

FUNDSMITH EQUITY FUND - GBP

INVESTMENT RESEARCH NOTE
MARCH 2024

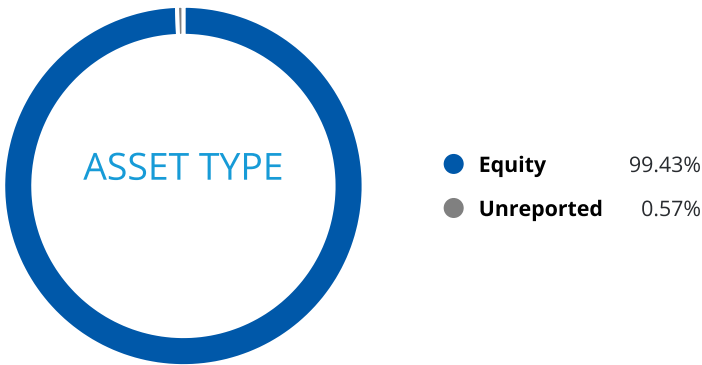
Risk warning: The past is not necessarily a guide to future performance. The value of your investment and the income from it can fall as well as rise and is not guaranteed. You may not get back the full amount invested. Our views are based upon our understanding of current legislation in England. Levels and bases of, and reliefs from, taxation are subject to change and their value to you will depend upon your personal circumstances. You should not act on any of the information without seeking professional advice. clarity Ltd is authorised and regulated by the Financial Conduct Authority (FCA).

SUMMARY

Fundsmith was established in 2010 by Terry Smith. Previously a stock broker Smith launched the firm and the eponymous fund to reflect his views on investing. Namely, fee transparency and a long-term, low turnover strategy investing in high quality growth businesses with strong free cashflows.

The strategy has a key person risk with lead manager and founder Terry Smith. In 1992 he became head of UK Company Research at UBS Phillips & Drew, a position from which he was dismissed in 1992 following the publication of his best selling book Accounting for Growth. He joined Collins Stewart shortly after, and in 2000 became Chief Executive and led the management buy-out of Collins Stewart, which was floated on the London Stock Exchange five months later. In 2003 and 2004 Collins Stewart acquired Tullett Liberty then Prebon Group, creating the world's second largest inter-dealer broker. Collins Stewart and Tullett Prebon were demerged in 2006. He set up FundSmith with £25m of his own money invested in the fund. Smith is supported by 3 analysts. He manages a global smallcap strategy too and recently relocated to Mauritius.

This is a bottom-up, stock picking strategy. Smith seeks what he considers good companies and likes to stay with them for the long term, to the extent that turnover is typically below 5% with a concentrated portfolio of 20-30 names. His conviction in his holdings only changes when valuations become 'excessive' or something fundamentally changes in the business case.



INVESTMENT PROCESS

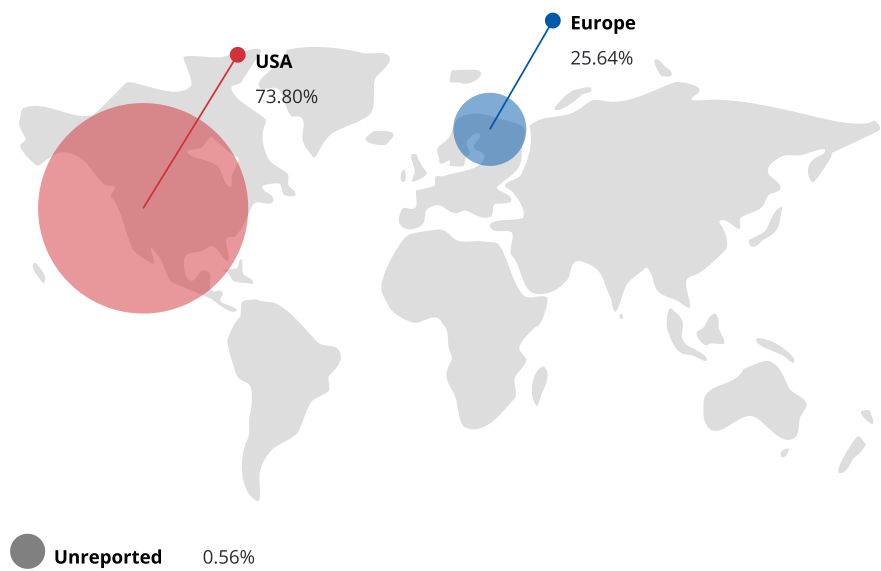
The investment philosophy leads to a high conviction, concentrated portfolio of quality, resilient global growth companies that the manager expects will deliver superior risk-adjusted returns over a full market cycle. The manager focuses on whether the 'numbers are any good?', and what do they do?'. There is a 'paranoia' approach to companies in that they will look at the risks associated with business models as well as the metrics. A strict screening criteria is adopted to the universe of global quoted stocks, of which 400 make the initial cut. The number is narrowed down rapidly to a realistic candidate universe of 60 after which 20-30 names are chosen for inclusion. The process seeks to identify companies which:

