no assurance that investment objectives of the Fund will actually be achieved. Inflation may occur over the duration of an investment in the Fund which can reduce the value of the investment in real terms.

As at 31 December 2019, if the price of investments held by the Fund increased or decreased by 1%, the resulting change in net assets attributable to shareholders would have been an increase or decrease of approximately 1%; which for this Fund would equate to £187,811,837 (2018: £156,837,884).

As at 31 December 2019 if the value of sterling increased or decreased by 1% against all currencies, the resulting change in the net assets attributable to shareholders of the Fund would have been an increase or decrease of approximately £154,969,502 (2018: £127,675,671).

Quantitative risk limits to the investments in the Fund, we also regularly stress test the Fund against various historic and hypothetical events to monitor the absolute and relative risk limits of the Fund. (A copy of the Risk Management Policy is available from the ACD upon request).

### Specific risk factors

#### Long-term investment strategy

The Fund's investment philosophy is to seek to invest in companies which will provide higher than average risk adjusted returns over the long-term. The Fund does not seek to engage in short-term trading strategies to generate returns. Accordingly any investment in the Fund should be viewed as a long term investment.

The stock selection and asset allocations of the portfolio are regularly reviewed. Consideration is given to whether the risk associated with the exposure to particular investment categories or stocks is prudent in the context of the investment objective. The Investment Manager has responsibility for monitoring the existing portfolios in accordance with the overall investment objective and seeks to ensure that the portfolio as a whole meets an acceptable risk reward profile.

# Notes to the financial statements (continued)

## 3. Risk management policies (continued)

### Concentration

The Fund's investment approach is to invest in a relatively small number of securities (subject to the spread and concentration limits set out). This may result in portfolio concentration in sectors, countries, or other groupings. These potential concentrations mean that a loss arising in a single investment may cause a proportionately greater loss to the Fund than if a larger number of investments were made.

### Investment currency risks

The values of investments, in pounds sterling terms, that are not denominated in pounds sterling may rise and fall purely on account of exchange rate fluctuations, which will have a related effect on the price of Shares. The Fund will not hedge currency exposures. Many of the companies we seek to invest in generate revenues in the same currencies as they incur most of their costs. Therefore, their exposure to currency fluctuations is largely a matter of translation of their profits.

### Liquidity risk

There is a risk that an investment cannot be liquidated in a timely manner at a reasonable price.

The Fund invests in Large Cap, highly liquid stocks. We monitor liquidity weekly and currently 69% of the Fund could be liquidated within 7 days. (assuming we are able to trade 30% of the 20 day average volume).

### Counterparty risk

The Fund will be subject to the risk of the inability of any counterparty to perform with respect to transactions, whether due to insolvency, bankruptcy or other causes. In particular, it should be noted that transactions may not always be delivery versus payment and this may expose the Fund to greater counterparty risk and potentially to losses in excess of the counterparty's obligations to the Fund.

Our policy is to engage with counterparties with a strong credit rating which we will review annually. State Street with whom we engage as our prime execution broker, fund accountant and depositary is currently rated AA- by S&P and Aa2 by Moody's as a long term counterparty (as at 31 December 2019).

## 4. Net capital gains

The net capital gains during the year comprise:

	31.12.19	31.12.18
	£	£
Non-derivative securities	3,761,340,060	259,758,710
Losses on foreign exchange	(3,847,851)	(8,928,534)
Transaction charges	(2,948)	(3,529)
<b>Net capital gains</b>	<b>3,757,489,261</b>	<b>250,826,647</b>

# Notes to the financial statements (continued)

## 5. Portfolio transaction costs

Analysis of total trade costs.

	Purchases		Sales	
	31.12.19	31.12.18	31.12.19	31.12.18
	£	£	£	£
<b>Equities</b>				
Equities	1,996,259,757	4,064,767,930	486,319,276	1,251,200,946
<b>Trades in the year before transaction costs</b>	<b>1,996,259,757</b>	<b>4,064,767,930</b>	<b>486,319,276</b>	<b>1,251,200,946</b>
<b>Commissions</b>				
Equities	667,713	1,464,404	(177,277)	(431,690)
<b>Total Commissions</b>	<b>667,713</b>	<b>1,464,404</b>	<b>(177,277)</b>	<b>(431,690)</b>
<b>Taxes</b>				
Equities	1,602,210	4,519,748	(9,756)	(19,641)
<b>Total Taxes</b>	<b>1,602,210</b>	<b>4,519,748</b>	<b>(9,756)</b>	<b>(19,641)</b>
<b>Total costs</b>	<b>2,269,923</b>	<b>5,984,152</b>	<b>(187,033)</b>	<b>(451,331)</b>
<b>Total net trades in the year after transaction costs</b>	<b>1,998,529,680</b>	<b>4,070,752,082</b>	<b>486,132,243</b>	<b>1,250,749,615</b>

