Fundsmith
Equity Fund

Fundsmith Equity Fund

Short Form Report

For the six months ended 30 June 2022 (unaudited)

Fundsmith
Buy good companies
Don’t overpay
Do nothing

Profile of the Fund

Investment objective and policy

The investment objective of the Fundsmith Equity Fund (the "Fund") is to achieve long term growth (over 5 years) 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 the 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

Lower risk
Typically lower rewards

Higher risk
Typically higher rewards

1	2	3	4	5	6	7

The risk category reflects the significance of the Fund's share price fluctuations based on historical data. Historical data may not be a reliable indication of the future risk profile of the fund. The risk category of the Fund is not guaranteed and may change over time. Further, the lowest category of risk does not mean risk free.

Generally, the higher the risk category, the greater the potential for higher returns but also the higher the risk of losing money. This fund is ranked at 5 because funds of this type have experienced medium to high rises and falls in value in the past. The underlying investments are, however, in large companies with shares that are, in most cases, highly liquid.

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

Performance Record

Change in net assets per share	Share Class T - Accumulation 6 months to 30.06.22 (p)	12 months to 31.12.21 (p)	12 months to 31.12.20 (p)	12 months to 31.12.19 (p)
Opening net asset value per share	665.95	551.66	464.49	371.46
Return before operating charges	(111.50)	120.61	92.43	97.68
Operating charges	(3.01)	(6.32)	(5.26)	(4.65)
Return after operating charges	(114.51)	114.29	87.17	93.03
Distributions	(0.28)	(0.77)	(1.78)	(2.81)
Retained distributions on accumulation shares	0.28	0.77	1.78	2.81
Closing net asset value per share	551.44	665.95	551.66	464.49
After direct transaction costs of:	0.03	0.09	0.13	0.06
Performance				
Return after operating charges	(17.19%)	20.72%	18.77%	25.04%
Other information	£	£	£	£
Closing net asset value	3,735,177,066	4,654,397,369	3,565,093,281	3,092,139,869
Closing number of shares	677,347,246	698,914,699	646,250,706	665,708,093
Ongoing charge figure*	1.04%	1.04%	1.06%	1.05%
Direct transaction costs	0.01%	0.01%	0.03%	0.01%
Prices	(p)	(p)	(p)	(p)
Highest share price	665.58	672.16	559.05	487.25
Lowest share price	523.76	529.56	391.87	364.87

Change in net assets per share	Share Class T - Income 6 months to 30.06.22 (p)	12 months to 31.12.21 (p)	12 months to 31.12.20 (p)	12 months to 31.12.19 (p)
Opening net asset value per share	608.00	504.28	426.07	342.82
Return before operating charges	(101.78)	110.19	84.66	90.11
Operating charges	(2.75)	(5.77)	(4.82)	(4.27)
Return after operating charges	(104.53)	104.42	79.84	85.84
Distributions	(0.26)	(0.70)	(1.63)	(2.59)
Retained distributions on accumulation shares	-	-	-	-
Closing net asset value per share	503.21	608.00	504.28	426.07
After direct transaction costs of:	0.03	0.08	0.12	0.06
Performance				
Return after operating charges	(17.19%)	20.71%	18.74%	25.04%
Other information	£	£	£	£
Closing net asset value	260,002,563	328,111,991	270,883,618	233,484,538
Closing number of shares	51,669,202	53,965,510	53,716,790	54,799,379
Ongoing charge figure*	1.04%	1.04%	1.06%	1.05%
Direct transaction costs	0.01%	0.01%	0.03%	0.01%
Prices	(p)	(p)	(p)	(p)
Highest share price	607.66	613.68	511.48	447.54
Lowest share price	478.18	484.08	359.47	336.75

*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.