- Have no significant leverage, generate high returns on operating capital employed, have success in converting profits into cash flow and are reasonably valued
- Sell direct to consumers and make, or market, small ticket items which are consumed at short and regular intervals
- Derive the majority of their profits from the sale of servicing and spares to a large installed base
- Are franchisers who have royalties on other's revenues without the need to supply capital
- Are resilient to change, particularly to technological innovation and difficult to replicate e.g. strong brand, high market share, patents, licenses, distribution networks, installed bases and client relationships

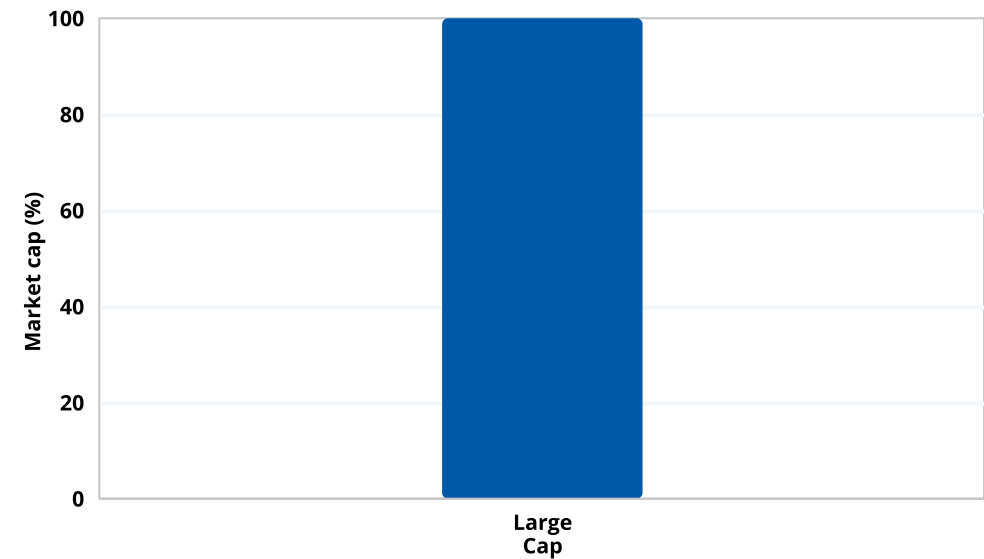
The fund is managed on the back of a number of core principles whereby the ideal holding period for a stock is forever. A position can be closed if the investment case fundamentally weakens, valuation becomes too expensive or if a superior investment opportunity is identified. An indication of the historic nature of this decision making can be demonstrated through the portfolio turnover rate which has been sub 2% over recent years. Position sizes are between 1-6% of the total portfolio. They vary according to relative conviction views and performance. Apart from the key person risk, other potential risks include liquidity given the size of the fund, the bias to US technology stocks and the distraction of managing other strategies.

AGGREGATED NET EXPOSURE

REGIONAL EXPOSURE



EQUITY MARKET CAP (%)