In the case of shares; commissions and taxes are paid by the Fund on each transaction. In addition, there is a dealing spread between the buying and selling prices of the underlying investments. Unlike shares, other types of investment (such as bonds, money market instruments and derivatives) have no separately identifiable transaction costs; these costs form part of the dealing spread. Dealing spreads vary considerably depending on the transaction value and market sentiment. At the balance sheet date the dealing spread was 0.05% (2018: 0.05%).

Total transaction cost expressed as a percentage of assets types:

	31.12.19	31.12.18
<b>Equities</b>	<b>%</b>	<b>%</b>
<b>Purchases</b>		
Commissions	0.03	0.04
Taxes	0.08	0.11
<b>Sales</b>		
Commissions	0.04	0.03
Taxes	0.00	0.00

# Notes to the financial statements (continued)

## 5. Portfolio transaction costs (continued)

Total transaction cost expressed as a percentage of average NAV:

	31.12.19	31.12.18
	%	%
<b>Equities</b>		
Commissions	0.00	0.01
Taxes	0.01	0.03

## 6. Revenue

	31.12.19	31.12.18
	£	£
UK dividends	101,715,748	64,092,146
Overseas dividends	227,784,592	210,395,672
Bank interest	211,412	120,293
<b>Total revenue</b>	<b>329,711,752</b>	<b>274,608,111</b>

## 7. Expenses

	31.12.19	31.12.18
	£	£
<b>Payable to the ACD and their agents:</b>		
ACD's fee	167,548,637	141,617,920
Administration fee	599,473	432,404
	<b>168,148,110</b>	<b>142,050,324</b>
<b>Payable to the Depositary or associates of the Depositary, and agents of either of them:</b>		
Depositary's fee	3,836,697	3,271,335
Safe custody fee	2,182,272	1,924,620
	<b>6,018,969</b>	<b>5,195,955</b>
<b>Other expenses:</b>		
Auditors' fee*	14,400	13,200
Transfer agent	2,912,320	2,357,866
Printing	256,953	170,177
	<b>3,183,673</b>	<b>2,541,243</b>
<b>Total expenses</b>	<b>177,350,752</b>	<b>149,787,522</b>

\* Audit fee for the year, excluding VAT, was £12,000 (2018: £11,330).

# Notes to the financial statements (continued)

## 8. Interest payable and similar charges

	31.12.19	31.12.18
	£	£
Overdraft interest	5,305	112,437
	<b>5,305</b>	<b>112,437</b>

## 9. Taxation

### a) Analysis of the tax charge for the year:

	31.12.19	31.12.18
	£	£
Overseas tax	21,884,244	22,849,788
Current tax charge (note 9b)	21,884,244	22,849,788
Deferred tax charge (note 9c)	–	–
<b>Total tax charge</b>	<b>21,884,244</b>	<b>22,849,788</b>

### b) Factors affecting the tax charge for the year:

The tax assessed for the year is lower than the amount resulting from applying the standard rate of corporation tax in the UK for an authorised OEIC (20%). The differences are explained below:

Net revenue before taxation	152,355,695	124,708,152
Corporation tax at 20%	30,471,139	24,941,630
<b>Effects of:</b>		
Revenue not subject to taxation	(65,893,389)	(54,896,852)
Movement in excess management expenses	35,422,250	29,955,222
Overseas tax	21,884,244	22,849,788
<b>Total current tax (note 9a)</b>	<b>21,884,244</b>	<b>22,849,788</b>

### c) Factors affecting future tax charge:

At the year end, after offset against income taxable on receipt, there is a potential deferred tax asset of £117,690,289 (2018: £82,124,639) in relation to surplus management expenses, it is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these amounts and therefore no deferred tax asset has been recognised.