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Performance Record (continued)

Change in net assets per share	Share Class R - Accumulation 6 months to 30.06.22 (p)	12 months to 31.12.21 (p)	12 months to 31.12.20 (p)	12 months to 31.12.19 (p)
Opening net asset value per share	629.77	524.30	443.67	356.61
Return before operating charges	(105.37)	114.33	88.02	93.63
Operating charges	(4.21)	(8.86)	(7.39)	(6.57)
Return after operating charges	(109.58)	105.47	80.63	87.06
Distributions	-	-	(0.13)	(1.12)
Retained distributions on accumulation shares	-	-	0.13	1.12
Closing net asset value per share	520.19	629.77	524.30	443.67
After direct transaction costs of:	0.03	0.08	0.12	0.06
Performance				
Return after operating charges	(17.40%)	20.12%	18.17%	24.41%
Other information	£	£	£	£
Closing net asset value	473,517,856	563,850,008	434,889,985	356,739,479
Closing number of shares	91,027,083	89,532,639	82,946,393	80,406,670
Ongoing charge figure*	1.54%	1.54%	1.56%	1.55%
Direct transaction costs	0.01%	0.01%	0.03%	0.01%
Prices	(p)	(p)	(p)	(p)
Highest share price	629.38	635.67	531.40	466.39
Lowest share price	494.16	503.08	373.92	350.28

Change in net assets per share	Share Class R - Income 6 months to 30.06.22 (p)	12 months to 31.12.21 (p)	12 months to 31.12.20 (p)	12 months to 31.12.19 (p)
Opening net asset value per share	600.86	500.22	423.43	341.21
Return before operating charges	(100.51)	109.06	83.97	89.57
Operating charges	(4.04)	(8.42)	(7.05)	(6.28)
Return after operating charges	(104.55)	100.64	76.92	83.29
Distributions	-	-	(0.12)	(1.07)
Retained distributions on accumulation shares	-	-	-	-
Closing net asset value per share	496.31	600.86	500.22	423.43
After direct transaction costs of:	0.03	0.08	0.11	0.06
Performance				
Return after operating charges	(17.40%)	20.12%	18.17%	24.41%
Other information	£	£	£	£
Closing net asset value	20,807,235	30,471,679	22,730,205	19,830,762
Closing number of shares	4,192,398	5,071,350	4,543,999	4,683,340
Ongoing charge figure*	1.54%	1.54%	1.56%	1.55%
Direct transaction costs	0.01%	0.01%	0.03%	0.01%
Prices	(p)	(p)	(p)	(p)
Highest share price	600.49	606.48	506.99	445.13
Lowest share price	471.46	479.98	356.87	335.14

*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.

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Performance Record (continued)

Change in net assets per share	6 months to 30.06.22 (p)	12 months to 31.12.21 (p)	12 months to 31.12.20 (p)	12 months to 31.12.19 (p)
		Share Class I - Accumulation		
Opening net asset value per share	673.40	557.27	468.75	374.49
Return before operating charges	(112.75)	121.90	90.48	98.50
Operating charges	(2.76)	(5.77)	(1.96)	(4.24)
Return after operating charges	(115.51)	116.13	88.52	94.26
Distributions	(0.47)	(1.07)	(2.30)	(3.28)
Retained distributions on accumulation shares	0.47	1.07	2.30	3.28
Closing net asset value per share	557.89	673.40	557.27	468.75
After direct transaction costs of:	0.03	0.09	0.13	0.06
Performance				
Return after operating charges	(17.15%)	20.84%	18.88%	25.17%
Other information	£	£	£	£
Closing net asset value	13,282,929,916	16,920,191,240	13,346,652,955	10,695,659,299
Closing number of shares	2,380,928,827	2,512,662,450	2,394,992,157	2,281,756,847
Ongoing charge figure*	0.94%	0.94%	0.96%	0.95%
Direct transaction costs	0.01%	0.01%	0.03%	0.01%
Prices	(p)	(p)	(p)	(p)
Highest share price	673.03	679.68	564.72	491.51
Lowest share price	529.86	535.00	395.55	367.85