BOND
MATURITIES

Not Applicable



BOND
RATINGS

Not Applicable

OVERALL PERFORMANCE

FUNDSMITH EQUITY FUND-I ACC FTSE World Equity

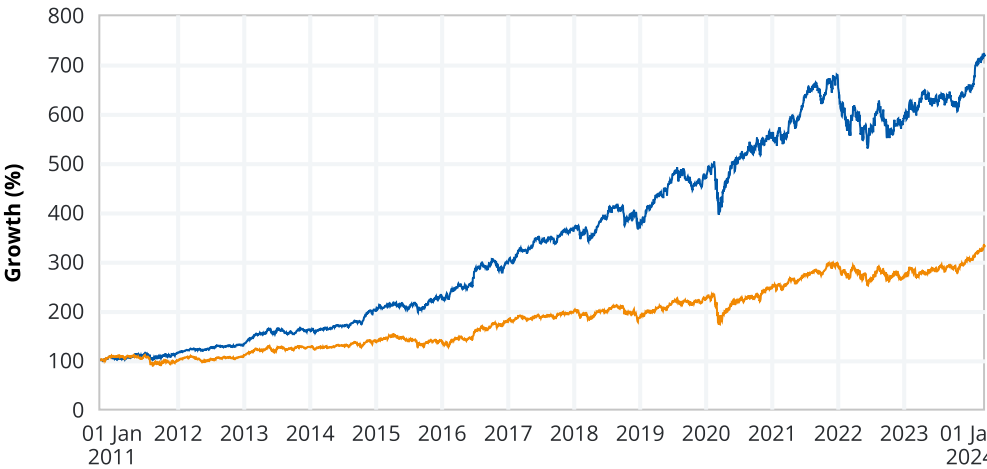
GROWTH (%) - OVER 1 YEAR

3 Apr 2023 - 29 Mar 2024



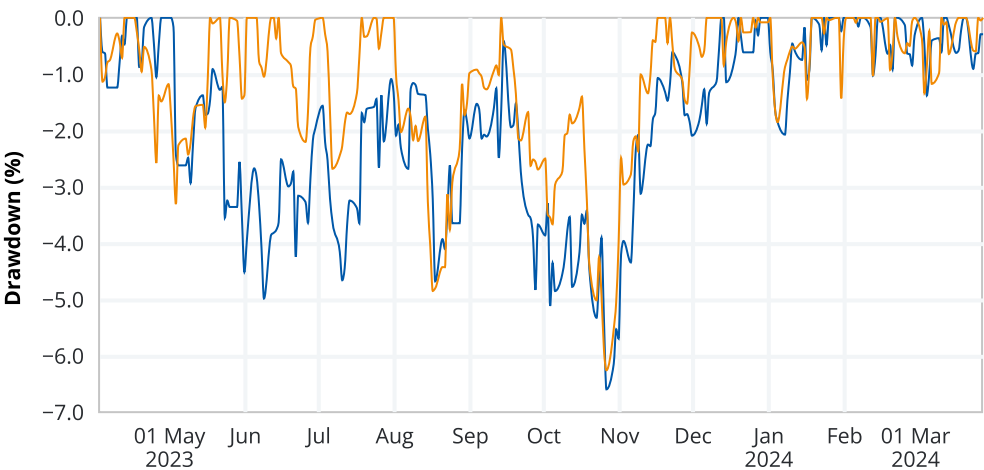
GROWTH (%) - FROM INCEPTION

2 Nov 2010 - 29 Mar 2024



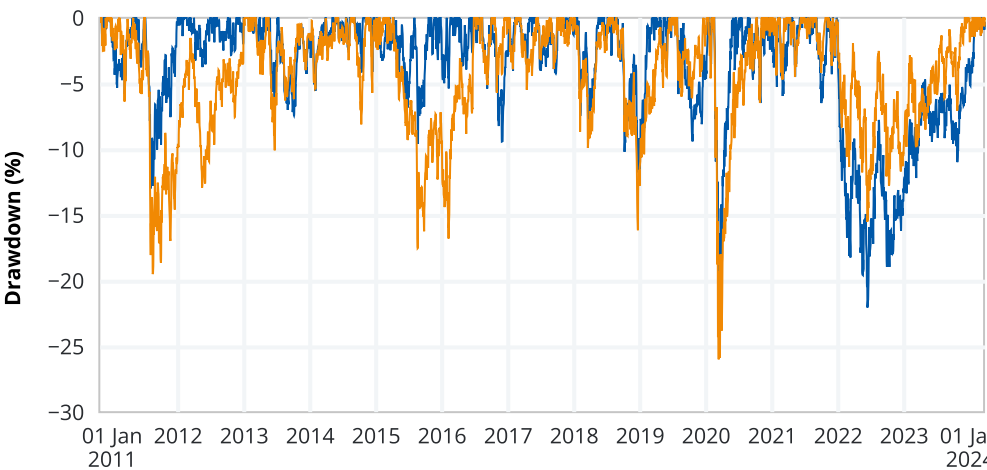
DRAWDOWN (%) - OVER 1 YEAR

3 Apr 2023 - 29 Mar 2024



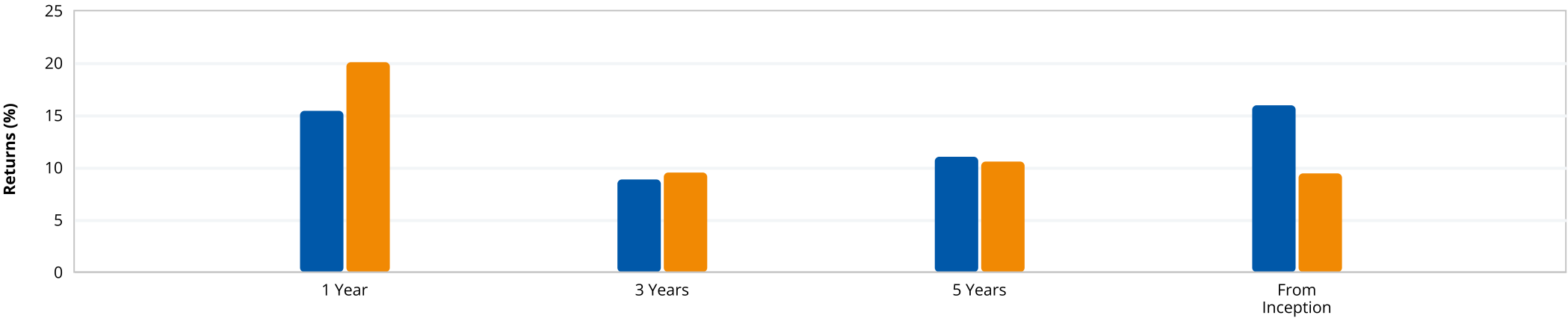
DRAWDOWN (%) - FROM INCEPTION

2 Nov 2010 - 29 Mar 2024



RETURNS

FUNDSMITH EQUITY FUND-I ACC FTSE World Equity



MONTHLY BREAKDOWN AND YEARLY TOTALS (%)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YEAR
2024	2.71	4.36	2.25										9.59
2023	1.49	1.53	3.76	3.28	-3.32	1.65	0.89	-0.76	-1.86	-1.93	3.90	3.53	12.48
2022	-9.51	-4.07	3.99	-1.47	-4.66	-2.99	7.33	-0.75	-4.53	0.03	1.53	1.54	-13.71
2021	-2.26	1.10	2.13	6.20	-0.96	6.58	2.99	2.28	-3.54	0.50	2.69	3.03	22.23
2020	2.71	-6.87	-3.66	8.54	7.12	0.47	0.82	4.22	0.39	-2.28	4.88	1.73	18.41
2019	4.27	4.44	5.55	2.58	1.27	3.83	5.53	-0.63	-3.21	-2.48	2.25	0.23	25.76

Capped to 6 years.

ANNUALISED ROLLING RETURNS (%)

	1 YEAR	3 YEAR	5 YEAR	INCEPTION
	15.42	8.86	11.03	15.95
	20.07	9.52	10.57	9.44

CUMULATIVE RETURNS (%)

	1 YEAR	3 YEAR	5 YEAR	INCEPTION
	15.29	28.82	68.43	621.43
	19.90	31.19	64.93	233.60

FUNDSMITH EQUITY FUND-I ACC FTSE World Equity

PERFORMANCE - OVER 1 YEAR

3 Apr 2023 - 29 Mar 2024

RETURNS (%)	15.42	20.07
VOLATILITY (%)	11.19	9.83