# Notes to the financial statements (continued)

## 10. Distributions

The distributions take account of equalisation received on the creation of shares and deducted on cancellation of shares, and comprise:

	31.12.19	31.12.18
	£	£
Interim	93,691,761	78,077,924
Final	31,952,354	27,091,629
	<b>125,644,115</b>	<b>105,169,553</b>
Add: Equalisation deducted on cancellation of shares	10,673,700	651,571
Less: Equalisation received on creation of shares	(5,378,332)	(3,609,646)
<b>Net distributions for the year</b>	<b>130,939,483</b>	<b>102,211,478</b>
<b>Total finance costs</b>	<b>130,939,483</b>	<b>102,211,478</b>

The net distribution for the year is represented by:

	31.12.19	31.12.18
	£	£
Net revenue after taxation	130,471,451	101,858,364
Movement on distribution account	756	(1,341)
Revenue deficit	467,276	354,455
<b>Net distributions for the year</b>	<b>130,939,483</b>	<b>102,211,478</b>

## 11. Debtors

	31.12.19	31.12.18
	£	£
Sales awaiting settlement	-	45,588,622
Amounts receivable for creation of shares	19,175,777	24,953,475
Accrued dividends and bank interest	22,613,241	19,639,576
Overseas tax recoverable	12,055,542	10,654,307
	<b>53,844,560</b>	<b>100,835,980</b>

# Notes to the financial statements (continued)

## 12. Cash and bank balances

	31.12.19	31.12.18
	£	£
Cash at bank	35,863,061	114,175,877
Bank overdrafts	–	(2,394,282)
	<b>35,863,061</b>	<b>111,781,595</b>

## 13. Other creditors

	31.12.19	31.12.18
	£	£
Purchases awaiting settlement	7,263,520	–
Amounts payable on cancellation of units	6,717,207	13,018,351
Accrued ACD fee	14,710,133	12,915,525
Accrued depositary fee	337,383	298,009
Accrued safe custody fee	1,084,904	1,841,150
Accrued transaction charges	980	4,625
Other accrued expenses	964,141	729,084
	<b>31,078,268</b>	<b>28,806,744</b>

## 14. Capital commitments and contingent liabilities

The Fund had no contingent liabilities or capital commitments at the period end date.

## 15. Related party transactions

Fundsmith LLP, as Authorised Corporate Director (ACD), is a related party, and acts as a principal in respect of all transactions of shares in the Fund. The aggregate monies received on the issues and paid on the cancellation of shares are disclosed in the Statement of Change in Net Assets Attributable to Shareholders. Any expenses paid to the ACD during the period are disclosed in Note 7. Any amounts due to, or payable by, the ACD at the end of the period are disclosed in notes 11 and 13, respectively.

## 16. ACD fees

The different level of ACD fees payable per annum as at 31 December 2019 for each share class is detailed below:

T Shares	1.00%
R Shares	1.50%
I Shares	0.90%

All shares within the OEIC have the same rights on winding up.

# Notes to the financial statements (continued)

## 17. Post balance sheet events

There were no post balance sheet events.

## 18. Risk considerations

Please refer to note 3 of the financial statements for a detailed description of the risk considerations. There are no further specific risks for this Fund.

**The Fund's currency exposure as at 31 December 2019 was:**

Currency	Net currency assets		Total 31.12.19 £
	Monetary exposures	Non monetary exposures	
	31.12.19 £	31.12.19 £	
Danish Krone	6,312,159	1,209,420,185	1,215,732,344
Euro	2,313,522	1,920,738,906	1,923,052,428
Sterling	45,444,696	3,289,026,479	3,334,471,175
Swiss Franc	3,429,863	–	3,429,863
US Dollar	(7,262,527)	12,361,998,119	12,354,735,592
<b>Total</b>	<b>50,237,713</b>	<b>18,781,183,689</b>	<b>18,831,421,402</b>

**The Fund's currency exposure as at 31 December 2018 was:**

Currency	Net currency assets		Total 31.12.18 £
	Monetary exposures	Non monetary exposures	
	31.12.18 £	31.12.18 £	
Danish Krone	4,051,481	994,214,406	998,265,887
Euro	2,643,202	1,633,201,243	1,635,844,445
Sterling	119,972,579	2,970,069,906	3,090,042,485
Swiss Franc	3,959,621	–	3,959,621
US Dollar	43,194,342	10,086,302,798	10,129,497,140
<b>Total</b>	<b>173,821,225</b>	<b>15,683,788,353</b>	<b>15,857,609,578</b>

The majority of the Fund's financial assets are equity shares and other investments which neither pay interest nor have a maturity date.

Therefore, the Fund's exposure to interest rate risk is considered insignificant.