Change in net assets per share	6 months to 30.06.22 (p)	12 months to 31.12.21 (p)	12 months to 31.12.20 (p)	12 months to 31.12.19 (p)
		Share Class I - Income		
Opening net asset value per share	608.45	504.38	426.14	342.87
Return before operating charges	(101.88)	110.24	91.10	90.07
Operating charges	(2.49)	(5.21)	(10.77)	(3.82)
Return after operating charges	(104.37)	105.03	80.33	86.25
Distributions	(0.43)	(0.96)	(2.09)	(2.98)
Retained distributions on accumulation shares	-	-	-	-
Closing net asset value per share	503.65	608.45	504.38	426.14
After direct transaction costs of:	0.03	0.08	0.12	0.05
Performance				
Return after operating charges	(17.15%)	20.82%	18.85%	25.16%
Other information	£	£	£	£
Closing net asset value	4,870,739,448	6,165,167,108	5,608,167,634	4,433,567,455
Closing number of shares	967,087,927	1,013,262,204	1,111,892,454	1,040,390,315
Ongoing charge figure*	0.94%	0.94%	0.96%	0.95%
Direct transaction costs	0.01%	0.01%	0.03%	0.01%
Prices	(p)	(p)	(p)	(p)
Highest share price	608.12	614.13	511.82	447.65
Lowest share price	478.76	484.22	359.61	336.80

*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.

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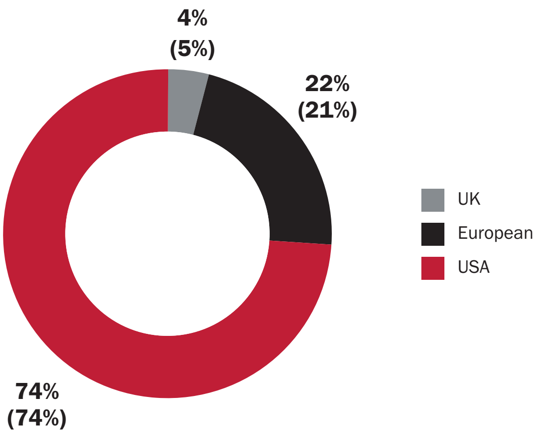
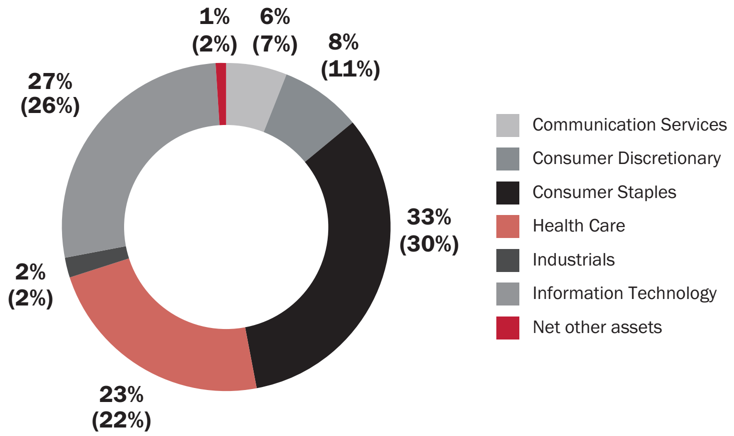
Information on the Fund

**Breakdown by geography*
as at 30 June 2022**



**Breakdown by sector
as at 30 June 2022**



The figures in brackets show comparative figures at 31 December 2021.

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

Summary of Significant Changes

For the six months to 30 June 2022		For the six months to 30 June 2021	
Largest purchases	**Cost (£)**	**Largest purchases**	**Cost (£)**
Adobe	700,982,358	L'Oréal	140,873,177
Mettler-Toledo International	497,369,849	Unilever	128,237,867
Alphabet	74,855,914	Church & Dwight	115,281,595
Stryker	36,884,992	Nike	80,177,456
LVMH Moet Hennessy Louis Vuitton	20,165,476	Brown-Forman	77,088,229
Total	**1,330,258,589**	**Total**	**534,478,794**
Total purchases for the six months	**1,387,881,267**	**Total purchases for the six months**	**846,013,252**
Largest sales	**Proceeds (£)**	**Largest sales**	**Proceeds (£)**
Johnson & Johnson	621,464,087	Sage	323,015,610
Starbucks	480,020,361	Intertek	135,450,945
Unilever	282,648,721	-	-
Intuit	178,784,880	-	-
PepsiCo	162,702,563	-	-
Total	**1,725,620,612**	**Total**	**458,466,555**
Total sales for the six months	**2,035,696,601**	**Total sales for the six months**	**458,466,555**