ALPHA	0.08 *	
BETA	0.80 *	1.00
CORRELATION	0.74 *	1.00
SHARPE RATIO	0.89	1.47
SORTINO RATIO	1.27	2.25
MAX DRAWDOWN (%)	-6.59	-6.26

*Calculated over a 3 year period where history permits.

PERFORMANCE - FROM INCEPTION

2 Nov 2010 - 29 Mar 2024

RETURNS (%)	15.95	9.44
VOLATILITY (%)	13.94	14.37
ALPHA	0.63	
BETA	0.79	1.00
CORRELATION	0.80	1.00
SHARPE RATIO	1.06	0.58
SORTINO RATIO	1.54	0.81
MAX DRAWDOWN (%)	-22.04	-25.98

SIMPLE STRESS TEST DRAWDOWN (%)

3 Apr 2023 - 29 Mar 2024



Stress test notes

The chart shows the calculated drawdown over the last year. The Review Point is the fund intervention point. Any drawdown above this line indicates a typical drawdown in a normal market cycle. Should the drawdown hit the review point, then this indicates that market conditions may be abnormal. This is the point that we would consider taking immediate action for an extreme market event.

Risk warning: The past is not necessarily a guide to future performance. The value of your investment and the income from it can fall as well as rise and is not guaranteed. You may not get back the full amount invested. Our views are based upon our understanding of current legislation in England. Levels and bases of, and reliefs from, taxation are subject to change and their value to you will depend upon your personal circumstances. You should not act on any of the information without seeking professional advice. clarity Ltd is authorised and regulated by the Financial Conduct Authority (FCA).