# Notes to the financial statements (continued)

## 19. Share reconciliation

Share class	Opening shares in issue 01.01.19	Creations during the year	Cancellations during the year	Closing shares in issue 31.12.19
T Accumulation	620,116,294	69,794,660	(24,202,861)	665,708,093
T Income	51,960,169	6,825,403	(3,986,193)	54,799,379
R Accumulation	73,006,152	22,402,655	(15,002,137)	80,406,670
R Income	5,185,301	2,867,727	(3,369,689)	4,683,340
I Accumulation	2,069,631,156	297,338,108	(85,212,417)	2,281,756,847
I Income	1,559,619,238	127,652,924	(646,881,847)	1,040,390,315

## 20. Fair value hierarchy

Valuation technique	Assets 31.12.19	Liabilities 31.12.19	Assets 31.12.18	Liabilities 31.12.18
Level 1	18,781,183,689	-	15,683,788,353	-
Level 2	-	-	-	-
Level 3	-	-	-	-
<b>Total</b>	<b>18,781,183,689</b>	<b>-</b>	<b>15,683,788,353</b>	<b>-</b>

Level 1 – Quoted prices for identical instruments in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, pricing service etc. These include active listed equities, exchange traded derivatives etc.

Level 2 – Valuation techniques with inputs other than quoted prices within level 1 that are observable. This category includes instruments valued using quoted market prices in active markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data. This category will typically include debt securities and collective investment schemes.

Level 3 – Prices using valuation techniques where inputs are unobservable. This category may include single or broker priced securities and suspended or unlisted securities.

# Distribution tables

**For the year ended 31 December 2019**

**Interim distribution paid 31 August 2019**

Group 1 – shares purchased before 1 January 2019

Group 2 – shares purchased between 1 January 2019 and 30 June 2019

	Net Revenue	Equalisation	Distribution paid 31.08.19	Distribution paid 31.08.18
	pence	pence	pence	pence
<b>Share Class T – Accumulation</b>				
Group 1	2.1975	–	2.1975	1.8059
Group 2	0.7879	1.4096	2.1975	1.8059
<b>Share Class T – Income</b>				
Group 1	2.0292	–	2.0292	1.6761
Group 2	0.9502	1.0790	2.0292	1.6761
<b>Share Class R – Accumulation</b>				
Group 1	1.1237	–	1.1237	0.8796
Group 2	0.2674	0.8563	1.1237	0.8796
<b>Share Class R – Income</b>				
Group 1	1.0748	–	1.0748	0.8323
Group 2	0.3475	0.7273	1.0748	0.8323
<b>Share Class I – Accumulation</b>				
Group 1	2.4233	–	2.4233	2.0008
Group 2	0.9094	1.5139	2.4233	2.0008
<b>Share Class I – Income</b>				
Group 1	2.2028	–	2.2028	1.8431
Group 2	1.1130	1.0898	2.2028	1.8431

## Distribution tables (continued)

### Final distribution payable 29 February 2020

Group 1 – shares purchased before 1 July 2019

Group 2 – shares purchased between 1 July 2019 and 31 December 2019

	Net Revenue	Equalisation	Distribution payable 29.02.20	Distribution paid 28.02.19
	pence	pence	pence	pence
<b>Share Class T – Accumulation</b>				
Group 1	0.6100	–	0.6100	0.4767
Group 2	0.2961	0.3139	0.6100	0.4767
<b>Share Class T – Income</b>				
Group 1	0.5598	–	0.5598	0.4417
Group 2	0.3187	0.2411	0.5598	0.4417
<b>Share Class R – Accumulation</b>				
Group 1	0.0000	–	0.0000	0.0000
Group 2	0.0000	0.0000	0.0000	0.0000
<b>Share Class R – Income</b>				
Group 1	0.0000	–	0.0000	0.0000
Group 2	0.0000	0.0000	0.0000	0.0000
<b>Share Class I – Accumulation</b>				
Group 1	0.8546	–	0.8546	0.6835
Group 2	0.4582	0.3964	0.8546	0.6835
<b>Share Class I – Income</b>				
Group 1	0.7771	–	0.7771	0.6258
Group 2	0.3965	0.3806	0.7771	0.6258

### Equalisation

Equalisation applies only to shares purchased during the distribution period (Group 2 shares). It is the average amount of income included in the purchase price of all Group 2 shares and is refunded to holders of these shares as a return of capital. Being capital, it is not liable to income tax but must be deducted from the cost of shares for capital gains tax purposes.

## Remuneration disclosure

We are required to make this remuneration disclosure to the Funds' investors in accordance with the Undertakings for Collective Investment in Transferable Securities (UCITS) Directive as amended by Directive 2014/91/EU (UCITS V Directive).