Investment Manager's review

Dear Fellow Investor,

The table below shows the performance of the Fundsmith Equity Fund ('Fund') and other comparators during the first half of 2022 and since inception.

% Total Return	1st Jan to 30th June 2022	Inception to 30th June 2022	
		Cumulative	Annualised
Fundsmith Equity Fund[1]	-17.8	+451.5	+15.8
Equities[2]	-11.3	+243.2	+11.2
UK Bonds[3]	-7.1	+30.9	+2.3
Cash[4]	+0.3	+6.7	+0.6

The Fund is not managed with reference to any benchmark, the above comparators are provided for information purposes only.
[1]T class Accumulation shares, net of fees priced at midday UK time, source: Bloomberg.
[2] MSCI World Index, £ Net, priced at close of business US time, source: www.msci.com.
[3] Bloomberg/Barclays Bond Indices UK Govt 5-10 year, source: Bloomberg.
[4] £ Interest Rate, source: Bloomberg.

Our Fund underperformed what is perhaps the most obvious comparator — the MSCI World Index (£ net), which itself fell by 11.3% — by 6.5 percentage points during the first half of 2022.

The cause of the downturn in global equity markets is obvious — the upsurge in inflation and the consequent need to raise interest rates and risk a recession. A combination of surging inflation and looming recession reminds me of the quote from soccer manager Tommy Docherty, 'When one door closes, another slams in your face.'

If a recession ensues but inflation persists we will not have seen conditions of this sort since the 1970s when the term 'stagflation' was coined. My first full year in work was 1974 when inflation in the UK, as measured by the CPI, was 24.24%. In an example of history not repeating itself but rhyming, as Mark Twain observed, the 1970s inflation was boosted by the Arab oil embargo which followed the Yom Kippur War. On this occasion we have a similar effect from the Russian invasion of Ukraine.

I have no insight into how severe or persistent the rise in interest rates will need to be to quell inflation, but I am not optimistic. Interest rates as a tool to combat inflation are a blunt instrument at the best of times and I suspect more so in this instance where the inflation has not been caused by demand exceeding supply during an economic boom.

In a recent interview former Bank of England Governor Lord King of Lothbury observed that today's inflation was sparked by a misdiagnosis of the problem at the height of the Covid pandemic back in March 2020. Attempts were made to stimulate demand by further Quantitative Easing when the issue was not weak demand but the lack of supply, with disruption in supply of energy and its derivative products like fertilizers and plastics, metals, glass, agricultural commodities like palm oil and essential components like microchips, and even the supply of labour with the Great Resignation and an inability for migrant labour to travel.

Raising interest rates is now a necessity. This will eventually quell demand. It may take a while to become effective because consumers were quite liquid given the lack of certain types of spending opportunities during the pandemic. However, higher interest rates will do nothing to correct the continuing supply problems in commodities, semiconductors and just about everything else so it may also take some time and high interest rates for demand to become depressed enough for the supply to exceed it and so start to moderate price inflation.

Fortunately, we do not invest on the basis of our prognostications about macroeconomics but it is not a matter of speculation that we now have inflation. Inflation, rising interest rates and an increasingly likely recession have two obvious effects on equity

Investment Manager's review (continued)

investments; fundamental effects and valuation effects. I will try to address each of these in turn as I review the performance of some of our holdings.

Inflation causes an increase in the cost of the ingredients, components and other inputs which constitute companies' Cost of Goods Sold ('COGS'). The best defence against this inflation is a high gross margin — the difference between sales revenues and COGS. On average last year the companies in our portfolio had a gross margin of 60% compared with about 40% for the average large, listed company. Our companies make things for £4 and sell them for £10 whereas the average company makes things for £6 and sells them for £10. A 10% rise in the COGS clearly has much less effect on the profitability of the companies in our portfolio than the average. Moreover, if they want to compensate for say a 10% rise in COGS, our portfolio companies can achieve this with a much smaller price rise than the average company. The effect on COGS is not the only effect of inflation but it is clear that the high and sustainable gross profit margins of our companies provide a robust first line of defence.

An illustration of the problems of low gross margins was recently supplied by the US retailer Target — a stock we would never own — in its first quarter results. Gross margin contracted from 30.0% in the same quarter last year to 25.7% — a fall of 4.3 percentage points — driven largely by inventory impairments, lower than expected sales in discretionary categories as well as higher costs related to freight, supply chain disruptions and increased compensation and headcount in distribution centres. The operating margin fell from 9.8% in the prior year quarter to 5.3% — so by a similar 4.5 percentage points. Operating profit declined 43%. The combination of low gross margins and high fixed costs is dangerous and we seek to avoid it.

It may seem little source of comfort at the moment but our companies continued to deliver decent underlying business performance in the first half of 2022. Last reported portfolio weighted average free cash flow per share ended June 2022 4% higher than in December 2021, equivalent to annualised growth of about 8%. Long-term readers of these letters will recognise this as not far off the historic average.

Revenue growth was strong, bordering on very strong at some of our companies. Results reported in the first half of 2022 showed two-year top line growth — which we look at in attempt to avoid confusion caused by the gyrations during the pandemic — of 48% at Adobe, 66% at Alphabet, 51% at Brown-Forman, 79% at Intuit, 40% at Microsoft, 39% at PayPal and 47% at Waters.

If these were our privately owned family businesses we would still for the most part be applauding the growth they had delivered in much the same way as we were six months ago, albeit we might well be concerned about their ability to replicate this performance over the next couple of years.

It is too early in the development of this inflationary economic cycle to be sanguine about this and the next few quarterly earnings seasons are unlikely to be overly exciting. Nonetheless, the structure of our companies' profitability gives us considerable comfort. Nor do we feel that they are likely to be in the forefront of collapsing top line revenue growth in a recession given that we primarily invest in three sectors: consumer staples, albeit with some consumer discretionary, healthcare and technology. It seems likely that they will fare better in a recession than other sectors for which demand is more cyclical, fixed assets and costs are higher and profitability and cash generation are lower.

From a fundamental perspective, which is what we seek to focus on, we are therefore confident that our portfolio companies will perform relatively well over an inflationary and recessionary cycle. But sadly our investments are not our privately owned family businesses where we can focus on the fundamental performance and not worry about the stock market.

It is axiomatic that in a period of rising interest rates, long dated assets will fare worse than short-dated ones. This applies not only to bonds but also to equities. The share prices of more highly rated equities which are in effect discounting profits or cash flows further into the future by being rated on higher PEs tend to be more affected by rising interest rates than lowly rated so-called value stocks.

Our portfolio is not exempt from this effect. Broadly speaking, the stocks that have suffered most from rising interest rates so far were those that started the year the most highly rated and were thus most impacted by the rising discount rate.

Investment Manager's review (continued)

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

PayPal	-3.0%
Meta Platforms	-2.3%
IDEXX	-2.3%
Intuit	-1.5%
Microsoft	-1.2%

Of these, PayPal and maybe Intuit, exacerbated their situation with self-inflicted wounds that negatively impacted their underlying performance. IDEXX and Microsoft really didn't see any slowdown at all.