During the year ending 31 March 2019, Fundsmith LLP ('Fundsmith') had 26 members of personnel in total, including employees and Partners. The total amount of remuneration paid to Fundsmith personnel during this period was £34,106,798. Out of this figure, the total amount of remuneration paid to the Partners of Fundsmith LLP was £26,387,125 whilst the total amount of remuneration paid to the employees of Fundsmith LLP was £7,719,673.

Of the £7,719,673 paid to Fundsmith employees, £5,290,012 was variable remuneration and £2,429,661 was fixed remuneration.

The partners of Fundsmith LLP are not paid a bonus. All of their remuneration is fixed as it is based on a fixed proportion of Fundsmith LLP's net profits.

Overall, therefore, of the £34,106,798 of total remuneration, £28,816,786 was fixed remuneration and £5,290,012 was variable remuneration.

The financial year of Fundsmith Equity Fund (FEF) runs from 1 January to 31 December, whereas the financial year of Fundsmith LLP runs from 1 April to 31 March. The above figures are taken from the financial report and accounts of Fundsmith LLP for the period 1 April 2018 to 31 March 2019. These figures have been independently audited and filed with Companies House.

The rules require us to disclose both the amount of remuneration paid in total, and the amount paid to "Identified Staff" (broadly, senior management and/or risk takers). Fundsmith's only Identified Staff are the Partners. The Partners all fall within the category of "senior management"; two of the Partners also fall within the category of risk-takers and also one in the category of control staff. To avoid duplication all Partners' remuneration is disclosed within the category of senior management. The total remuneration therefore paid to senior management is £26,387,125.

The information above relates to Fundsmith LLP as a whole, and we have not broken it down by reference to FEF or the other funds that we manage. Nor have we shown the proportion of remuneration which relates to the income we earn from our management of FEF. We have not provided such a breakdown because this does not reflect the way we work or the way we are organised at Fundsmith. All of the Partners and most of our employees are involved in the management of FEF. We have not included information relating to remuneration paid by Fundsmith Investment Services Limited, to whom Fundsmith LLP delegates certain portfolio management activities.

Remuneration at Fundsmith LLP is deliberately straightforward. Our employees are paid a competitive salary. At the end of each financial year, our employees' performance is reviewed by the Partners in order to determine whether or not a bonus should be paid. All bonus decisions are agreed unanimously by the Partners.

The Partners are each paid a fixed proportion of Fundsmith LLP's net profits. We consider that this is the best way to ensure that our Partners' interests are completely aligned with our investors' interests over the long term. This alignment of interest is reinforced by the fact that Fundsmith Partners have invested a significant amount in FEF.

The Management Committee of Fundsmith LLP has reviewed the Remuneration Policy and considers that it meets all regulatory requirements and is satisfied that no irregularities occurred during the period.

Any investor who would like more information on how we adhere to the Principles of the Remuneration Code may request a summary of our Remuneration Policy.

## Further information

### Reports and accounts

Each year, we will publish on our website ([www.fundsmith.co.uk](http://www.fundsmith.co.uk)) 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 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 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 three different types of share classes:

I shares, R 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.

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), the Daily Telegraph and in the Financial Times. 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**  
**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.  
FCA Registration 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

DST Financial Services International Limited  
DST 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

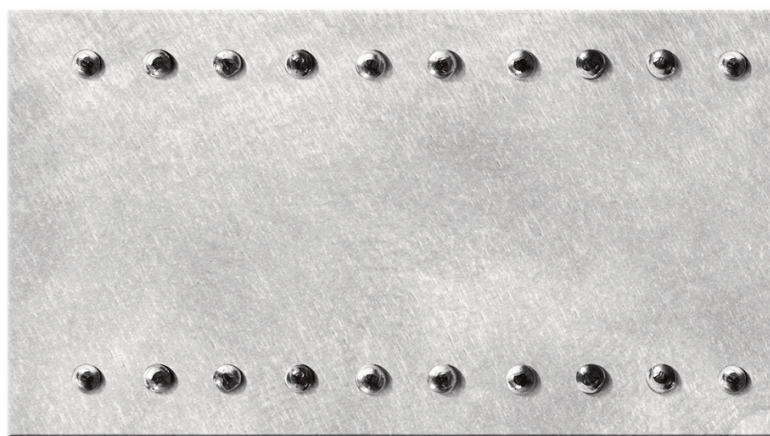
Authorised and regulated by The Financial Conduct Authority.  
FCA Registration Number 186237

### 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: 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)