Did we miss out by not owning more lowly-rated 'value' stocks during this period? Not much. The much talked about 'rotation' from 'growth' to 'value' stocks during the first half of 2022 was rather underwhelming from the perspective of the latter. In the US, the S&P Value Index did indeed significantly outperform its S&P Growth counterpart and the NASDAQ but this outperformance took the form of a 12% fall for the S&P Value Index versus a 28% decline for the S&P Growth Index and a 30% decline in the NASDAQ. Falling less than others when times are tough has obvious merit but still isn't a sufficient payback for the long preceding wait during which value stocks underperformed massively.

For the most part, not owning the sectors we have frequently said we will never own didn't do us any harm during the first half of 2022. In the US the S&P Banks Index for example was down 25% during the six-month period and the S&P Airlines Index was down 22% notwithstanding the sharp pick-up in travel demand. Even the S&P Metals & Mining Index fell in absolute terms, albeit by much less than the market. The one sector in the 'we'll never own' category that did cost us by our absence was energy. In the US, the S&P Energy Index increased 29% in the first half while in the UK, BP shares rose 17% and Shell 34%. For those regretting the absence of energy stocks from our portfolio, these increases have only taken the S&P Energy Index back to a level it first reached in 2008 or the two UK stocks reached in the 1990s.

To try to get some objectivity into where we are now on valuation, the free cash flow ('FCF') yield on the portfolio, which had ended 2021 at 2.7%, increased to 3.6% at the end of June 2022. This means that in the space of six months, the valuation of the portfolio has declined all the way back to where it was at the end of 2017. We have cautioned in the past that a rising fund price caused in part by rising valuations is nice but also worrying because it is finite and reversible, but that again is not much of a source of comfort when this is shown to be the case.

Moreover, the rotation from 'growth' to 'value' has also led to a situation where the narrative of the 'highly-rated tech sector' has been turned on its head. The median FCF yield on the 78 technology stocks in the S&P 500 Index is 4.6% and the mean is actually 5.2%. Conversely the equivalent numbers for the 36 stocks in the consumer staples sector are 3.8% and 4.6%. The technology stocks in the S&P 500 are actually now more lowly-rated than consumer staples.

The reason why the aforementioned 'narrative' exists is because of the large number of tech stocks which had or still have two or more of the following characteristics — giant market values, little or no revenue or profits, well publicised 2020 or 2021 IPOs, and charismatic CEOs. Probably the best-known investor for these types of stock has been ARK Investment Management, notably in the form of the ARK Innovation ETF. Bloomberg suggests that the forward price-to-earnings ratios for this ETF's top 10 holdings are in seven cases 'N/A', i.e., there are no earnings, and in the other three cases average 53x.

Conversely the price-to-earnings ratio on most of the stocks in our portfolio that could loosely be described as 'tech' — Microsoft, Adobe, Alphabet, Visa, ADP, Intuit, PayPal and Meta — averages 24x, Amazon is the only outlier. It is worth bearing these contrasting valuations in mind when people lump the whole technology sector together.

What did well for us in the first six months of 2022? It is tempting to observe 'not a lot' but here are the five biggest positive contributors to performance:

Philip Morris	+0.8%
Novo Nordisk	+0.4%
Brown-Forman	+0.3%
PepsiCo	+0.3%
Waters	+0.1%

Investment Manager's review (continued)

Novo Nordisk discovered that a drug it had developed for diabetics was also the world's first really effective weight loss drug. The potential market for this product, branded Wegovy, is vast. Philip Morris International meanwhile benefited from its low rating, the perceived defensive nature of tobacco and latterly an attractive-looking agreement to purchase Swedish Match to create the undoubted leader in smokeless tobacco products and nicotine pouches. Despite this outperformance, Philip Morris International still ended the quarter as our second most lowly-rated stock. The title for the lowest-rated belongs to Meta Platforms. Meta's stock now trades on a FCF yield of 8.7%. At this level it is either cheap or a so-called value trap. We will let you know which when we find out, but we are inclined to believe it is the former.

Our portfolio turnover in the first half was 3.2%. Voluntary dealing (dealing not caused by redemptions or subscriptions) cost £392,705 during the half year (0.002% or a fifth of a basis point). The Ongoing Charges Figure for the T Class Accumulation shares was 1.04% and with the cost of all dealing added, the Total Cost of Investment was 1.05%.

The first half of 2022 marked the end, for the time being, of a long period during which the shares in our companies benefited not only from their underlying business performance but also from falling interest rates and thus rising valuations. Not only did this tailwind disappear but a significant headwind materialised in short order in the form of rising interest rates combined with fears about the impact of inflation and a possible recession.

We claim no insight into how far the headwind to valuations caused by rising interest rates will go, but we are confident that the companies in our portfolio will survive and prosper relatively well in such an environment. This has been and will continue to be our primary focus. If we get that right then our Fund will emerge with the intrinsic value of its investments maintained or enhanced. Sooner or later share prices reflect fundamentals, not the other way around.

In inflationary periods, an acronym which is sometimes used to describe the investment options is TINA — There Is No Alternative. It refers to the concept that equities will be the least poorly performing sector in such conditions because of the ability of at least some companies to continue to grow revenues in real terms and generate real returns on capital above the rate of inflation.

Bonds with fixed interest coupons are certainly not the place to be in these conditions. Real estate may provide some safety but it is a notoriously local market with poor liquidity and high frictional trading costs. Commodities have had a day in the sun at the start of this inflationary cycle and this may continue, or not. But there is no inherent return on commodities — no interest coupon, dividends or profits reinvested. Investing in them is pure Greater Fool Theory — you can only make money by selling them to someone willing to pay more than you did. I have no confidence in my ability to accomplish that. All of which may point to the fact that There Is No Alternative to equities even though they have performed poorly so far this year.

However, even if you accept that, it may be tempting to sell equities and go into cash as this may enable you to avoid further falls in the equity market. Timing is of the essence in doing this and if you haven't done it already I think we can safely say you missed the top. Getting the other side of the trade roughly right will almost certainly mean buying back into equities when economic conditions are at their most bleak. This is a skill which few, if any, possess. Meanwhile, time spent in cash whilst waiting is hardly a good bolt hole from inflation.

Finally, even if you accept the logic of the TINA mantra, maybe equities of the sort in our portfolio are still not the best place to be for a while. This is really a subset of the market timing approach: Sell quality equities, buy lowly-rated 'value' stocks and then reverse this when the time is right. I wish you luck if you intend to pursue this approach not least because I am fairly sure how lowly-rated stocks, most of which are heavily cyclical, have low profit margins and returns on capital, will fare in a recession.

Investment Manager's review (continued)

We meanwhile will continue to do what we set out to do. Which is to assemble a portfolio of high-quality companies and hold onto them so that their inherent ability to compound in value will determine how we perform over the long term, not the vagaries of the market. I hope to see you on the other side.

Yours sincerely,

Terry Smith

Terry Smith
CEO
Fundsmith LLP

Sources: Fundsmith LLP & Bloomberg unless otherwise stated.

Portfolio turnover compares the total share purchases and sales less total creations and liquidations with the average net asset value of the fund.

The MSCI World Index is a generic portfolio of global equities across all sectors and, as such, is a fair comparison given the Fund is also global and sector agnostic.

Further Information

Reports and accounts

Each year, the Company will publish on its website (www.fundsmith.co.uk) annual and interim reports and accounts discussing investment activity during the period and providing management commentary.

UK UCITS

The Company is an authorised Collective Investment Scheme constituted as a UK UCITS in accordance with the FCA rules.

Prospectus

The Fund Prospectus, an important document describing Fundsmith Equity Fund 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 Document (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 company has three different 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.

Minimum lump sum investment level	**£1,000**
Minimum regular sum investment level	**£100**
Minimum top-up investment amount	**£250**
Minimum holding level	**£1,000**

Publication of prices

The prices of Shares are published daily on the ACD's website at www.fundsmith.co.uk. 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 Company of making investments (when additional cash is available following new investment into the Company) 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 Prospectus.

Contact details

Dealing and enquiries

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FCA Registration Number 529093

Authorised Corporate Director

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